COMPANY RESEARCH AND ANALYSIS REPORT

Helios Techno Holding Co., Ltd.

6927

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Summary

Growth in new products and income from services are strengthening medium-term growth momentum. Near-term focus is on growth in HRP

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 three businesses: the Lamp business, the Manufacturing equipment business, and the Human resources service business.

1. Profit growth trending well above previous year's pace and initial forecast on contribution from rapid growth in the Manufacturing equipment business

The Company reported ¥11,362mn in net sales (up 24.3% YoY) and ¥1,705mn in operating profit (up 57.7%) in FY3/18 1H, posting significant growth in both sales and income and greatly surpassing initial forecasts. The driving force behind this strong performance was the Manufacturing equipment business.

2. Raised full-year forecast. HRP deliveries expected to continue driving growth in sales and profit in 2H

The Company has raised its full-year FY3/18 forecast to net sales of ¥23,500mn (up 37.3% YoY) and operating profit of ¥2,600mn (up 87.5%). One of the main factors behind the upward revision is that the Company plans to post sales from remaining contracts for high-resolution printer (HRP) equipment in FY3/18 2H.

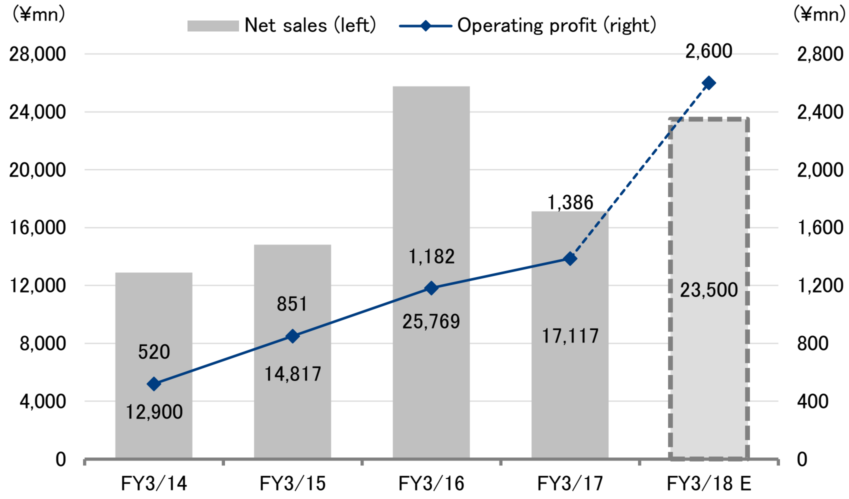
3. Targeting medium-term growth based on three strategies: M&A, new products and income from services

The Company's medium-term growth strategy is to focus on the three themes of M&A and business tie ups, new products, and income from services in each of its business segments. We see progress on each of these themes in the Manufacturing equipment business, the Company's core earnings pillar. One example of this is the full-scale launch of the abovementioned HRP and we expect service income to increase considerably YoY in FY3/18. The Company is also making steady progress toward growth in its other business segments, but for the time being, we expect new products such as HRPs in the Manufacturing equipment business to drive medium-term growth.

Key Points

- Manufacturing equipment business made deliveries of all precision inkjet printers ordered
- Nakan Techno Co., Ltd. making steady progress on new products, mainly HRPs, and service income
- Earnings could temporarily plateau in FY3/19. Focus is on the development of applications and customers to drive its next growth stage

Results trends



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

Business overview

Manufacturing equipment business is the Company's core business in terms of sales and profit owing to growth in alignment layer manufacturing equipment and HRP

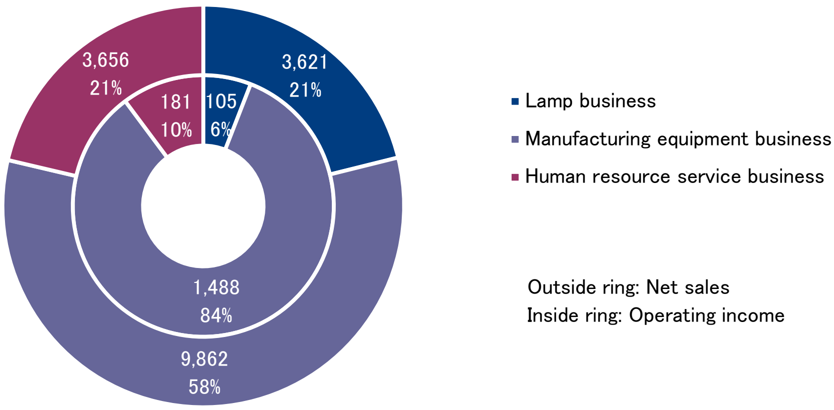
The Company is a pure holding company with five subsidiaries including three core subsidiaries: PHOENIX Electric Co., Ltd., which handles the Lamp business; Nippon Gijutsu Center Co., Ltd., which handles the Human resources service business; and Nakan Techno Co., Ltd., which handles the Manufacturing equipment business. The Company has three business segments: the Lamp business, the Manufacturing equipment business, and the Human resources service business.

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.	Pure holding company	-
PHOENIX Electric	Established in April 2009 through a corporate split of Helios Techno Holding	Manufacture and sales of lamps for various applications, (projectors, automobiles, illumination, LED lamps, light sources for photolithography equipment) and photolithography equipment light source units	Lamp business Manufacturing equipment 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	Lamp 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 April 1, 2015.	Industrial equipment (such as inspection equipment) manufacture, design contracting, IT business technician dispatch and human resources service, nursing care business	Human resources service 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	Manufacturing equipment business
Leadtech	Converted to a subsidiary of Nakan Techno in October 2016	Engineering, manufacturing and installation of manufacturing equipment	Manufacturing equipment business

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

Net sales and operating income by business segment
(based on results for FY3/17)



Note: Both net sales and operating income are broken down from non-adjusted figures.
Source: Prepared by FISCO from the Company's results briefing materials

(1) Overview of Lamp business

PHOENIX Electric and Lux Co. handle the Lamp business, which produces projector lamps, halogen lamps, LED lamps, and photolithography equipment light source units.

Recently, photolithography equipment light source units have been playing an increasingly important role in the Lamps business. Photolithography equipment is used in the lithography process for manufacturing color filters, an important component in LCD panels. While specialty manufacturers make photolithography equipment, the Company ships its light source unit; multi-lamp system (MLS) to the manufacturers. The Company currently makes exclusive deliveries to the top domestic equipment manufacturer.

General-purpose lighting includes halogen lamps, LED lamps and other light-source types. Demand is shifting to LED products that have longer lives and offer energy-saving benefits. Helios Techno is similarly experiencing growth in LED lamps paired with contraction of halogen lamps. The Company purchases LED chips from external suppliers and manufactures LED lighting products in-house.

Projector lamps serve as the light source for rear-projection projectors and now remain for a replacement demand. The share in the segment sales composition for this business has been gradually shrinking.

(2) Overview of Manufacturing equipment business

The Manufacturing equipment business is divided into the businesses handled by subsidiaries Nakan Techno and Leadtech Co., Ltd. and the equipment business handled by PHOENIX Electric. Products and services handled by Nakan Techno and Leadtech include flexo printing equipment, the plants business, HRPs, and the “others” sub-segment.

A leading product in this business is alignment layer manufacturing equipment for LCD panels using flexo printing technology. The two different formats utilized in alignment layer manufacturing equipment are flexo printing technology and inkjet printer technology, and Nakan Techno is a leading manufacturer of flexo-printer alignment layer manufacturing equipment. However, it is thought that flexo printing equipment’s applicability will only last until the 8.5G mother-glass size for LCD panels, and the Company currently primarily ships equipment for the 8.5G size. While LCD panel firms are already advancing to the 10.5G size at cutting-edge production sites, we think strong demand remains for the 8.5G size in China, which is Nakan Techno’s main market. The Company is working on the development of equipment using the inkjet printer technology in order to accommodate the 10.5G size.

The plants business mediates, transports, and relocates used LCD manufacturing equipment. Strong demand exists in China to purchase production equipment from past generations inexpensively and use them to lower LCD panel production costs. Leadtech’s strength is its wide range of technology and experience related to device installation in areas other than equipment manufacturing.

The newest addition to the Manufacturing equipment business is HRPs. These products utilize a variety of printing technologies, such as inkjet and gravure methods, to realize high-resolution printing. Recently, orders for inkjet HRPs have been growing rapidly.

The “others” sub-segment includes supply of consumables for manufacturing equipment delivered in the past, and maintenance, repairs, and upgrades of such equipment. Sub-segment sales have grown considerably in the past few years because cumulative sales of the Company’s manufacturing equipment have risen to well above 500 units.

Business handled by PHOENIX Electric includes production of the chassis for photolithography equipment light source units (MLS) used in manufacturing LCD-panel color filters and assembly of light-source units by combining its chassis with different light-sources.

In FY3/17, Nippon Gijutsu Center completed development of a power device tester and these are being tested in the field. This tester is the Company's catalog model and it plans to focus on further development of this product.

(3) Overview of Human resources service business

The Human resource service business is operated by Nippon Gijutsu Center. Helios Techno had multiple human resource service companies in its group until Nippon Gijutsu Center absorbed KANSAI GIKEN Co., Ltd. through a merger in November 2013 and also absorbed Techno Provider Co., Ltd. through a merger in April 2015.

Human resources services include dispatch of manufacturing engineers, dispatch of workers, design subcontracting, and nursing care. We believe dispatching services for manufacturing engineers and workers are the business' primary income sources. The sales strategy is based on a locality-centric business model. It emphasizes building operations that expand the customer base in areas nearby existing customers and facilitate concentrated supply of dispatched workers. The primary aim, of course, is improving efficiency.

The Company has clearly stated that it plans to pursue M&A opportunities in the Human resources service 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 both the human resources and the sales base. In line with its locality-centric business model, the Company plans to seek M&A opportunities with companies based in regions that can readily obtain synergies with existing customers.

Results trends

Profit growth trending well above previous year's pace and initial forecast on contribution from rapid growth in the Manufacturing equipment business

1. Review of FY3/18 1H

The Company reported ¥11,362mn in net sales (up 24.3% YoY), ¥1,705mn in operating profit (up 57.7%), recurring profit of ¥1,654mn (up 60.4%), and ¥1,180mn in profit attributable to owners of parent (up 65.3%) in FY3/18 1H, posting significant growth in both sales and income.

While net sales were only 3.3% higher than the Company's initial forecast, the Company more than doubled its initial forecast at every level of the income statement from operating profit down to the bottom line.

Review of FY3/18 1H Results

(¥mn)

	FY3/17 1H		FY3/18 1H				
	Results	Full-year results	Initial forecast	YoY	Results	YoY	Versus forecast
Net sales	9,138	17,117	11,000	20.4%	11,362	24.3%	3.3%
Operating profit	1,081	1,386	800	-26.0%	1,705	57.7%	113.2%
(Operating profit margin)	11.8%	8.1%	7.3%	-	15.0%	-	-
Recurring profit	1,031	1,375	800	-22.4%	1,654	60.4%	106.8%
(Recurring profit ratio)	11.3%	8.0%	7.3%	-	14.6%	-	-
Profit attributable to owners of parent	713	1,144	500	-30.0%	1,180	65.3%	136.0%
(Net income ratio)	7.8%	6.7%	4.5%	-	10.4%	-	-

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

The most important topic covered in the Company's 1H results announcement was the HRP deliveries made in the Manufacturing equipment business. The Company had planned to begin delivery in FY3/18 of HRP for which it secured orders in FY3/17, but it had already completed delivery of two thirds of these orders by 1H. Leadtech, which was converted into a subsidiary in October 2016, contributed greatly to the Company's production capacity and all orders were delivered on schedule by August. Another significant event was the posting in 1H of the sale of a large alignment layer manufacturing equipment order that had been scheduled for 2H. This early delivery of alignment layer manufacturing equipment was the main factor behind net sales surpassing the Company's initial forecast.

As mentioned above, the Company has delivered and installed two thirds of the HRP orders in FY3/18 1H. Although it has been making steady progress on this delivery and installation work since 1Q , for contract-related reasons, sales for these orders were all posted in 2Q (July-September). This is the reason behind the sizable difference between 1Q (April-June) and 2Q (July-September) results.

As many of the products sold by the Manufacturing equipment business have high profit margins, the sizable increase in the ratio of sales from this segment resulted in 2.5 percentage point (pp) improvement YoY in the companywide gross margin in 1H. In addition, the Company also cut its SG&A-to-sales ratio by 0.8pp by carefully controlling SG&A expenses. As a result, the operating margin improved greatly from 11.8% in FY3/17 1H to 15.0% in FY3/18 1H.

Manufacturing equipment business earnings up sharply on completing the deliveries of large precision inkjet printer

2. Earnings by business segment

Detailed results by business segment

(¥mn)

		FY3/17		FY3/18	
		1H		1H	
		Results	YoY	Results	YoY
Net sales	Lamp business	1,582	-10.6%	1,592	0.6%
	Manufacturing equipment business	5,792	46.3%	7,738	33.6%
	Human resources service business	1,783	3.2%	2,060	15.5%
	Subtotal	9,158	23.0%	11,392	24.4%
	Adjustment	-20	-	-30	-
	Total	9,138	22.8%	11,362	24.3%
Operating profit	Lamp business	20	-60.6%	-6	-
	Manufacturing equipment business	1,174	32.1%	1,827	55.7%
	Human resources service business	90	70.8%	94	4.2%
	Subtotal	1,284	29.3%	1,915	49.1%
	Adjustment	-203	-	-209	-
	Total	1,081	30.2%	1,705	57.7%

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

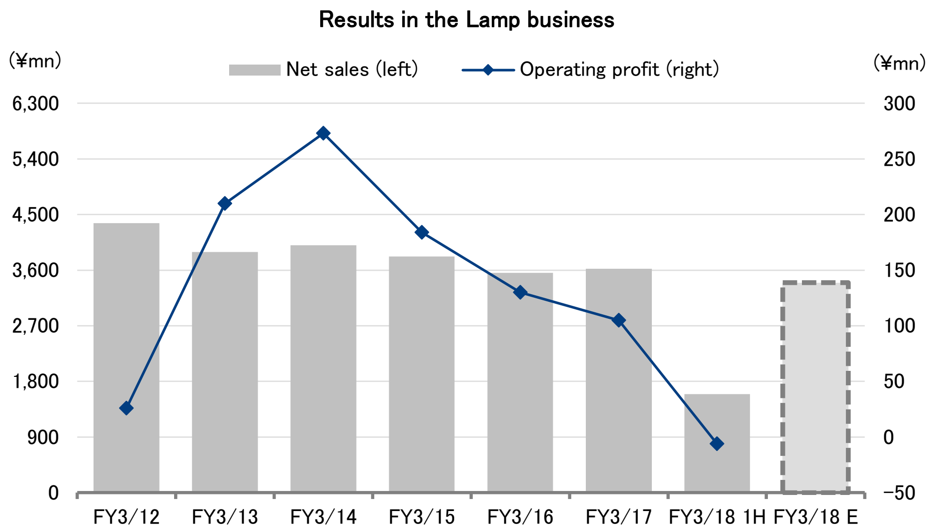
(1) Lamp business

In FY3/18 1H, Lamp business sales increased 0.6% YoY to ¥1,592mn and the segment posted an operating loss of ¥6mn (operating profit of ¥20mn in FY3/17 1H).

Sales of lamps for photolithography equipment light source units (MLS) rose steadily, resulting in higher sales of ultraviolet lamps used as light sources. However, sales of general-purpose lighting (including LED lamps) declined and projector lamp sales are on a downtrend. As a result, Lamp business sales grew by only 0.6% YoY.

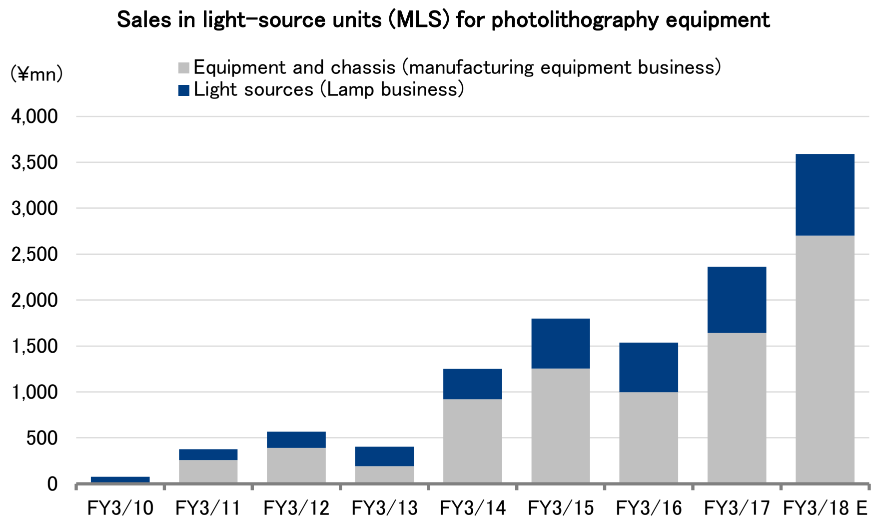
While ultraviolet lamps used for MLS light sources provide a steady stream of profit, margins have deteriorated on lower production capacity utilization resulting from sluggish sales of volume-zone lamps for general-purpose lighting applications and the segment posted an operating loss, albeit a small one.

Based on 1H results and recent trends, the Company lowered its full-year sales forecast for the Lamp business from ¥3,700mn to ¥3,400mn.



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

Growth in MLS continues. As mentioned above, the Company has a dominant market share in delivering to the top domestic manufacturer of photolithography equipment. After competitors withdrew from the market, the Company became the only manufacturer and supplier of ultraviolet lamps used as light sources. Going forward, replacement demand for light source lamps will also become an important source of earnings for the Company. In FY3/18, the Company forecasts MLS sales of ¥3,590mn (up 52.0% YoY), with light source lamps accounting for ¥890mn (up 23.4%) and equipment and chassis accounting for ¥2,700mn (up 64.5%).



Source: Prepared by FISCO from Company materials

(2) Manufacturing equipment business

In FY3/18 1H, Manufacturing equipment business sales increased 33.6% YoY to ¥7,738mn and operating profit increased 55.7% to ¥1,827mn.

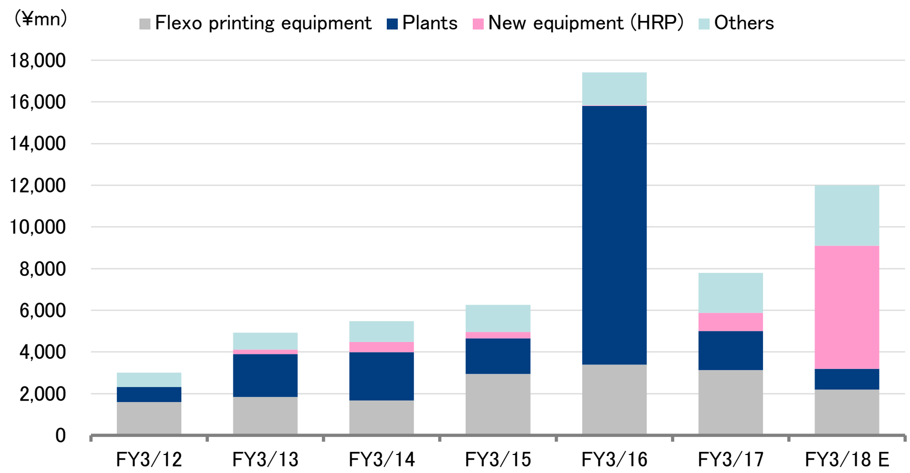
Manufacturing equipment business earnings increased owing to the abovementioned HRP orders. In FY3/18, the Company expects to complete delivering all the HRP orders it secured in FY3/17. While the HRP is apparently used in smartphone production, the Company does not know which smartphone materials or components its products are used to print or coat.

We understand that, in addition to the customer that placed the large-lot HPR order, the Company has received inquiries from several other potential customers. For a few years after the Company launched its HRP products, annual sales volume trended at a few units. At the time, we believe most of the HRPs were installed for testing the range of potential application. Eventually, one of these customers installed HRP to use in smartphone component production. We see this as an illustration of how important it is for the Company to identify the production needs of its customers.

Within the Manufacturing equipment business, Nakan Techno handles HRP, flexo printing equipment, the plants business, and the “others” sub-segment. In flexo printing equipment, sales of mainstay alignment layer manufacturing equipment are strong. The plants business mediates and relocates used equipment and annual results are highly volatile. While the Company expects sales in this sub-segment to decline sharply YoY in FY3/18, based on already accepted orders, sales are expected to double in FY3/19.

We focus on rapid growth in the “others” sub-segment, which includes repairs, maintenance, and sales of consumables for manufacturing equipment delivered in the past. These businesses are part of the Company’s growth strategy and we have seen real progress in this area, with printing plates (consumables) used with flexo printing equipment turning profitable in FY3/17. In FY3/18, the Company forecasts “others” sub-segment sales of ¥2,900mn (YoY growth of over 50%).

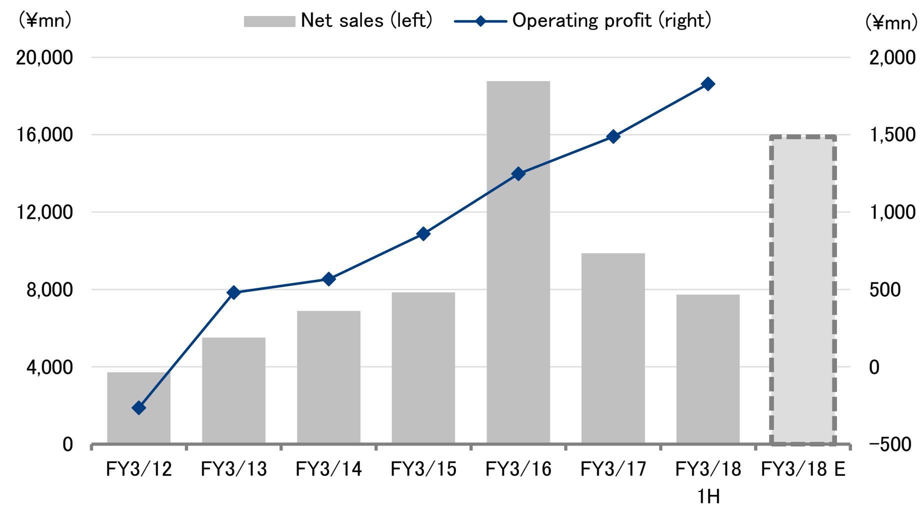
Sales by sub-segment in the Manufacturing equipment business



Source: Prepared by FISCO from the Company’s results briefing materials and interviews

Based on the above, the Company now forecasts Manufacturing equipment business sales of ¥15,900mn in FY3/18. This is an upward revision of ¥2,500mn from its initial forecast of ¥13,400mn. The main factor behind this upward revision is the abovementioned early delivery of the remaining portion of a large HRP order in FY3/18 2H. In addition to this, the Company expects additional MLS orders and increased repair and maintenance work to boost sales.

Results in the Manufacturing equipment business



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

(3) Human resources service business

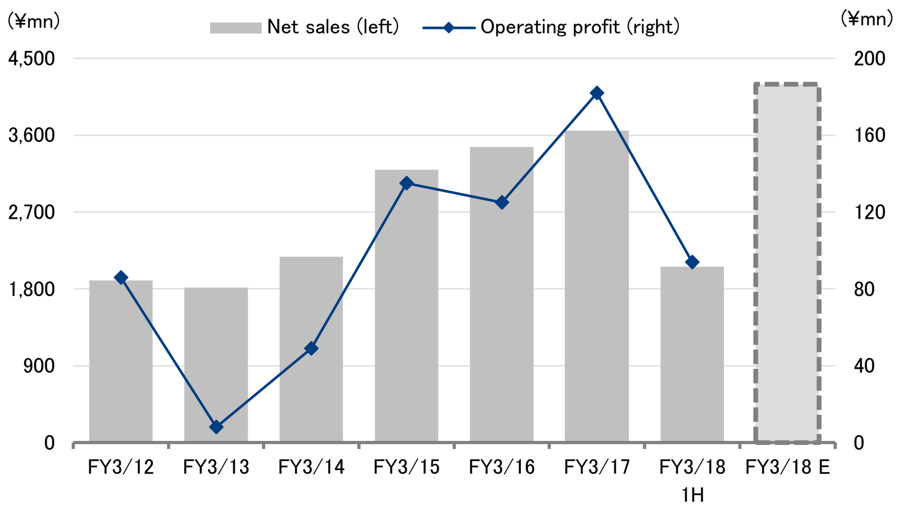
In FY3/18 1H, Human resources service business sales increased 15.5% YoY to ¥2,060mn and operating profit increased 4.2% to ¥94mn.

The Company is developing a locality-centric business model in the areas of engineers dispatch and design subcontracting. The Company' ability to improve staff quality and quickly and precisely respond to customers' needs was received well and achieved stable earnings growth. This was done by increasing manufacturing engineer dispatch volume in an operating environment characterized by labor shortages and high demand.

The Company has lowered its sales forecast for Human resources service business from its initial forecast of ¥4,800mn to ¥4,200mn.

The reason for this is that, while demand for dispatch and subcontracting is high, owing to the labor shortage in Japan, the Company has also found it difficult to hire manufacturing engineers and other engineers.

Results in the Human resource service business



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

Medium- to long-term growth strategy and its progress made

Targeting medium-term growth based on three strategies: M&A, new products and income from services

1. Overall growth strategy

The Company's medium-term growth strategy is unchanged. It plans to focus on the three themes of M&A and formation of strategic alliances with other companies, development and growth in sales of new products, and growth in income from services in existing businesses.

As we mentioned in the Business overview section of this report, the Company has three core business subsidiaries: Nakan Techno, PHOENIX Electric, and Nippon Gijutsu Center. Each of these subsidiaries follows the three abovementioned growth strategy themes as appropriate. As each company must consider various factors such as different operating environments and different corporate strengths, Nakan Techno is currently pursuing all three growth strategy themes while PHOENIX Electric and Nippon Gijutsu Center have adopted more focused approaches.

Overview of measures targeting growth

<table>
<tr><th colspan="3" rowspan="3"></th><th colspan="3">Operating company/business segment</th></tr>
<tr><th>Nakan Techno</th><th>PHOENIX Electric</th><th>Nippon Gijutsu Center</th></tr>
<tr><th>Manufacturing equipment business</th><th>Lamp business
Manufacturing equipment business</th><th>Human resources service business/Manufacturing equipment business</th></tr>
<tr><td rowspan="4">Basic growth plan</td><td rowspan="2">M&A and strategic alliances</td><td>Expansion into new business fields including SPE</td><td>Cooperation with Chinese manufacturer, investment fund</td><td></td><td></td></tr>
<tr><td>Expansion of existing businesses</td><td>Acquisition of Leadtech</td><td></td><td>New growth through M&A owing to Revised Temporary Staffing Services Law</td></tr>
<tr><td colspan="2">Development and growth of new products</td><td>Accelerate sales of HRPs</td><td>Ultraviolet LED, infrared LED</td><td>Completion of development of power device tester</td></tr>
<tr><td colspan="2">Growth in income from services in existing businesses</td><td>Growth in sales of used equipment, maintenance, consumables</td><td></td><td></td></tr>
</table>

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

Nakan Techno making steady progress on new products (HRP) and growth in income from services

2. Progress achieved by Nakan Techno

Nakan Techno and its subsidiary Leadtech are pursuing three growth strategies.

(1) M&A and formation of strategic alliances

In the area of M&A and strategic alliances, Nakan Techno aims to enter new business domains such as semiconductors. The Company has teamed up with a Chinese manufacturer and an investment fund to pursue a strategy of increasing sales, mainly in East Asia, based on Japanese manufacturers' equipment development and production technologies. If an appropriate target can be identified, we believe the company will enter the semiconductor production equipment (SPE) business. The Company will utilize external consultant services to identify and select a target company. As no concrete steps have yet to be taken, the impact of these efforts has not been factored into the Company's forecasts.

Progress was made on expansion of existing businesses via M&A in October 2016 when Leadtech was converted into a subsidiary of Nakan Techno. Leadtech's engineering capabilities were even greater than Nakan Techno had expected and, as mentioned above, Leadtech's production and deliveries contributed greatly to the securing of HRP orders in 1H. In addition to HRP production and installation, as discussed below, we expect Leadtech to also take an active role in the used plant equipment relocation business.

(2) Development and growth in sales of new products

Expectations for HRPs are rising regarding the strategy of achieving growth with new products. The Company has received orders for precision inkjet printers, which it has already commercialized, for use in smartphone production. We believe the customer is a major manufacturer and we therefore think this could lead to growth in sales to other smartphone manufacturers. We also expect sales growth owing to progress made in developing new applications for the Company's products.

(3) Growth in income from services in existing businesses

Regarding the growth strategy theme of increasing income from services, the Company is working toward the goal of creating profitable businesses from mediating and relocating used plant equipment (SPE and FPD production equipment) to China, the repair and maintenance of already installed equipment, and sales of consumables. The Company has accepted a large-lot order for used equipment of over ¥2 billion. Owing to factors related to the customer's schedule, this sales is expected to be posted in FY3/19 and, while FY3/18 sales are expected to decline sharply, we think the Company and investors must accept the fact that demand in this business tends to be highly volatile. We focus more on the sustainability of this business and we think Nakan Techno's connections to China will serve it well. We therefore expect the Company to continue to secure orders in this business.

Regarding repair and maintenance and sales of consumables, as discussed in the Earnings by business segment section of this report, we expect earnings in these sub-segments to rise sharply in FY3/18. We expect to see continued growth because this is a recurring revenue business model and growth is therefore driven by growth in the number of units delivered.

Developing an ultraviolet LED for use as a MLS light source

3. Progress achieved by PHOENIX Electric

PHOENIX Electric is focused on a strategy of achieving growth through new products. Its core products in this strategy are ultraviolet LED lamps used in photolithography equipment light source units (MLS). The Company has finished developing test products and is currently working to increase light intensity. As mentioned above, the Company currently makes exclusive deliveries to the top domestic equipment manufacturer. While we expect investment in LCD panels to peak soon, light source lamps have a limited life span, resulting in replacement demand. We expect the Company to benefit greatly from replacement demand, partly because its competitors have withdrawn from the market.

PHOENIX Electric is also in the infrared LED business, but applications for these products are limited and the business has gotten off to a slow start. Partly owing to strong MLS demand, we expect the Company to focus on the development of ultraviolet LEDs for the time being.

In the Human resources service business the Company is focused on achieving growth through M&A.
Testing equipment business growing steadily.

4. Progress achieved by Nippon Gijutsu Center

Nippon Gijutsu Center operates the Human resources services business, which includes dispatch of manufacturing engineers and other engineers, and the testing equipment business, which includes the development, manufacturing, and sale of testing equipment (this business is classified under the Manufacturing equipment business segment).

In the Human resources services business, the industry as a whole is facing difficulty in securing qualified engineers and plant workers and the Company is no exception. The Company feels that M&A allowing it to secure human resources, customers, and commercial spheres is an effective measure to counter this problem and it is focusing on a growth strategy of expanding the business through this type of M&A. However, because its strategy is based on a locality-centric business model, it only considers M&A candidates that can achieve locality-based synergies and is therefore proceeding cautiously.

Nippon Gijutsu Center has completed development of a power device (power IC) tester and has already made deliveries to several power device manufacturers. While the Company is currently working to achieve further growth, progress has fallen short of its expectations. However, it has been developing testers for other customers and we expect the earnings scale of this business to increase. The Company plans to market its new power device testers as catalog models and we expect the scope of the testing device business to expand.

Business outlook

Raised FY3/18 full-year forecast. Expects large-lot HRP deliveries to continue to drive earnings growth in 2H

1. FY3/18 earnings forecast

Helios Techno raised its full-year FY3/18 forecast alongside its FY3/18 1H results announcement. The Company's revised forecast is for ¥23,500mn in net sales (+37.3% YoY), ¥2,600mn in operating profit (+87.5%), ¥2,600mn in recurring profit (+89.0%), and ¥1,800mn in profit attributable to owners of parent (+57.3%) in FY3/18.

Summary for the FY3/18 outlook

(¥mn)

	FY3/17			FY3/18								
					2H				Full year			
	1H results	2H results	Full year results	1H results	Initial forecast	Revised forecast	YoY	vs. 1H	Initial forecast	Revised forecast	vs. FY3/17	vs. initial forecast
Net sales	9,138	7,978	17,117	11,362	10,900	12,137	52.1%	6.8%	21,900	23,500	37.3%	7.3%
Operating profit	1,081	305	1,386	1,705	1,000	894	193.0%	-47.6%	1,800	2,600	87.5%	44.4%
(Operating profit margin)	11.8%	3.8%	8.0%	15.0%	9.2%	7.4%	-	-	8.2%	11.1%	-	-
Recurring profit	1,031	344	1,375	1,654	900	945	174.3%	-42.8%	1,700	2,600	89.0%	52.9%
(Recurring profit margin)	11.3%	4.3%	8.0%	14.6%	8.3%	7.8%	-	-	7.7%	11.1%	-	-
Profit attributable to owners of parent	713	430	1,144	1,180	700	619	44.0%	-47.5%	1,200	1,800	57.3%	50.0%
(Net profit ratio)	7.8%	5.4%	6.6%	10.4%	6.4%	5.1%	-	-	5.4%	7.7%	-	-

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

Compared with the initial forecast, the revised forecast calls for higher net sales and operating profit. Factors contributing to the revision included 1) delivery of the remainder of the HRP order backlog, 2) delivery of additional MLS (photolithography equipment light source units) orders, and 3) delay in delivery of flexo printing equipment (alignment layer manufacturing equipment) until FY3/19.

Delivery of the remainder of the HRP order backlog had been expected in FY3/19, but the Company now expects to complete deliveries in FY3/18 2H. This is expected to completely offset the negative impact of the delay in delivery of flexo printing equipment and the Company therefore raised its 2H sales forecast by ¥1,237mn.

We think the Company's 2H forecast looks achievable. The Company lowered its forecast for 2H operating profit from ¥1,000mn to ¥894mn, but we believe the Company has overestimated the impact from the delay until FY3/19 of delivery of flexo printing equipment and conservatively estimated profit through the posting of sales from the remainder of the HRP order backlog. We therefore see considerable upside to the new forecast, but we also see risks associated with large-scale HRP deliveries and thus think the Company's conservative outlook is appropriate at this time.

While quantitative results are, of course, an important focus point in FY3/18, we believe other factors are even more important. These include confirmation of the soundness of the Company's production and delivery systems and the careful monitoring of progress in the development of new applications and customers for the Company's products, As mentioned above, we see considerable potential for further growth in demand for the Company's HRP products, even if there is some demand fluctuation. We believe the Company's ability to deliver products on time after accepting orders is very important. We believe 1H results show the Company's ability to successfully do this and we will be watching for further confirmation of this in 2H. Also, until now, HRP demand has risen as a result of HRP application development conducted by customers. In order to achieve continued stable growth in demand going forward, we believe it will be necessary for the Company to develop applications for its products. We will be watching to see how the Company handles this challenge.

Sales outlook by business segment

(¥mn)

		FY3/17	FY3/18						
		Full year	1H		2H		Full year		
		Results	Results	YoY	Forecast	YoY	Initial forecast	Revised forecast	YoY
Net sales	Lamp business	3,621	1,592	0.6%	1,807	-11.4%	3,700	3,400	-6.1%
	Manufacturing equipment business	9,862	7,738	33.6%	8,161	100.5%	13,400	15,900	61.2%
	Human resources service business	3,656	2,060	15.5%	2,139	14.2%	4,800	4,200	14.9%
	Subtotal	17,140	11,392	24.4%	12,107	51.7%	21,900	23,500	37.1%
	Adjustment	-23	-30	-	30	-	-	-	-
	Total	17,117	11,362	24.3%	12,137	52.1%	21,900	23,500	37.3%

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

Earnings could temporarily plateau in FY3/19. Focus is on the development of applications and customers to drive its next growth stage

2. Our view regarding FY3/19

We believe sales and profit could temporarily decline in FY3/19, but we think investors should keep an eye on the Company's growth potential.

The reason for the possible temporary dip in earnings is a reactive decline from strong HRP sales in FY3/18. We believe HRPs have considerable growth potential and we think they will continue to be a growth driver for the Company. However, we think strong FY3/18 results present a high YoY hurdle. The Company is making progress in securing orders for delivery in FY3/19, but we currently do not expect FY3/19 sales volume to be as high as in FY3/18.

Even if sales and profit decline in FY3/19, this would not mean that the Company has stopped growing. We would view this as nothing more than a temporary phenomenon. The Company has multiple products and businesses with growth potential other than HRPs. While we expect the market to focus on new businesses such as semiconductors over the near term, we think existing businesses such as used equipment brokerage and transfer, repair and maintenance of already installed equipment, and sale of flexo printing plates (consumables) are entering their full-scale growth stages.

As in FY3/18 2H, in FY3/19, we will focus on the progress in developing applications and customers for HRPs and M&A or capital and business tie ups.

Summary income statement and main indicators

(¥mn)

	FY3/15	FY3/16	FY3/17	FY3/18	
				1H	Full year E
Net sales	14,817	25,769	17,117	11,362	23,500
YOY	14.9%	73.9%	-33.6%	24.3%	37.3%
Gross profit	3,892	4,313	4,445	3,483	-
Gross profit margin	26.3%	16.7%	26.0%	30.7%	-
SG&A expenses	3,041	3,131	3,058	1,777	-
SG&A margin	20.5%	12.2%	17.9%	15.6%	-
Operating profit	851	1,182	1,386	1,705	2,600
YOY	63.7%	38.9%	17.3%	57.7%	87.5%
Operating profit margin	5.7%	4.6%	8.1%	15.0%	11.1%
Recurring profit	780	1,168	1,375	1,654	2,600
YOY	25.5%	49.7%	17.7%	60.4%	89.0%
Profit attributable to owners of parent	757	807	1,144	1,180	1,800
YOY	-14.8%	6.6%	41.7%	65.3%	57.3%
EPS (¥)	43.97	45.25	63.67	65.26	99.54
Dividend (¥)	12.00	15.00	20.00	-	25.00
Net assets per share (¥)	450.22	480.79	530.46	-	-

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

Summary balance sheet

(¥mn)

	FY3/14	FY3/15	FY3/16	FY3/17	FY3/18 1H
Current assets	7,967	18,802	11,898	13,830	16,081
Cash and deposits with banks	2,663	1,836	3,158	4,181	5,072
Notes and accounts receivable	3,330	4,213	4,884	5,295	5,164
Inventory assets	1,610	12,144	2,553	3,422	4,797
Fixed assets	2,807	2,726	2,765	2,763	2,974
Property, plant and equipment	2,193	2,093	2,181	2,065	2,104
Intangible assets	162	149	109	113	103
Investments and other assets	451	483	474	584	765
Total assets	10,774	21,528	14,663	16,594	19,055
Current liabilities	2,824	12,629	5,400	6,573	7,647
Notes and accounts payable	1,420	1,271	1,417	2,053	2,877
Short-term borrowings	538	2,969	519	481	1,003
Long-term liabilities	688	857	617	449	822
Long-term borrowings	457	654	434	252	541
Shareholders' equity	7,124	7,911	8,532	9,421	10,249
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	3,915	4,459	5,047	5,919	6,731
Treasury shares	-1,488	-1,245	-1,211	-1,194	-1,179
Accumulated other comprehensive income	86	117	106	146	336
Subscription rights to shares	50	12	6	2	-
Total net assets	7,261	8,041	8,645	9,571	10,585
Total liabilities and net assets	10,774	21,528	14,663	16,594	19,055

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

Cash flow statement

(¥mn)

	FY3/14	FY3/15	FY3/16	FY3/17	FY3/18 1H
Cash flows from operating activities	747	-3,508	4,503	1,727	233
Cash flows from investing activities	144	91	-317	-224	-94
Cash flows from financing activities	79	2,611	-2,863	-480	458
Effect of exchange rate change on cash and cash equivalents	28	-	-	-	290
Net increase (decrease) in cash and cash equivalents	971	-804	1,322	1,022	597
Cash and cash equivalents at beginning of period	1,585	2,585	1,780	3,102	4,125
Cash and cash equivalents at end of period	2,585	1,780	3,102	4,125	5,013

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

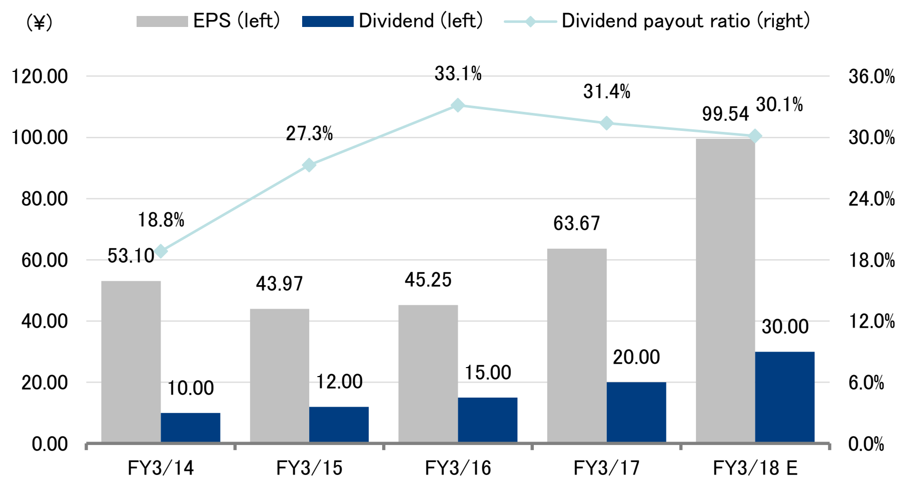
Shareholder returns

To again increase dividends in FY3/18 to ¥30 per share

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.

At the beginning of FY3/18, based on its forecast for higher sales and profit, the Company announced a dividend forecast of ¥25 per share, a YoY increase of ¥5 per share. Despite raising its full-year forecast alongside its 1H results announcement, the Company left its dividend forecast unchanged, but then on December 5, 2017, it announced an additional ¥5 per share YoY dividend hike to ¥30 for FY3/18. Based on this, we estimate an FY3/18 dividend payout ratio of 30.1%.

Earnings per share, dividend and dividend payout ratio



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

Information security

High level of awareness of information security

Helios Techno is involved in the cutting-edge field of flat-panel displays and semiconductors and therefore manages important information such as technical data and customer data with a high level of awareness regarding information security. The Company has established information security systems necessary for listed companies including passwords that limit access to information. In addition, the Company is involved in B-to-B businesses and, unlike companies involved in B-to-C businesses, does not handle large volumes of customer data or credit card data. We therefore think the Company faces relatively little risk from cyberterrorism targeting such information or the leaking of such information from inside the Company.

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