COMPANY RESEARCH AND ANALYSIS REPORT

# Helios Techno Holding Co., Ltd.

## 6927

Tokyo Stock Exchange First Section

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# Summary

## Healthy progress in growth strategies of new product development and sales expansion and service revenue gains, likely to restore earnings growth in FY3/20

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 resource service business.

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

The Company reported ¥23,483mn in net sales (up 37.2% YoY) and ¥3,039mn in operating profit (up 119.2%) in FY3/18, posting significant growth in both sales and income. The Company raised full-year guidance a second time at the announcement of 3Q results, but ultimately exceeded these levels too. It acquired a large order for high resolution inkjet printers in FY3/17, and delivery of all of these printers in FY3/18 fueled stronger sales and profits.

### 2. Healthy progress in new product development, aiming to establish operations that respond to demand changes and realize sustainable growth

Manufacturing Equipment Business is the Company's primary source of earnings and should drive future growth out of the three businesses. This segment supplies high resolution inkjet printers, alignment film manufacturing equipment, lithography equipment light source units (MLS), and other products. It also covers export business for used plants. While many of the Company's manufacturing equipment products are related to flat panel display (FPD) production equipment, FPDs have steadily grown as a market through broadening final customers from electronics equipment to smartphones. Business is likely to grow in the automotive industry next. The Company is steadily developing new products and has established operations to sustain growth by effectively tapping into waves of change in demand drivers.

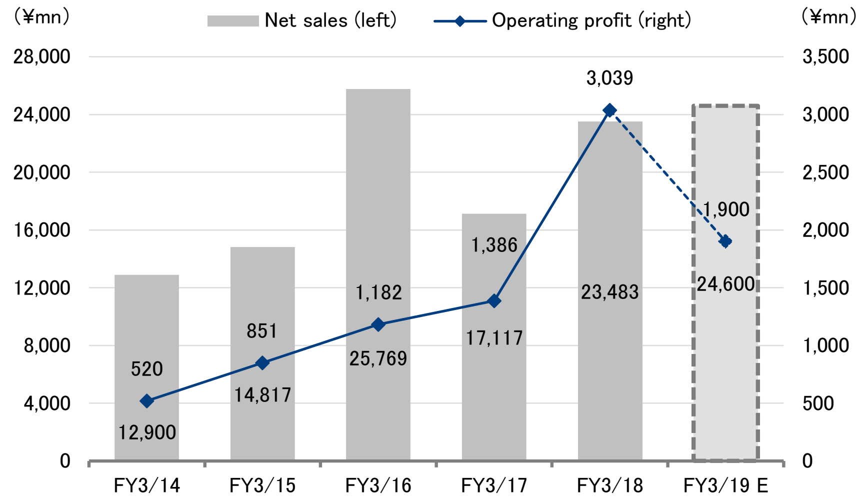
### 3. Expects weaker profit in FY3/19 on non-recurrence of a major deal, likely rebound in FY3/20

The Company forecasts lower earnings on an increase in sales in FY3/19 with net sales at ¥24,600mn (+4.8% YoY) and operating profit at ¥1,900mn (-37.5%). It expects flat sales YoY in Manufacturing Equipment Business, despite decline in high resolution inkjet printer sales, thanks to offsetting gains in other production equipment and used plants. The projected 4.8% rise in overall sales factors in healthy sales advances in the other two businesses. Profit is likely to weaken YoY because of decline in profitability from change in product mix. We think FY3/19 profit decline is a temporary situation and forecast restoration of a profit increase in FY3/20. There is no reason to be overly concerned.

**Key Points**

- FY3/18 benefitted from a large HRP deal along with generally upbeat FPD production equipment business
- Healthy progress in new product development, including expansion of RP variations, 3D printing technology, and large alignment film production equipment
- Likely to restore profit gains in FY3/20 with manufacturing equipment business as the main driver

Results trends




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

# Business overview

## Operates three segments, earnings mainly from FPD production equipment (alignment film production equipment, HRPs, and others)

### 1. Business overview

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

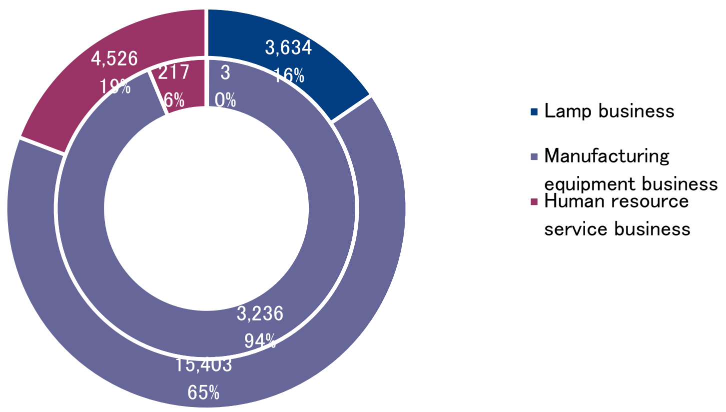
The Manufacturing Equipment Business is the primary source of earnings and mainly supplies alignment film manufacturing equipment, lithography equipment light source units, and other equipment used on LCD panel production lines. Additionally, while high resolution inkjet printers (HRPs), which rapidly increased sales as a new product in FY3/18, have a very wide range of potential applications, HRPs delivered during FY3/18 went toward OLED production. At this stage, the Company could be described as a flat panel display (FPD) production equipment manufacturer.

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<br>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<br>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 profit by business segment
(based on results for FY3/18 )




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

## Sales of lithography equipment light source lamps steadily growing, shift to LEDs in general-purpose lighting lamps

#### 2. Overview of Lamp business

Recently, MLS photolithography equipment light source units have been playing an increasingly important role in the Lamp 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 MLS to the manufacturers. The Company currently makes exclusive deliveries to the top domestic equipment manufacturer. Light source lamps benefit from replacement demand because of limits on the lifespan of lithography equipment light source s. Replacement demand continues to grow at a healthy pace thanks to the Company's MLS build-up and high operating rates on LCD panel production lines.

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 are lamps for projectors widely utilized at conferences and in school education. Replacement demand continues to offer a market in this business.

## Mainly consists of products and services from Nakan Techno and Leadtech Products primarily utilized in FPD production equipment

#### 3. Overview of Manufacturing equipment business

The Manufacturing Equipment Business consists of products supplied by Nakan Techno Co., Ltd. and Leadtech Co., Ltd, above-mentioned MLS units from PHOENIX Electric, and power device testers and other testing systems from Nippon Gijutsu Center Co., Ltd. Nakan Techno's (including Leadtech) products and services have four sub-segments – flexographic printers, plants, new equipment (HRPs), and others. (MLS business was already covered earlier, and Nippon Gijutsu Center's testing systems income is still limited.)

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 the only manufacturer of flexo-printer alignment layer manufacturing equipment. It supports Generation 8.5 mother glass.

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 transportation and 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 50 units.

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.

Relationship diagram for business segments and manufacturing companies

| Operating company | Products | Business segment |
|---|---|---|
| Lux<br>PHOENIX Electric | Lamps (LED lamps, lighting lamps, lithography equipment light source lamps, etc.) | Lamp business |
| | Lithography equipment light source units (MLS) | Manufacturing equipment business |
| Nakan Techno<br>Leadtech | Alignment film production equipment, high resolution inkjet printers<br>Used manufacturing equipment<br>Repair, maintenance, etc. | |
| Nippon Gijutsu Center | Power device testers | |
| | Design consignments, engineer dispatches, worker dispatches, care, etc. | Human resource service business |

Source: Prepared by FISCO from the Company's materials

## Developing engineer and worker dispatch business with a local-oriented approach Pursuing M&A opportunities to expand business

### 4. Overview of Human resource 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 resource 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. Based on a slogan of expanding broadly from a small 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, of course, is improving efficiency.

The Company has clearly stated that it plans to pursue M&A opportunities in the Human resource service business. The dispatching industry is struggling to secure human resource, and the Company sees appeal in M&A-led expansion because of opportunities to acquire both the human resource 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

## Sales and profits up sharply on rapid growth in Manufacturing Equipment Business

### 1. Review of FY3/18

The Company reported ¥23,483mn in net sales (up 37.2% YoY), ¥3,039mn in operating profit (up 119.2%), recurring profit of ¥2,983mn (up 116.9%), and ¥2,164mn in profit attributable to owners of parent (up 89.1%) in FY3/18, posting significant growth in both sales and income.

The Company raised full-year guidance a second time at the announcement of 3Q results, but ultimately exceeded these levels too.

**Review of FY3/18 results**

(¥mn)

| | FY3/17 | FY3/18 | | | |
|---|---|---|---|---|---|
| | Full year | Full year | | | |
| | Results | Latest forecast | Results | YoY | Versus latest forecast |
| Net sales | 17,117 | 23,800 | 23,483 | 37.2% | -1.3% |
| Operating profit | 1,386 | 2,900 | 3,039 | 119.2% | 4.8% |
| (Operating profit margin) | 8.1% | 12.2% | 12.9% | - | - |
| Recurring profit | 1,375 | 2,880 | 2,983 | 116.9% | 3.6% |
| (Recurring profit ratio) | 8.0% | 12.1% | 12.7% | - | - |
| Profit attributable to owners of parent | 1,144 | 2,050 | 2,164 | 89.1% | 5.6% |
| (Net income ratio) | 6.7% | 8.6% | 9.2% | - | - |

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

The LCD panel production equipment industry, which is the Company's main market, featured robust capital investments again in FY3/18. OLED capital investments remained at a high level as well. In these conditions, the Company posted sharply higher sales at a 37.2% YoY increase on strong orders and deliveries of flexographic printers for alignment film production and lithography equipment light source units (MLS), its existing core products, and the delivery timing for a major deal in high resolution inkjet printers, a new product.

In earnings, meanwhile, Manufacturing Equipment Business generates a higher margin than the other two segments. The steep rise in this segment's sales in FY3/18 improved overall product mix and thereby increased profit margin and fueled sharply higher earnings.

## Boost to Manufacturing Equipment Business income from a major HRP deal amid generally upbeat FPD production equipment conditions

### 2. Earnings by business segment

Detailed results by business segment

(¥mn)

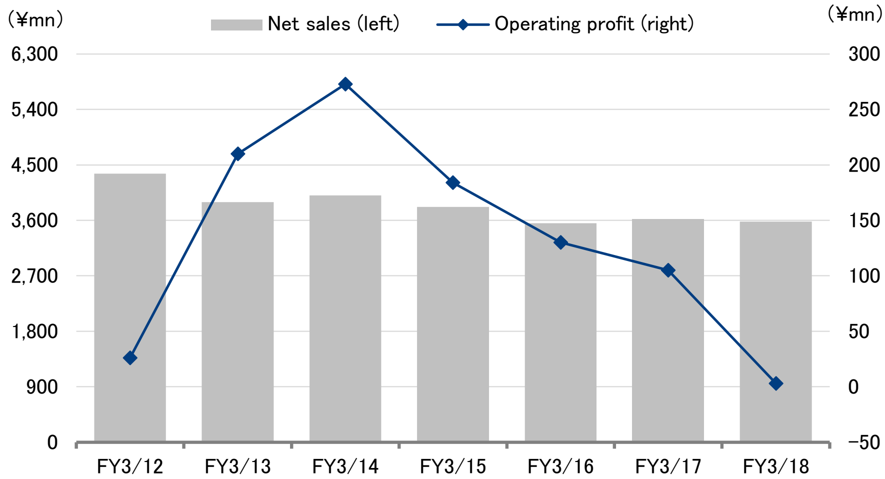
| | | FY3/17 full-year results | FY3/18 | | | | | |
|---|---|---|---|---|---|---|---|---|
| | | | 1H results | 2H results | Full year | | | |
| | | | | | Initial forecast | Revised forecast | Results | YoY |
| Net sales | Lamp business | 3,652 | 1,592 | 2,042 | 3,700 | 3,400 | 3,634 | -0.5% |
| | Manufacturing equipment business | 9,862 | 7,738 | 7,665 | 13,400 | 15,900 | 15,403 | 56.2% |
| | Human resources service business | 3,656 | 2,060 | 2,466 | 4,800 | 4,200 | 4,526 | 23.8% |
| | Subtotal | 17,170 | 11,392 | 12,171 | 21,900 | 23,500 | 23,563 | 37.2% |
| | Adjustment | -53 | -30 | -50 | 0 | 0 | -80 | - |
| | Total | 17,117 | 11,362 | 12,121 | 21,900 | 23,500 | 23,483 | 37.2% |
| Operating profit | Lamp business | 105 | -6 | 9 | - | - | 3 | -96.6% |
| | Manufacturing equipment business | 1,488 | 1,827 | 1,409 | - | - | 3,236 | 117.4% |
| | Human resources service business | 181 | 94 | 123 | - | - | 217 | 19.6% |
| | Subtotal | 1,775 | 1,915 | 1,542 | - | - | 3,457 | 94.8% |
| | Adjustment | -389 | -209 | -209 | - | - | -418 | - |
| | Total | 1,386 | 1,705 | 1,334 | - | - | 3,039 | 119.2% |

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

**(1) Lamp business**

In FY3/18, Lamp business sales decreased 0.5% YoY to ¥3,634mn and the segment posted an operating profit of ¥3mn (down 96.6%).

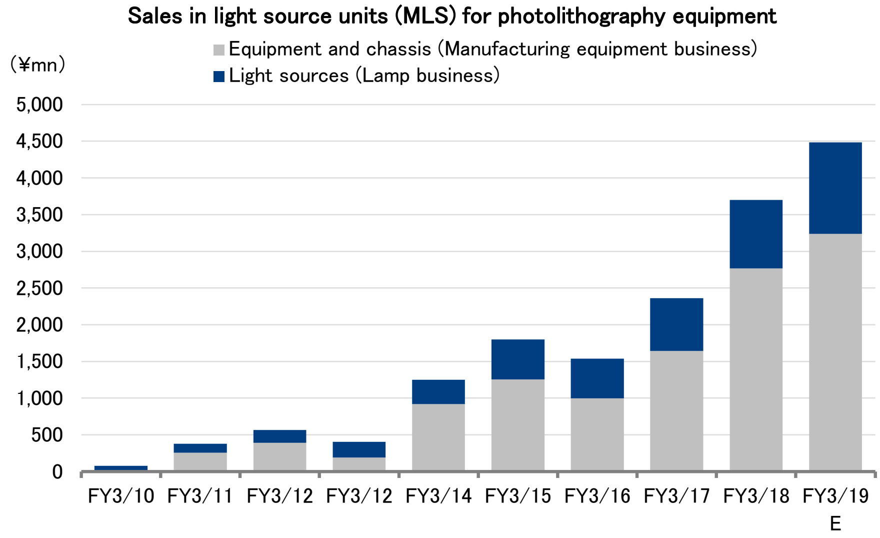
**Results in the Lamp business**




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

Lithography equipment light source units (MLS) are increasing sales at a healthy pace among products handled by PHOENIX Electric. Ultraviolet lamps, an alternative light source for MLS, posted stronger sales in light of this trend. Nevertheless, Lamp Business sales slightly declined YoY due to impacts from a drop in general-purpose lighting lamps (including LEDs) and continuation of a contraction trend in projector lamps.

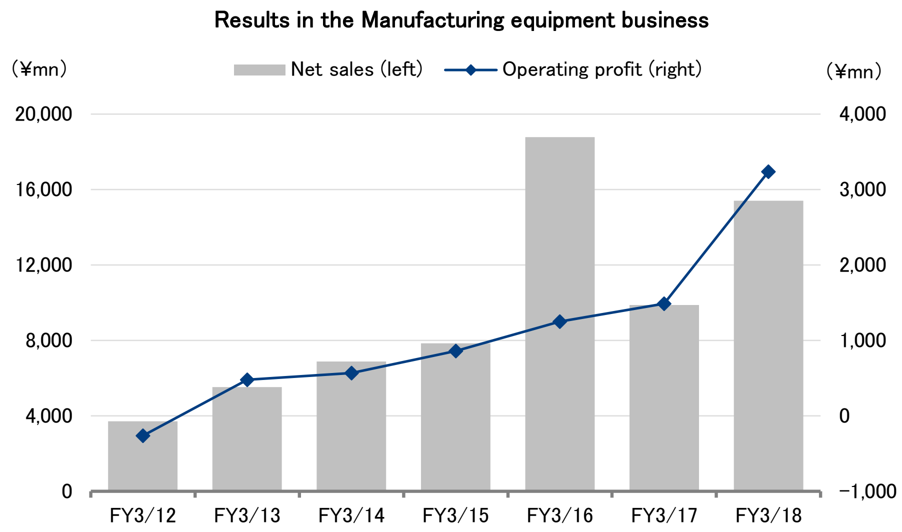
Segment operating profit fell sharply YoY, despite steady earnings from ultraviolet lamps as MLS alternative light sources, because of decline in the manufacturing plant's operating rate with the slump in general-purpose lighting lamps that comprise the volume zone.




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

**(2) Manufacturing equipment business**

In FY3/18, Manufacturing equipment business sales increased 56.2% YoY to ¥15,403mn and operating profit jumped 117.4% to ¥3,236mn.



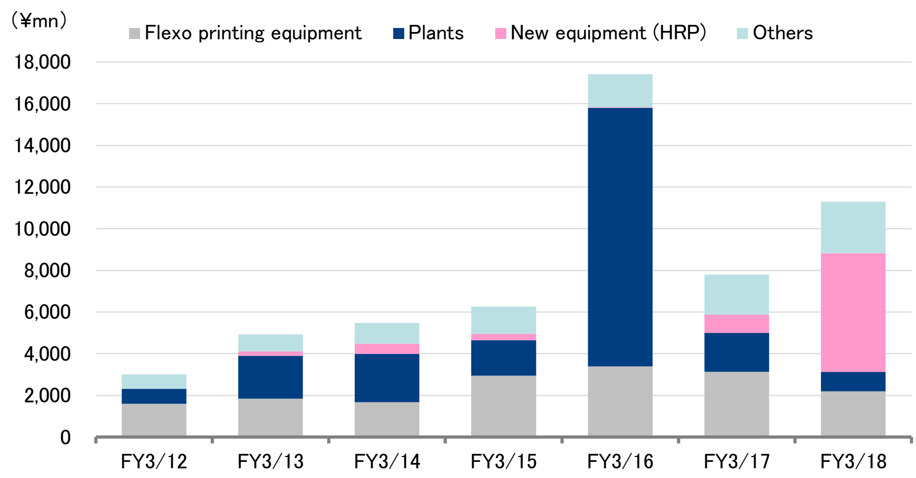

Source: Prepared by FISCO from the Company's results briefing materials

High resolution inkjet printers (HRP) were the driver of rapid income growth in the Manufacturing Equipment Business as explained earlier. The Company booked a large order for 60 machines in FY3/17 and shipped all of these machines, including accelerated deliveries, during FY3/18. This major order's application appears to be OLED production with smartphones as the final user. However, even the Company itself does not have details on what will be printed or coated as well as on what materials or portion.

The Manufacturing Equipment Business has flexographic printers, plants, and "others" as sub-segments too. In flexographic printers, mainstay alignment film production equipment performed well. While some deliveries shifted to the next fiscal year because of activity related to HRP output during FY3/18, demand appears to have remained at a strong level. Plant business involves brokering and transferring used facilities and fluctuates substantially each year. Sales were down significantly YoY in FY3/18. However, existing orders suggest that sales are likely to double in FY3/19.

The "others" sub-segment consists of upkeep and maintenance and sales of consumables. Repair and maintenance income has grown to a sizable level with cumulative sales volume for the Company's production equipment at over 50 systems (it rose sharply to well over 100 systems including the large HRP order). This area has substantially changed qualitatively tool, including realization of profitability in flexo plate (consumable) sales from FY3/17. Sales rose sharply YoY in FY3/18 with continuation of this positive trend.

Sales by sub-segment in the Manufacturing equipment business



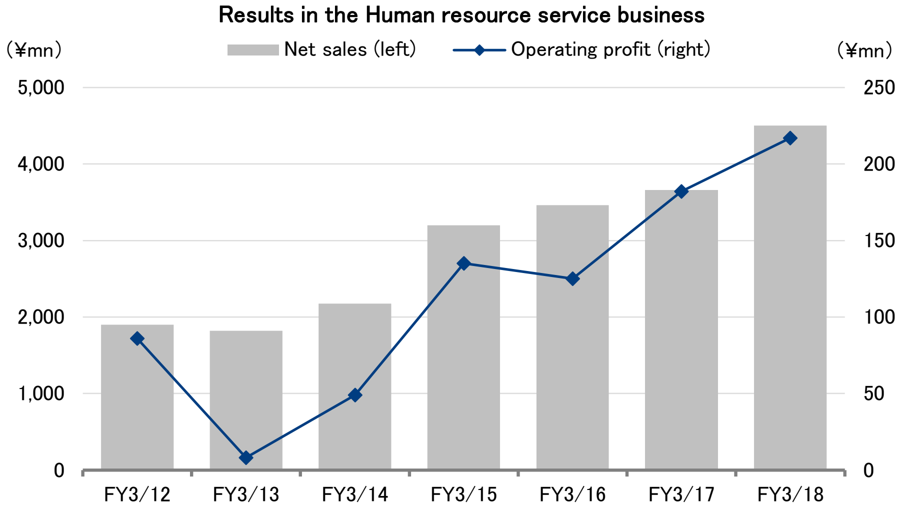

Note: Only covers the portion for Nakan Techno's output. It does not include MLS and testers.
Source: Prepared by FISCO from the Company's results briefing materials and interviews

### (3) Human resource service business

In FY3/18, Human resource service business sales increased 23.8% YoY to ¥4,526mn and operating profit increased 19.6% to ¥217mn.

The Company develops engineer dispatch, design subcontracting, and manufacturing engineer dispatch business with a local-oriented approach. Income has been stable with support from improved staff quality and prompt and conscientious responses to customer requirements. Customer manufacturing sites face chronic manpower shortages. The Company has raised income with steady increases in the number of dispatched workers.

It reduced the FY3/18 segment sales target from ¥4,800mn in the period-start outlook to ¥4,200mn during the period. However, actual sales ultimately exceeded this level thanks to successful recruitment of engineers and manufacturing workers that supported robust demand for dispatches and consignments. Operating margin, meanwhile, slightly weakened from the previous year's 5.0% to 4.8% on increased personnel hiring costs amid manpower shortages throughout society.




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

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

## Three basic policies in the medium-term strategy – promotion of M&A and strategic alliances, new product development and sales expansion, and broadening services income in existing areas

### 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 operating companies: Nakan Techno, PHOENIX Electric, and Nippon Gijutsu Center. Each of these subsidiaries follows the three above-mentioned growth strategy themes as appropriate. While Nakan Techno is pursuing all three aspects of the growth strategy, PHOENIX Electric and Nippon Gijutsu Center are taking a more targeted approach in light of market environment and business characteristics and corporate wherewithal.

Overview of measures targeting growth

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

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

## Healthy progress in new product development, including expansion of RP variations, 3D printing technology, and large alignment film production equipment

### 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 semi-conductors. 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.

Looking at results thus far, the Company has been approached with multiple M&A opportunities. While it reviewed each of the opportunities, specific actions have not transpired yet. Nevertheless, the Company believes that the expression of interest in entering the semiconductor field and M&A deals has raised its profile.

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 played an important role in production and delivery for the large HRP business and contributed significantly to meeting the deadline. It is also generating results in line with expectations in the used plant transfer business too.

#### (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 developed and commercialized HRP technology for inkjet, gravure, offset, and other printing methods. A major high resolution inkjet printer deal provided an income boost in FY3/18, as explained earlier.

The major order's application appears to be OLED production with smartphones as the final user. High resolution inkjet printer applications, however, are not limited to OLED, LCD, and other FPD production. "High resolution" is specifically realized as alignment precision, line fineness, coated surface uniformity, and film thinness. Utilization of these features might wind up applying to areas not envisioned by the company itself. This area could develop into a long-lived product business over the longer term.

The Company's completion of 3D printing technology was a technological advance in FY3/18. This is not a 3D printer and instead uses high resolution printing technology to print and coat a three-dimensional item with uniform film thickness. The most typical example is technology for printing on a curved surface. We think this technology is highly original and might become a major product as development of the application advances.

Display devices with a curved surface are a specific market opportunity for 3D printing technology. The main application is the area around the driver's seat in vehicles. Automobiles are adopting mirrorless designs and automated driving technology. These systems install cameras and hence are likely to increase use of display devices as monitors. It is expected that such displays would enlist curved designs to ensure visibility. While various production technologies have been reviewed for curved displays, printing is attracting strong expectations from a cost standpoint and the Company is putting its efforts in this area.

#### (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. Used plant sales weakened in FY3/18 amid focus on a major HRP deal as explained above, but are headed for a steep increase in FY3/19 on upcoming delivery for a deal booked in the past.

The Company posts solid results in used plant business due to procurement capabilities for acquiring used facilities, transport and installation skills, and Nakan Techno's human network in China. China continues to exhibit robust demand for production equipment, and we expect used plant business for FPD production equipment (mainly LCDs) to steadily grow.

Repair and maintenance services and consumable sales have moved into a full-fledged expansion phase as explained in the section on business segment trends. These businesses rely on a recurring income model that expands with build-up in various delivered production equipment. The Company intends to proceed with "pro-active sales activity" that goes beyond just repair and maintenance and proposes improvement projects that lift functionality and lengthen equipment life to customers.

## 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. The Company continued basic R&D efforts during FY3/18.
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 resource service business the Company is focused on achieving growth through M&A.
## Possibility of full-fledged power device tester demand gains in automotive and IoT areas

**4. Progress achieved by Nippon Gijutsu Center**

Nippon Gijutsu Center operates the Human resource 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 resource 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 resource, 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.

The Company completed development of power device (power IC) testers and made trial deliveries to multiple customers in equipment production and sales. While the business is small and there is not much income contribution at this point, demand for the Company's testers is likely to increase as power device output rises with ramp up of automotive and IoT-related demand.

# Business outlook

## Sales likely to increase, but expects steep profit decline on less favorable product mix

### 1. FY3/19 earnings forecast

For FY3/19, Helios Techno projects higher sales but sharp fall in profits, projecting ¥24,600mn in net sales (+4.8% YoY), ¥1,900mn in operating profit (-37.5%), ¥1,900mn in recurring profit (-36.3%), and ¥1,400mn in profit attributable to owners of parent (-35.3%).

Summary for the FY3/19 outlook

(¥mn)

| | FY3/18 | | | FY3/19 | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | 1H | 2H | Full year | 1H | | 2H | | Full year | |
| | Results | Results | Results | Forecast | YoY | Forecast | YoY | Forecast | YoY |
| Net sales | 11,362 | 12,121 | 23,483 | 12,700 | 11.8% | 11,900 | -1.8% | 24,600 | 4.8% |
| Operating profit | 1,705 | 1,334 | 3,039 | 900 | -47.2% | 1,000 | -25.0% | 1,900 | -37.5% |
| (Operating profit margin) | 15.0% | 11.0% | 12.9% | 7.1% | - | 8.4% | - | 7.7% | - |
| Recurring profit | 1,654 | 1,329 | 2,983 | 900 | -45.6% | 1,000 | -24.8% | 1,900 | -36.3% |
| (Recurring profit margin) | 14.6% | 11.0% | 12.7% | 7.1% | - | 8.4% | - | 7.7% | - |
| Profit attributable to owners of parent | 1,180 | 984 | 2,164 | 600 | -49.2% | 800 | -18.7% | 1,400 | -35.3% |
| (Net profit ratio) | 10.4% | 8.1% | 9.2% | 4.7% | - | 6.7% | - | 5.7% | - |

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

The Lamp Business sales target is ¥4,100mn (+12.8% YoY). Business conditions should be similar to FY3/18 with weaker or stalled sales of lamps for general-purpose lighting and projector lamps versus rising sales of MLS light source lamps on replacement demand. This outlook factors in steady build-up of lithographic equipment shipments from past years and higher operating rates on production lines.

Manufacturing Equipment Business sales are slated to increase 2.3% YoY to ¥15,750mn. While the Company has not disclosed the breakdown, we think it is counting on gains in used plants, alignment film flexographic printers, MLS, and repair and maintenance service to more than offset decline in high resolution inkjet printers and support an overall increase. Used plants and repair and maintenance service are likely to deliver stronger growth in FY3/19 as explained earlier. HRP sales volume is headed for a large dip from 60 units in FY3/18 to about 10 units in FY3/19. Nevertheless, it is necessary to closely monitor HRP trends because of the possibility of unexpected orders due to application development on the customer side.

The Company forecasts a 4.9% YoY increase in Human Resource Service Business sales to ¥4,750mn on the prospect of ongoing tight demand for engineer and worker dispatches, just as in FY3/18. While sales posted a double-digit gain in the previous year thanks to ramp-up in hiring, we think the FY3/19 outlook assumes less aggressive hiring than in the previous year. This stance appears to reflect the upswing in personnel recruitment costs.

Sales outlook by business segment

(¥mn)

| | FY3/17 | FY3/18 | | FY3/19 | |
|---|---|---|---|---|---|
| | Results | Results | YoY | Forecast | YoY |
| Lamp business | 3,652 | 3,634 | -0.5% | 4,100 | 12.8% |
| Manufacturing equipment business | 9,862 | 15,403 | 56.2% | 15,750 | 2.3% |
| Human resource service business | 3,656 | 4,526 | 23.8% | 4,750 | 4.9% |
| Subtotal | 17,170 | 23,563 | 37.2% | 24,600 | 4.4% |
| Adjustment | -53 | -80 | - | - | - |
| Total | 17,117 | 23,483 | 37.2% | 24,600 | 4.8% |

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

The Company projects a steep 37.5% YoY decline in operating profit, mainly on change in sales composition for the Manufacturing Equipment Business. This stance factors in likely decline in companywide profit margin due to less favorable product mix from a decline in sales of manufacturing equipment (HRPs in FY3/19) that generally offer higher gross margin and increase in sales from used plant business with low gross margin.

Another anticipated setback is profit decline on change in the operating rate. The Company manufactured and delivered 60 HRP systems in FY3/18. In manufacturing, high-volume output of the same product generally provides economies of scale and improves margin. Removal of this portion is likely to amplify backlash decline in FY3/19.

## Expect a switch to rising profits led by Manufacturing Equipment Business in FY3/20

### 2. Outlook from FY3/20

We see FY3/19 profit decline as a temporary outcome and expect a switch to rising profit again in FY3/20. This view factors in income expansion trends in all areas of the Manufacturing Equipment Business that drives overall results, including HRPs, alignment film flexographic printers, used plants, MLS, and repair and maintenance service.

Anticipated profit decline in FY3/19 reflects extreme changes in product mix, as explained above. These conditions are unlikely to repeat in FY3/20. If mix changes, we think it would move in an improvement direction (for example, return of a major HRP order). The Company should achieve stable, albeit not high, growth in Lamps Business and Human Resource Services Business. This means expansion of Manufacturing Equipment Business income is likely to fuel restoration of higher companywide sales and profits.

Possible drivers other than organic growth include M&A progress in the semiconductor field that the Company is emphasizing and M&A in Human Resource Services Business. However, this potential should not be reflected in the outlook at this point because these opportunities involve counterparts.

We think HRP trends deserve attention. Key points, besides inkjet printers that are already commercialized, are whether the Company obtains orders for equipment based on other printing method, such as gravure printing that it has already developed, and 3D printers for curved-surface printing. Other areas to watch include the orders situation for G10.5-type alignment film flexographic printers and expansion of repair and maintenance income.

Income statement and main indicators

(¥mn)

| | FY3/15 results | FY3/16 results | FY3/17 results | FY3/18 results | FY3/19 | |
|---|---|---|---|---|---|---|
| | | | | | 1H (E) | Full year (E) |
| Net sales | 14,817 | 25,769 | 17,117 | 23,483 | 12,700 | 24,600 |
| YOY | 14.9% | 73.9% | -33.6% | 37.2% | 11.8% | 4.8% |
| Gross profit | 3,892 | 4,313 | 4,445 | 7,033 | - | - |
| Gross profit margin | 26.3% | 16.7% | 26.0% | 29.9% | - | - |
| SG&A expenses | 3,041 | 3,131 | 3,058 | 3,993 | - | - |
| SG&A margin | 20.5% | 12.2% | 17.9% | 17.0% | - | - |
| Operating profit | 851 | 1,182 | 1,386 | 3,039 | 900 | 1,900 |
| YOY | 63.7% | 38.8% | 17.3% | 119.2% | -47.2% | -37.5% |
| Operating profit margin | 5.7% | 4.6% | 8.1% | 12.9% | 7.1% | 7.7% |
| Recurring profit | 780 | 1,168 | 1,375 | 2,983 | 900 | 1,900 |
| YOY | 25.5% | 49.8% | 17.7% | 116.9% | -45.6% | -36.3% |
| Profit attributable to owners of parent | 757 | 807 | 1,144 | 2,164 | 600 | 1,400 |
| YOY | -14.8% | 6.6% | 41.7% | 89.1% | -49.2% | -35.3% |
| EPS (¥) | 43.97 | 45.25 | 63.67 | 119.66 | 33.17 | 77.39 |
| Dividend (¥) | 12.00 | 15.00 | 20.00 | 30.00 | 0.00 | 30.00 |
| Net assets per share (¥) | 450.23 | 480.79 | 530.46 | 635.02 | - | - |

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

### Balance sheet

(¥mn)

| | FY3/14 | FY3/15 | FY3/16 | FY3/16 | FY3/18 |
|---|---|---|---|---|---|
| Current assets | 7,967 | 18,802 | 11,898 | 13,830 | 15,601 |
| Cash and deposits with banks | 2,663 | 1,836 | 3,158 | 4,181 | 4,165 |
| Notes and accounts receivable | 3,330 | 4,213 | 4,884 | 5,295 | 5,970 |
| Inventory assets | 1,610 | 12,144 | 2,553 | 3,422 | 4,169 |
| Fixed assets | 2,807 | 2,726 | 2,765 | 2,763 | 2,963 |
| Property, plant and equipment | 2,193 | 2,093 | 2,181 | 2,065 | 2,222 |
| Intangible assets | 162 | 149 | 109 | 113 | 89 |
| Investments and other assets | 451 | 483 | 474 | 584 | 651 |
| Total assets | 10,774 | 21,528 | 14,663 | 16,594 | 18,564 |
| Current liabilities | 2,824 | 12,629 | 5,400 | 6,573 | 6,489 |
| Notes and accounts payable | 1,420 | 1,271 | 1,417 | 2,053 | 2,433 |
| Short-term borrowings | 538 | 2,969 | 519 | 481 | 427 |
| Long-term liabilities | 688 | 857 | 617 | 449 | 582 |
| Long-term borrowings | 457 | 654 | 434 | 252 | 336 |
| Shareholders' equity | 7,124 | 7,911 | 8,532 | 9,421 | 11,234 |
| 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 | 7,716 |
| Treasury shares | -1,488 | -1,245 | -1,211 | -1,194 | -1,179 |
| Accumulated other comprehensive income | 86 | 117 | 106 | 146 | 258 |
| Subscription rights to shares | 50 | 12 | 6 | 2 | - |
| Total net assets | 7,261 | 8,041 | 8,645 | 9,571 | 11,492 |
| Total liabilities and net assets | 10,774 | 21,528 | 14,663 | 16,594 | 18,564 |

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

### Cash flow statement

(¥mn)

| | FY3/14 | FY3/15 | FY3/16 | FY3/17 | FY3/18 |
|---|---|---|---|---|---|
| Cash flows from operating activities | 747 | -3,508 | 4,503 | 1,727 | 388 |
| Cash flows from investing activities | 144 | 91 | -317 | -224 | -370 |
| Cash flows from financing activities | 79 | 2,611 | -2,863 | -480 | -323 |
| Effect of exchange rate change on cash and cash equivalents | 28 | - | - | - | 289 |
| Net increase (decrease) in cash and cash equivalents | 971 | -804 | 1,322 | 1,022 | -16 |
| Cash and cash equivalents at beginning of period | 1,585 | 2,584 | 1,780 | 3,102 | 4,125 |
| Cash and cash equivalents at end of period | 2,585 | 1,780 | 3,102 | 4,125 | 4,109 |

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

# Shareholder returns

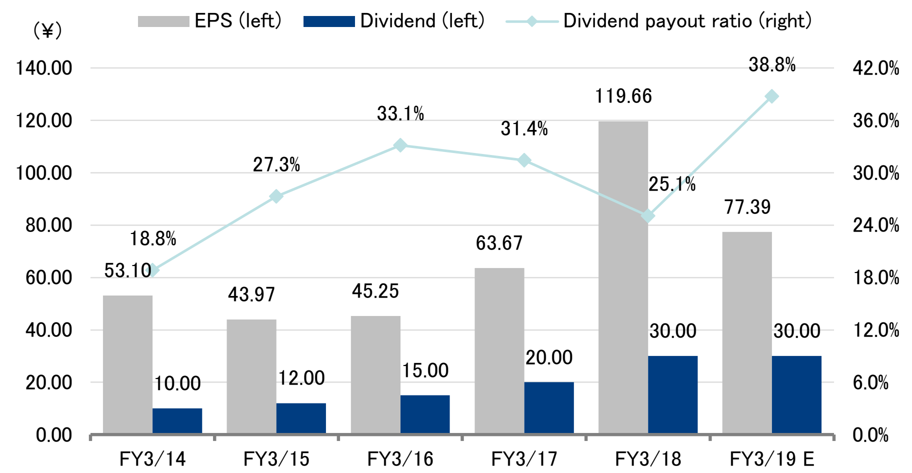
## Kept the FY3/19 dividend at ¥30
## Demonstrates confidence in quick profit recovery

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 paid a ¥30 dividend in FY3/18 (+¥10 YoY). While it began the year with a ¥25 target (+¥5), FY3/18 earnings substantially exceeded the period-start view, just as in the previous fiscal year, supporting the decision to pay a ¥30 dividend. This level put the dividend payout ratio at 25.1%.

The FY3/19 period-start outlook targets a ¥30 dividend (unchanged YoY) for a 38.8% payout ratio using the ¥77.39 EPS estimate. The Company retained a ¥30 dividend, despite the prospect of lower profits on increased sales in FY3/19 as explained above. The anticipated FY3/19 profit decline stems from one-time backlash to a large HRP deal in the previous fiscal year. We think the dividend stance demonstrates confidence in quick recovery to a growth trajectory.

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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