SUN-WA TECHNOS CORPORATION

8137 Tokyo Stock Exchange First Section

8-Jul.-15

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FY3/15 Sees Second Consecutive Year of Record Profits, FY3/16 Important Year for Next Medium-term Management Plan

Sun-Wa Technos Corporation (8137) is a trading company that specializes in technology products. Its three divisions are electrical machinery, electronics, and general machinery. The company has grown by selling equipment and materials for the production lines of manufacturers, mainly through its electrical machinery and general machinery divisions, then selling the products made by these manufacturers, mainly through its electronics division. The company calls this arrangement two-way trade.

In the fiscal year through March 2015, i.e., in FY3/15, the company achieved record-high sales and profits for the second year in a row, and its profits were in line with the targets in its medium-term management plan, JUMP 1200. Because sales of some products in Japan declined y-o-y, the company's total sales in Japan grew only 5.5% y-o-y, but its sales in other parts of Asia jumped 23.4%, and its sales in Europe and the US rose 7.5%. Thus, total consolidated net sales increased 9.8% y-o-y. Gross profit expanded 10.3% y-o-y, more than offsetting an increase in SG&A expenses, so operating income grew 8.1%.

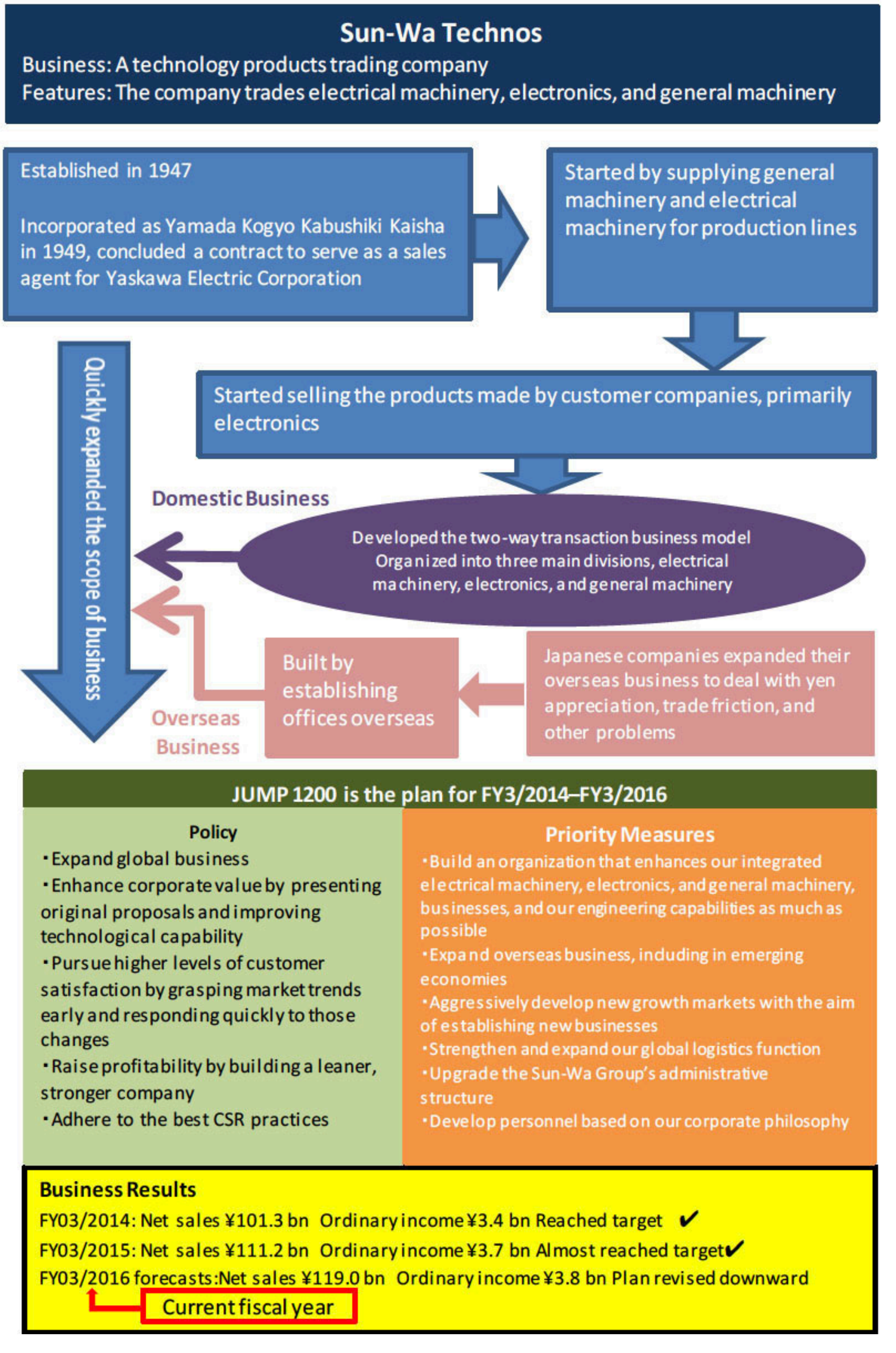
For FY3/16, the company's medium-term plan calls for consolidated net sales of ¥120.0bn and ordinary income of ¥4.7bn, but the company has forecast sales of ¥119.0bn and ordinary income of ¥3.8bn. We believe that the company included only definite sales in its sales forecast, while it accounted for all possible costs for future growth. Thus, we consider the company's forecasts to be conservative. The company's main suppliers have released more aggressive forecasts than the company has.

The company has not released details of its next medium-term plan, which begins in FY3/17. Although it continues to report record-high results, it has many problems. We believe that by solving these problems, the company will achieve growth. Among the challenges facing the company are the need to increase its business with non-Japanese companies, to strengthen its engineering business, and to control costs more effectively than it has to date. FY3/16 is an important year for the company because it is the last year of its current medium-term plan and the year to prepare its next plan. We believe that it is more important for the company to take meaningful steps to insure medium-term growth this year than it is to achieve business targets.

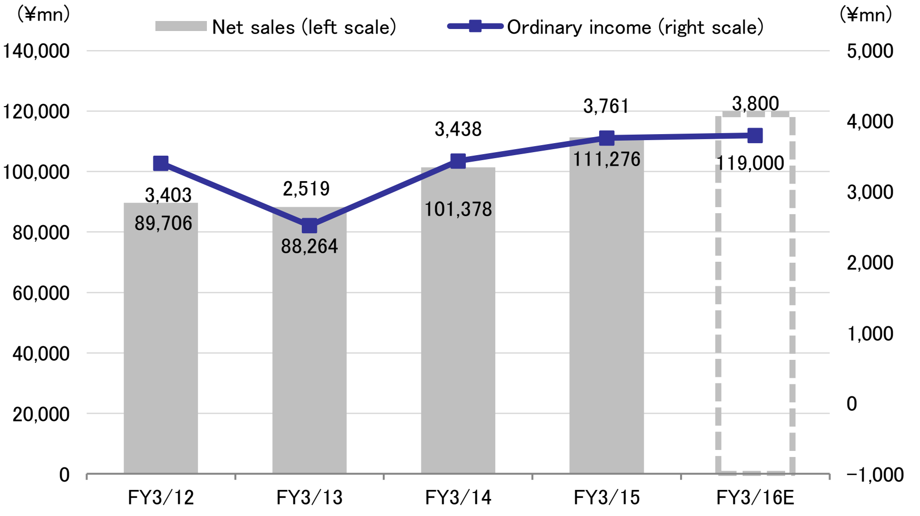
Check Point

- The company's business performance has been tracing the goals set out in its eighth medium-term management plan, JUMP 1200.
- Sun-Wa Technos achieved record-high profits in FY3/15, for the second consecutive year
- The company values stable, continuous returns to its shareholders, so it is likely to raise its dividend again

Sun-Wa Technos at a Glance



Net Sales and Ordinary Income, FY3/12–FY3/16E



Corporate Overview

A trader of electrical machinery, electronics, and general machinery

(1) History and Operational Overview

The company was established as a proprietorship in 1946 by Tokuro Yamada. It was incorporated in 1949 as Yamada Kogyo Kabushiki Kaisha and developed as an independent trader of technology products. Its three main businesses, electrical machinery, electronics, and general machinery, are linked through two-way trade.

The users of electrical machinery, electronics and general machinery vary, as do the factors that drive demand for these products. A company that tries to handle all three fields runs the risk of gaining a broad but shallow understanding of and information about the products and the technologies behind them. However, Sun-Wa Technos has developed expertise in all three fields, enabling it to thrive as a trader of technology products.

We understand that two-way trade has been an important factor behind the success of the company's business structure. Two-way trade involves the supply of general machinery, including industrial robots and other types of manufacturing equipment, and electrical machinery, such as industrial motors and inverters, for the production lines and products of manufacturers and the sale of the electronics, mainly components and equipment, made by these manufacturers. The company developed two-way trade over time while accumulating knowledge and experience, and it is a distinctive strength.

Main Products

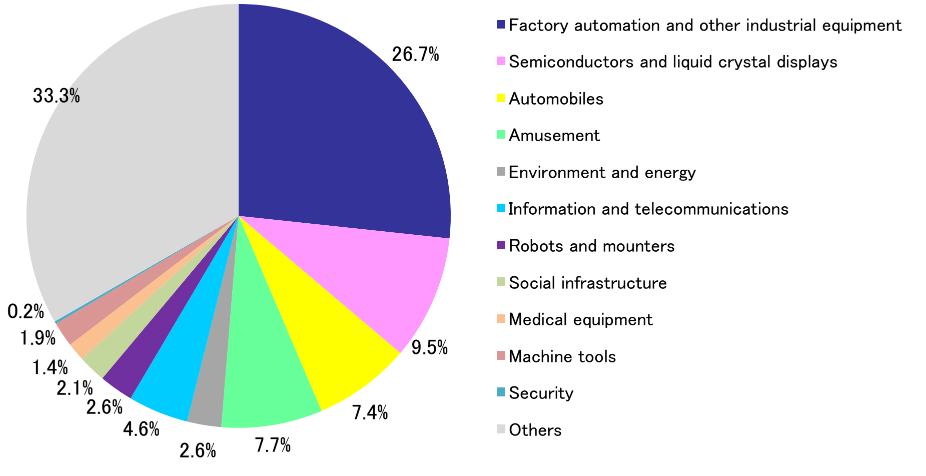
Electrical Machinery	AC servo motors, programmable controllers, linear motors and various other motors, inverters, power conditioners, clean room robots and vacuum chamber robots for semiconductor manufacturing equipment, power substations and other products
General Machinery	Semiconductor manufacturing equipment, industrial robots, clean room robots for conveying liquid crystal panels, valve control devices, conveyors, wind- and hydro-power equipment, air conditioners and kitchen equipment, various inspection devices, medical equipment, and other products
Electronics	Electronic components and equipment, including power supplies, connectors, semiconductors, sensors, miniature fans, light emitting diodes (LEDs), liquid crystal displays (LCDs), personal computers for industrial use, circuit boards for central processing units, memory modules, and other products

Sources and Drivers of Demand for Company's Products

	Products handled	Source of demand	Drivers of demand, macroeconomic indicators
Electrical Machinery	Electrical components for customers' products	Plants of customer companies	Capital investment by manufacturers, machinery orders, and other measures of industrial expansion
General Machinery	Production lines of customer companies		
Electronics	Components produced by customer companies	Manufacture of final products	Consumer spending, industrial production index, etc.

Sun-Wa Technos serves a wide range of industries, but about one-quarter of its customers produce factory automation equipment or other kinds of industrial equipment. This concentration reflects the fact that the general machinery business and the electrical machinery business cater mainly to manufacturers of industrial equipment. However, the electronics division provides somewhat more than 70% of the company's total sales, as it sells a wide range of components, from semiconductors and general electronic parts to electric power sources and sensors, to a far-flung array of industries, including manufacturers of industrial equipment. As a result, it is difficult to break down the company's sales by industry. Broadly speaking, the electrical machinery business and the general machinery business are geared to trends of capital investment in Japan, while the electronics business is geared to trends in industrial production.

Breakdown of FY3/2015 Sales by Customer Industry



Developing overseas business, mainly in Asia, in response to customer requests

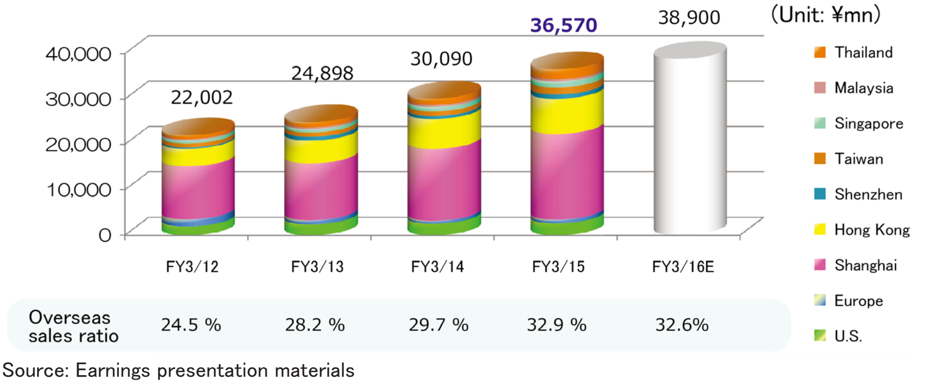
(2) Overseas Business

For the past several decades, Japanese manufacturers have been moving operations overseas to cope with such challenges as yen appreciation and trade friction. Since most of Sun-Wa Technos's customers are Japanese manufacturers, the company has also developed overseas operations in response to customer requests. Since the company mainly deals with production facilities-related products and Japanese companies' overseas plants are in other Asian countries, that is also where most of Sun-Wa Technos's overseas offices are located.

History of Overseas Expansion

Nov. 1949	Yamada Kogyo Kabushiki Kaisha
May 1995	Sun-Wa Technos (Singapore) Pte. Ltd.
Dec. 1997	Sun-Wa Technos (Hong Kong) Co., Ltd.
Apr. 1998	Sun-Wa Technos Europe GmbH. (Düsseldorf, Germany)
Jul. 1998	Sun-Wa Technos America, Inc. (Chicago, U.S.A.)
Nov. 1998	Sun-Wa Technos Taiwan Co., Ltd. (joint venture)
Apr. 2000	Sun-Wa Technos (Malaysia) Sdn. Bhd.
Jan. 2001	Sun-Wa Technos Taiwan Co., Ltd. (subsidiary)
Dec. 2001	Shanghai Sun-Wa Technos Co., Ltd.
Sep. 2002	Shenzhen Representative Office of Sun-Wa Technos (Hong Kong) Co., Ltd.
Oct. 2006	Sun-Wa Technos Asia (Thailand) Co., Ltd.
Jan. 2009	Sun-Wa Technos (Shenzhen) Co., Ltd.
Aug. 2013	Hanoi Representative Office of Sun-Wa Technos (Hong Kong) Co., Ltd.
Mar. 2014	Taichung Office of Sun-Wa Technos Taiwan, Co., Ltd.
Oct. 2014	PT. Sunwa Technos Indonesia

Breakdown of Overseas Sales by Geographical Market, FY3/12-FY3/16E



Source: Earnings presentation materials

The company's overseas business has been growing, but it serves other Japanese companies almost exclusively. As detailed in a later section, we believe that an expansion of its overseas business to serve non-Japanese companies, while not easy, would provide great growth potential, if successful.

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Status of medium-term management plan, JUMP 1200

Business results in line with targets in the eighth medium-term management plan, JUMP 1200

(1) Summary

FY3/16 is the last year of the company's eighth medium-term management plan, called JUMP1200. The policies being pursued through this plan aim to expand global business, enhance corporate value, strengthen the company's organization, and improve its profitability. To achieve these goals, priority measures include the strengthening of engineering capabilities, business in emerging economies, the development of new growth markets, and the establishment of new businesses.

The company plans to implement the concrete steps described below as part of its priority measures. Some time will be required before many of these actions contribute fully to sales and profit growth, but the plan has not been hollowed out. We applaud management for diligently implementing measures to achieve growth over the medium-to-long term. In the first two years of the current medium-term plan, business results have been in line with plan.

Policy and Priority Measures

Policy

- Expand global business
- Enhance corporate value by presenting original proposals and improving technological capability
- Pursue higher levels of customer satisfaction by grasping market trends early and responding quickly to those changes
- Raise profitability by building a leaner, stronger company
- Adhere to the best CSR practices

Priority Measures

- Build an organization that enhances our integrated electrical machinery, electronics, and general machinery businesses and our engineering capabilities as much as possible
- Expand overseas business, including in emerging economies
- Aggressively develop new growth markets with the aim of establishing new businesses
- Strengthen and expand our global logistics function
- Upgrade the Sun-Wa Group's administrative structure
- Develop personnel based on our corporate philosophy

JUMP1200 Targets versus Actual Results and Current Forecasts

(unit: ¥mn)

	FY3/2013	Medium-term Management Plan (JUMP 1200)					
		FY3/2014		FY3/2015		FY3/2016	
	Results	Targets	Results	Targets	Results	Targets	Initial forecasts
Net sales	88,264	98,000	101,378	110,000	111,276	120,000	119,000
Operating income	2,269	3,100	3,211	3,700	3,471	4,400	3,500
Ordinary income	2,519	3,400	3,438	4,000	3,761	4,700	3,800
Net income	1,520	2,000	2,168	2,500	2,466	2,850	2,500

Renew and integrate organization, improve sales capability

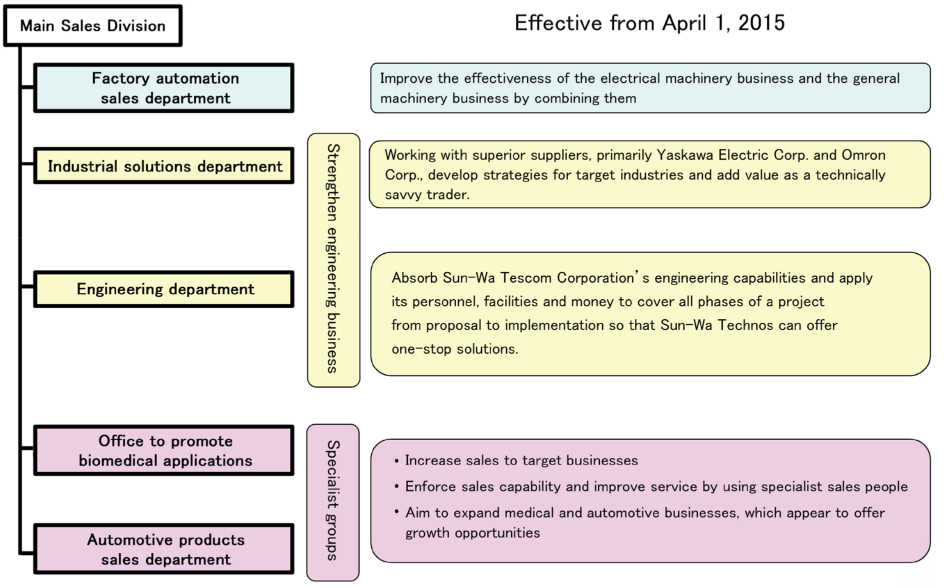
(2) Strengthen role of the main sales division

This step is being taken to realize the priority measure of building an organization that enhances our integrated electrical machinery, electronics, and general machinery businesses and our engineering capabilities as much as possible.

On April 1, 2015, the company renewed and integrated its organization to strengthen its sales capability. To bolster its engineering business, it established a new engineering department within the main sales division, separate from an industrial solutions department. At the same time, it set up two other new specialist departments in the sales division, an office to promote biomedical applications, and a department to sell automotive products.

The engineering business proposes and sells total solutions combining systems, rather than individual products, in the electrical machinery and general machinery businesses. The new organization allows Sun-We Technos to assume the role of a coordinator of business. The industrial solutions department gathers information from suppliers and other external parties and conceives of projects, while the engineering department designs, proposes and installs the systems needed for these projects.

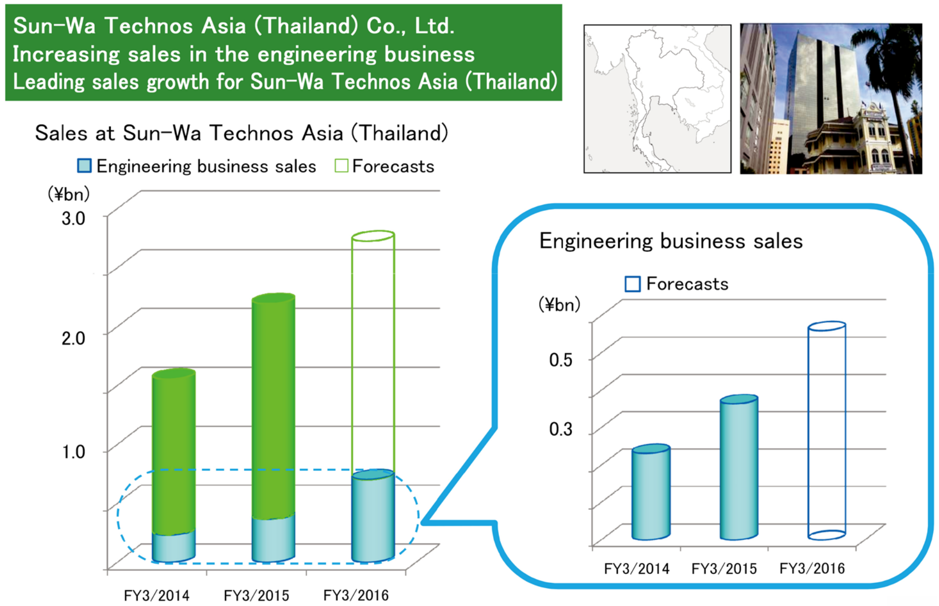
New Organization to Strengthen the Role of the Main Sales Division



Source: Earnings presentation materials

Sun-Wa Technos Asia (Thailand) has been building an engineering business for several years, and has completed 20-30 projects. In 2015, this subsidiary projects sales of about ¥2.6bn, of which, ¥550mn is to come from engineering business. Sun-Wa Technos's reorganization aims to apply the success of its engineering business in Thailand to build a global engineering business.

Sales at Sun-Wa Technos Asia (Thailand), FY3/14-FY3/16E



Source: Earnings presentation materials

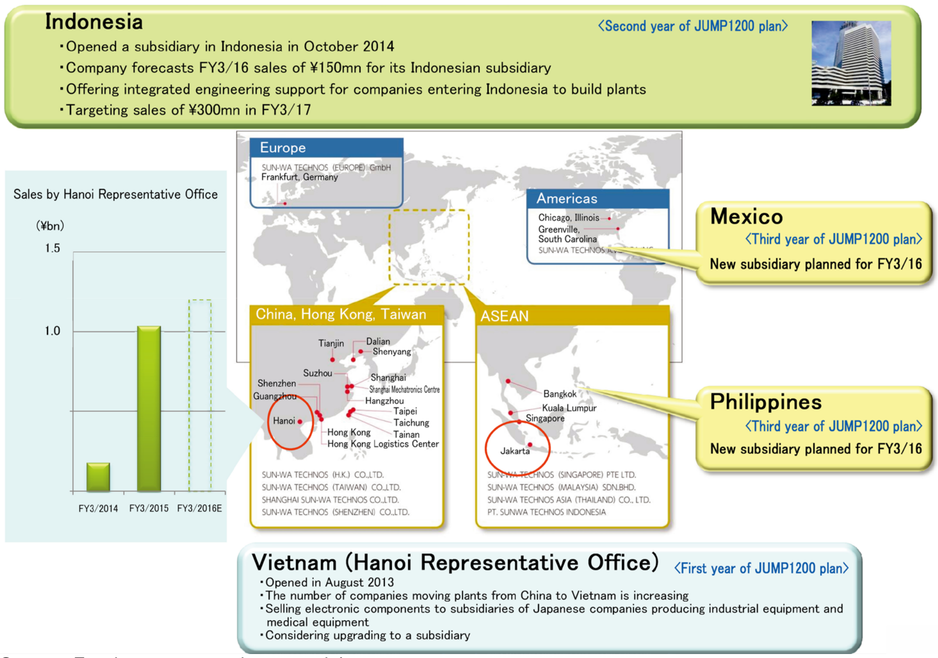
Plans to establish subsidiaries in Mexico and the Philippines in FY3/16

(3) Developing subsidiaries in developing economies

In August 2013, the first year of the JUMP1200 medium-term plan, Sun-Wa Technos opened a representative office in Hanoi, Vietnam. This office is part of the Sun-Wa Technos subsidiary in Hong Kong, but the office is generating annual sales of more than ¥1bn, so Sun-Wa Technos is considering elevating the status of the unit to a subsidiary. In October 2014, Sun-Wa Technos opened a subsidiary in Jakarta, Indonesia. As the Thai subsidiary seeks to support the construction of production facilities by companies entering the Thai market, the Indonesian subsidiary seeks to support the construction of production facilities by companies entering the Indonesian market, with a prime emphasis on engineering business.

In FY3/16, Sun-Wa Technos plans to open subsidiaries in Mexico and the Philippines. The Mexican subsidiary will concentrate on providing goods and services to the automotive industry, while the Philippine subsidiary will target the assembly of precision equipment. The U.S. subsidiary of Sun-Wa Technos, Sun-Wa Technos America, Inc., has offices in Illinois and South Carolina, but Sun-Wa Technos is thinking about opening a third office in the US to deal with an anticipated rise in demand from certain customers.

Overseas Development



Source: Earnings presentation materials

Improving sales approach to four growth markets, including new energy

(4) Promoting negotiations targeting growth markets

The company's electronics business caters to a wider array of clients than its other businesses. Of course, it aims to increase the number of its customers, but it is particularly targeting four growth markets, new energy, energy saving, medical treatment and home care, and social infrastructure.

In FY3/15, Sun-Wa Technos's three businesses negotiated about ¥12.7bn of transactions with companies in these four growth markets. This was almost ¥1bn more than the ¥11.8bn forecast by the company at the end of H1 FY3/15. Some of these negotiations contributed to sales in FY3/15, and some will contribute to sales in FY3/16, while others won't contribute at all. The company now estimates that its businesses will negotiate ¥16.6bn of transactions with companies in the four growth markets in FY3/16. Based on experience, about 30% of the negotiated amount will be realized as sales. Thus, sales to these growth markets are likely to continue to grow.

Value of Transactions Negotiated in Four Growth Markets

Market	FY3/14	FY3/15				Planned for FY3/16 and following years	
	Amount	H1 FY3/15 amount	H2 FY3/15 forecast	FY3/15 forecast	Amount	As of Nov. 2014	As of May 2015
New energy	¥4.5bn	¥5.0bn	¥2.0bn	¥7.0bn	¥7.8bn	¥4.0bn	¥5.7bn
Energy saving	¥1.7bn	¥2.0bn	¥1.0bn	¥3.0bn	¥3.0bn	¥3.0bn	¥7.8bn
Medical treatment and home care	¥0.3bn	¥1.0bn	¥0.2bn	¥1.2bn	¥1.1bn	¥2.0bn	¥2.0bn
Social infrastructure	¥0.1bn	¥0.5bn	¥0.1bn	¥0.6bn	¥0.8bn	¥0.5bn	¥1.1bn
Total	¥6.6bn	¥8.5bn	¥3.3bn	¥11.8bn	¥12.7bn	¥9.5bn	¥16.6bn

Examples of Large Projects Negotiated in the Four Growth Markets

Market	Project	Business
New energy	Electronic components for equipment to inspect lithium ion batteries	Electronics
New energy	Electronic components for equipment to recharge electric vehicles	Electronics
Medical treatment and home care	Proposals to reduce personnel by using robots to support medical treatment, to rehabilitate patients, and to convey drugs on production lines	General machinery and electrical machinery
Energy saving	Propose the installation of smart houses and offices that use little energy	General machinery and electrical machinery
Energy saving	Systems that monitor electric power consumption in commercial buildings and plants	Electrical machinery, electronics
Energy saving	LED lighting in refrigerated showcases of supermarkets	Electronics
Energy saving	Propose improvements in the air-conditioning systems of plants and warehouses	Electrical machinery, electronics
Social infrastructure	Electronic parts for railway fault detection systems	Electronics

■ Our Thoughts on a New Medium-term Management Plan

Company forecast of FY3/16 ordinary income falls far short of target in the current medium-term management plan

Although sales and profits have been growing briskly, we are not satisfied. As detailed later, the company forecasts an FY3/16 ordinary income of ¥3.8bn, which is much less than the ¥4.7bn targeted in the current medium-term management plan. We believe that this gap stems from the fact that the company plans to invest and spend more in FY3/16, while the operating environment is favorable, than it had originally planned to, thereby setting a strong base for growth over the three-year period of the next medium-term management plan.

Of course, the company has not divulged the content of its next medium-term plan, but we think that the plan should strive to accomplish the following four objectives:

1. Strengthen the business base by increasing transactions with non-Japanese companies
2. Build the engineering business to a significant scale
3. Establish new businesses in growth areas
4. Improve cost control

The second and third of these goals are being pursued in the current medium-term plan, and they should be retained in the new plan. Elements of the first and fourth goals are also present in the current plan, but they are not prominent. We believe that the new management plan should clearly focus on the first and fourth objectives.

Increasing transactions with non-Japanese companies would probably allow the company to obtain highly profitable projects

(1) Increase business with non-Japanese companies

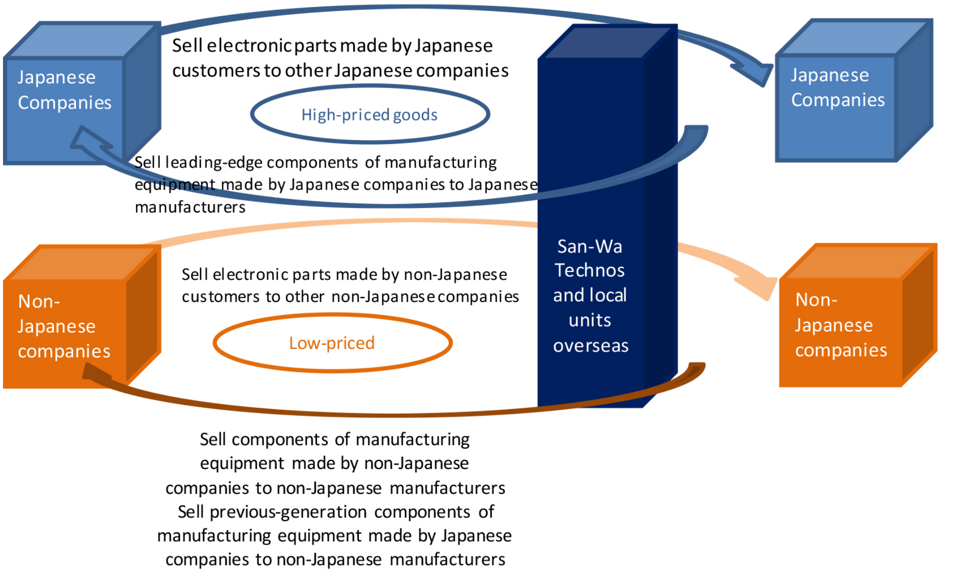
As mentioned before, most of Sun-Wa Technos's overseas business is conducted with subsidiaries and affiliates of Japanese companies. The company could probably expand its overseas business working just for such subsidiaries and affiliates. However, we believe that it should increase its overseas business with non-Japanese companies to build the business to another scale. By doing so, it would lift sales and increase the likelihood of winning highly profitable work.

However, we believe that the company's two-way trade model, which supports business growth in Japan, may be an impediment to selling to non-Japanese companies. Our reasoning is as follows. The electronics business, which provides more than 70% of the company's total sales, procures all its products from Japanese companies. These products are probably too advanced, too costly and too high in quality for many non-Japanese companies, especially those in Asian countries other than Japan. If the company were to trade in goods made by Japanese companies with the functions and prices suitable to these non-Japanese customers, it would simply be copying its inferior competitors, and it may erode the company's profitability.

We think that for Sun-Wa Technos to increase its business with non-Japanese companies, it should establish two-way trade among non-Japanese companies, just as it has among Japanese companies. In other words, it would supply general machinery and electrical machinery components made by non-Japanese companies to other non-Japanese manufacturers, then sell the electronic products of these customers to non-Japanese companies. By supplying parts of production equipment to non-Japanese companies, Su-Wa Technos could also increase its engineering business. Japanese companies tend to focus on cutting-edge production equipment, and supplying such equipment does not always support profit growth for Sun-Wa Technos. For many non-Japanese companies, Sun-Wa Technos could supply products and technologies made in Japan that are considered outdated in Japan, products for which the company has substantial experience and knowhow. This might also enhance the company's reputation as a trader of technology products.

Time will probably be required to establish a two-way trade model for non-Japanese companies. However, we believe that this time would be shortened significantly if the company applied its experience in Japan. If the company chooses non-Japanese partners wisely, it could greatly expedite the establishment of a two-way trade model, in our opinion.

Image of Two-Way Trade for Japanese Companies and Non-Japanese Companies



The company has been limiting its costs, but there is room for improvement

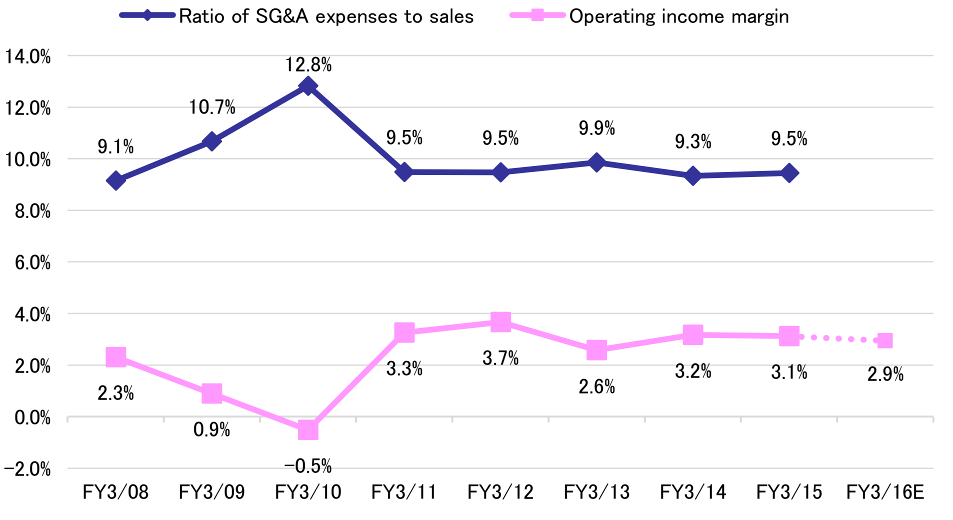
(2) Improve cost control

As a trading company, Sun-Wa Technos maintains stable, low profit margins, regardless of its efforts. It implements different policies to raise sales, but even if sales grow, making a profit is another issue. The company's sales personnel probably consider profitability when negotiating a sale, but profit conscious is essential as the company's operating income margin remains fairly constant, at about 3%.

The reason that we advocate greater cost control is that we foresee a greater-than-usual increase in personnel costs and investment in developing overseas business in FY3/16. Of course, upfront investment for future growth is necessary, but it must be normalized, either by eliminating previous increases or by matching it to the sales increases resulting from previous spending.

Sun-Wa Technos has generally kept its ratio of SG&A expenses to sales below 10% per year, which has been an appropriate level. In FY3/16, however, it appears that SG&A expenses will increase more than projected in the current medium-term plan, causing profit to fall short of the target. If this is a one-time increase, there may be no need for concern. The company has controlled costs well in the past, so it may continue to do so, but we would like to see the company control costs more in its next medium-term management plan.

Ratio of SG&A expenses to Sales and Operating Income Margin



Business Trends and Financial Analysis

Record-high profits for the second year in a row

(1) FY3/15 Consolidated Results

In FY3/15, consolidated net sales grew 9.8% yoy to ¥111,276mn, operating income rose 8.1% to ¥3,471mn, ordinary income climbed 9.4% to ¥3,761mn, and net income advanced 13.8% to ¥2,466mn. Profits reached all-time highs for the second consecutive year.

In the electrical machinery business, sales declined 8.5% yoy because of a drop in domestic sales of control equipment for solar power systems. In the electronics business, sales rose 15.6% yoy, reflecting increases in sales of electronic parts for factory automation equipment, automotive equipment, and amusement equipment. In the general machinery business, sales advanced 16.7% yoy, led by upturns in sales of equipment for LCD production lines and industrial robots for other kinds of production lines.

Consolidated Results by Segment

(¥mn)

	FY3/13	FY3/14	FY3/15
Net sales	88,264	101,378	111,276
YOY	-1.6%	14.9%	9.8%
Electrical machinery	22,222	24,759	22,660
YOY	-9.3%	11.4%	-8.5%
Electronics	58,628	69,643	80,473
YOY	3.0%	18.8%	15.6%
General machinery	7,412	6,975	8,141
YOY	-10.8%	-5.9%	16.7%
Operating income	2,269	3,211	3,471
YOY	-31.0%	41.5%	8.1%
Ordinary income	2,519	3,438	3,761
YOY	-26.0%	36.5%	9.4%
Net income	1,520	2,168	2,466
YOY	-23.0%	42.6%	13.8%

Conservative forecasts could be surpassed

(2) Company forecasts for FY3/16

For FY3/16, the company projects a 6.9% y-o-y rise in consolidated net sales to ¥119.0bn, a 0.8% upturn in operating income to ¥3.5bn, a 1.0% increase in ordinary income to ¥3.8bn, and a 1.3% advance in net income to ¥2.5bn. These projected increases are modest, and the sales forecast is ¥1.0bn lower than the sales targeted in the current medium-term management plan, while the operating and ordinary income forecasts are each ¥900mn lower.

The company foresees increased sales to the factory automation, other industrial machinery, and automotive industries in FY3/16, but it forecasts declines in sales to the semiconductor, LCD and amusement industries. Because of increased hiring and an aggressive expansion of its overseas business, the company projects a rise in SG&A expenses that curtails profit growth.

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We find the company's FY3/16 forecasts conservative and see room for higher sales and profits than forecast, high enough to absorb increased expenses. The three main suppliers to Sun-Wa Technos are Yaskawa Electric (6506), Omron (6645) and Minebea (6479). For FY3/16, Omron projects a y-o-y sales increase of 6.2%, Yaskawa Electric forecasts an 8.7% y-o-y sales rise, and Minebea anticipates sales growth of 29.8%. Sun-Wa Technos has about 1,700 suppliers, but we estimate that these three companies supply about 20% of the total products purchased by Sun-Wa Technos. The sales growth forecast by Yaskawa Electric and Omron reflects the strong trend in manufacturing production equipment and other kinds of equipment industries, while the growth foreseen by Minebea shows its strong tendency toward manufacturing products for machinery industry, particularly automobiles, and for the smartphone and other electronic goods industry. The business of these three main suppliers should affect the business of Sun-Wa Technos directly and indirectly, which is the main reason we believe that Sun-Wa Technos' s forecasts are conservative.

The company' s FY3/16 forecasts assume an increase in the ratio of SG&A expenses to sales, but if the company generates more sales than it forecasts, its ratio of SG&A expenses to sales may not rise as much as it assumes. More important is whether the rise in the ratio of SG&A expenses to sales will be limited to FY3/16. In this sense, prospects for FY3/17 are more important than those for FY3/16.

Breakdown of Net Sales and Operating Income by Geographical Market

(¥mn)

		FY3/13	FY3/14	FY3/15	FY3/16E
Japan	Net sales	68,848	77,477	81,749	87,600
	YOY	-7.2%	12.5%	5.5%	7.2%
	Operating income	1,590	2,152	2,128	2,400
	YOY	-34.9%	35.3%	-1.1%	12.8%
	Operating income margin	2.5%	3.0%	2.6%	2.7%
Asia	Net sales	21,524	26,756	33,014	34,600
	YOY	16.6%	24.3%	23.4%	4.8%
	Operating income	652	1,021	1,260	1,100
	YOY	5.2%	56.6%	23.4%	-12.7%
	Operating income margin	3.3%	4.1%	3.8%	3.2%
The U.S. and Europe	Net sales	3,298	3,191	3,431	4,300
	YOY	-5.4%	-3.2%	7.5%	25.3%
	Operating income	30	26	87	70
	YOY	-87.0%	-13.3%	234.6%	-19.5%
	Operating income margin	1.1%	1.0%	2.5%	1.6%

Business Results of Three Leading Suppliers

(¥mn)

	Yaskawa Electric (6506)			Omron (6645)			Minebea (6479)		
	FY3/15	FY3/16E	Growth	FY3/15	FY3/16E	Growth	FY3/15	FY3/16E	Growth
Net sales	400,153	435,000	8.7%	847,252	900,000	6.2%	500,676	650,000	29.8%
Operating income	31,532	36,500	15.8%	86,951	90,000	3.5%	60,101	67,000	11.5%
Ordinary income	33,884	37,000	9.2%	87,388	89,000	1.8%	60,140	66,000	9.7%
Net income	24,819	24,000	-3.3%	62,170	66,500	7.0%	39,887	48,000	20.3%

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Summary Income Statement

(¥mn)

	FY3/10	FY3/11	FY3/12	FY3/13	FY3/14	FY3/15	FY3/16E
Net sales	55,386	85,283	89,706	88,264	101,378	111,276	119,000
YOY	-27.5%	54.0%	5.2%	-1.6%	14.9%	9.8%	6.9%
Gross profit	6,819	10,867	11,784	10,968	12,680	13,988	-
Gross profit margin	12.3%	12.7%	13.1%	12.4%	12.5%	12.6%	-
SG&A expenses	7,104	8,085	8,495	8,699	9,469	10,516	-
YOY	-12.9%	-	5.1%	2.4%	8.9%	11.1%	-
Ratio of SG&A expenses to sales	12.8%	9.5%	9.5%	9.9%	9.3%	9.5%	-
Operating income	-285	2,781	3,289	2,269	3,211	3,471	3,500
YOY	-	-	18.3%	-31.0%	41.5%	8.1%	0.8%
Operating income margin	-0.5%	3.3%	3.7%	2.6%	3.2%	3.1%	2.9%
Ordinary income	-107	2,875	3,403	2,519	3,438	3,761	3,800
YOY	-	-	18.4%	-26.0%	36.5%	9.4%	1.0%
Net income	-409	1,694	1,975	1,520	2,168	2,466	2,500
YOY	-	-	16.6%	-23.0%	42.6%	13.7%	1.4%

EPS (¥)	-32.0	132.3	154.2	118.7	163.0	171.8	174.1
Dividend	20.0	20.0	20.0	20.0	22.0	26.0	28.0

Summary Balance Sheet

(¥mn)

	FY3/10	FY3/11	FY3/12	FY3/13	FY3/14	FY3/15
Current assets	29,936	34,333	35,741	39,758	45,329	49,239
Cash and deposits	4,730	3,610	4,171	7,433	6,937	7,584
Accounts receivable	21,504	25,987	27,094	27,866	33,075	34,419
Other	3,702	4,736	4,476	4,459	5,317	7,236
Non-current assets	6,930	6,920	6,798	7,497	8,369	9,509
Property, plant and equipment	3,919	3,854	3,808	4,074	4,038	3,879
Intangible assets	78	61	44	42	76	243
Investments and other assets	2,932	3,004	2,945	3,381	4,254	5,386
Total assets	36,866	41,254	42,539	47,256	53,698	58,748
Current liabilities	24,782	27,189	26,914	28,648	30,735	32,370
Notes and accounts payable-trade	19,630	21,960	22,132	24,748	25,917	27,496
Short-term loans payable, etc.	4,419	3,100	2,926	2,250	2,528	2,782
Other	733	2,129	1,856	1,650	2,290	2,090
Non-current liabilities	2,427	3,072	3,053	4,258	4,309	4,426
Long-term loans payable	1,200	1,800	1,800	2,486	2,205	2,100
Other	1,227	1,272	1,253	1,772	2,104	2,326
Shareholders' equity	9,239	10,677	12,396	13,660	16,807	18,929
Capital stock	1,935	1,935	1,935	1,935	2,553	2,553
Capital surplus	1,341	1,341	1,341	1,341	1,958	1,958
Retained earnings	6,015	7,454	9,173	10,437	12,350	14,472
Treasury shares	-52	-52	-53	-53	-53	-54
Valuation gains or losses	416	315	175	689	1,847	3,022
Total net assets	9,655	10,992	12,571	14,349	18,654	21,951
Total liabilities and net assets	36,866	41,254	42,539	47,256	53,698	58,748

Cash Flow Statement

(¥mn)

	FY3/10	FY3/11	FY3/12	FY3/13	FY3/14	FY3/15
Cash flows from operating activities	954	45	1,297	3,652	-1,374	1,353
Cash flows from investing activities	-65	-94	-215	-110	-127	-444
Cash flows from financing activities	675	-985	-472	-415	769	-470
Effect of exchange rate change on cash and cash equivalents	23	-76	-49	135	236	208
Net change in cash and cash equivalents	1,587	-1,110	561	3,262	-496	647
Balance of cash and cash equivalents at term start	2,649	4,236	3,126	3,687	6,949	6,453
Balance of cash and cash equivalents at term end	4,236	3,126	3,687	6,949	6,453	7,100

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SUN-WA TECHNOS CORPORATION

8137 Tokyo Stock Exchange First Section

8-Jul.-15

Aiming to improve financial measures over the medium- to long-term

(3) Financial analysis

In FY3/15, the company's ROE fell 1ppt yoy to 12.2%. This is higher than the average ROE for listed Japanese companies of 8-9%, but the ROE has been trending lower. Therefore, we look for improvement in this measure of return to equity investors.

Based on the company's FY3/16 forecasts and several assumptions, we have estimated the balance sheet figures for FY3/16 shown in the table below. We estimate that the company's ROE is likely to fall to 11.1% in FY3/16 because, even though the company plans to increase its dividend, we see equity growing at more than twice the rate of net income growth. It's not practical to raise ROE only by increasing the dividend. It would probably be more effective to limit the growth of total assets and use some cash to buy back the company's outstanding shares.

However, in our opinion, the ideal situation would be for the company to raise its ROE by continuing to increase its net income while moderating the growth of equity. The company still has great potential to increase its sales and profits, but its dividend payout ratio, at 15%, is lower than the corresponding ratios for most Japanese companies and here may be one aspect the company should consider improving. The company has many options by which to improve its financial ratios, and we expect this improvement to be a theme for the company over the medium- to long-term.

Key Performance Indicators

(¥mn)

		FY3/12	FY3/13	FY3/14	FY3/15	FY3/16E	Remarks
KPIs	Net sales	89,706	88,264	101,378	111,276	119,000	Company forecast
	SG&A expenses	8,495	8,699	9,469	10,516	11,246	Assuming that the ratio of SG&A expenses to sales in FY3/16 is the same as the ratio in FY3/15
	Operating income	3,289	2,269	3,211	3,471	3,500	Company forecast
	Ordinary income	3,403	2,519	3,438	3,761	3,800	Company forecast
	Net income	1,975	1,520	2,168	2,466	2,500	Company forecast
	Total assets	42,539	47,256	53,698	58,748	61,454	Assuming that the asset turnover rate in FY3/16 is the same as the rate in FY3/15
	Equity	12,571	14,349	18,654	21,951	22,901	Calculated assuming that a dividend payment of ¥28 per share is the only outflow of cash
Ratios of profitability and operational efficiency	Ratio of net income to equity	16.8%	11.3%	13.2%	12.2%	11.1%	ROE
	Ratio of ordinary income to total assets	8.1%	5.6%	6.8%	6.7%	6.3%	ROA
	Net income margin	2.2%	1.7%	2.1%	2.2%	2.1%	Margin
	Ratio of total assets to equity (times)	3.56	3.34	3.06	2.76	2.68	Leverage
	Asset turnover rate (times per year)	2.14	1.97	2.01	1.98	1.98	Assuming that the asset turnover rate in FY3/16 is the same as the rate in FY3/15
	Ordinary income margin	3.8%	2.9%	3.4%	3.4%	3.2%	
	Gross income margin	13.1%	12.4%	12.5%	12.6%	12.4%	
	Ratio of SG&A expenses to sales	9.5%	9.9%	9.3%	9.5%	9.5%	
	Operating income margin	3.7%	2.6%	3.2%	3.1%	2.9%	
Average growth rate for FY3/13-FY3/15	Net sales	-	-	-	7.8%	16.5%	
	Operating income	-	-	-	38.6%	-	
	Ordinary income	-	-	-	42.0%	-	
	Net income	-	-	-	-	-	

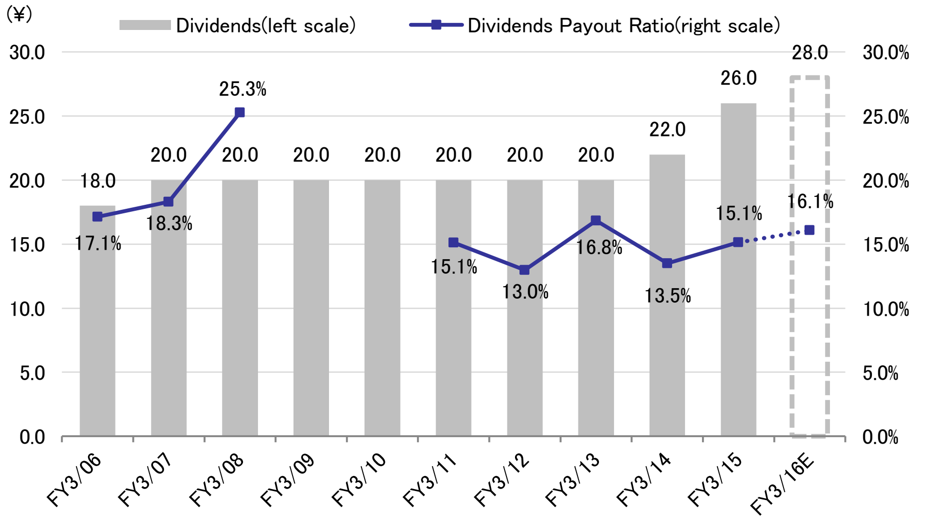
Shareholder Return Policy

Company aims for stable, continuous returns of profit to shareholders. Expect the company to continue to raise its dividend

The company's basic policy is to make stable, continuous returns to shareholders in the form of dividends. It has done so in the past, despite fluctuations in earnings. Even in FY3/09–FY3/10, when the company suffered net losses following the global financial crisis triggered by the collapse of Lehman Brothers, it paid a dividend equal to its FY3/08 dividend. In FY3/14–FY3/15, the company raised its dividend accompanying its profit increases.

For FY3/15, it lifted its dividend by ¥4 to ¥26 per share, for a dividend payout ratio of 15.1%. For FY3/16, it plans to increase its dividend by ¥2 to ¥28 per share, for a dividend payout ratio of 16.1%. The company's results may not be spectacular, but they are steadily increasing, so the company is likely to continue to raise its dividend.

Dividends and Dividends Payout Ratio



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