SUN-WA TECHNOS CORPORATION

8137 Tokyo Stock Exchange First Section

8-Jan.-16

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Key Measures of Management Plans Progressing Steadily

Sun-Wa Technos Corporation (8137) is an independent trading company that specializes in technology products. One of the strengths of the company is that it has three business divisions of electrical machinery, electronics, and general machinery. Another strength is the company's two-way trade in which it sells equipment and materials for manufacturers' production lines, then sells the products made by these manufacturers. By utilizing these strengths, the company has expanded its businesses.

Given swift changes in various respects, the company is transforming itself to materialize sustainable growth, the focus being efforts to reinforce its engineering business. The goal is to bolster its business position by providing total solutions that optimally combine the systems of the three businesses, rather than their individual products.

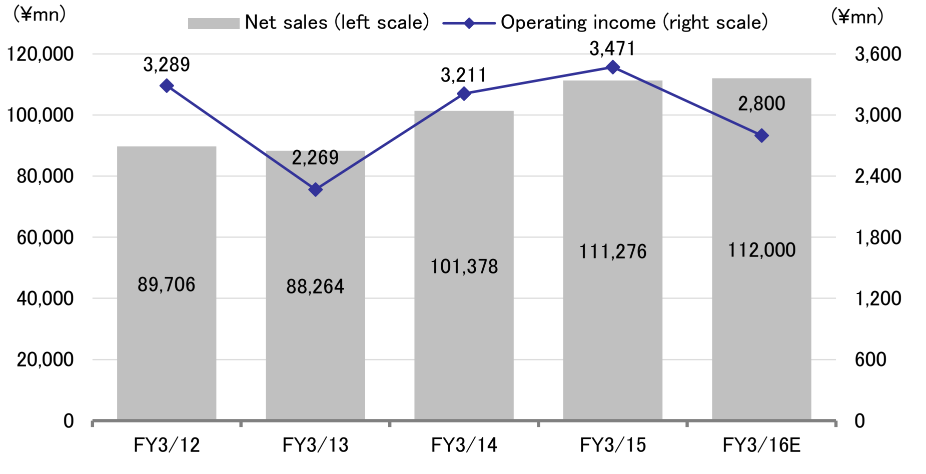
FY3/16 is the last year of JUMP 1200, a medium-term management plan. The key basic policies and initiatives of this plan are to strengthen engineering capabilities. The main measures are progressing steadily. That said, some aspects of performance have not unfolded as anticipated, and the company has fallen short of targets. In 1H FY3/16, revenues rose but earnings declined, prompting management to lower its full-year forecasts.

Notwithstanding the downward near-term projection, we do not have major concerns about the company's medium-term growth potential. That is because the company has globally competitive suppliers and sales partners, while management is steadily implementing its measures with a medium- to long-term viewpoint without being affected by short-term concerns. The company is scheduled to announce its successor medium-term management plan in May 2016. We will keep close tabs, with a sense of anticipation, on the growth scenario, numerical targets, and specific policies that the plan puts forward.

Check Point

- Realigning existing departments and setting up new ones to reinforce engineering business
- Maintaining sales growth pace and continuing to post new highs
- Integrating three businesses is a top-priority change for management

Net Sales and Operating Income



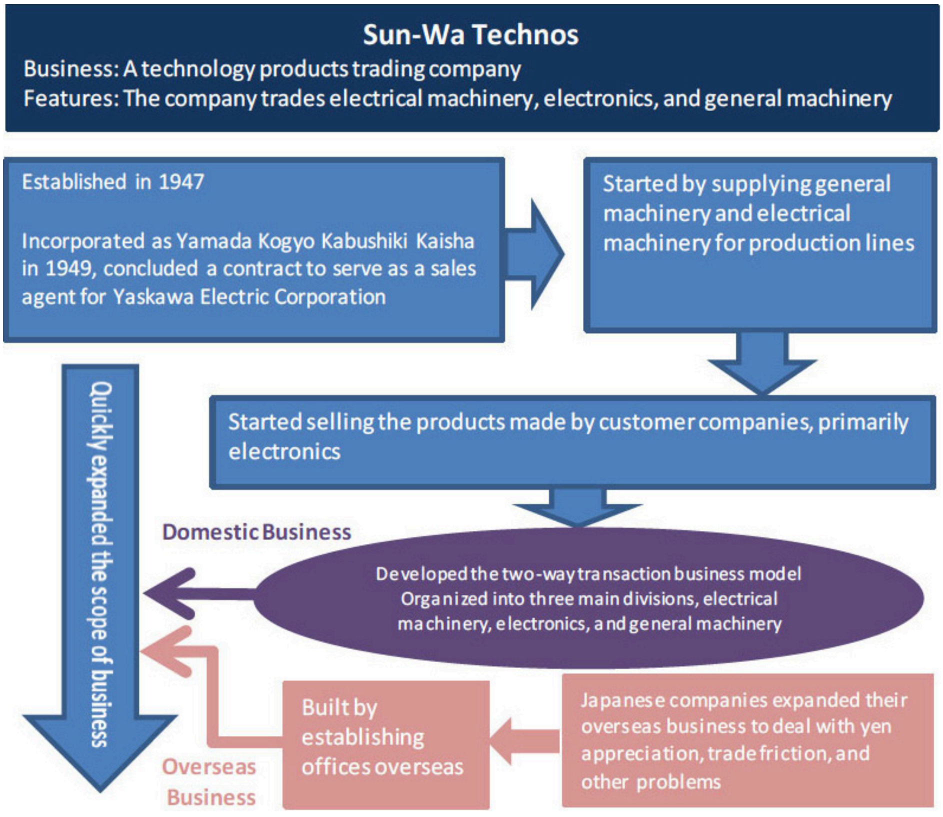
Sun-Wa Technos yesterday, today, and tomorrow

Realigning existing departments and setting up new ones to reinforce engineering business

(1) Sun-Wa Technos yesterday

Sun-Wa Technos is an independent trader of technology products. Its three main businesses are electrical machinery, electronics, and general machinery. This triple business structure dates back to the company's start with its machinery and electrical machinery divisions as a distributor for Yaskawa Electric Corp. (6506). Sun-Wa Technos thereafter began supplying Yaskawa Electric with selenium rectifiers, electronic components manufactured by Origin Electric Co., Ltd. (6513), a customer of Yaskawa Electric. This led to the launch of the electronics business and a distinctive business model in which operations are linked through two-way trade.

Overview of Sun-Wa Technos from foundation to the present day



Source: Compiled by FISCO Ltd.

(2) Sun-Wa Technos today

The company developed steadily by leveraging its three business and two-way trade capabilities. The situation is such that it now has to restructure its operations. One such development is that customer demand is shifting away from individual products, industrial robots being one example, to systems and solutions, such as combinations of industrial robots and control equipment. Such changes are accelerating constantly, notably through corporate customers expanding overseas, rivals emerging in developing nations (to supply such customers as Yaskawa Electric and Omron Corp. (6645)), transforming the operating climates of the company itself, as well as of its suppliers and buyers.

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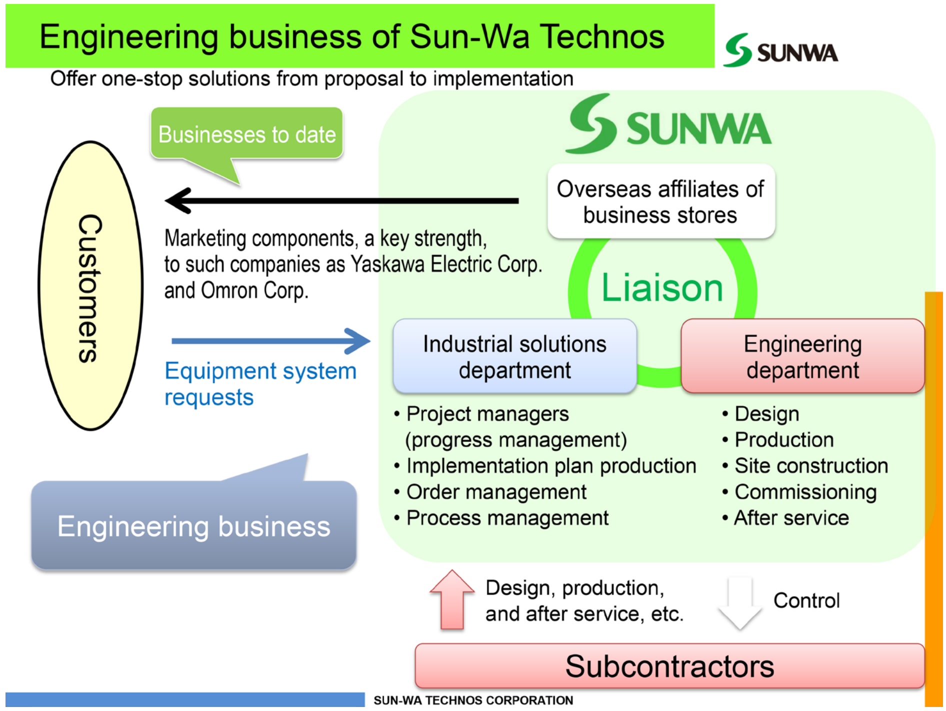
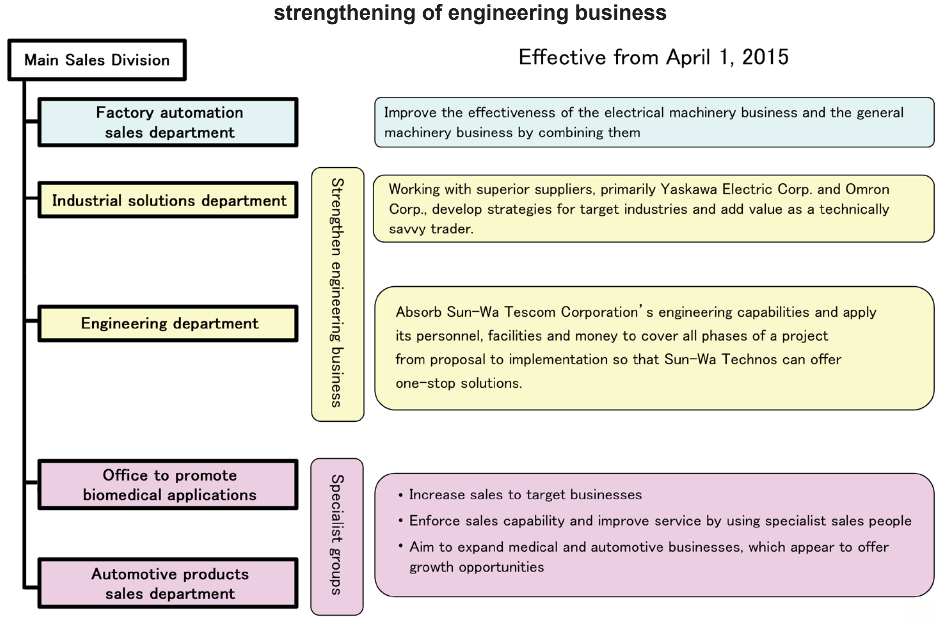
Engineering business



Source: Company supplied materials

The company is tackling this situation by reinforcing its engineering business. As mentioned earlier, management aims to broaden business opportunities by combining systems beyond its three-business framework to offer total solutions to its customers. The company renewed and integrated its organization in April 2015 to underpin that approach. It established industrial solutions and engineering departments and created an automotive products sales department and biomedical applications promotion office to cater to specific customer needs. The industrial solutions department gathers intelligence from product suppliers and other external sources and coordinates projects overall. The engineering department spearheads design, proposals, and installations. In Q2 FY3/16, the company dissolved subsidiary SUN-WA TESCOM CORPORATION, which handled engineering operations, sending its engineers to the engineering department of headquarters.

Examples of efforts to reinforce and change sales structure in line with strengthening of engineering business



Source: FY3/15 earnings presentation materials

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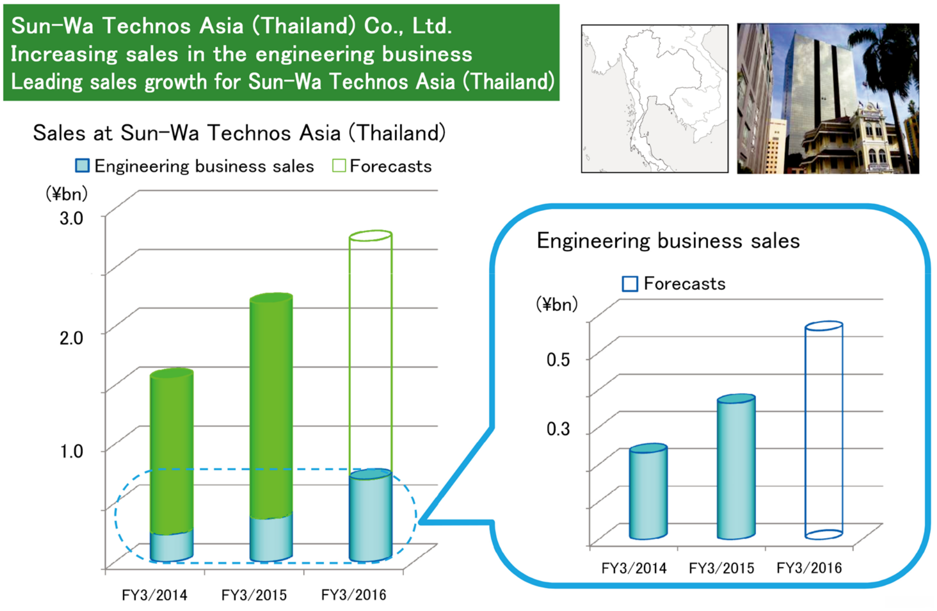
Focusing negotiations and management on markets and fields offering high growth potential

(3) Sun-Wa Technos tomorrow

Efforts in engineering operations have been fruitful in the U.S. and China. In Asia, it is worth noting that just under ¥600mn of a projected ¥2,600mn in net sales for Sun-Wa Technos (Thailand) in FY3/16 were for the engineering department, which is driving that subsidiary's overall revenue growth. Similar developments are starting to occur at PT. Sunwa Technos Indonesia, which began operations in October 2014, and at the Hanoi Representative Office, which is slated to become a subsidiary.

Sales at Sun-Wa Technos Asia (Thailand)



Source: 1H FY3/16 earnings presentation materials

The engineering business employs a sales technique of proposing system solutions rather than individual products. Sales are consequently allocated among the three business divisions. It is therefore hard to identify the impact of efforts to reinforce the engineering business. Management is therefore apparently looking to reclassify sales breakdowns. Once that happens, contributions from reinforced engineering operations will become clear, and we anticipate a virtuous cycle from future business opportunity expansions stemming from invigorated sales department activities.

As well as in the engineering business, the company is going beyond various operational boundaries to expand market-oriented business opportunities. A good example is negotiations management focused on markets and fields offering high growth potential. The company manages negotiations in what it has classified into four fields, and the monetary value of areas subject to negotiations is growing year by year. Although management has not disclosed what percentage of those amounts translate into actual sales, the company cannot get orders without starting negotiations. We believe that the trend in expanding the scale of negotiations implies effectiveness in terms of future performance trends and the sale structure leading up to them and changes in awareness (here, including in terms of reinforcing engineering operations).

Value of Transactions Negotiated in Four Growth Markets

(unit: ¥bn)

Market	FY3/14	FY3/15	Planned for FY3/16 and following years		
	Amount	Amount	As of Nov. 2014	As of May 2015	As of Nov. 2015
New energy	4.5	7.8	4.0	5.7	7.5
Energy saving	1.7	3.0	3.0	7.8	12.2
Medical treatment and home care	0.3	1.1	2.0	2.0	2.3
Social infrastructure	0.1	0.8	0.5	1.1	2.0
Total	6.6	12.7	9.5	16.6	24.0

Source: Compiled by FISCO Ltd. based on earnings presentation materials

Progress under current medium-term management plan

Maintaining sales growth pace and continuing to post new highs

FY3/16 is the final year of JUMP 1200, a three-year medium-term management plan. That initiative is the source of measures that include previously mentioned efforts to transform the sales structure and reinforce its growth market approach.

Outline and progress of JUMP 1200

JUMP 1200 is the plan for FY3/2014–FY3/2016

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

Business Results

FY03/2014: Net sales ¥101.3 bn, Ordinary income ¥3.4 bn, Reached target ✔
FY03/2015: Net sales ¥111.2 bn, Ordinary income ¥3.7 bn, Almost reached target ✔

1H FY03/2016: Net sales ¥54.4 bn Ordinary income ¥1.5 bn Below target

FY03/2016 downward revision: Net sales ¥119.0 bn → ¥122.0 bn
Ordinary income ¥3.8 bn → ¥3.0 bn

FY3/16 is the final, and milestone, year of the current medium-term management plan. We will detail why later, but the company has lowered its full-year forecasts in view of results for 1H. The company has maintained its revenue growth pace and again posted record highs, but growth rates have slowed significantly. Management has reduced its operating income projection from the ¥4,400mn initially targeted under its medium-term management plan, to ¥2,800mn, while lowering the ordinary income forecast from ¥4,700mn, to ¥3,000mn.

Medium-term management plan targets

(unit: ¥mn)

	FY3/2014		FY3/2015			FY3/2016		
	Targets	Results	Targets	Forecasts	Results	Targets	Initial forecasts	Revised forecasts
Net sales	98,000	101,378	110,000	110,000	111,276	120,000	119,000	112,000
Operating income	3,100	3,211	3,700	3,600	3,471	4,400	3,500	2,800
Ordinary income	3,400	3,438	4,000	3,800	3,761	4,700	3,800	3,000
Net income	2,000	2,168	2,500	2,350	2,466	2,850	2,500	2,000

Source: Compiled by FISCO Ltd. based on earnings presentation materials and earnings reports

Such downward revisions reflect changes in the external operating climate and other factors to a considerable extent, but they also make us wonder why there were not more elements that management could leverage to offset these factors through internal efforts. In that regard, we think that the company will comprehensively assess challenges after the end of FY3/16 and reflect them in the next medium-term management plan.

Although the company lowered its forecasts for the final year of its plan, one positive achievement under the current plan, in our view, is that management has managed costs honestly and skillfully. We say "honestly" because management has, as usual, ensured that its measures for hiring talent for the future and increasing wages have proceeded according to plans notwithstanding sluggish sales growth. Also, management has accounted properly for debt stock and other line items so they do not become problematic down the track. We say "skillfully" because management has capably kept costs at close to planned levels despite operating income declining. Such solid management policies and administrative department capabilities may not seem spectacular but form part of the bedrock for the company's growth, so management's unwavering efforts are very encouraging for the future.

Our Thoughts on a New Medium-term Management Plan

Integrating three businesses is a top-priority change for management

The company plans to launch its new three-year management plan from FY3/17. Work on the plan is underway, but details will not be available until the official announcement, scheduled for May 2016.

That said, the direction of the new plan seems quite clear. For a start, the plan will probably retain much of the direction and thrust of JUMP 1200. At the same time, the plan will probably accommodate changes in the operating climate. Our experience in interacting with the company through visits, attendances at results briefings, and in other respects suggest that the new medium-term management plan will be about breaking away from its three-business structure and integrating those businesses. We have already seen moves in that direction under the current plan's goal of reinforcing engineering operations.

One key point in terms of numerical targets will be whether the company can again post record results. Another vital factor will be the timing of all this. It will also be important to see whether the company's focus on measures in such respects as reinforcing engineering operations and overseas companies or in undertaking growth market businesses will bear fruit. That is because these points will be central to the three-year management plan after the upcoming one. Just as JUMP 1200 targets consolidated sales of ¥120bn, we think that the next plan will also focus on revenue scale. Another focus will be whether the next plan also includes profitability benchmarks.

Business Trends

Posting record 1H sales on gains in factory automation and other industrial equipment offerings and overseas operations

(1) 1H FY3/16 Consolidated Results

In 1H FY3/16, consolidated net sales increased 7.2% yoy to ¥54,457mn, operating income decreased 8.7% yoy to ¥1,417mn, ordinary income decreased 9.7% yoy to ¥1,545mn, and net income decreased 6.8% yoy to ¥1,033mn. Sales rose for mainstay factory automation and other industrial equipment offerings and among overseas subsidiaries, enabling the company to post 1H high. Earnings declined because the gross margin shrank, while SG&A expenses rose, largely because of higher personnel costs.

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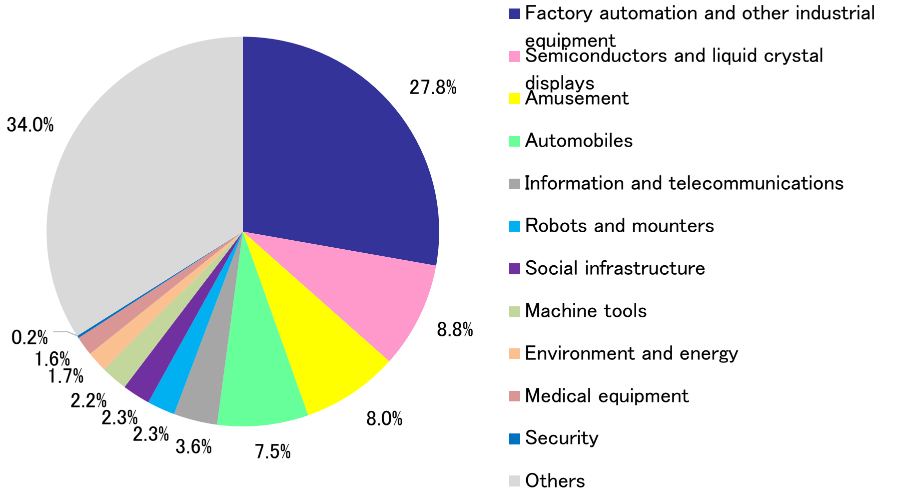
1H FY3/16 Results

(unit: ¥mn)

	FY3/15			FY3/16			
	IH results	2H results	Full-year results	IH initial forecasts	IH results	YoY	vs plan
Net sales	50,784	60,492	111,276	58,000	54,457	+7.2%	-6.1%
Gross profit	6,500	7,488	13,988	-	6,748	+3.8%	-
Gross profit margin	12.8%	12.4%	12.6%	-	12.4%	-	-
SG&A expenses	4,948	5,568	10,516	-	5,331	+7.7%	-
Ratio of SG&A expenses to sales	9.7%	9.2%	9.5%	-	9.8%	-	-
Operating income	1,552	1,919	3,471	1,600	1,417	-8.7%	-11.4%
Operating income margin	3.1%	3.2%	3.1%	2.8%	2.6%	-	-
Ordinary income	1,710	2,051	3,761	1,750	1,545	-9.7%	-11.7%
Net income	1,108	1,358	2,466	1,150	1,033	-6.8%	-10.2%
EPS (¥)	77.23	94.60	171.83	80.10	71.97	-	-10.1%

Source: Compiled by FISCO Ltd. based on earnings presentation materials and earnings reports

Breakdown of 1H FY3/16 Sales by Industry



Source: Compiled by FISCO Ltd. based on earnings presentation materials

Both revenues and earnings were lower than targeted. This was principally because sales of mainstay factory automation and other industrial equipment were less than projected. This meant that the forecasts were ultimately too high, and the prime direct cause was that demand for smartphone related factory automation and other industrial equipment did not expand as much as hoped. Although there were some changes in popular model lines, the external dimensions remained the same, which meant that these changes did not drive demand for upgrading factory automation and other industrial equipment production lines.

In the electrical machinery business, sales decreased 2.2% yoy to ¥10,108mn. This reflected lower sales of control equipment for solar power systems, which offset higher sales of servo motors for semiconductor manufacturing equipment. Sales of the electronics business increased 11.0% yoy to ¥40,469mn. The main factors here are that sales of electronic parts rose steadily for industrial equipment and automotive equipment and for industrial robots. Sales of the general machinery business were down 3.1% yoy to ¥3,880mn. This was because a downturn in sales of equipment for LCD production lines outweighed an increase in sales of production facilities for the automotive sector.

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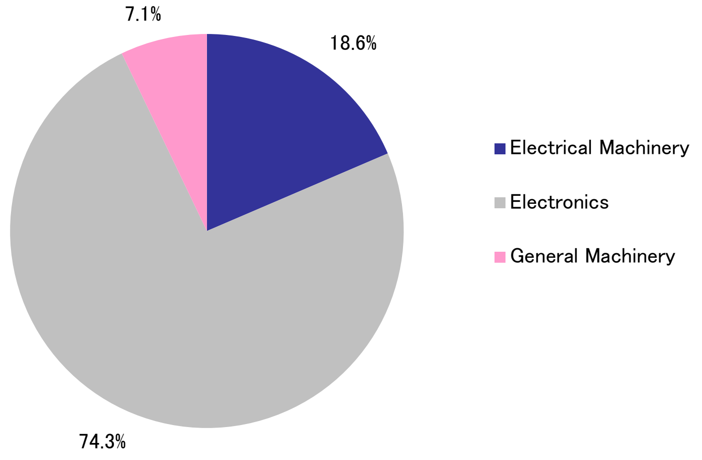
Breakdown of 1H FY3/16 Sales by Business Segment



Source: Compiled by FISCO Ltd. based on earnings presentation materials

In Japan, sales rose just 1.2% yoy, although there were gains in sales of servo motors for semiconductor manufacturing equipment and in sales of electronic parts for industrial and automotive equipment. Segment operating income was down 5.0% yoy owing to higher personnel and operational expenses. In the Asia segment, sales jumped 26.5%, reflecting higher sales offer electronic parts for industrial equipment, industrial robots, and amusement equipment. Operating income for this segment fell 9.7% yoy, however, reflecting increased wages at operations in Shanghai and increased spending in Thailand to boost personnel. In the U.S. and Europe, sales were up 17.0% yoy, on the strength of higher sales of production facilities for the automotive sector and increased sales of electronic parts for servo motors, but operating income dropped 79.1% yoy, largely because of increased labor costs.

Breakdown of Net Sales and Operating Income by Geographical Market

(unit: ¥mn)

		FY3/15			FY3/16	
		1H	2H	Full year	1H	YoY
Japan	Net sales	39,622	42,127	81,749	40,093	1.2%
	Operating income	975	1,153	2,128	925	-5.0%
	Operating income margin	2.5%	2.7%	2.6%	2.3%	-
Asia	Net sales	12,916	20,098	33,014	16,336	26.5%
	Operating income	553	707	1,260	500	-9.7%
	Operating income margin	4.3%	3.5%	3.8%	3.1%	-
The U.S. and Europe	Net sales	1,475	1,956	3,431	1,726	17.0%
	Operating income	36	51	87	7	-79.1%
	Operating income margin	2.4%	2.6%	2.5%	0.4%	-
Others	Net sales	1,161	1,398	2,559	1,102	-5.1%
	Operating income	-20	9	-11	-5	-
	Operating income margin	-1.7%	0.6%	-0.4%	-0.5%	-
Sales adjustment		-4,390	-5,087	-9,477	-4,800	-
Operating income adjustment		8	-3	5	-10	-
Total	Net sales	50,784	60,492	111,276	54,457	7.2%
	Operating income	1,552	1,919	3,471	1,417	-8.7%
	Operating income margin	3.1%	3.2%	3.1%	2.6%	-

Source: Compiled by FISCO Ltd. based on earnings reports

The overall cost picture for Q2 FY3/16 was that from the outset of the term management prioritized forward investments for the year overall to drive growth in the years ahead. Spending in Q2 was as planned, most of it being for personnel expenses. Human resources is the greatest operating asset for a trading house that does not have manufacturing facilities. So, the company set about bolstering its overseas business units while boosting training of engineering-related personnel. Management also endeavored to enhance motivation for existing employees in Japan and abroad by raising wages. The company plans to keep expanding its overseas operations from next fiscal year. Wages should continue to trend upward. Given the company's stance of steadily implementing management plans from medium and long-term perspectives without being affected by short-term results, such spending should prove effective in the next phase of demand expansion.

Ample potential for factory automation equipment demand to pick up again

(2) Company forecasts for FY3/16

The company revised downward its forecasts for FY3/16 results. The new forecasts are a 0.7% y-o-y increase in consolidated net sales to ¥112,000mn, a 19.4% decrease in operating income to ¥2,800mn, a 20.2% decrease in ordinary income to ¥3,000mn, and an 18.9% decrease in ordinary income to ¥2,000mn. The scale of revisions is greater for 2H than 1H.

FY3/16 Forecasts

(unit: ¥mn)

	FY3/15			FY3/16								FY3/16
				1H		2H			Full year			1H
	1H results	2H results	Full-year results	Results	YoY	Initial forecasts	Revised forecasts	YoY	Initial forecasts	Revised forecasts	YoY	Initial forecasts
Net sales	50,784	60,492	111,276	54,457	7.2%	61,000	57,543	-4.9%	119,000	112,000	0.7%	58,000
Gross profit	6,500	7,488	13,988	6,748	3.8%	-	-	-	-	-	-	
Gross profit margin	12.8%	12.4%	12.6%	12.4%	-	-	-	-	-	-	-	
SG&A expenses	4,948	5,568	10,516	5,331	7.7%	-	-	-	-	-	-	
Ratio of SG&A expenses to sales	9.7%	9.2%	9.5%	9.8%	-	-	-	-	-	-	-	
Operating income	1,552	1,919	3,471	1,417	-8.7%	1,900	1,383	-27.9%	3,500	2,800	-19.4%	1,600
Operating income margin	3.1%	3.2%	3.1%	2.6%	-	3.1%	2.4%	-	2.9%	2.5%	-	
Ordinary income	1,710	2,051	3,761	1,545	-9.7%	2,050	1,455	-29.1%	3,800	3,000	-20.2%	1,750
Net income	1,108	1,358	2,466	1,033	-6.8%	1,350	967	-28.8%	2,500	2,000	-18.9%	1,150
EPS (¥)	77.23	94.60	171.83	71.97	-	94.03	67.34	-28.8%	174.13	139.31	-18.9%	80.10

Source: Compiled by FISCO Ltd. based on earnings presentation materials and earnings reports

Management lowered its full-year forecasts because a failure to reach earnings goals in 1H has exacerbated the situation in 2H. For example, demand has slowed in Japan and China in the factory automation arena, the company's prime demand source. The factory automation industry naturally accounts for high proportions of sales in the machinery and electrical machinery businesses, as well as in electronic parts (conversely, for a low proportion of sales for smart phones and other final products). That industry thus exerts a great impact on the company's earnings.

Still, this situation could change in the near future. One reason is that the lifecycles of final products are generally becoming shorter. In Q4 (January through March 2016), there is ample potential for a revival of demand for factory automation equipment in anticipation of new products, and neither the company nor its customers are discounting the possibility. As mentioned before, while the scope of revisions is greater for 2H, the new forecasts assume that sluggish levels of Q3 will continue into Q4. In that respect, we believe that there is some upside potential for the full-year forecasts.

The company will continue spending on hiring in 2H, as it did in 1H. It also plans to integrate dispersed sales teams through the relocation of headquarters. So, we consider it highly likely that SG&A expenses will be even higher than in Q2. While management has lowered its forecasts for the current year, it has not postponed expenses to balance them against earnings. Management's stance is to spend as needed in keeping with its initial plans. A major development in 2H will be the planned relocation of headquarters in late December this year, through which the company aims to integrate and absorb sales department units currently located in separate offices in Ota Ward and thereby enhance efficiency.

Yaskawa Electric and Omron both account for a large proportion of Sun-Wa Technos' supplier and customer bases. Omron posted higher sales but lower earnings in 1H, and has reduced its forecast for the full year. Yaskawa Electric generated record results in 1H, but has cut its sales projections for the full term.

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FY3/16 Forecasts for Yaskawa Electric and Omron

(unit: ¥mn)

	Yaskawa Electric (6506)			Omron (6645)		
	FY3/15	FY3/16E		FY3/15	FY3/16E	
	Results	Initial forecasts	Revised forecasts	Results	Initial forecasts	Revised forecasts
Net sales	400,153	435,000	420,000	847,252	900,000	860,000
Operating income	31,532	36,500	36,500	86,951	90,000	70,000
Ordinary income	33,884	37,000	37,000	87,388	89,000	71,000
Net income	24,819	24,000	24,000	62,170	66,500	53,500

Source: Compiled by FISCO Ltd. based on earnings reports

Summary Income Statement

(unit: ¥mn)

	FY3/11	FY3/12	FY3/13	FY3/14	FY3/15	FY3/16E
Net sales	85,283	89,706	88,264	101,378	111,276	112,000
YOY	54.0%	5.2%	-1.6%	14.9%	9.8%	0.7%
Gross profit	10,867	11,784	10,968	12,680	13,988	-
Gross profit margin	12.7%	13.1%	12.4%	12.5%	12.6%	-
SG&A expenses	8,085	8,495	8,699	9,469	10,516	-
YOY	13.8%	5.1%	2.4%	8.9%	11.1%	-
Ratio of SG&A expenses to sales	9.5%	9.5%	9.9%	9.3%	9.5%	-
Operating income	2,781	3,289	2,269	3,211	3,471	2,800
YOY	-	18.2%	-31.0%	41.5%	8.1%	-19.4%
Operating income margin	3.3%	3.7%	2.6%	3.2%	3.1%	2.5%
Ordinary income	2,875	3,403	2,519	3,438	3,761	3,000
YOY	-	18.3%	-26.0%	36.5%	9.4%	-20.2%
Net income	1,694	1,975	1,520	2,168	2,466	2,000
YOY	-	16.5%	-23.0%	42.6%	13.8%	-18.9%

Summary Balance Sheet

(unit: ¥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	24,784	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	1,614	2,290	2,092
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	380	276	137	646	1,847	3,022
Minority interest	36	38	37	41	-	-
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

(unit: ¥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	21	-75	-50	135	236	209
Net change in cash and cash equivalents	1,587	-1,109	560	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-Jan.-16

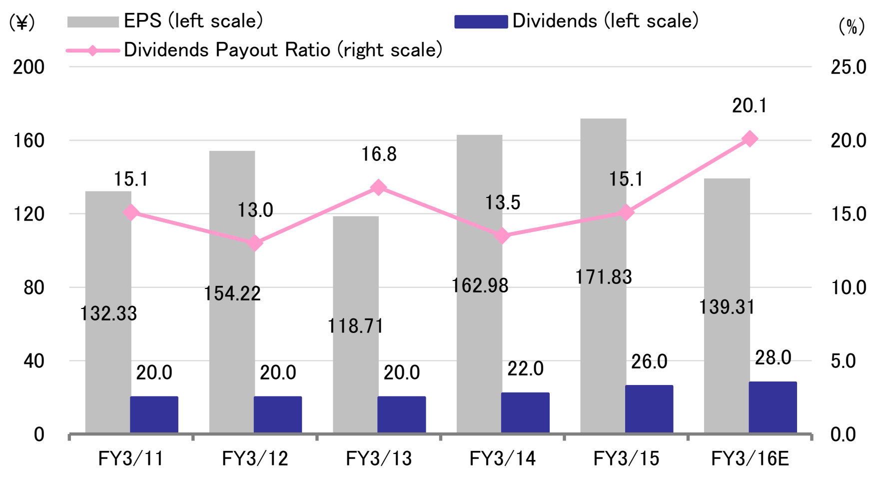
Shareholder Return Policy

A record of boosting dividends according to earnings growth

The company's basic policy is to provide returns to shareholders in the form of dividends. Management prioritizes providing stable, continuous dividends, as demonstrated in its track record to date. While remaining very aware of the need for stable dividends, the company has also increased them in keeping with earnings growth.

For FY3/16, the company announced at the start of the term that it would increase dividends by ¥2 yoy to ¥28 per share. Although management lowered its full-time forecasts when announcing 1H results, it retained its dividend projection. The dividend payout ratio based on revised earnings per share is 20.1%. The company pays around ¥400mn annually in dividends, which is only around 2.6% of its ¥15,304mn in retained earnings as of the end of September 2015. The company continues to stockpile earnings every year, and we look for management to continue a balanced approach to providing stable dividends and shareholder returns that are commensurate with earnings growth.

EPS, Dividends and Dividends Payout Ratio



Source: Compiled by FISCO Ltd. based on earnings reports

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