

# Wavelock Holdings Co., Ltd.

7940

Tokyo Stock Exchange First Section

11-Sept.-2020

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<http://www.fisco.co.jp>

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## Summary

### **The impact of the novel coronavirus (COVID-19) pandemic is comparatively minor, and in the medium to long term, growth in demand for metallic decorative film for automobiles is expected**

Wavelock Holdings Co., Ltd. <7940> (hereafter, also “the Company”) is a resin-processing manufacturer that is the industry leader for residential-use wallpaper and insect screens. It conducts three businesses: Interior Business (residential-use wallpaper), Material Solution Business (various types of packaging materials for construction-use, industrial-use, residential-use, and agriculture-use), and Advanced Technology Business (which includes metallic decorative film and PMMA/PC double layers sheet). Its residential-use wallpaper is distributed and sold through Sangetsu Co., Ltd. <8130>, which is also its largest shareholder.

#### 1. FY3/20 results

In the FY3/20 consolidated results, sales and profits increased, with net sales rising 3.6% year on year (YoY) to ¥29,251mn and operating profit growing 6.7% to ¥1,622mn. Net sales once again reached a new record high, as sales were solid in the Interior Business and that in the Advanced Technology Business, purchase-sales (products purchased and then resold) of diffusion plates for displays increased. Operating profit also increased for the first time in two fiscal periods, as although profits decreased in the Advanced Technology Business, this was covered by higher profits in the Interior Business and Material Solution Business. The main factors behind the higher profits were the effects of the review of sales prices in response to fluctuations in raw materials prices and improved productivity. The amortization of negative goodwill that was generated when the Company was delisted was completed during the period, and therefore non-operating income decreased ¥446mn YoY, so ordinary profit declined 17.7% and profit attributable to owners of parent fell 22.4%.

#### 2. FY3/21 results outlook

For the FY3/21 results, the Company is forecasting that net sales will decrease 0.9% YoY to ¥29,000mn and operating profit will decline 1.4% to ¥1,600mn. The forecasts anticipate that results in the 1H will be affected by the impact of the COVID-19 pandemic, but that demand will gradually recover in the 2H. The conditions in April and May were that automotive-related sales struggled, but that other inquiries were strong, including for food-use packaging materials and droplet-infection prevention sheets, so the negative impact of the COVID-19 pandemic was comparatively minor. For the outlook by business segment for the full fiscal year, sales are expected to decline in the Interior Business and Advanced Technology Business, but conversely, they are set to increase in the Material Solution Business, mainly of packaging materials and agricultural materials. Operating profit is forecast to decline in the Interior Business, but to increase in the Material Solution Business and Advanced Technology Business. The main reason for the higher profits in the Advanced Technology Business will be the end of temporary costs of more than ¥100mn (inventory write-down, etc.) that were recorded in the previous fiscal period in relation to PMMA/PC double layers sheet for smartphones in China.

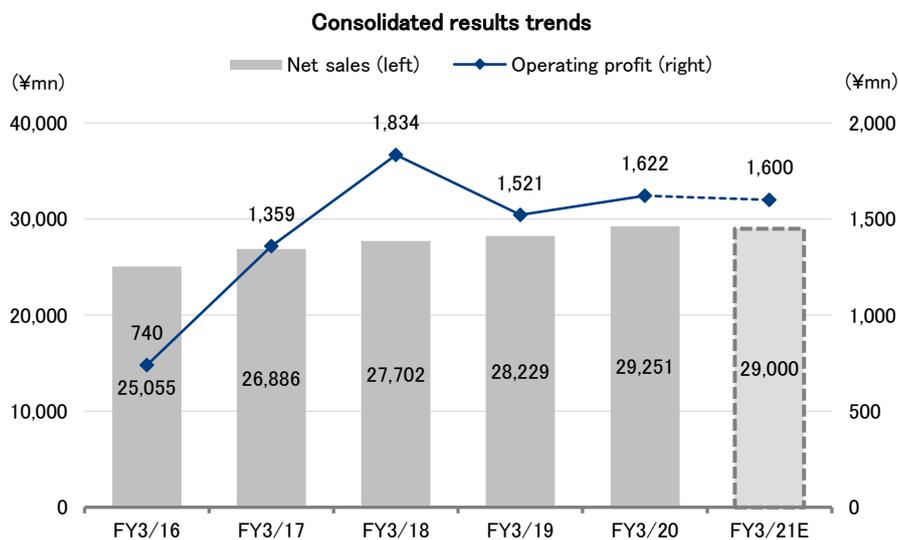
Summary

3. Growth strategy

As its growth strategy for the future, the Company is aiming for stable and sustainable growth by promoting “strengthening relations with customers” and “returning to being a manufacturer.” As a result of increasing efficiency in the value chain through the evolution of ICT and the proliferation of EC use, it anticipates that the distance between manufacturers and final customers will shrink, so building relationships with customers is seen to be even more important. Also, competition continues to intensify, and in this situation, it is thought that the Company is aiming for growth by utilizing the resources it possesses as a manufacturer to the greatest possible extent to provide products and solutions that meet customers’ needs. As a growth field in the future, it is focusing on metallic decorative film for automobiles. This type of film features excellent radio wave transmission properties, optical transparency, rust resistance, moldability, and designability, and seems to have been adopted not only by Japanese manufacturers, but also overseas manufacturers, mainly for exterior parts such as front grills. Although the scale of sales is still small, its growth potential in the medium to long term is high, and we shall be paying attention to developments in the future.

Key Points

- A resin-processing manufacturer whose businesses cover a wide range of areas, from materials for home life, agriculture and industry to parts for vehicles and smartphones
- In the FY3/20 results, ordinary profit decreased as a gain on amortization of negative goodwill came to an end, but both net sales and operating profit were higher than in the previous fiscal year
- In FY3/21, results will be affected by the impact of the novel coronavirus pandemic, but are expected to recover from the 2H



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

## ■ Company profile

### **A resin-processing manufacturer whose businesses cover a wide range of areas, from materials for home life, agriculture and industry to parts for vehicles and smartphones**

#### 1. Company history

The origins of Wavelock Holdings Co., Ltd. <7940> are found in Japan Wavelock Co., Ltd., which was founded in 1964 through equal investments by three companies – Nissho Co., Ltd. <2768> (currently Sojitz Corporation), Nippon Carbide Industries Co., Inc. <4064>, and Maruto Kasei Industry Co., Ltd. (currently Tatsuta Chemical Co., Ltd.) – in order to introduce the patented Wavelock manufacturing method for thread-reinforced plastic sheets used in Italy. In the Wavelock manufacturing method, many threads of synthetic fibers are arranged in a wave shape between two sheets of plastic film and locked to form a sandwich structure. A feature of the resin-processed sheets manufactured using this method is that they are stretchable while also having greatly improved physical strength. At that time in the 1960s, weak vinyl products used in the agricultural field that tore easily was a problem. So the founder, Hiromi Kinebuchi, saw the need for Wavelock products in this field and aimed to introduce technologies starting with agriculture-use raincoats. Subsequently, he expanded the business while broadening the target markets to fields where this feature could be utilized, including vinyl housing, raincoats, and industrial-use materials.

In 1979, the Company entered into the wallpaper industry as a wallpaper base material manufacturer. Then in 1980, it started manufacturing and selling multi-layered laminate sheets made by combining multiple materials, including metallic vapor deposition polyester film, and this became the foundation of the current Advanced Technology Business. In such ways, the Company has continued to grow while diversifying its businesses under the strong leadership of the founder, and in 1990, it registered as an over-the-counter stock with the Japan Stock Association (currently JASDAQ) and conducted a public offering.

In April 2003, the baton of management was passed to the founder's eldest son, Jun Kinebuchi, the current President and Representative Director, and the Company began to actively work on M&A. President Kinebuchi has an abundance of experience and knowledge, including from having worked in the M&A advisory business of Lehman Brothers in the US and a venture capital business in Silicon Valley. The Company is utilizing his skills as one growth strategy.

Looking at the conditions of M&A and management reforms implemented from 2003 onwards, the Company conducted a tender offer in December 2003 to acquire the shares of Dio Chemicals, Ltd., the leading manufacturer of insect screens that is listed on the Second Section of the Tokyo Stock Exchange (TSE), and made it a consolidated subsidiary (and then a wholly owned subsidiary in April 2005). Also in April 2005, it transitioned to a pure holding company structure to reorganize and enable flexible decision-making by management, and the existing business was transferred to the newly established Japan Wavelock Co., Ltd. In April 2006, to strengthen the Interior Business, it acquired the shares of Yamato Chemical Industry Co., Ltd. (currently Wavelock Interior Co., Ltd.) in the same industry and made it a consolidated subsidiary. In April 2008, it integrated the Interior Business within the Group. Also, in April 2010, it separated the Advanced Technology Business from Japan Wavelock and made it independent as Wavelock Advanced Technology Co., Ltd. In April 2013, it separated the manufacture and sales of the industrial material, packaging material business, and the sales function was absorbed into Innovex Co., Ltd. (established February 2013). At the same time, Dio Chemicals' industrial materials sales department was integrated into Innovex.

#### Company profile

In January 2019, Dio Chemicals' sales, purchasing, and administration departments were consolidated into Innovex, and a reorganization was conducted to place Dio Chemicals (manufacture of plastic nets) and Japan Wavelock (manufacture of industrial materials and packaging materials) as subsidiaries of Innovex, and the plastic nets business and industrial material, packaging material business were integrated and newly organized as the Material Solution Business. Then in April 2020, Innovex conducted an absorption merger of Dio Chemicals and Japan Wavelock, and thus Innovex has become a subsidiary that integrates manufacturing and sales in this business. In the Advanced Technology Business also, Shine Techno Co., Ltd., which manufactures and sells PMMA/PC double layers sheet, was integrated into Wavelock Advanced Technology through an absorption merger in April 2020.

In developments for overseas markets, in the Advanced Technology Business, following on from the establishment of a sales company in South Korea in 2012, sales companies were established in the US in 2018 and Germany in 2019, and they began sales activities, mainly in the automotive field. Also, to strengthen the manufacturing function of the plastic nets business, a manufacturing subsidiary was established in China in 2012. Then in 2013, a subsidiary was established in Hong Kong to strengthen the Group's trading function in the Asia region, and in 2018, a subsidiary was established in Thailand with the aim of strengthening business activities in the ASEAN region.

In March 2009, the Company carried out a tender offer for its own shares through Wavelock Investment Co., Ltd. In July of the same year, it delisted its shares, and then in April 2017, it was once again listed on the Second Section of the TSE (and is currently listed on the First Section). In the background to its decision to delist was the severe earnings environment created by soaring raw materials prices and intensified competition with overseas products. In such an environment, the Company decided that in order to develop new businesses that would serve as pillars of earnings in the future, it was necessary to establish a structure to implement a management strategy that took a medium- to long-term perspective, rather than being bound by short-term trends in results. Other factors included the leading shareholder at that time expressing intentions to sell its shares. From the time of delisting to relisting in 2017, the Company strengthened its management foundation while conducting measures such as the previously mentioned reorganization, and the Advanced Technology Business was able to achieve profitability in FY3/17, having previously recorded continuous losses. Also, in 2015, it concluded a business and capital alliance with Sangetsu, a major interior trading company that was one of its main trading partners, and Sangetsu became the Company's leading shareholder (investment ratio of 22.2% at that time). In such ways, at FISCO, we think the decision to delist was ultimately a good one for the Company.

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<http://www.wavelock-holdings.com/en/finance.html>

Company profile

Company history

Date	Event
June 1964	In order to introduce patented Wavelock technology for thread-reinforced plastic sheets from Bruno Romanin of Italia T.C.M company, Japan Wavelock Co., Ltd. was established and funded equally by three companies Nissho Co., Ltd. (currently Sojitz Corporation), Nippon Carbide Industries Co., Inc., and Maruto Kasei Industry Co., Ltd. (currently Tatsuta Chemical Co., Ltd.)
February 1965	Started production and sales of Wavelock products in the industrial materials and agricultural materials fields
November 1979	As the Interior Business, entered into the wallpaper industry and started production and sales of vinyl chloride wallpaper base materials
June 1980	Started production of metallic vapor deposition polyester film, fluorine resin film, PVC film and other multi-layered laminate sheets. Started sales of luminous tape for vehicles and consumer electronics
September 1987	Started production and sales of wrapping sheets for producing food containers using thermoforming, and entered into the packaging materials field
October 1990	Registered as an over-the-counter stock with the Japan Stock Association and made a public offering (Listed on the Second Section of the TSE in December 1996)
September 1991	Completed the Ichinoseki Plant in Iwate and newly established coating equipment. Started manufacturing and selling industrial construction mesh in the industrial materials field
August 1995	In the Interior Business, with the aim of entering into the final products market for wallpaper, conducted capital participation in Chiba-Graviya Co., Ltd. (currently Sakura Polymer Co., Ltd.) (Made a subsidiary in July 1998)
December 2003	Obtained 50.1% share of Dio Chemicals, Ltd., the leading manufacturer of insect screens, and made it a consolidated subsidiary (currently a wholly owned subsidiary) and started the plastic nets business
April 2005	Changed the company name to Wavelock Holdings Co., Ltd. and created a new company, Japan Wavelock Co., Ltd., to inherit all of the business and became a pure holding company
April 2006	To strengthen the foundation of the Interior Business, acquired 60% share of Yamato Chemical Industry Co., Ltd. (currently Wavelock Interior Co., Ltd.), making it a consolidated subsidiary (currently a wholly owned subsidiary)
April 2006	Newly established Shine Techno Co., Ltd. as a subsidiary. Started production and sales of high-performance, multi-layered sheets for automotive and consumer electronics displays and for consumer housings
April 2008	To further strengthen the Interior Business, changed the company name of Yamato Chemical Industry Co., Ltd. to Wavelock Interior Co., Ltd. and became a management company for interior business, placing Sakura Polymer Co., Ltd. and newly established Yamato Chemical Industry Co., Ltd. under its wing
March 2009	Wavelock Investment Co., Ltd. conducted a tender offer of the Company's shares, and it was delisted in July 2009
April 2010	Newly established Wavelock Advanced Technology Co., Ltd. acquired the shares of Shine Techno Co., Ltd. from Japan Wavelock Co., Ltd. and became the core subsidiary in the Advanced Technology Business
March 2012	To strengthen the Advanced Technology Business, Wavelock Korea Co., Ltd. was newly established as a sales company in South Korea
April 2012	To strengthen the Advanced Technology Business, formed a business and capital alliance with Entire Technology Co., Ltd. of China. Agreed to mutually collaborate in manufacturing, development, sales, and possession of stock agreement
June 2012	To strengthen the manufacturing function of the plastic nets business, established Dalian Jiaou Agricultural Technology Co., Ltd. (investment ratio: 93.4%)
July 2012	To strengthen the logistics and trading functions of the plastic nets business, acquired 49.0% share of WEIHAI JINGCHENG LOGISTICS CO., LTD. (equity-method affiliate)
March 2013	To strengthen the Group's trading functions in Asia, Wavelock International Asia Co., Ltd. was established in Hong Kong
April 2013	To further strengthen the industrial material, packaging material business, separated the manufacturing and sales of Japan Wavelock Co., Ltd. and integrated its sales department and Dio Chemicals Ltd.'s industrial materials sales department into Innovex Co., Ltd. (established February 2013)
October 2015	To improve efficiency in the value chain of the Interior Business, further improved quality, pursued new product development and formed a business and capital alliance with Sangetsu Co., Ltd. <8130>, its main customer. It became an equity-method affiliate of Sangetsu Co., Ltd. (shareholding ratio at time of investment: 22.2%)
April 2017	Relisted on the Second Section of the TSE (Reassigned to the First Section in April 2018)
February 2018	To strengthen Group activity in the ASEAN region, Wavelock International (Thailand) Co., Ltd. was established in Thailand
June 2018	To strengthen business activity in the North American automobile industry, Wavelock Advanced Technology Inc. was established in the US
January 2019	Sales, purchasing, and administration departments of Dio Chemicals, Ltd. were integrated with Innovex Co., Ltd. Through the exchanges of shares, Dio Chemicals, Ltd. and Japan Wavelock Co., Ltd. became wholly owned subsidiaries of Innovex Co., Ltd.
March 2019	To strengthen business activity in the European automobile industry, Wavelock Advanced Technology GmbH was established in Germany
April 2020	Dio Chemicals, Ltd. and Japan Wavelock Co., Ltd. were absorbed into Innovex Co., Ltd. Also, Shine Techno Co., Ltd. was absorbed and integrated into Wavelock Advanced Technology Co., Ltd.

Source: Prepared by FISCO from the Company's securities report

## Has leading market shares in Japan for residential-use wallpaper and insect screens

### 2. Business description

The Company supervises the various companies in the Group that manufacture and sell a range of value-added products (wallpaper, sheets for food tray containers, agriculture-use and construction-use sheets, insect screens, metallic decorative film, etc.) that are created by “combining” multiple materials (resins, fibers, papers, metals, etc.) and various types of process techniques (laminating, calendaring, multi-layered extrusion, printing, thermoforming, vapor deposition, spinning, plastic nets manufacturing, etc.)

#### Consolidated subsidiaries

Name	Ownership percentage	Description of main business
Wavelock Interior Co., Ltd.	100.0%	Interior Business
Sakura Polymer Co., Ltd.	100.0%	
Yamato Chemical Industry Co., Ltd.	100.0%	
Wavelock International Asia Co., Ltd. (Hong Kong)	100.0%	
Innovex Co., Ltd.	100.0%	Material Solution Business
Kakegawa Sewing Co., Ltd.	100.0%	
Wavelock International (Thailand) Co., Ltd.	100.0%	
Dalian Jiaou Agricultural Technology Co., Ltd. (China)	93.4%	
Wavelock Advanced Technology Co., Ltd.	100.0%	Advanced Technology Business
Wavelock Korea Co., Ltd. (Korea)	100.0%	
Wavelock Advanced Technology Inc. (US)	100.0%	
Wavelock Advanced Technology GmbH (Germany)	100.0%	

Source: Prepared by FISCO from the Company's securities report

#### (1) Interior Business

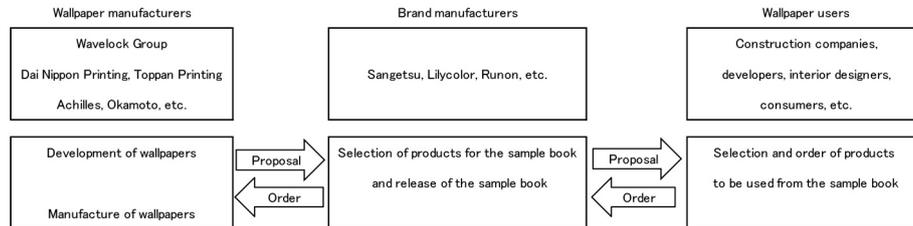
The Interior Business mainly manufactures and sells residential-use wallpaper products, and it has the top manufacturing share in Japan. The structure of the wallpaper industry is divided into wallpaper manufacturers like the Company and Dai Nippon Printing Co., Ltd. <7912> and brand manufacturers like Sangetsu and Lilycolor Co., Ltd. <9827> that sell these products as their own brands. Among the brand manufacturers, Sangetsu holds the top share of the domestic market, around 50–60%. Also, of the sales of the Company's Interior Business in FY3/20, the majority, more than 80%, were sales to Sangetsu.

In the wallpaper industry, the sequence of events is that the brand manufacturers propose wallpapers to the final users (construction companies, developers, general consumers, etc.) based on the sample books\* that they regularly release; the final users select and order the wallpapers that they will use, such as for new construction or renovation, from among the samples; and the brand manufacturers place orders with the wallpaper manufacturers based on these customer orders. Therefore, for wallpaper manufacturers, the keys to increasing sales are not only to increase the number of samples of their products in the samples books released by the brand manufacturers but also to have many products that will be selected by the final users from among these samples. Incidentally, of the samples in the SP 2019–2021 sample book (mass-produced items) released by Sangetsu in June 2019, around 40% of them were the Company's products.

\* A collection of a certain number of sample products in book format for checking actual colors and materials. Products in sample books are all in the same price range, and brand manufacturers regularly update and release multiple sample books according to aspects such as grade and usage. In general, most sample books are updated every two years.

Company profile

Structure of the wallpaper industry



Source: Prepared by FISCO from the Company's materials

From among the various types of wallpaper, the Company is involved with mass-produced products that are commonly and widely used, and also middle-grade products in a high price range. Regarding manufacturing, it has a two-plant system in which the mass-produced products are manufactured at the Ichinoseki Plant (Iwate Prefecture) and the middle-grade products at the Narita Plant (Chiba Prefecture). A feature of the Company is that it leads the industry in cost competitiveness of mass-produced products. This is because it has equipment with higher production capacity compared to other companies as initial operations only included pre-processing (coating the backing paper with resin to form the wallpaper base material). Additionally, since entering into a capital alliance with Sakura Polymer (current name) in 1995, it has conducted all processes in-house, including post-processing (printing process and foaming and embossing process). Furthermore, in February 2017, it increased the production capacity of the Ichinoseki Plant by 1.5 times compared to previously by enhancing post-processing equipment, which had been a bottleneck.

**(2) Material Solution Business**

In January 2019, the Company organized and integrated the plastic nets business and industrial material, packaging material business, and since FY3/20, it has disclosed this segment as the Material Solution Business. The addition of "Solution" to the name of this business can be said to express the intention to expand this business by building a structure able to "provide solutions" to solve customers' problems by combining the technological capabilities and development expertise it possesses.

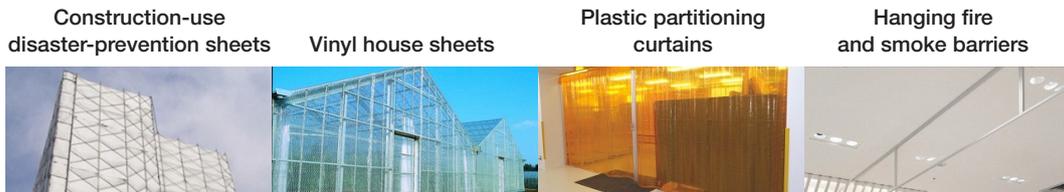
The mainstay products in the former plastic nets business are plastic nets such as residential-use insect screens, agricultural nets, and shading nets, etc. The Company has the leading share, about 70%, of the domestic market of insect screens sold at home improvement centers, and high shares for other products as well. Main customers include major home improvement centers, sash manufacturers, construction and scaffolding leasing companies, and wholesaler of agricultural products. Seasonal variations in sales are significant for products like insect screens, agricultural nets, and shading nets (with sales peaking from March to August). Demand also varies greatly depending on weather conditions each year, so inventory management at home improvement centers can be difficult. Therefore, two-thirds of factories area (Kakegawa Factory and Fukuroi Factory in Shizuoka Pref.) are allocated to storage. The company stores a certain amount of its own stock, and levels production throughout the year. Also, by establishing a logistics system able to respond to large-scale shipments and sudden orders during the peak season, it has put in place a sales system capable of eliminating the risk of customer stores running out of stock. In the last few years, low-priced products from overseas competitors have entered the market, but they are unable to build such a sales-logistic system and often run out of stock. It's not only the high quality of its products but also its robust support system that are thought to have led to the Company's high market shares.

Company profile

Also, in the former industrial material, packaging material business, the industrial materials products were created through combining multiple resin materials. These products are mainly construction & scaffolding covering sheets, work clothing, agricultural materials, plastic partitioning curtains, and high transparency fire retardant plastic sheets for smoke barriers. Customers primarily include construction companies, scaffolding leasing companies, and trading companies. Also, in the packaging materials business, with synthetic resin as the raw material, the Company manufactures various types of sheets and its formed products with added functions according to their intended usage, such as heat resistance, and then sells to customers like food manufacturers and container manufacturers. Regarding production bases, the Koga Plant (Ibaraki Prefecture) is the main plant, while some of the products are manufactured at the Ichinoseki Plant (Iwate pref.).

Also, sub-segments of the Material Solution Business are divided by market into living solution (life materials), building solution, industrial solution (industrial materials), packaging solution (packaging materials), and agriculture solution (agricultural materials).

Examples of industrial materials products



Examples of packaging business products (sheets for food tray containers)



Source: Prepared by FISCO from the Company's website

**(3) Advanced Technology Business**

The Advanced Technology Business manufactures and sells metallic decorative film (mainly for the interiors and exteriors of vehicles and for their exterior parts), and PMMA (acrylic resin)/PC (polycarbonate) double layers sheets (primarily for smartphone housing and car navigation systems) and conducts printing and silicon processing for non-woven fabric printing for medical-use compresses and for mold-release films. It also conducts purchase-sales of tearable tape for food packaging materials.

Company profile

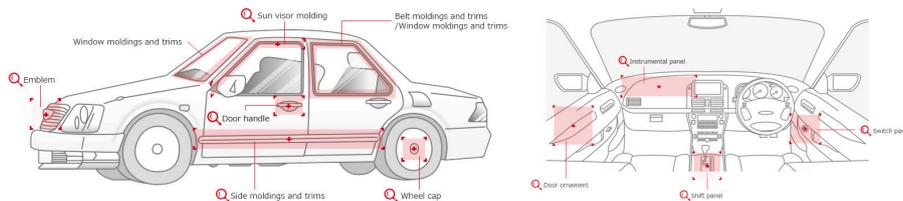
Metallic decorative film is bonded to create a six-layer structure through a dry laminate process\*, in which metals are vapor deposited on PET (polyethylene terephthalate) film, and PMMA sheets are attached to the top side and ABS film to the bottom side to ensure weather resistance. This film is not limited to flat shapes, but can also be formed into three-dimensional shapes using various processing technologies, including extrusion, film insert, and thermoforming. Unlike galvanization-processed products, it does not rust and its environmental load is low, including its contribution to reducing the weight of vehicle bodies. Moreover, other advantages include high permeability for radio waves and light, excellent moldability and designability, etc. Therefore, in anticipation of the spread of self-driving technologies, its applications are expected to widen, such as to vehicle emblems, and it is thought to have enormous growth potential. Competitor companies have also adopted manufacturing methods that directly vapor deposit metals onto resin parts, but in an increasing number of cases, the Company's manufacturing method has proven to produce high yields and frequent cost advantages.

\* A processing method in which, after an adhesive is applied to a base film and dried in a drying furnace, the film is repeatedly pressed and bonded with other films.

As applications that make use of these characteristics, the film is mainly being adopted for interiors and exteriors of vehicles, exterior-use parts for four-wheeled and two-wheeled vehicles, and consumer electronics products. In the automotive field, the Company has a track record of sales not only in Japan, but also in countries and regions including Europe, the US, South Korea, South America, and Russia. In the US and Europe, it has established local bases and is further strengthening sales activities. For two-wheeled vehicles, the film is being used for emblems in India and South East Asia. The Company has two manufacturing bases, film is manufactured at the Koga Plant, while the sheet-molding process that was previously outsourced is carried out at the Nagoya Plant (newly opened in June 2018), increasing the in-house manufacturing rate.

In metallic decorative films used for vehicle exteriors, Akzo Nobel N.V. of Holland is among the Company's competitors. Also, for PMMA/PC double layers sheet, price competition with local Chinese companies has become fierce for sheets for smartphone housing. So in the future, its policy is to focus on measures for the automotive interiors field (car navigation systems and instrument panels) that utilize its strength of having products with strong optical properties (the major company in this field is MITSUBISHI GAS CHEMICAL COMPANY, INC. <4182>).

Examples of automotive applications



Source: Prepared by FISCO from the Company's website

Company profile

## Focused on new businesses and markets based on a stable earnings structure and having products with high shares of niche markets

### 3. SWOT analysis

We will use a SWOT analysis to express in simple tables the external environment for the Company’s management and its current management conditions. A SWOT analysis is one analytical method that is often used when a company is planning its management vision and strategy. It divides and summarizes various factors into “(growth) opportunities” and “threats” in the company’s external environment and “strengths” and “weaknesses” of the company itself.

In terms of growth opportunities in the external environment, for the Advanced Technology Business that the Company is focusing on, there is potential demand in the automotive exteriors and interiors fields, and business expansion can be expected from capturing this demand. Growth can also be expected in the overseas market, which currently only provides less than 10% of total sales. Conversely, risk factors include that in the event of a rise in the price of crude oil, the price of naphtha, which is an indicator of the prices of main raw materials, will also rise, leading to a decrease in the profit margin. Also, the Company depends on the domestic markets for products such as wallpaper materials, insect screens, industrial materials and packaging materials, and there is the risk that the domestic markets will contract, such as from Japan’s declining population.

Strengths unique to the Company include its ability to create new added value and open-up markets through “combinations” and “mechanisms” of multiple materials and processing technologies; its development of businesses over a wide range of fields, including the residential, agricultural, construction and automotive fields, forming a stable earnings portfolio unaffected by a recession in any particular industry; and its establishment of a system that enables it to flexibly carry out measures necessary to strengthen and grow the earnings base, including reorganization and M&A. Conversely, weaknesses include its reliance on Sangetsu for around 25% of net sales, and there is the risk that it will be affected in the event of changes in this company, such as to its sales trends and management strategy. Furthermore, the domestic markets for the current focus businesses, which are mainly wallpaper materials, insect screens, and industrial materials, are maturing, so in order to continue to grow earnings sustainably, it needs to develop new businesses and enter new markets, centered on the Advanced Technology Business.

#### SWOT analysis

	Positive factors	Negative factors
<b>External environment</b>	<p>&lt;(Growth) Opportunities&gt;</p> <ul style="list-style-type: none"> <li>• In the automotive field, in addition to the strengthening of environment regulations, the markets for metallic decorative film and PMMA/PC double layers sheet are expected to grow against the backdrop of the shift to lighter vehicles, increasing need for improved design features, and implementation of CASE</li> <li>• The percentage of sales from overseas is low, at less than 10%, so there is plenty of room to open-up overseas markets in the future (business developments in Asia for insect screens and agricultural materials and in Europe and the US for metallic decorative film for automobiles, etc.)</li> </ul>	<p>&lt;Threats&gt;</p> <ul style="list-style-type: none"> <li>• There is the risk that the price of naphtha, which is an indicator of the prices of main raw materials, will increase due to a rise in the price of crude oil, which will cause the profit margin to decline</li> <li>• The domestic wallpaper market and industrial materials and packaging materials market are entering periods of maturity, and there is the risk that these markets will contract due to Japan’s declining population</li> </ul>
<b>Internal environment</b>	<p>&lt;Strengths&gt;</p> <ul style="list-style-type: none"> <li>• Ability to provide value-added proposals through “combinations” and “mechanisms” of multiple materials and processing technologies</li> <li>• Its business fields are diverse, including the residential, agricultural, construction, and automotive fields, so its earnings are highly stable through this diversified earnings portfolio</li> <li>• Is building a management structure able to flexibly implement organizational reforms, M&amp;A, etc.</li> </ul>	<p>&lt;Weaknesses&gt;</p> <ul style="list-style-type: none"> <li>• Around 25% of sales are from Sangetsu, so the Company may be affected by changes at this company, such as to its sales trends and management strategy</li> <li>• Markets of the current mainstay businesses are maturing, and earnings growth may become sluggish if progress is not made to develop new businesses and enter new markets</li> </ul>

Source: Prepared by FISCO from the Company’s materials

We encourage readers to review our complete legal statement on “Disclaimer” page.

## Results trends

### In the FY3/20 results, ordinary profit declined as a gain on amortization of negative goodwill coming to an end, but both net sales and operating profit increased YoY

#### 1. Overview of FY3/20 results

In the FY3/20 consolidated results, net sales increased 3.6% YoY to ¥29,251mn, operating profit rose 6.7% to ¥1,622mn, ordinary profit declined 17.7% to ¥1,598mn, and profit attributable to owners of parent decreased 22.4% to ¥1,108mn.

Sales in the Interior Business were strong, while in the Advanced Technology Business, purchase-sales of diffusion plates for displays increased. Therefore, net sales increased for the fifth consecutive period and reached a new record high, and they were also slightly higher than the Company forecast. Operating profit increased in the Interior Business and the Material Solution Business, as progress was made in the measures implemented since the previous period to pass on rises in prices of raw materials to sales prices, while the measures to improve productivity were also successful. These increases absorbed the decrease in the Advanced Technology Business, so operating profit rose for the first time in two fiscal periods. In the Advanced Technology Business, one-time costs of more than ¥100mn related to inventory write-downs and compensation for complaints that PMMA/PC double layers sheet for smartphones did not satisfy customers' requirements were recorded in the 4Q, causing results to fall below the Company forecast.

Non-operating income decreased ¥446mn YoY, due mainly to a gain on amortization of negative goodwill (non-operating income), which was recorded in the previous period, coming to an end during the current period. This caused ordinary profit and profit attributable to owners of parent to decline by double digits.

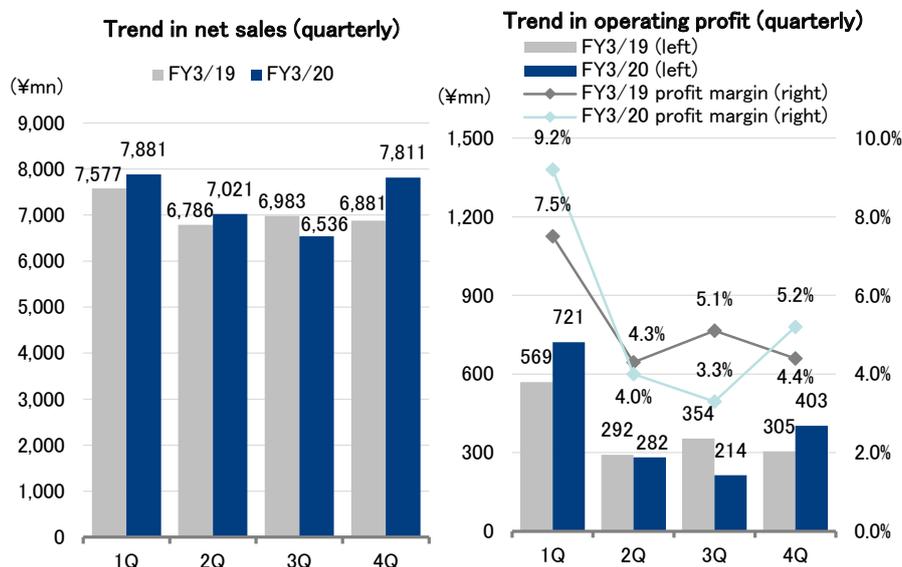
#### FY3/20 consolidated results

	FY3/19		Initial forecast	FY3/20			
	Results	% of net sales		Results	% of net sales	YoY	vs. forecast
Net sales	28,229	-	29,000	29,251	-	3.6%	0.9%
Cost of sales	21,676	76.8%	-	22,231	76.0%	2.6%	-
SG&A expenses	5,031	17.8%	-	5,396	18.4%	7.3%	-
Operating profit	1,521	5.4%	1,800	1,622	5.5%	6.7%	-9.9%
(amortization of negative goodwill)	388	1.4%	-	18	0.1%	-	-
Ordinary profit	1,943	6.9%	1,780	1,598	5.5%	-17.7%	-10.2%
Profit attributable to owners of parent	1,429	5.1%	1,200	1,108	3.8%	-22.4%	-7.6%

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

Results trends

Looking at how results trended on a quarterly basis, in the 1Q, operating profit and the operating profit margin both rose compared to the same period in the previous fiscal year due to the effects of passing on rises in prices of raw materials to sales prices and the increase in sales of products with relatively high profit margins. In the 2Q, the Interior Business and Material Solution Business continued to perform strongly, but because of the impact of the decline in profits in the Advanced Technology Business, both operating profit and the operating profit margin decreased compared to the same period in the previous fiscal year. In the 3Q, in addition to the fact that profits continued to decline in the Advanced Technology Business, the Company allocated a provision of ¥75mn in the Material Solution Business as the accounting treatment for the newly introduced employee incentive plan, and therefore both operating profit and the operating profit margin worsened. In the 4Q, the Advanced Technology Business recorded an operating loss, mainly due to the recording of temporary costs. But sales trended strongly in the Interior Business and Material Solution Business as they entered their busy seasons, so both operating profit and the operating profit margin exceeded levels seen in the same period in the previous fiscal year.



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

## Results trends

## The profitability of the Interior Business and Material Solution Business improved, and profits increased by double digits YoY

### 2. Trends by business segment

#### Breakdown by business segment

	FY3/18 Results	FY3/19 Results	FY3/20			
			Forecast	Results	YoY	vs. forecast
<b>Net sales</b>	27,702	28,229	29,000	29,251	3.6%	0.9%
Interior	9,029	9,112	9,600	9,693	6.4%	1.0%
Material Solution	16,021	16,261	16,300	16,200	-0.4%	-0.6%
Advanced Technology	3,436	3,572	3,800	4,001	12.0%	5.3%
Adjustment	-2,062	-716	-700	-643	-	-
<b>Operating profit</b>	1,834	1,521	1,800	1,622	6.7%	-9.9%
Interior	863	724	830	922	27.5%	11.2%
Material Solution	1,029	919	1,010	1,120	21.9%	11.0%
Advanced Technology	294	306	430	80	-73.6%	-81.2%
Adjustment	-352	-429	-470	-501	-	-

\*Net sales in the Material Solution Business for FY3/18 are before the segment integration and for reference only  
 Source: Prepared by FISCO from the Company's financial results and supplemental results materials

#### (1) Interior Business

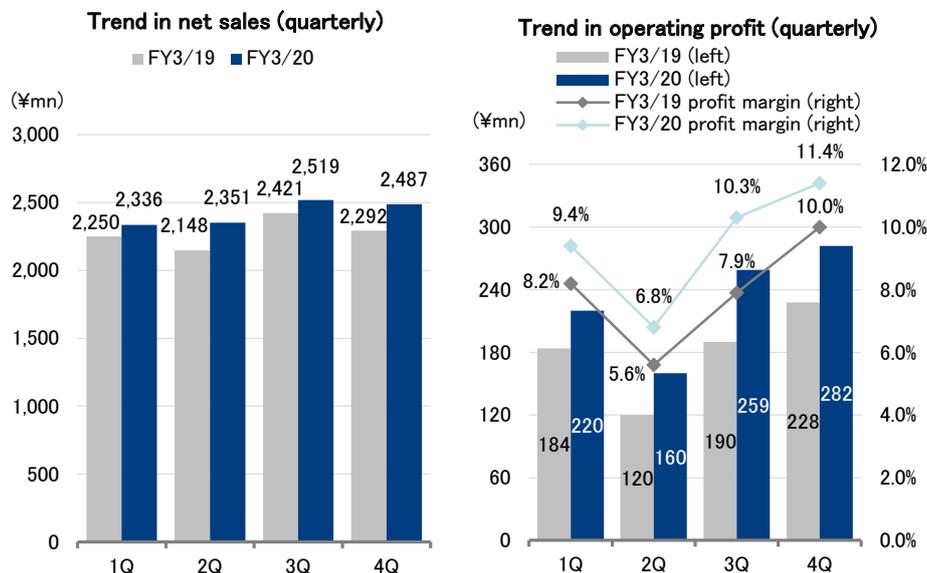
In the Interior Business, net sales increased 6.4% YoY to ¥9,693mn and operating profit rose 27.5% to ¥922mn. The main reason for the higher sales was the steady growth in the market throughout the fiscal year from Sangetsu's medium-grade products sample book FINE (released in May 2019) and mass-produced products sample book SP (released in June 2019), in which the number of listings of the Group's products increased, and as a result, sales to Sangetsu rose 7% YoY. These strong sales were driven by sales of value-added products called functional mass-produced products with water-repellent, antibacterial, and stretch functions that were newly listed in the mass-produced products sample book. As the volume of shipment of wall materials in the industry as a whole declined 1.7% YoY, it is considered that the Company continues to remain competitive in the wall materials industry.

Factors increasing operating profit were ¥130mn from the effects of the higher sales, including the price rises\*, and ¥130mn from the effects of the improvement to manufacturing efficiency, which absorbed the increase in logistics and other costs of ¥50mn. Results also trended steadily on a quarterly basis, with sales and profits increasing in every quarter and net sales and profits exceeding Company forecasts.

\* The Company passed on rises in prices of raw materials to sales prices in the fall of 2018, so the effect of the higher prices contributed for the full fiscal year in FY3/20.

## Results trends

## Interior Business



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

## (2) Material Solution Business

In the Material Solution Business, net sales decreased 0.4% YoY to ¥16,200mn, while operating profit increased 21.9% to ¥1,120mn. Looking at the factors influencing operating profit, the fall in sales in the agriculture solution field caused a decrease of ¥41mn, while higher sales of products with high gross profit margins and improved profitability in the packaging solution field provided increases of ¥132mn and ¥91mn, respectively.

Looking at trends by field, in the living solution field, sales were strong for major home improvement centers following the start of fully fledged transactions from the previous season. In the 4Q as well, shipments were favorable in March, the peak season for demand, and contributed to the higher sales and profits.

In the building solution and industrial solution field, sales to shopping centers of highly transparent, fire retardant plastic sheets for smoke barriers, which have a relatively high gross profit margin, were strong. In addition, factors behind the rise in the profit margin included that results trended favorably for insect screens for sash manufacturers and partitioning sheets for plants.

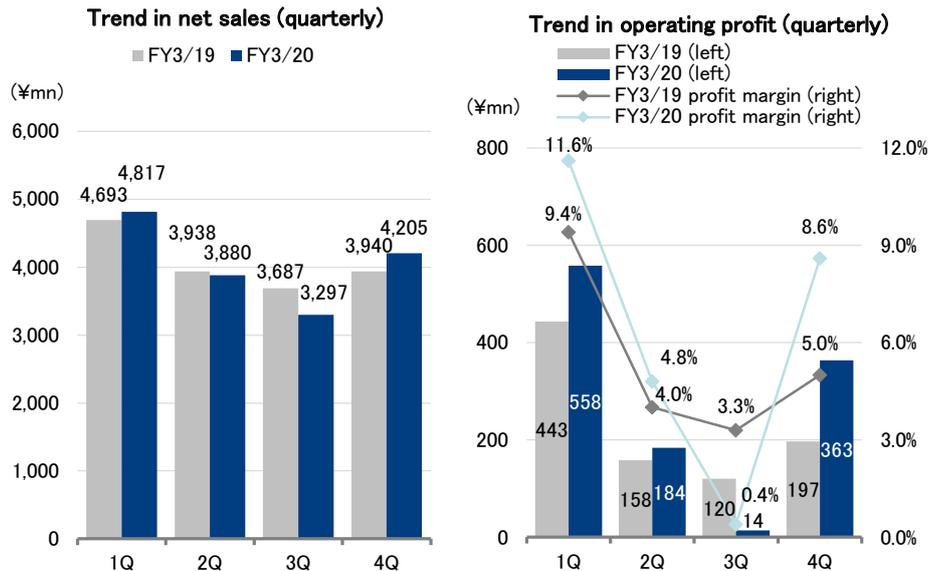
In the packaging solution field, progress was made in passing on rises in prices of raw materials to sales prices, while the Company also saw success with measures to improve profitability that have been underway since the second half of FY3/19 (selection and concentration of orders and restructuring the production system). As a result, profitability improved greatly.

In the agriculture solution field, sales struggled due to a reduction in subsidized work projects from the national and local governments, the damage from typhoons and other natural disasters, and the decline in demand resulting from bad weather, including a long rainy season and a warm winter. Therefore, both sales and profits declined.

Results trends

On a quarterly basis, operating profit fell significantly in the 3Q, mainly because the Company recorded a provision of ¥75mn for an incentive plan introduced from FY3/20 to enhance employee bonuses. In this plan, if operating profit exceeds the forecast for the full fiscal year, some of the excess is allocated as employee bonuses, and this occurred in the current fiscal period. Results showed net sales were 0.6% below the Company's full-year forecast, but operating profit was 11.0% above.

Material Solution Business



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

(3) Advanced Technology Business

In the Advanced Technology Business, although net sales increased 12.0% YoY to ¥4,001mn, operating profit decreased significantly, falling 73.6% to ¥80mn. By business, this was the only operating profit result that was below the Company forecast.

For the mainstay metallic decorative films, sales grew for automotive parts processing for the domestic market, two-wheeled vehicles in South East Asia, and the North America market, which has a high profit margin. However, sales for China, which have continued to grow in the last few years, slumped up to the 3Q due to prolonged US-China trade friction and stricter exhaust emission regulations. In addition, in the 4Q, the impact of the COVID-19 pandemic caused operations to halt at customer plants, so net sales declined YoY. Alongside this decline in sales, operating profit also decreased ¥48mn.

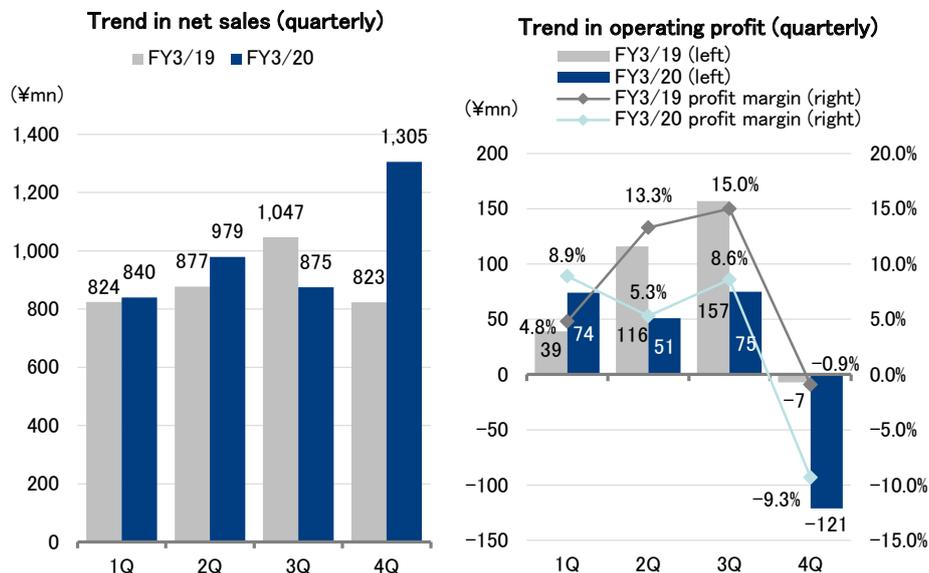
For PMMA/PC double layers sheet, both net sales and operating profit significantly decreased YoY and an operating loss was recorded. This was mainly due to a decline in the sales volume for China for smartphone housing, a main application, and a quality problem reported by certain customers that led to the Company conducting a valuation write-down of retained inventory and recording costs, including for prototypes to improve quality and compensation. Costs of ¥178mn were recorded relating to the decline in sales volume and this quality problem. It seems that for PMMA/PC double layers sheet shipped by the Company for smartphone housing, cracking at a rate of 10–20% occurred in durability testing after hard coating in the downstream process. It is currently completing the development of products that address this cracking problem.

Results trends

The reason that sales increased in this situation included that upon entering the 4Q, sales to South Korea of flat panel diffusion plates for displays, a purchase-sales product, grew rapidly. Customer plants of South Korean display manufacturers in China stopped operating in the 4Q due to the impact of the COVID-19 pandemic, so suddenly there were purchases of diffusion plates from Taiwanese manufacturers via the Company's South Korean subsidiary. This contributed greatly to sales, but its effect on operating profit was minimal, as purchase-sales products have low profit margins.

Looking at how results trended on a quarterly basis, net sales grew rapidly in the 4Q due to the increase in purchase-sales of diffusion plates, and it is understood that the operating loss was recorded because of the quality problem related to PMMA/PC double layers sheet.

Advanced Technology Business



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

### Is improving the financial structure by reducing interest-bearing debt and is in a position to conduct aggressive investment

#### 3. Financial position

At the end of FY3/20, total assets were down ¥336mn compared to the end of the previous fiscal period to ¥29,144mn. Looking at the main influencing factors, in current assets, cash and deposits increased ¥323mn, while trade receivables decreased ¥321mn. Also, in non-current assets, due to the progress of depreciation, property, plant and equipment decreased ¥254mn and investment securities decreased ¥187mn.

Total liabilities were down ¥1,137mn compared to the end of the previous fiscal period to ¥17,066mn. This was because despite increases of ¥259mn in income taxes payable and ¥212mn in accrued consumption taxes, interest-bearing debt decreased ¥1,796mn. Net assets increased ¥800mn compared to the end of the previous fiscal period to ¥12,078mn. Retained earnings also increased, and although there were dividend payments of ¥278mn, profit attributable to owners of parent of ¥1,108mn was recorded.

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 7940 Tokyo Stock Exchange First Section | <http://www.wavelock-holdings.com/en/finance.html>

Results trends

Looking at management indicators, the Company is steadily reducing interest-bearing debt, so the interest-bearing debt ratio fell from 87.0% at the end of the previous fiscal period to 66.3%. In the last few years, it has kept capital investment to within the range of depreciation and is succeeding with measures to improve the financial structure. The equity ratio also reached 41.3% and is rising each year. On the other hand, looking at indicators of profitability, the operating profit margin is trending stably at the 5% level. It seems this is mainly because, as previously stated, the Company's businesses cover a wide range of fields, so it is not easily affected by a recession in a specific industry. As it has improved the financial structure to a certain degree, at FISCO, we think that the Company has once again put in place a structure to conduct aggressive investment in the future toward realizing growth.

**Consolidated balance sheet**

	(¥mn)				
	FY3/17	FY3/18	FY3/19	FY3/20	Change
<b>Current assets</b>	15,240	16,492	16,367	16,420	52
(Cash and deposits)	2,062	2,489	2,044	2,367	323
(Trade receivables)	7,292	7,795	7,727	7,406	-321
<b>Non-current assets</b>	13,301	13,283	13,113	12,724	-389
<b>Total assets</b>	28,541	29,775	29,481	29,144	-336
<b>Current liabilities</b>	10,566	10,895	10,950	9,630	-1,319
(Trade payables)	3,808	4,390	4,412	4,335	-76
<b>Non-current liabilities</b>	9,017	8,210	7,254	7,436	182
<b>Total liabilities</b>	19,583	19,106	18,204	17,066	-1,137
(Interest-bearing debt)	10,816	10,115	9,788	7,992	-1,796
<b>Total net assets</b>	8,957	10,669	11,277	12,078	800
<b>(Stability)</b>					
Current ratio	144.2%	151.4%	149.5%	170.5%	21.0pt
Equity ratio	31.2%	35.7%	38.2%	41.3%	3.1pt
Interest-bearing debt ratio	121.5%	95.0%	87.0%	66.3%	-20.7pt
<b>(Profitability)</b>					
ROA (Return on assets)	5.9%	7.4%	6.6%	5.5%	-1.1pt
ROE (Return on equity)	12.8%	16.3%	13.1%	9.5%	-3.6pt
Operating profit margin	5.1%	6.6%	5.4%	5.5%	0.1pt

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

**Consolidated cash flow**

	(¥mn)			
	FY3/17	FY3/18	FY3/19	FY3/20
<b>Cash flow from operating activities</b>	3,195	1,882	1,520	2,864
<b>Cash flow from investing activities</b>	-2,161	-776	-855	-465
<b>Cash flow from financing activities</b>	-822	-688	-1,088	-2,114
<b>Cash and cash equivalents at end of period</b>	2,062	2,489	2,044	2,367

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

## ■ Outlook for the future

### In FY3/21, the COVID-19 pandemic will have an impact, but demand is expected to recover from the 2H

#### 1. FY3/21 results outlook

For the FY3/21 consolidated results, the Company is forecasting slight decreases in sales and profits, with net sales to fall 0.9% YoY to ¥29,000mn, operating profit to decline 1.4% to ¥1,600mn, ordinary profit to decrease 1.2% to ¥1,580mn, and profit attributable to owners of parent to retract 9.8% to ¥1,000mn. Forecasts have been set assuming the impact of the COVID-19 pandemic will cause a 15.4% decline in operating profit in the 1H compared to the same period in the previous fiscal year, but demand will gradually recover from the 2H.

#### FY3/21 consolidated results outlook

	FY3/20		FY3/21					(¥mn)
	Full-year results	% of net sales	1H forecasts	% of net sales	YoY	Full-year forecasts	% of net sales	YoY
Net sales	29,251	-	14,000	-	-6.1%	29,000	-	-0.9%
Operating profit	1,622	5.5%	850	6.1%	-15.4%	1,600	5.5%	-1.4%
Ordinary profit	1,598	5.5%	840	6.0%	-14.7%	1,580	5.4%	-1.2%
Profit attributable to owners of parent	1,108	3.8%	550	3.9%	-20.8%	1,000	3.4%	-9.8%
Earnings per share (EPS) (¥)	116.30		57.65			104.83		

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

The Company has analyzed the impact of the COVID-19 pandemic as follows.

#### (1) The impact on the value chain

If excluding crude oil, which is an upstream raw material, the extent of the Company's reliance on overseas is low and most of its value chain is completed within Japan. Therefore, its value chain is resistant to failure due to factors in foreign countries, such as restrictions on movement.

#### (2) Purchases of raw materials

The price of crude oil fell sharply from April to May, and alongside this, the price of naphtha, which is an indicator of the prices of main raw materials, went from ¥44,800/kl in January to March 2020 to approximately ¥29,000/kl in April, and is expected to fall to around the ¥20,000 level from July to September. For the FY3/21 results forecasts, the Company has assumed a naphtha price of ¥45,000/kl, and it is thought that the reduction in costs due to the drop in prices of raw materials will appear from around the 2Q. But on the other hand, pressure will increase to reduce sales prices with a time lag, so it can be said that it is difficult to incorporate the effects of this situation into the forecasts. As some of the Company's products, such as packaging materials, are manufactured with raw materials received from its main suppliers, fluctuations in the prices of raw materials in a comparatively short period of time are likely to be reflected in the sales prices of such products, which would be a negative factor for sales.

#### (3) Impact on manufacturing and sales

For manufacturing, each product is independent, and as the Company distributes its manufacturing over multiple bases within regions, mainly in Japan, it's highly resistant to upheavals in the external environment. For logistics as well, it aims to mitigate risk by securing multiple operators for each base.

Outlook for the future

For sales, the Company has a diverse range of business fields and sales channels, so its sales are also strongly resistant to environmental upheavals like at the present time, which reduces the risk of suffering a major blow. In fact, special demand has formed for measures to deal with the COVID-19 pandemic, including for partitioning sheets and droplet-infection prevention sheets.

**(4) Financial impact**

Despite the fact that net sales are falling significantly due to the impact of the COVID-19 pandemic, in addition to cash on hand (of more than ¥2bn), the Company has in place a framework that enables it to borrow from financial institutions, so there are no concerns about cash flow at the present time.

## Is forecasting a decline in profits in the Interior Business, but an increase in profits in the Advanced Technology Business due to the end of temporary costs

**2. Outlook by business segment**

**Results outlook by business segment**

	FY3/19 Results	FY3/20 Results	FY3/21	
			Forecast	YoY
Net sales	28,229	29,251	29,000	-0.9%
Interior	9,112	9,693	9,200	-5.1%
Material Solution	16,261	16,200	16,800	3.7%
Advanced Technology	3,572	4,001	3,000	-25.0%
Adjustment	-716	-643	-	-
Operating profit	1,521	1,622	1,600	-1.4%
Interior	724	922	700	-24.2%
Material Solution	919	1,120	1,150	2.6%
Advanced Technology	306	80	200	146.9%
Adjustment	-429	-501	-450	-

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

**(1) Interior Business**

In the Interior Business, the outlook is that net sales will decrease 5.1% YoY to ¥9,200mn and operating profit will decline 24.2% to ¥700mn. Although there are concerns about the impact of the COVID-19 pandemic, through its alliance with Sangetsu, the Company intends to leverage its cost competitiveness, which is higher than that of its competitors, to review its sales price strategy and secure sales volume. It is aiming to increase sales of medium-grade products that have comparatively high profit margins and mass-produced products through SP 2019–2021, which is Sangetsu's sample book of mass-produced products currently in the second year since its release. However, the outlook is for sales and profits to decline due to lower prices. But, because of the fall in the price of naphtha, it is highly likely that raw materials costs will be below the Company's forecast, so these profit forecasts are considered to be conservative.

Sangetsu, the Company's main customer, is forecasting that its wall materials sales will decrease 15.6% YoY in FY3/21. This suggests that, continuing on from the previous period, the Company is aiming to increase its share of transactions with Sangetsu. Conversely, for manufacturing, its policy is to increase production per unit of time and to work to build a strong corporate structure that targets profit growth even when the market as a whole is contracting. It is working to achieve a "reduction in manufacturing set-up times" by improving production facilities, production processes and work at production sites.

## Outlook for the future

**(2) Material Solution Business**

In the Material Solution Business, the forecasts are for net sales to increase 3.7% YoY to ¥16,800mn and operating profit to rise 2.6% to ¥1,150mn. While returning to being a manufacturer by refining its production strengths, the Company will work on various measures, including business reforms to respond to changes in the market structure, work reforms to respond to the post-COVID-19 period, and product development to meet the changing needs of the market, while also maintaining relations with existing sales channels. In particular, in FY3/21 it intends to “utilize its features of being a manufacturer and conduct EC as only a manufacturer is able to do.”

Therefore, while manufacturing (Japan Wavelock and Dio Chemicals) and sales (Innovex) had previously been separated into different operating companies, from April 1, 2020, these functions have been combined and integrated into Innovex. Japan Wavelock has developed and manufactured various types of sheet & film products, and Dio Chemicals has done likewise with insect screens and agricultural nets. Through this current integration into the sales company Innovex, it is believed that manufacturing and sales of sheet & film products and net products can be integrated organically and flexibly to generate synergies.

In the outlook for sales by solution field, sales are expected to recover in the agriculture solution field, which slumped in the previous fiscal period, and sales in the packaging solution field are also forecast to increase from the growth in demand for food-use trays and other products because of the impact of the COVID-19 pandemic. Demand is rapidly increasing from retail stores for Toughnyl, vinyl curtains used to prevent droplet infections, although their impact on earnings is small.

**(3) Advanced Technology Business**

In the Advanced Technology Business, the outlook is for lower sales but higher profits, with net sales to decline 25.0% YoY to ¥3,000mn, and operating profit to increase 146.9% to ¥200mn. Net sales will decrease due to the decline in sales of metallic decorative film and PMMA/PC double layers sheet and the absence of purchase-sales of diffusion sheets, which spiked in the previous 4Q. Conversely, profits are expected to increase due to the end of temporary costs incurred in the previous fiscal period, which included an inventory write-down for PMMA/PC double layers sheet and compensation.

For metallic decorative films, although the plant of a Chinese automotive manufacturer will start operations, the number of vehicles produced in Japan and the US has been falling significantly due to the impact of the COVID-19 pandemic, and the outlook is that the severe conditions will continue over the 1H at the very least. Conversely, for PMMA/PC double layers sheet, although the quality problem at main customers of Chinese smartphones manufacturers has been resolved, their adoption for new models is being slowed by intensified competition, and their sales have only been marginally incorporated into sales forecasts.

Stable sales growth is expected to continue in the special printing field for medical adhesive agent applications, such as compresses, and also in the tear tape and cut tape field that provides tearable tape for soft packaging materials, corrugated cardboard, and paper bags.

In the Advanced Technology Business, Wavelock Advanced Technology, which manufactures and sells metallic decorative film, and Shine Techno, which manufactures and sells PMMA/PC double layers sheet, were merged and integrated on April 1, 2020. The aim of this is to accelerate growth in the PMMA/PC double layers sheet for automobiles business by integrating their businesses. Currently, PMMA/PC double layers sheet are gradually being adopted for touch panels in car navigation systems and dust-proofing sheets in head-up display projection. However, as sales resources are limited, it has not been possible to uncover sufficient demand. It is thought that by integrating the businesses, it will be possible to provide customers with a variety of solutions, which will lead to acquisitions of orders.

## Focused on the growth potential of metallic decorative film for automobiles

### 3. Growth strategy

As its growth strategy for the future, the Company is aiming for stable and sustainable growth by promoting “strengthening relations with customers” and “returning to being a manufacturer.” As a result of increasing efficiency in the value chain through the evolution of ICT and the proliferation of EC use, it anticipates that the distance between manufacturers and final customers will shrink. Therefore, the Company is also working to directly meet market needs through actively utilizing ICT and other measures, so building relationships with customers is seen to be even more important. It is establishing specialist teams, including human resources recruited from outside the Company, and the situation shows various measures being promoted are gradually bearing fruit.

Specifically, as a countermeasure to the COVID-19 pandemic, the Company developed in a short period of time Super Tech Mirror Miracle Fight, a droplet-infection prevention face shield that utilizes PMMA/PC double layers sheet, and started sales on a direct-sales EC website from April 2020 (<https://wavelock-at-shop.net>). Likewise, Toughnyl, a clear plastic curtain for preventing infection that is seeing rapid increases in sales to retail stores and others, is being sold on EC websites like monotaro and orange-book.com in addition to direct sales. In the Material Solution Business, the Company is aiming to increase sales by establishing the EC & Communication Department and conducting EC unique to it as a manufacturer. Conversely, increasing sales through EC will affect its relations with existing customers of wholesale and retail stores. But its basic stance is to realize co-existence and co-prosperity, and it is aiming for growth by utilizing the resources it has as a manufacturer to the greatest possible extent to provide products and solutions that meet customers’ needs.

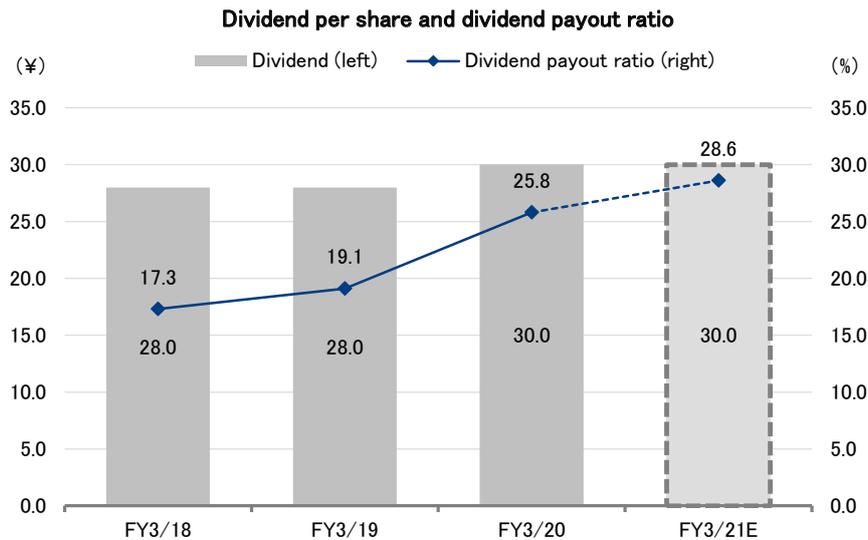
As a growth field for the future, the Company is focusing on metallic decorative film for automobiles. As previously mentioned, this product features excellent radio wave transmission properties, optical transparency, rust resistance, moldability, and designability. Vehicles are expected to further evolve through the introductions of 5G and self-driving technologies, and it is forecast that the volume of wireless communication traffic inside and outside of vehicles will increase to an even higher level. The direction being taken for metallic parts, which are easily affected by radio wave interference, is to replace them with resin parts, including to meet needs for weight reduction. Alongside this development, at FISCO, we anticipate that the parts for which metallic decorative film will be adopted will also increase.

Currently, it is being used for exterior parts such as door handles and front grills. In particular, in cases where the radio transceiver port for a collision prevention system is placed on an emblem on a vehicle’s front grill, metallic decorative film, which has high radio wave transmission properties, is often considered. It is being considered by and sales discussions are being progressed with mainly manufacturers in China, Europe, and the US. Also, it has been highly evaluated for utilizing optical transparency for a metallic-tone appearance during the day and for improving color rendering properties by lighting-up at night, and it seems to be increasingly adopted by overseas manufacturers. In order to acquire customers in the overseas market, the Company established business bases in the US in 2018 and in Germany in 2019, and they are strengthening their sales activities. Although their scale of sales is currently still small, it would appear that the investigations of these products by various manufacturers for their adoption in their next models are progressing steadily, and at FISCO, we think it is highly likely that their sales scale will increase significantly in the medium to long term. The Company continues to position M&A as one growth strategy and it is investigating candidate companies, such as those with which business synergies can be expected and that have a customer base.

## Shareholder return policy

### Basic policy is to stably and continuously pay dividends, targeting a dividend payout ratio of 20–30%

The Company’s basic dividend policy is to stably and continuously pay dividends while maintaining an appropriate balance between returning profits to shareholders and reinvesting profits in order to maximize business value. It targets a dividend payout ratio of 20–30%, but will not adjust the dividend due to short-term increases or decreases in profits. It also considers other options for returns to shareholders, such as stock splits and acquisitions of treasury shares, taking into consideration factors like the share price and financial condition. In FY3/21, the Company plans to pay a dividend per share of ¥30.0 (dividend payout ratio: 28.6%), which is unchanged YoY. In FY3/19 and before, dividend payout ratios were below 20%, but this was because profits were raised in accounting terms from the recording of amortization of negative goodwill (which did not generate cash). When excluding this factor, the actual dividend payout ratios were 23.1% in FY3/18 and 26.2% in FY3/19.



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



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