

Wavelock Holdings Co., Ltd.

7940

Tokyo Stock Exchange First Section

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

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Summary

Targeting double-digit annual profit growth over the medium term by investing in growth businesses following the transfer of the Interior Business

Wavelock Holdings Co., Ltd. <7940> (hereafter, also “the Company”) is a resin-processing manufacturer that operates Material Solution Business with insect screens, farming and construction material sheets, and other products and Advanced Technology Business that primarily supplies metallic decorative films. In March 2021, it transferred the Interior Business (residential-use wallpaper), which was one of its core businesses, to Sangetsu Corporation <8130>, a major business partner, and clarified a policy of pursuing growth by ramping up investments in growth businesses.

1. FY3/21 results

In FY3/21 consolidated results, net sales were flat YoY at ¥29,248mn and operating profit declined 8.2% to ¥1,489mn. Sales were flat YoY due to favorable results in living solution products, which offset the impact of a decline in the sales prices of the Interior Business and weaker demand for building products in the Material Solution Business. Operating profit dropped mainly due to booking ¥191mn in one-time costs, such as advisory costs related to transferring the Interior Business and layout costs for the headquarter office but rose YoY excluding these factors. The Company booked ¥2,094mn in gain on sales of shares following the transfer of a 51% stake in Wavelock Interior Co., Ltd. (below, WIT), which handles the Interior Business, to Sangetsu. While WIT becomes an equity-method affiliate from FY3/22, the Company intends to sell its entire stake at some point.

2. Medium-term management plan

The Company announced a medium-term management plan in June 2021. The plan emphasizes acquisition of stable long-term profits and presents a policy of quickly restoring operating profit to the FY3/21 level and focusing on cultivation of the Advanced Technology Business and environment-related business (geothermal business), which it positions as growth businesses. In the Advanced Technology Business, the Company is making progress with adoption of metallic decorative films and PMMA/PC2-layer sheets in automotive and expects robust growth. In geothermal business, meanwhile, it intends to steadily recruit demand for vinyl houses and other farming and construction applications and expand business as a system integrator by collaborating with construction companies. The main advantage of its high-efficiency heat exchange system (3-5 times the previous level) based on proprietary patented “heat cluster” technology curtails capital investment costs versus the conventional approach. The Company hopes to achieve growth as a business that contributes to sustainability by managing indoor air-conditioning and improving agricultural productivity through use of geothermal renewable energy. The plan’s FY3/24 goals are ¥24,500mn in net sales and ¥1,260mn in operating profit. These work out to annual average growth rates of 6.7% in net sales and 21.1% in operating profit using values based on the FY3/21 results excluding the results from the Interior Business (¥20,173mn in net sales, ¥709mn in operating profit). Trends should be closely monitored because of the prospect of even strong earnings growth expectations from FY3/25 if the Company successfully ramps up these focus businesses.

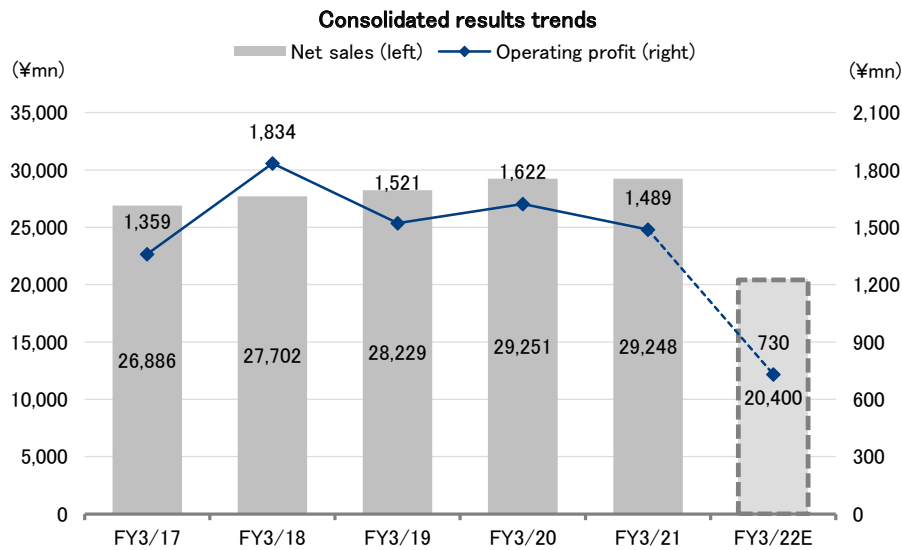
Summary

3. FY3/22 results outlook

In the FY3/22 consolidated forecast, the Company expects net sales to decline 30.3% YoY to ¥20,400mn and operating profit to decline 51.0% to ¥730mn. Based on existing businesses with exclusion of the impact of transferring the Interior Business, this outlook projects increases of 1.1% in net sales and 3.0% in operating profit. In the Material Solution Business, it forecasts lower profit on higher sales that reflects recoveries in various solutions on removal of COVID-19 pandemic impact but also setbacks from higher raw material costs and weakened product mix. In the Advanced Technology Business, it expects profit boosts from improved income associated with sales growth in automotive interior and exterior parts and non-recurrence of one-time costs incurred in the previous fiscal year. Despite initial earnings setbacks from the transfer of the Interior Business, the Company aims to enter a renewed growth stage from FY3/23 by strengthening its foundation in the Advanced Technology Business and environment-related business.

Key Points

- Encountered positive and negative COVID-19 impacts in FY3/21 results and achieved an increase in operating profit (YoY) on a real basis
- Anticipating growth in automotive metallic decorative film and agricultural and construction geothermal business
- Expects lower sales and profits in FY3/22 due to transferring the Interior Business at the end of March 2021, but higher sales and profits in existing businesses on rapid recovery in the Advanced Technology Business earnings



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

■ Company profile

Resin processing manufacturer strengthening its business foundation and broadening scope through M&A strategy

1. Company history

The origins of Wavelock Holdings are found in Japan Wavelock Co., Ltd., which was founded in 1964 through equal investments by three companies – Nissho Co., Ltd. (currently Sojitz Corporation <2768>), 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 TSE JASDAQ) and conducted a public offering.

In April 2003, the baton of management was passed to the founder's eldest son, Jun Kinebuchi*, the former President and Representative Director, and the Company began to actively work on M&A. Jun Kinebuchi has an abundance of experience and knowledge related to M&A, 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 promoting M&A as one growth strategy.

* Jun Kinebuchi retired from his position as President and Representative Director at the end of March 2021 with the aim of bringing in a younger executive team, and Tomonori Ishihara, who had been Director, Executive Officer, and Manager of the Administration Division, assumed the top role.

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 WIT) 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 (acrylic resin)/PC (polycarbonate) 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, targeting mainly 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. The Company implemented reorganization and other reforms described above and pursued reinforcement of its management foundation during the period from when it delisted until the relisting in 2017.

Recently, the Company sold 51% of WIT shares to Sangetsu in March 2021 and transferred control of the Interior Business. Sangetsu is the largest interior trading company and was the Company's leading shareholder following the formation of a capital and business alliance in 2015 as a main counterpart in the Interior Business. Based on their discussions, the two companies agreed to a transfer of the Interior Business and dissolution of the capital and business alliance.

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<https://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.) (a wholly owned 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 (sold 51% of WIT shares to Sangetsu Co., Ltd. <8130> in March 2021 and thereby converted WIT from a consolidated subsidiary to an equity-method affiliate)
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, Newly established sales subsidiary Wavelock Korea Co., Ltd. in Korea
April 2012	To strengthen the Advanced Technology Business, formed a business and capital alliance with Entire Technology Co., Ltd. of Taiwan. 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, 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
April 2018	Reassigned to the First Section of the TSE
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 and integrated into Innovex Co., Ltd. Also, Shine Techno Co., Ltd. was absorbed and integrated into Wavelock Advanced Technology Co., Ltd.
March 2021	Established Wavelock Asset Management Co., Ltd. as a wholly owned subsidiary and transferred subsidiary shares and some fixed assets and other assets owned by WIT in the business reorganization Sold 51% of WIT shares to Sangetsu and thereby converted WIT from a consolidated subsidiary to an equity-method affiliate

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

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

Using funds obtained from the transfer of the Interior Business to cultivate growth businesses and new businesses

2. Background to transferring the Interior Business and impact on results

This section briefly reviews the background to the Company's decision and impact on results because the Interior Business was a main business for over 40 years and held a core position in the business portfolio at 31.1% of sales and 39.6% of operating profit in FY3/21.

The Company was a longstanding manufacturer of housing wallpaper with a history of over 40 years and the industry's largest manufacturer in terms of production value. Sangetsu, meanwhile, is the top company on a brand basis with a 50-60% industry share. While the two companies had built a win-win relationship by further strengthening cooperation following the formation of a capital and business alliance in 2015, changes in the market environment led to the decision to transfer the business. They engaged in discussions based on awareness of the need to bolster profitability through vertical integration and pursue expansion of market share in order to grow the business further that factored in the absence of growth prospects due to maturation of the domestic housing wallpaper and population decline in recent years and the difficulty of entering the overseas market. Through the discussions, the Company decided to transfer the business to Sangetsu and allocate funds obtained from the sale to invest in growth businesses and repay interest-bearing debt and pursue growth by expanding its existing businesses and cultivating new businesses.

In accordance with the decision, the Company sold a 51% stake in WIT, which handles the Interior Business, to Sangetsu in March 2021. The transfer also involved moving assets not directly related to wallpaper business (roughly ¥1.4bn in book value as of December 2020 including property, plant and equipment related to the Ichinoseki No.2 Plant and Sakura Plant and WIT sales subsidiary shares) from WIT to Wavelock Asset Management Co., Ltd. (below, WAM), which was established through an incorporation-type company split, and transferring all WAM shares to the Company.

The Company transferred WIT shares for about ¥2.4bn and booked ¥2,094mn in gain on sales of shares in 4Q FY3/21. From FY3/22, while WIT becomes an equity-method affiliate, the Company holds the right to request that Sangetsu purchase remaining WIT shares it owns under certain conditions (put option). Additionally, Sangetsu holds the right to request the transfer of remaining WIT shares owned by the Company under certain conditions (call option). These arrangements indicate an outlook for the transfer of all WIT shares to Sangetsu at some point. The transfer price is set at 1.2 times the transfer price per share used this time. This roughly works out to a transfer price of about ¥2.8bn and gain on sales of shares of ¥2.4bn. The Company shall receive dividends worth at least ¥294mn during the period until Sangetsu exercises its option right. If dividends have not reached ¥294mn at the point of exercising the option right, the agreement ensures that the Company receive the difference after tax effect.

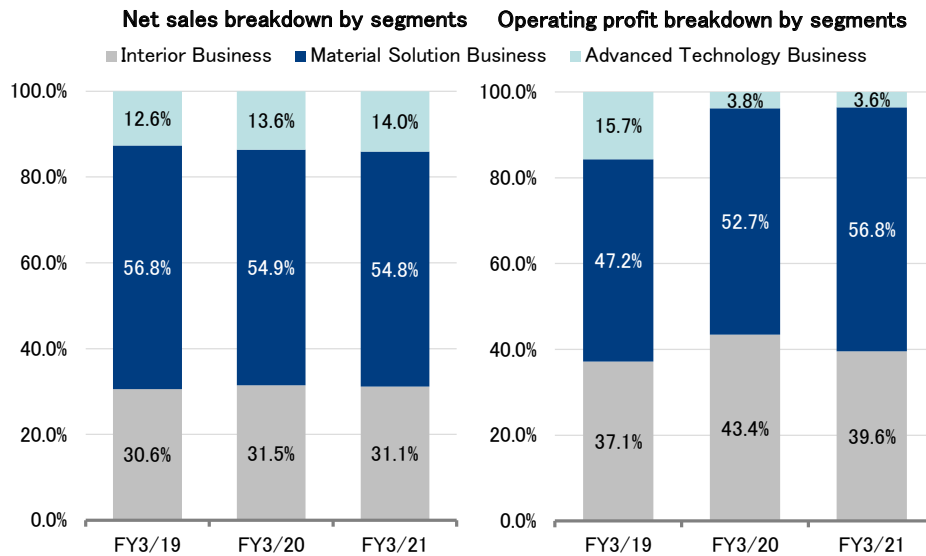
Despite temporary decline in earnings, this policy decision should obtain roughly ¥7.8bn in total cash for the Company, including about ¥5.2bn from the transfer of WIT shares, ¥290mn in dividends, and ¥700mn from the transfer of non-current assets to Sangetsu (these values are on a pre-tax basis) and ¥1.6bn in loans receivable to WIT. The Company aims to achieve medium- to long-term growth by investing these funds in the Advanced Technology Business, which it positions as a growth area, and cultivation of new business.

Proceeding with a two-pronged model of the Material Solution Business and Advanced Technology Business

3. Business description

The Company supervises the various companies in the Group that manufacture and sell a range of value-added products (agriculture-use and construction-use sheets, insect screens, sheets for food tray containers, metallic decorative film, etc.) that are created by “combining” multiple materials (resins, fibers, papers, metals, etc.) and various types of process techniques (bonding, welding, lamination, surface processing, printing, embossing processing, weaving, evaporation, foaming, etc.)

As business segments, the Company moved to a two-segment model from FY3/22, following the transfer of the Interior Business, with the Material Solution Business and Advanced Technology Business. Segment shares in the past three fiscal years were Material Solution Business at just over 50% in net sales and operating profit, the transferred Interior Business at about 30% in net sales and 40% in operating profit, and the Advanced Technology Business still relatively small at just over 10% in sales.



Note: Net sales breakdown calculated using sales to external customers
Source: Prepared by FISCO from the Company's financial results

Company profile

Consolidated subsidiaries

Name	Ownership percentage	Business segment
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

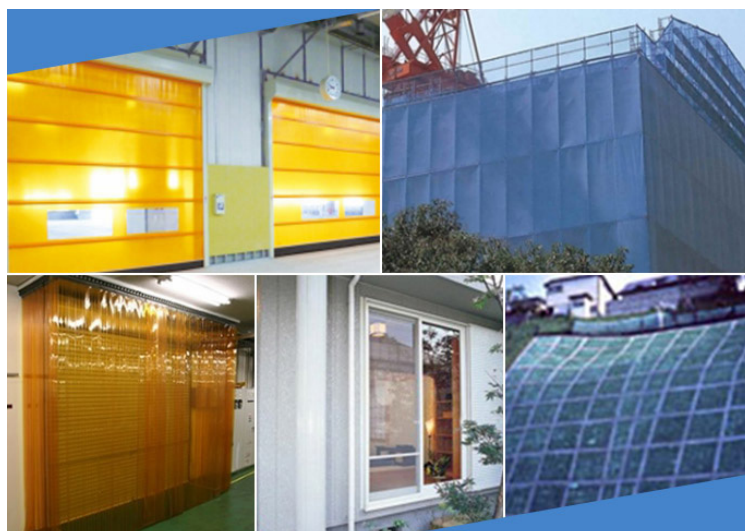
(1) Material Solution Business

In the Material Solution Business, the Company sells high-quality synthetic resin products made with proprietary technology (sheets, films, mesh, nets, etc.) to a wide range of applications, such as construction materials, housing materials, industrial materials, farming materials, daily goods, and food packaging. It provides optimal solutions that address market changes by dividing the sales organization into five solutions by industry and product group – building solutions, industrial solutions, agricultural solutions, living solutions, and packaging solutions. Innovex Co., Ltd., which handles this business, conducts process manufacturing at Koga Plant in Ibaraki Prefecture as the main site and at the Dio Fukuroi Plant and Dio Kakegawa Plant in Shizuoka Prefecture for textile products. It also procures and sells products through subsidiaries in China and Thailand.

a) Building solutions

The Company mainly supplies provisional construction-related materials with project sheets and mesh, vegetation nets and weed control fences as civil engineering and forestry materials and curtains and sheet shutters as partitioning materials. Primary customers are provisional facility leasing companies, agents, and trading companies.

Building solutions – product examples



Source: From the Innovex website

Company profile

b) Industrial solutions

The Company mainly supplies smoke-proof barriers as non-flammable sheets that prevent smoke dissipation for building fires and special-blend sheets as raw materials for rainwear and other clothing. Primary customers are agents, trading companies, and processing manufacturers.

Industrial solutions – product examples



Source: From the Innovex website

c) Agricultural solutions

The Company broadly supplies farming-related products, such as shading and heat-blocking nets, insect nets, heat retention sheets, and other covering materials and soil enhancement materials. Primary customers are home centers, major seed and agricultural chemical firms, and farming material specialty stores.

Agricultural solutions – product examples



Source: From the Innovex website

Company profile

d) Living solutions

In this business, the Company supplies replacement screening (insect screen) for screen doors and home-related net materials, insect screens installed as screen doors with a sash in homes and other locations, covering material for farming and gardening, and related materials mainly to home center and sash manufacturers. It holds a top share in insect screens of roughly 70% in Japan and also has high market shares for other products. Since insect screen, gardening nets, shading screens, and other related products exhibit strong seasonal sales fluctuation (with the peak coming in March to August each year) and demand also varies significantly depending on weather conditions in the particular year, these products pose challenges for inventory management at home centers. The Company hence allocates two-thirds of the space at the Innovex plants in Shizuoka prefecture to warehouses and manufactures products at a standard pace throughout the year and retains a certain amount of inventories at Innovex. It has also established logistics capabilities for high-volume delivery to customer stores ahead of the season start and sudden orders. Through these efforts, the Company provides a sales system that can remove risk of shortages at customer stores. While low-priced rival products have been entering the market from overseas sources in recent years, shortages often occur due to their lack of such sales capabilities. This robust support system contributes to the Company's large market share separately from the level of product quality.

Living solutions – product examples



Source: From the Innovex website

e) Packaging solutions

The Company supplies a wide range of products from food packages for dairy products, snacks, convenience store meal containers, and other items to electronic component packages. With use of synthetic resins as raw material, it develops and provides products that utilize advanced materials that extend expiration deadlines for customer needs and applications and eco-friendly materials based on patented technology. Main customers are food manufacturers and container manufacturers.

Company profile

Packaging solutions – product examples



Source: From the Innovex website

(2) Advanced Technology Business

In the Advanced Technology Business, the Company manufactures and sells metallic tape that uses film deposited with special-purpose metals and metallic decorative films as interior and exterior material for parts installed in automobiles and motorcycles as well as home electronics and miscellaneous goods. Furthermore, it sells and manufactures high-transparency sheets (PPMA/PC2-layer sheets) mainly used in automobile displays, implements medical-patch non-woven cloth printing and printing and silicon processing of release films, and conducts procurement sales of LCD diffusion plates, food-package opening tape, and other items. It mainly sells metallic decorative films and PMMA/PC2-layer sheets to automotive electronics secondary processing manufacturers and primary suppliers.

Metallic decorative films with rising demand potential in the automotive market are a focus. This type of film is bonded to create a six-layer structure through a dry laminate process*, in which special-purpose 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.

* 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.

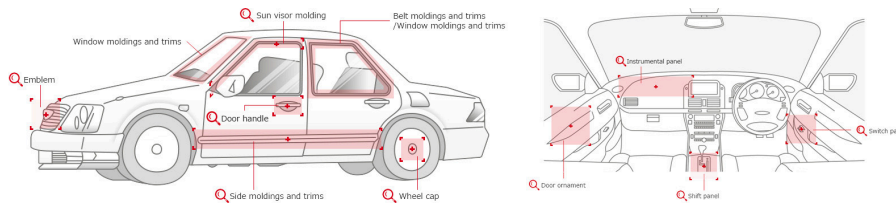
As applications that leverage these features, adoption is progressing in automobile exterior and interior and parts for automobile and motorcycle exteriors. In automotive business, the Company conducts sales not only in Japan but also in China, the US and Europe, Korea, South America, and Russia. It also established local sales subsidiaries in the US in 2018 and in Europe in 2019 and is strengthening sales activities. In motorcycle business, these products have use as emblems in India and Southeast Asia. While the Company operates two production sites (Koga Plant and Nagoya Plant), Koga Plant handles the film manufacturing process and Nagoya Plant implements sheet formation processing, a back-end process.

Company profile

Akzo Nobel N.V., a major Netherlands-based chemicals firm, is the main rival in automotive exterior business for metallic decorative film. As the production method for metallic decorative films, some companies utilize the metal deposition method, such as the Company and Akzo Nobel, and others use transcription. While transcription is less expensive because it supports volume output, it lacks robust weatherability and requires a separate hard coat for automobile exteriors in some cases.

In PMMA/PC2-layer sheets, the Company withdrew from the smartphone chassis application in FY3/21 due to fierce price competition with Chinese companies and is currently focused on expanding sales in the automotive area (such as center information displays (CID) and head-up displays (HUD)) with increasingly large interior displays where it can leverage high-performance optical features and other strengths (MITSUBISHI GAS CHEMICAL COMPANY, INC. <4182> is the top supplier in this area).

Examples of automotive applications



Source: Prepared by FISCO from the Company's website

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

4. 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. In the Material Solution Business, the Company intends to promote initiatives that enhance farming productivity for various regions in Asia. 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 insect screens, construction materials, industrial materials and food packaging materials, and there is the risk that the domestic markets will contract, such as from Japan's declining population.

Company profile

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 foundation, including reorganization and M&A. Issues, meanwhile, are development of new markets and cultivation of new business needed to expand the Material Solution Business. The Advanced Technology Business faces risk of income fluctuation caused by volatility in orders from major customers because sales scale is still small. Furthermore, since capacity is limited at Koga Plant, the production site for metallic decorative films, the Company must consider a plant transfer or other actions to expand this business.

SWOT analysis

	Positive factors	Negative factors
External environment	<p><Opportunities></p> <ul style="list-style-type: none"> In the automotive field, in addition to the strengthening of environment regulations, the markets for metallic decorative film and PPMA/PC2-layer sheets are expected to grow against the backdrop of the shift to lighter vehicles, increasing need for improved design features, and implementation of CASE 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 PPMA/PC2-layer sheets in Europe and the US for metallic decorative film for automobiles, etc.) Demand for geothermal business, which has a high energy-savings effect, is likely to expand amid calls for improvements in farming productivity and sustainability 	<p><Threats></p> <ul style="list-style-type: none"> 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 The domestic construction materials, industrial materials and food packaging materials market are entering periods of maturity, and there is the risk that these markets will contract due to Japan's declining population
Internal environment	<p><Strengths></p> <ul style="list-style-type: none"> Ability to provide value-added proposals through “combinations” and “mechanisms” of multiple materials and processing technologies Its business fields are diverse, including the residential, agricultural, construction, and automotive fields, so its earnings are highly stable by pursuing this diversified earnings portfolio Built a management system based on a holding company structure capable of implementing dynamic organizational and M&A deals 	<p><Weaknesses></p> <ul style="list-style-type: none"> The Material Solution Business has a stable earnings foundation but in mature markets and needs to develop new markets and cultivate new solutions The Advanced Technology Business faces risk of income fluctuation caused by volatility in orders from major customers because sales scale is still small

Source: Prepared by FISCO from the Company's materials

Results trends

Encountered positive and negative COVID-19 impacts in FY3/21 results and achieved an increase in operating profit (YoY) on a real basis

1. Overview of FY3/21 results

In the FY3/21 consolidated results, net sales were roughly flat YoY at ¥29,248mn and operating profit declined 8.2% to ¥1,489mn., ordinary profit declined 10.6% to ¥1,428mn, and profit attributable to owners of parent increased 115.2% to ¥2,386mn.

Results trends

FY3/21 consolidated results

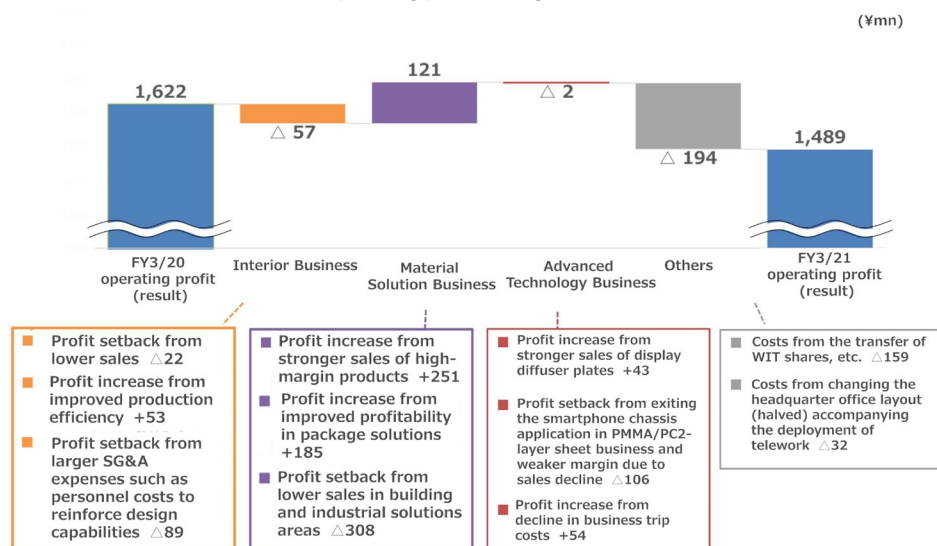
	FY3/20		Initial forecast	FY3/21		YoY	vs. forecast
	Results	% of net sales		Results	% of net sales		
Net sales	29,251	-	29,000	29,248	-	-0.0%	0.9%
Cost of sales	22,231	76.0%	-	22,084	75.5%	-0.7%	-
SG&A expenses	5,396	18.4%	-	5,673	19.4%	5.1%	-
Operating profit	1,622	5.5%	1,600	1,489	5.1%	-8.2%	-6.9%
Ordinary profit	1,598	5.5%	1,580	1,428	4.9%	-10.6%	-9.6%
Extraordinary income/loss	85	-	-	1,991	-	-	-
Profit attributable to owners of parent	1,108	3.8%	1,000	2,386	8.2%	115.2%	138.7%

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

In net sales, even though the Company realized upbeat procurement sales of diffuser plates in the Advanced Technology Business and sales of living solution products in the Material Solution Business, the overall level stayed on par with the previous fiscal year because of sales slumps in building solution and industrial solution areas in the Material Solution Business and decline in the average sales price of wallpaper in the Interior Business.

In operating profit, despite a rise in the Material Solution Business profit, the overall result declined on weaker Interior Business profit as well as product inventory and material disposal losses related to exiting PPMA/PC2-layer sheets for the smartphone chassis application in the Advanced Technology Business, and booking ¥159mn in advisory expenses related to the transfer of WIT shares and ¥32mn in costs from headquarter office layout changes related to the telework rollout. Excluding these one-time costs, operating profit increased YoY and also overshot forecast. Meanwhile, profit attributable to owners of parent climbed sharply on recognition of ¥2,094mn in gain on sales of shares of WIT as extraordinary profit.

Operating profit change factors



Source: From supplemental results materials

Profit improved in the Material Solution Business and declined in the Interior Business and Advanced Technology Business

2. Trends by business segment

Breakdown by business segment

	FY3/19 Results	FY3/20 Results	FY3/21			
			Company plan	Results	YoY	vs. forecast
Net sales	28,229	29,251	29,000	29,248	-0.0%	0.9%
Interior Business	9,112	9,693	9,200	9,431	-2.7%	2.5%
Material Solution Business	16,261	16,200	16,800	16,131	-0.4%	-4.0%
Advanced Technology Business	3,572	4,001	3,000	4,127	3.2%	37.6%
Adjustment	-716	-643	-	-442	-	-
Operating profit	1,521	1,622	1,600	1,489	-8.2%	-6.9%
Interior Business	724	922	700	865	-6.2%	23.6%
Material Solution Business	919	1,120	1,150	1,242	10.9%	8.1%
Advanced Technology Business	306	80	200	78	-3.1%	-60.8%
Adjustment	-429	-501	-450	-696	-	-

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

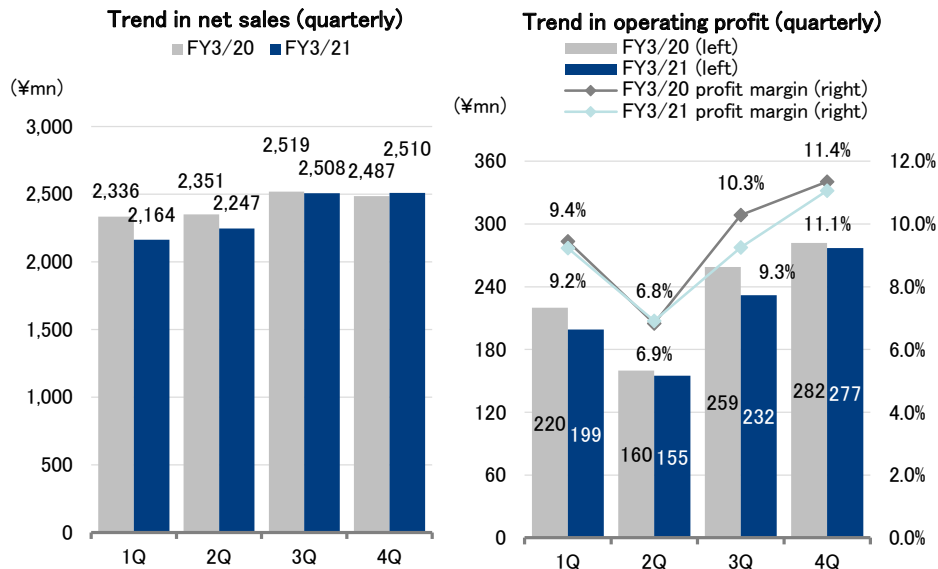
(1) Interior Business

In the Interior Business, net sales declined 2.7% YoY to ¥9,431mn and operating profit declined 6.2% to ¥865mn. While shipment volume of PVC-based wallpaper in the industry was sluggish at a 7% decline (mass-produced products -4%, medium-grade products -12%) due to pandemic-related setbacks in the number of new constructions and reform demand, the Company's sales volume rose 3% (mass-produced products +4%, medium-grade products +1%) on success in the strategic initiative with Sangetsu. Nevertheless, sales eased for the first time in five periods on reduction of the average sales price related to decline in raw material prices and a slump in construction sheets manufactured for and sold to the Material Solution Business.

Main increase and decrease factors in operating profit were an increase of ¥53mn from the effect of improved production efficiency, which was offset by decreases of ¥22mn from lower sales and ¥89mn from higher SG&A expenses mainly for personnel costs to reinforce design capabilities, and a lower operating profit YoY was posted. Operating margin, meanwhile, held roughly at the same level as the previous year (9.5%) at 9.2%.

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 declined 0.4% YoY to ¥16,131mn and operating profit rose 10.9% to ¥1,242mn. Looking at sales trends by solution, living solution business posted upbeat sales from home planting and gardening products and replacement insect nets driven by heightened stay-home demand and ventilation awareness amid pandemic conditions and benefited from stronger school demand for insect nets from sash manufacturers.

Building solution business confronted halts on construction projects and suspensions and contractions of various events due to COVID-19. In industrial solutions, despite increases in home air-conditioner filter demand due to wider adoption of telework and demand for products that prevent air droplet infection spread, this activity was not enough to fully offset declines in other products, such as smoke-proof barriers in commercial buildings.

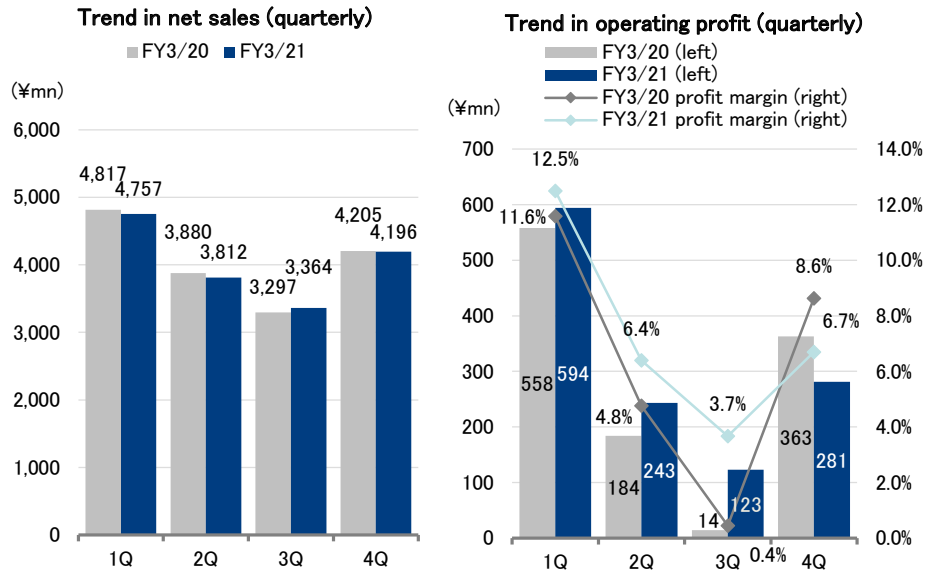
Packaging solution business realized healthy sales of materials for food containers led by rising demand for prepared foods and yogurt containers but encountered steep decline in milk-potion sales to the restaurant industry. Despite downward pressure on sales from decline in the average sales price accompanying lower raw material prices, margin improved substantially on closer relationships with customers and revisions to production operations.

Agricultural solution business confronted ongoing hesitancy in farmer investments in farming materials because of uncertainty from decline in produce shipped to hotels and restaurants and falling prices for vegetables since fall 2020 from warm winter conditions.

Main increase and decrease factors in operating profit were a decrease of ¥308mn from decline in building solution and industrial solution sales, which were offset by increases of ¥251mn from stronger sales of high-margin products and ¥185mn from the effect of an improved margin following the revisions to manufacturing operations in packaging solution business.

Results trends

Material Solution Business



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

(3) Advanced Technology Business

In the Advanced Technology Business, net sales increased 3.2% YoY to ¥4,127mn and operating profit decreased 3.1% to ¥78mn.

In metallic decorative film sales, mainstay automotive business benefited from a rebound by the Chinese market and healthier recovery than in the initial plan in domestic activity on upbeat sales of adopted models and wider use of motorcycle emblems. US and European business, meanwhile, struggled with lags in project ramp-up.

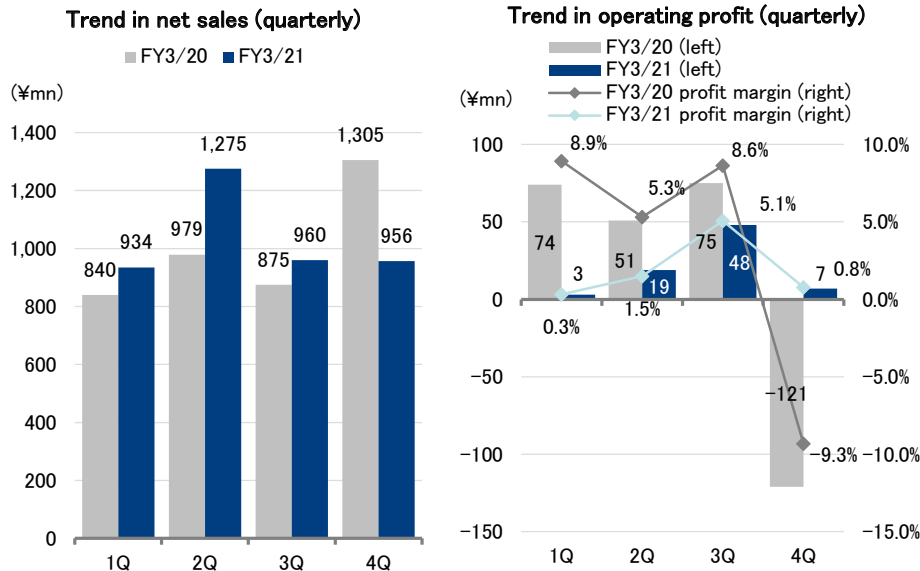
In PMMA/PC2-layer sheets, sales dropped significantly due to exiting the smartphone chassis business and operating income incurred a loss because of disposal charges for product inventories and materials in 4Q. Automotive use, the focus market, however, steadily increased sales on healthy progress acquiring new CID deals in the European market and advances in adoption of as a HUD dust-prevention shield material. CID and HUD are trending toward larger sizes, and this is boosting demand for resin shield materials that are thin, strong, and scratch-resistant.

In other areas, while medical-related products were sluggish, procurement sales of LCD diffuser plates increased. The Company attributed upturn in diffuser plate volume to a one-time impact from the temporarily inability of the Korean display manufacturing customer to procure these products from a Chinese source.

Main increase and decrease factors in operating profit were a decrease of ¥106mn from lower sales resulting from the exit from PMMA/PC2-layer sheets for the smartphone chassis application and disposable losses on product inventory and materials, which were partially offset by increases of ¥43mn from higher sales of display diffusion plates and ¥54mn from decline in business trip costs.

Results trends

Advanced Technology Business



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

Substantial improvement in financial standing, despite decline in gross asset value, from the Interior Business transfer

3. Financial position

At the end of FY3/21, total assets decreased by ¥3,052mn from the end of previous fiscal year to ¥26,092mn. Main increase and decrease factors were an increase of ¥2,514mn in cash and deposits following the transfer of WIT shares and decreases of ¥744mn in notes and accounts receivable and ¥595mn in finished goods primarily on removal of WIT from consolidated scope in current assets and a decline of ¥3,926mn in non-current assets largely on removal of WIT from consolidated entities in non-current assets.

Total liabilities decreased by ¥5,264mn from the end of previous fiscal year to ¥11,802mn. This was due to repaying ¥2,980mn in interest-bearing debt after the transfer of WIT shares, and the removal of WIT from consolidated scope resulted in the reductions in notes and accounts payable by ¥1,346mn and retirement benefit liability by ¥439mn. Net assets rose by ¥2,211mn from the end of the previous fiscal year to ¥14,289mn. Retained earnings increased ¥2,095m from the booking of profit attributable to owners of parent.

Looking at the Company's management indicators, financial soundness improved substantially on hefty decline in the interest-bearing debt ratio from 66.3% at the end of FY3/20 to 35.2% through reduction of interest-bearing debt and increase in the equity ratio from 41.3% to 54.6%. The Company should obtain about ¥2.4bn in additional cash once it transfers remaining WIT shares and intends to put these funds toward not only repaying interest-bearing debt but also growth investments, including M&A deals. Profitability is holding stably in the 5% range for operating margin. As explained above, the Company has broad business scope that insulates it from impacts by conditions in specific areas.

Results trends

Consolidated balance sheet

	(¥mn)				
	FY3/18	FY3/19	FY3/20	FY3/21	Change
Current assets	16,492	16,367	16,420	17,372	952
(Cash and deposits)	2,489	2,044	2,367	4,882	2,514
(Notes and accounts receivable)	7,795	7,727	7,406	6,661	-744
Non-current assets	13,283	13,113	12,724	8,719	-4,005
Total assets	29,775	29,481	29,144	26,092	-3,052
Current liabilities	10,895	10,950	9,630	7,167	-2,462
(Notes and accounts payable)	4,390	4,412	4,335	2,989	-1,346
Non-current liabilities	8,210	7,254	7,436	4,634	-2,801
Total liabilities	19,106	18,204	17,066	11,802	-5,264
(Interest-bearing debt)	10,115	9,788	7,992	5,011	-2,980
Net assets	10,669	11,277	12,078	14,289	2,211
(Stability)					
Equity ratio	35.7%	38.2%	41.3%	54.6%	13.3pt
Interest-bearing debt ratio	95.0%	87.0%	66.3%	35.2%	-31.2pt
(Profitability)					
ROA (Return on assets)	7.4%	6.6%	5.5%	5.2%	-0.3pt
ROE (Return on equity)	16.3%	13.1%	9.5%	18.1%	8.6pt
Operating profit margin	6.6%	5.4%	5.5%	5.1%	-0.4pt

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

Consolidated statement of cash flows

	(¥mn)			
	FY3/18	FY3/19	FY3/20	FY3/21
Cash flows from operating activities	1,882	1,520	2,864	2,114
Cash flows from investing activities	-776	-855	-465	1,291
Cash flows from financing activities	-688	-1,088	-2,114	-884
Cash and cash equivalents at end of period	2,489	2,044	2,367	4,882

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

Outlook for the future

Aims to achieve steady growth by strengthening profitability and investing about ¥7bn in growth areas including cultivation of new businesses over three years

1. Overview of the medium-term management plan

The Company announced its three-year medium-term management plan in June 2021. It redefined the vision, mission, and values and formulated a group company strategy and longer-term growth strategies in the various businesses to begin moving toward renewed growth as the new Wavelock Holdings.

Outlook for the future

Vision, mission, and values

Vision	Aims to become a company that has a presence in the industry with global top-class profitability in order to maximize the happiness of Wavelock Group stakeholders
Mission	Solve various difficulties facing society by harnessing the Wavelock Group's production technology, knowhow, business relations, and network
Values	Share "respect for individuals," "honesty and sincerity," and "non-pursuit of constructive failures" as common values in the organization

Source: Prepared by FISCO from the Company's three-year medium-term management plan material

As Group corporate strategy, the Company wants long-term profits through stable growth and intends to promote management that puts emphasis on not only operating margin but also ROA, ROE, and ROIC profitability and efficiency. In financial strategy, while it extensively repaid interest-bearing debt following the sale of WIT shares, the Company plans to utilize surplus cash and borrowings from financial institutions and use other methods as necessary to acquire funds needed for growth investments.

In management strategy, the Company hopes to realize diversification by deepening its role in existing business areas and discovering new areas in the Material Solution Business and Advanced Technology Business scopes respectively. Furthermore, in pursuit of new businesses besides the two core business areas, it intends to cultivate business through flexible alliances with external partners, M&A deals, and other efforts in solutions that solve social issues advocated as the Company's mission, such as solving environmental issues, even if they are not in "resin processing." It aims to promptly restore operating profit to the FY3/21 level.

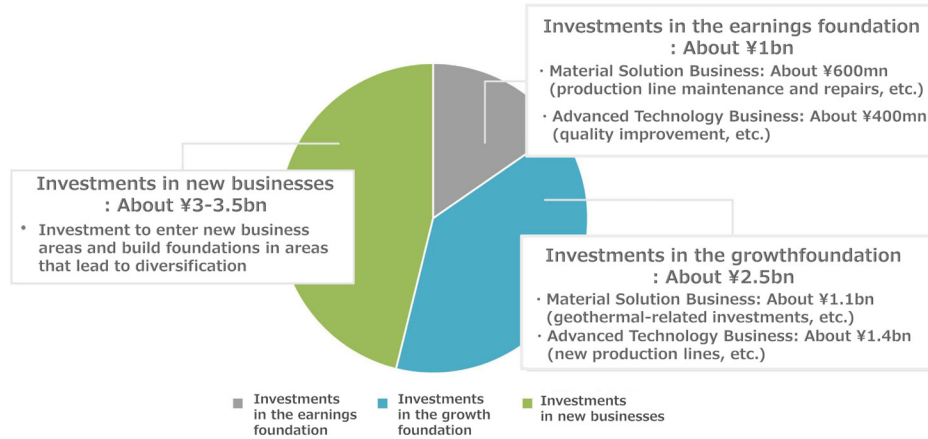
The Company's targets for FY3/24, the final fiscal year of the medium-term management plan, are ¥24,500mn in net sales and ¥1,260mn in operating profit. These work out to annual average growth rates of 6.7% in net sales and 21.1% in operating profit using values based on the FY3/21 results, excluding results from the Interior Business (¥20,173mn in net sales, ¥709mn in operating profit). While the net sales and operating profit goals do not reach the same levels as they would if including the Interior Business, the Company expects recovery in operating margin to 5.1%, the same level, excluding the Interior Business. Furthermore, it aims to steadily raise other return values with ROIC at 4.1%, ROA at 4.1%, and ROE at 7.4%.

The Company plans to invest roughly ¥7bn over three years to attain the goals with a breakdown of ¥3-3.5bn in new business investments, about ¥1bn in investments aimed at bolstering profitability in existing businesses (investments in maintaining and repairing production lines and improving quality), and about ¥2.5bn in investments in build the growth foundation (geothermal-related investments, metallic decorative film new production line investments, etc.). This implies ¥2-2.5bn in cash outlays based on the prospect of ¥4.5-5bn in cash flows from operating activities over three years (profit before income taxes and other adjustments + depreciation costs), and the Company is likely to take loans to cover the extra funds. It also might be possible to cover the outlays with funds obtained by selling shares if it sells the remaining owned WIT shares via an exercise of its put option or Sangetsu's call option. These trends should be closely monitored because healthy cultivation of focus businesses is likely to further boost earnings growth expectations from FY3/25.

Outlook for the future

Investment plan

Plans to invest roughly ¥7bn over the three years



Source: From the Company's three-year medium-term management plan

Earnings forecast

	FY3/21		FY3/22 Full-year forecasts	FY3/23 Full-year forecasts	FY3/24 Full-year forecasts	Average growth rate
	Results	Reference values				
Net sales	29,248	20,173	20,400	23,100	24,500	6.7%
Operating profit	1,489	709	730	940	1,260	21.1%
Operating profit margin	5.1%	3.5%	3.6%	4.1%	5.1%	-
Ordinary profit	1,428	953	1,030	1,240	1,530	17.1%
Profit attributable to owners of parent	2,386	622	740	950	1,150	22.7%

Note: The FY3/21 reference values exclude the Interior Business results and impact of the WIT share sale. The values are based on calculating ordinary profit, equivalent to 49% of profit in FY3/21 when WIT was under the scope of consolidation, as investment profit using the equity income method.

Average growth rates are the three-year average annual growth rates based on FY3/21 reference values

Source: Prepared by FISCO from the three-year medium-term management plan material

Management indicators

	FY3/20 Results	FY3/22 Full-year forecasts	FY3/23 Full-year forecasts	FY3/24 Full-year forecasts
ROIC	5.5%	2.7%	3.5%	4.1%
ROA	3.8%	3.0%	3.8%	4.1%
ROE	9.5%	5.1%	6.3%	7.4%

Note: The FY3/21 values are removed because of large fluctuations due to the impact of the Interior Business transfer

Source: Prepared by FISCO from the three-year medium-term management plan material

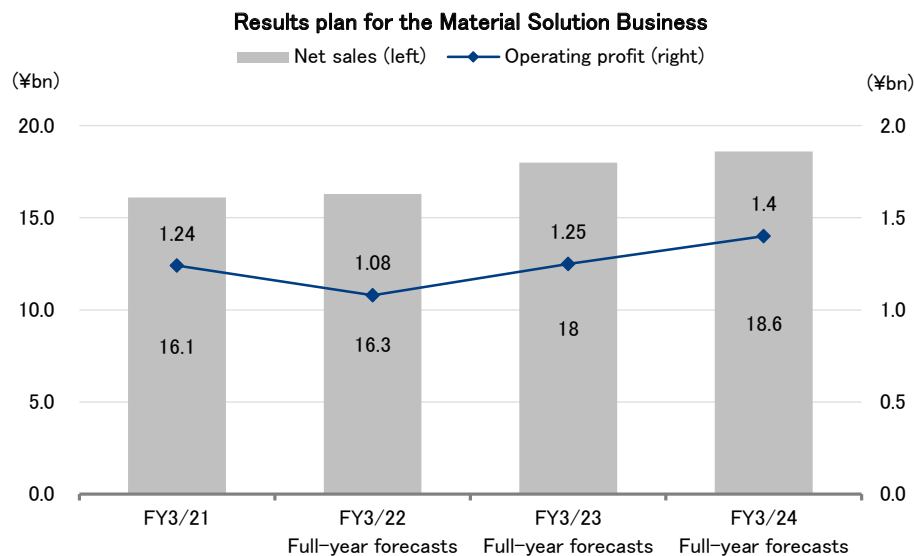
Outlook for the future

Expecting growth in automotive metallic decorative film and farming and construction geothermal businesses

2. Growth strategy by business

(1) Material Solution Business

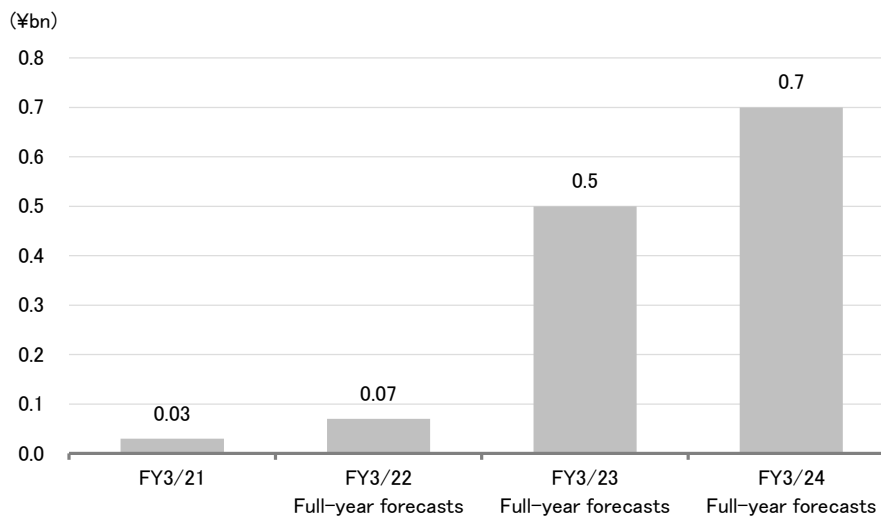
The Company's targets for the Material Solution Business in FY3/24 are ¥18.6bn in net sales and ¥1.4bn in operating profit. In contrast to anticipated profit decline in FY3/22 because of higher raw material costs and other factors, the Company expects higher sales and profits from FY3/23. It forecasts recovery in operating margin to 7.5%, roughly the same level as 7.7% in FY3/21. As a stable earnings foundation, the Company hopes to further bolster profitability and promote initiatives in new areas with growth potential.



As measures to enhance the earnings foundation, the Company intends to rebuild production operations to boost productivity (including collaboration with external partners) and enhance sales efficiency through optimization of distribution channels. As a new area, meanwhile, it wants to develop environment-related business and overseas markets. In environmental business, it plans to cultivate geothermal business with the "heat cluster" system that significantly improves the efficiency of heat exchange. With a goal of raising sales from ¥30mn in FY3/21 to ¥700mn in FY3/24, it aims to earn half of the three-year increase in operating profit in this business.

Outlook for the future

Geothermal business sales plan



Source: Prepared by FISCO from the Company's three-year medium-term management plan material

The “heat cluster” heat-exchange system is a heat-pump type cooling and heating system that utilizes geothermal energy from 20-100m below ground. This system realizes significant energy savings versus conventional air-conditioning systems by installing a heat-exchange system underground where the temperature is roughly uniform throughout the year and obtaining heat from the underground area that is warmer than external air during the winter heating season and releasing heat to the underground area that is cooler than external air during the summer cooling season. The power consumption savings effect attained 30-60% of conventional systems in some cases. Since FY2011, Ministry of Economy, Trade and Industry, Ministry of the Environment, and other agencies introduced subsidy programs to implement the government’s policy of expanding renewable energy. The New Energy and Industrial Technology Development Organization (NEDO) is also involved in R&D projects aimed at promoting inroads. This market is likely to expand as an energy-saving solution.

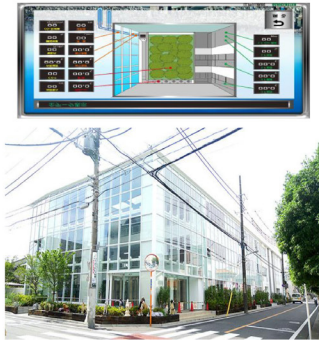
The main issue is the expensive cost of digging work to lay the pipes used in heat exchange. Companies are making efforts to develop a low-cost system, including the installation method. Key advantages of the heat-exchange system developed by the Company are heat exchange efficiency at 3-5 times the level of conventional technology and the ability to curtail capex costs versus other technique due to having fewer digging steps. While it only sold the system previously, the Company aims to achieve growth as a system integrator capable of being general contractor, including installation, by collaborating with a company that holds a construction license during FY3/22 with the aim of expanding business. It hence anticipates growth from FY3/23 in the sales plan too.

Target markets are farming and construction areas that offer synergies with existing businesses. The Company wants to expand deployments as large-scale vinyl houses and building air-conditioning systems. In farming, a major issue is boosting farmer productivity, and the Company intends to contribute to improved farming productivity and sustainability through the promotion of advances in geothermal business.

Outlook for the future

Geothermal business initiatives

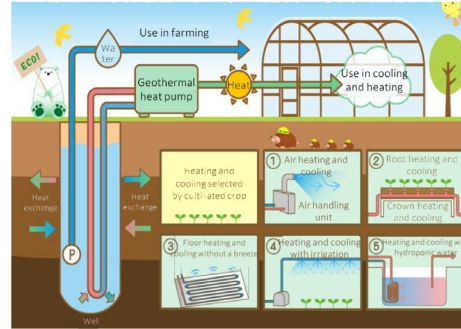
【General construction】
Example of deployment
in a hospital air-conditioning system



Source: From the Company's three-year medium-term management plan material

【Farming】

Utilizing well-water unused heat energy in a farming house



In environmental business, the Company intends to promote eco-friendly material products. With customer needs for environmental responses, such as reducing use of plastics, extending food life, and developing recyclable construction materials, growing, it will pursue sustainable growth by promptly addressing these requirements.

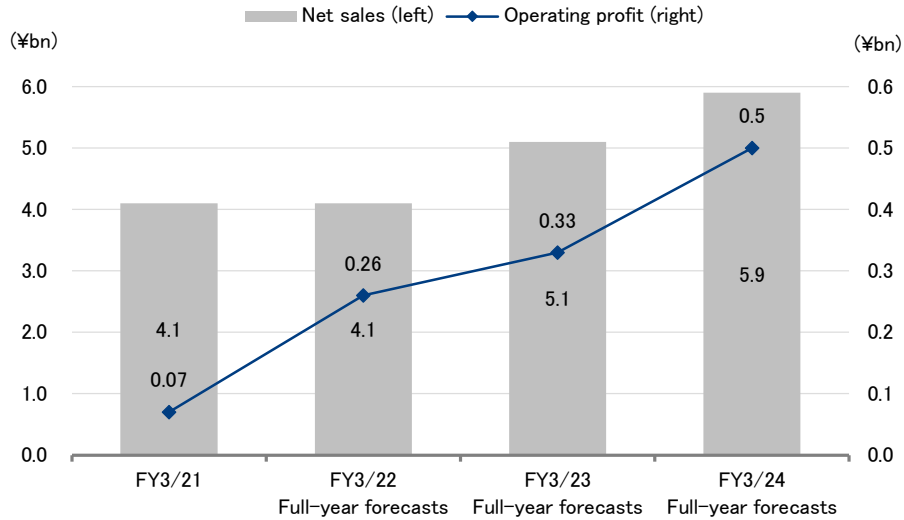
In overseas efforts, the Company plans to sell farming materials in Asian countries. In China, it intends to find a strong sales partner in collaboration with the local subsidiary and sell Japanese high value-added products. In Korea, it is developing local sales channels to sell shading nets. In Vietnam, it is working with a local company to expand sales of shading nets and insect nets, including in nearby countries. However, it does not expect large sales contributions in the current three-year medium-term management plan and views this period as the timing to strengthen its foundation for initiatives in overseas markets.

(2) Advanced Technology Business

The Company's targets for the Advanced Technology Business in FY3/24 are ¥5.9bn in net sales and ¥500mn in operating profit, aiming for new all-time highs. The segment strategy seeks to leverage market growth in automobile interior and exterior parts by building technology competitive advantages and focusing on improvement of customer service. The Company aims to restore operating margin to the all-time high level (8.6% in FY3/19) at 8.5% in FY3/24 with sales growth in high added-value metallic decorative films and PMMA/PC2-layer sheets.

Outlook for the future

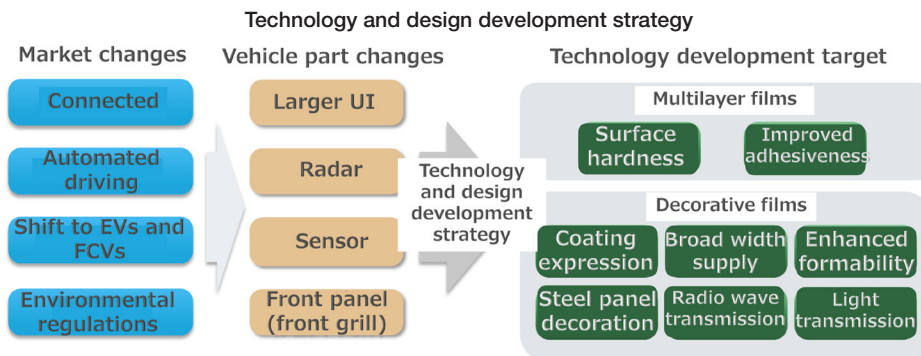
Results plan for the Advanced Technology Business



Source: Prepared by FISCO from the Company's three-year medium-term management plan material

The Company plans to implement continuous investments in development activities and strengthen proposal capabilities for addressing diverse customer needs in order to obtain technology competitive advantages and invest in capital facilities and human resources to maintain and improve profitability even in production with small lots and many product types. It also intends to build a robust quality control system that extends from product development to sales by acquiring IATF 16949 certification, the international quality control standard in the automotive industry, by the middle of 2022. As the sales strategy, it wants to expand sales scale by strengthening operations at sales sites in North America and Europe and building sales and technology support operations while collaboration with the local partner in the Chinese market.

Amid stricter CO₂ emission regulations and environmental regulations, the automotive industry is headed toward reduction in chromes and coatings along with inroads by EVs. In particular, changes in the drive system for EVs are strongly altering trends in interior and exterior designs. These conditions should expand demand for metallic decorative films and PMMA/PC2-layer sheets handled by the Company. Specifically, demand is likely to increase for metallic decorative films in front-grill emblem and LED-lamp periphery portions that leverage features of excellent radio wave and light transmittance and designability and also for PMMA/PC2-layer sheets with the shift to larger UI portion (in-panel) displays and HUDs.



Source: From the Company's three-year medium-term management plan material

Outlook for the future

Despite lack of finalization of adopting models and output volume through the next two years, metallic decorative film and PMMA/PC2-layer sheet sales should grow at a strong pace considering increase in the number of likely projects. In particular, North American EVs offer robust demand for replacement from coated and chromed products to metallic decorative films and a rising number of inquiries. These trends should drive further sales growth. Depending on conditions, the Company hence might conduct local production in North America (or find a manufacturing consignment partner). Akzo Nobel had been the only company with a metallic decorative film business in the North American market. However, service and radio wave transmittance and other feature quality advantages are contributing to increase in the Company's inquiry volume.

Additionally, adoption of the Company's PPMA/PC2-layer sheets is rising as HUD anti-dust sheets and in-panel display films in Europe. The Company therefore wants to expand sales by strengthening proposal capabilities, including design and functionality, at a local subsidiary. Considering the prospect of China being the world's largest market for EVs and automotive displays, it intends to bolster initiatives for recruiting Chinese and global deals in collaboration with the local agent. In Japan, meanwhile, it plans to develop films with a new composition that can replace coatings and focus on development of technologies to support future advances, such as FCV fuel cells.

(3) Pursuit of new business areas

The Company also intends to pursue new areas and businesses that leverage depth and strengths in existing areas without limiting itself to "resin processing." Regarding entry into new areas, it wants to flexibly engage in collaboration with external partners and carry out M&A deals, rather than just relying on in-house capabilities. Specifically, it envisions new platform business utilizing ICT and environment-related business and wants to invest ¥3-3.5bn, including in M&A deals, over the next three years to build a foothold toward future growth.

Policy for pursuit of new business areas

- Pursuit of new areas utilizing depth and strength in existing areas
- Pursuit of new areas and businesses without limitation to "resin processing"
- Interested in flexible collaboration with external partners and M&A deals when entering new areas, without exclusive reliance on in-house capabilities

Pursuit area 1	Pursuit area 2
1) New platform business utilizing ICT New business model ⇒Building an ICT platform that facilitates new business initiatives capable of responding to customer and market needs	2) Environment-related product business New materials and non-plastic products that reduce environmental burden ⇒Aggressive development of partnerships and M&A deals for new product business initiatives



Alliance with e-commerce and utilization of proprietary B2C-site operation knowhow



Acquisition of a "monozukuri" foundation for future substantial broadening of support for various environmental burden reduction needs

Building a foothold for future growth, plans to invest ¥3-3.5bn including. M&A deals

Source: From the Company's three-year medium-term management plan material

Expecting higher sales and profits on an existing-business basis in FY3/22 led by rapid earnings recovery in the Advanced Technology Business

3. FY3/22 results outlook

In the FY3/22 consolidated forecast, the Company expects net sales to decline 30.3% YoY to ¥20,400mn, operating profit to decline 51.0% to ¥730mn., ordinary profit to decline 27.9% to ¥1,030mn, and profit attributable to owners of parent to decline 69.0% to ¥740mn. The outlook for lower sales and profits reflects impact of transferring the Interior Business. Based on existing businesses, it projects increases of 1.1% in net sales and 3.0% in operating profit. The naphtha price, an indicator of raw material prices, has risen to ¥48,000/kl versus the period-start assumption of ¥35,000/kl (the FY3/21 result was ¥32,800/kl). Despite concern about increase in material costs, the Company has started price-hike negotiations since June 2021 and hopes to offset pressure by transferring higher costs to sales prices and lowering costs.

FY3/22 consolidated results outlook

	FY3/21		FY3/22		YoY	
	Results	Reference values	Forecasts	% of net sales	Versus results	Versus reference values
Net sales	29,248	20,173	20,400	-	-30.3%	1.1%
Operating profit	1,489	709	730	3.6%	-51.0%	3.0%
Ordinary profit	1,428	953	1,030	5.0%	-27.9%	8.1%
Profit attributable to owners of parent	2,386	622	740	3.6%	-69.0%	19.0%
Earnings per share (EPS) (¥)	244.82		75.57			

Note: The FY3/21 reference values exclude the Interior Business results and impact of the WIT share sale. The values are based on calculating ordinary profit, equivalent to 49% of profit in FY3/21 when WIT was under the scope of consolidation, as investment profit using the equity income method.

Source: Prepared by FISCO from the Company's three-year medium-term management plan material

(1) Material Solution Business

In the Material Solution Business, the Company projects net sales to rise 1.0% YoY to ¥16.3bn and operating profit to decline 13.1% to ¥1.08bn. Based on exhaustion of COVID-19 impact, the Company expects recovery in building solution sales and increases (YoY) in agriculture solution and packaging solution sales too. In packaging solution business, the main driver of higher sales is increase in sales prices because product prices fluctuate roughly in correlation with raw material costs as some customers. Meanwhile, the Company expects flat industrial solution sales and decline in living solution sales because of likely backlash downturns in products that were upbeat during the COVID-19 pandemic in FY3/21. Main anticipated setbacks in operating profit are higher material costs and less favorable product mix.

(2) Advanced Technology Business

In the Advanced Technology Business, the Company projects a sharp recovery with net sales to decline 0.7% YoY to ¥4.1bn and operating profit to rise 231.2% to ¥260mn. In sales, despite likely sluggishness due to hefty decline in diffuser plates on non-recurrence of special demand, it expects growth in focus products with sales increases in metallic decorative films, PMMA/PC2-layer sheets, and medical business. Improved product mix is the main source of the projected rise in operating profit. The Company anticipates profitability in PMMA/PC2-layer sheets on non-recurrence of loss on disposal of product inventories and materials related to smartphone chassis business recorded in FY3/21.

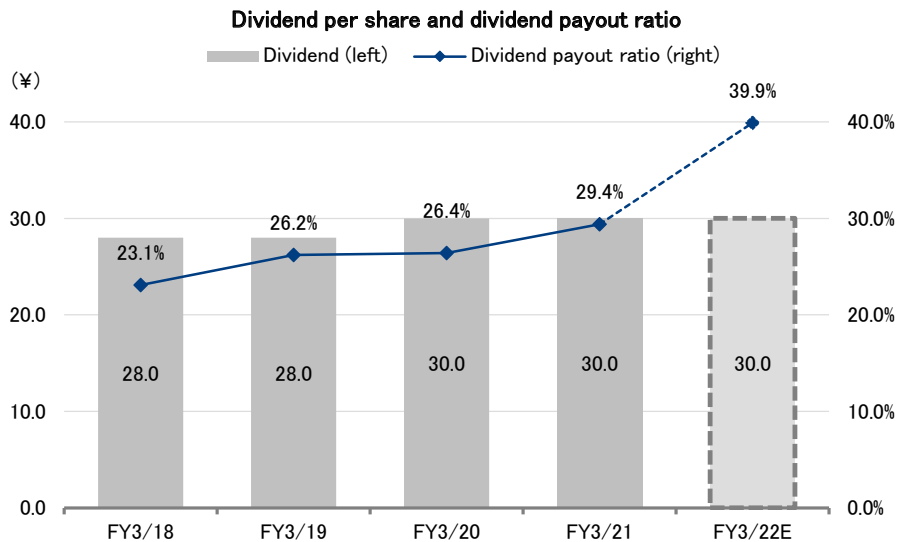
Shareholder return policy and ESG initiatives

Aims to continue stable dividends with a goal of at least 35% dividend payout

1. Shareholder return policy

The Company updated shareholder return policy along with formulation of the medium-term management plan. It previously targeted 20-30% as the effective dividend payout ratio * that reflected impact of negative goodwill amortization premised on ensuring a suitable balance of returning profits to shareholders and reinvesting to maximize business value while paying a stable and continuous dividend. This time it defines a fundamental policy of implementing and maintaining a stable dividend with a dividend payout ratio goal of at least 35% out (this stance aims to avoid repeated changes in the dividend based on earnings due to overemphasis on payout ratio) and intends to consider shareholder return that includes stock splits and share buybacks. Earnings per share works out to about ¥117 if the Company attains the earnings goal in the final fiscal year of the medium-term management plan, and the estimated dividend at a 35% payout ratio is about ¥41.

* Effective dividend payout ratio = Total dividend payment ÷ (net profit attributable to owners of the parent - negative goodwill amortization)



Note: The FY3/21 dividend payout value excludes the impact of gain on sales of shares. In FY3/20 and previous years, the values exclude the impact of negative goodwill.

Source: Prepared by FISCO from the Company's three-year medium-term management plan material

2. ESG initiatives

The Company is promoting the following ESG initiatives.

(1) Environmental initiatives (Environment: E)

The Company conducts eco-friendly product development and pursues new environmental businesses (system that utilizes geothermal energy, metallic decorative film that replaces chrome and coating, etc.). Additionally, it actively implements initiatives to reduce plant CO₂ emissions.

(2) Social initiatives (Social: S)

The Company promotes workstyle reforms through aggressive deployment of telework, encourages diversity, supports cultivation of human resources as the source of corporate value, and targets zero labor accidents through workplace safety initiatives.

(3) Corporate governance initiatives (Governance: G)

The Company promotes a monitoring and execution system led by outside directors (with four outside directors and three in-house directors). It also seeks long-term profits and manages business from a medium- to long-term perspective. It intends to share this viewpoint and policy internally and externally and actively disclose information.



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