Elematec Corporation

2715

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Index

Summary

Currently promoting a new medium-term management strategy centered on cultivating and deepening potential fields and expanding and enhancing its management base

Elematec Corporation <2715> (hereafter, also "the Company") is an electronics trading company that specializes in electronic materials. It was formed through the merger of Takachiho Electric Co., Ltd. and Ohnishi Denki Co., Ltd. in 2009 and entered the Toyota Tsusho <8015> Group in 2012. In recent years, the Company has been focusing on increasing sales of module products and original design manufacturing products (ODM), which entails conducting processes from design to manufacture of other companies' branded products with the Company's involvement from the planning stage, above and beyond limiting itself to sales of parts and components.

1. In FY3/23, sales and profits increased substantially as demand recovered and the yen depreciated

Results for FY3/23 were ¥239,774mn in net sales (up 19.5% year on year [YoY]), operating income of ¥12,052mn (up 44.4%), ordinary profit of ¥11,130mn (up 41.5%) and profit attributable to owners of parent of ¥7,696mn (up 43.2%). Net sales and profits both set records highs thanks to customers' production recovering and the contribution of newly acquired projects, as well as the positive impact of yen depreciation. By market, the three business segments all recorded higher revenue. In the Digital Electronics segment, sales increased by 19.8% YoY as sales of game consoles and LCD-related components, etc. were strong, and the Automotive segment also experienced increased sales of automotive-related components such as cockpit modules, resulting in a 30.4% sales increase. In addition, the Broad Market segment saw a 15.6% sales increase as a result of strong sales for aftermarket products led by dashboard cameras, as well as sales for home appliances (white goods) and industrial machinery. Even in terms of sales by region, all regions experienced an increase.

2. In FY3/24, operating income expected to decrease by 12.1% YoY due to a rebound from the previous fiscal year

For FY3/24 results, the Company is forecasting net sales of ¥233,500mn (down 2.6% YoY), operating income of ¥10,600mn (down 12.1%), ordinary profit of ¥10,300mn (down 7.5%), and profit attributable to owners of parent of ¥7,250mn (down 5.8%). By market, although net sales continue to be strong in the Automotive segment, and are expected to increase by 23.6% YoY, in the Digital Electronics segment, net sales for LCDs and mobile devices and PCs are projected to decrease due to a rebound from the previous fiscal year, and are therefore expected to decrease by 10.4%. In the Broad Market segment as well, net sales are expected to decrease by 4.2% partly as a result of forecasted decreases in dashboard cameras due to customers' circumstances. The assumed USD-JPY exchange rate is ¥130.00 (the actual result in the previous fiscal year was ¥135.50), which will also be a contributing factor behind the decrease in profit.

3. Announced the new medium-term management strategy "elematec Pro+"

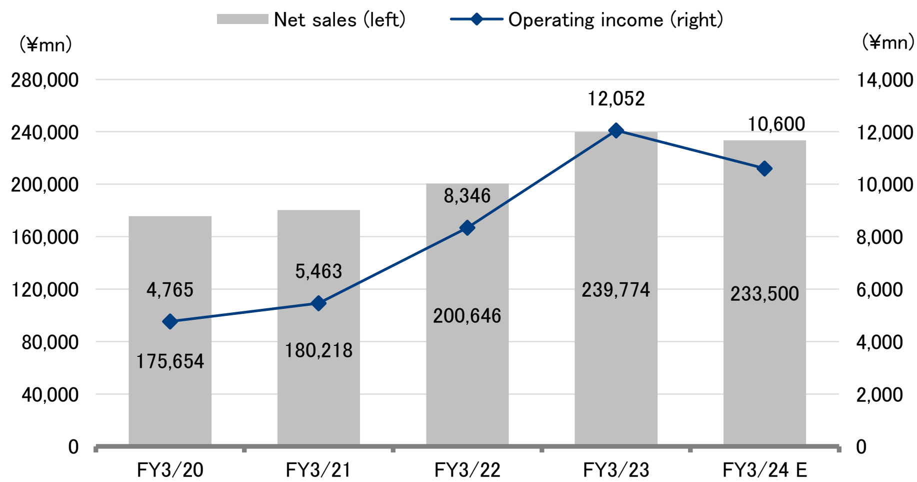
The Company announced its new medium-term management strategy, "elematec Pro+." Under this new medium-term management plan, it will continue and further work on expanding high-value-added businesses, acquiring leading overseas customers, and expanding the automotive business, which were main strategies under the previous medium-term plan. At the same time, the Company will additionally work on cultivating potential areas on a full-scale basis, strengthening the functions of the Marketing & Development Division, expanding customer base and business domains through M&A and alliances, and advancing sustainability and human capital efforts as new key measures. It has designated automotive, aftermarket, and medical equipment as key markets.

In addition, instead of the previous dividend payout ratio of 40% or more, the basic dividend policy from FY3/24 has been changed to "the higher of the two standards of a dividend payout ratio (consolidated) of 50% or DOE (dividend on equity ratio) of 3%." This is due to the fact that the Company now has ample cash on hand and an increase in the number of stable revenue sources such as the Automotive segment, and has established a DOE standard that allows it to pay dividends even if profits decline significantly or the Company ends the fiscal year with a loss. Based on this, the FY3/24 dividend is planned to be ¥89 (interim of ¥40, term-end of ¥49).

Key Points

- Currently promoting a new medium-term management strategy built on cultivating potential areas on a full-scale basis, strengthening the functions of the Marketing & Development Division, expanding customer base and business domains through M&A and alliances, and advancing sustainability and human capital efforts
- Although operating income increased by 44.4% YoY in FY3/23, it is forecast to decrease 12.1% in FY3/24 due to a rebound. However, the Company plans to increase the annual dividend to ¥89 (dividend payout ratio of 50.3%)
- Announced the new medium-term management strategy "elematec Pro+" and aims for a CAGR of 10% or more in ordinary profit

Results trends



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

Company overview

An electronics trading company specializing in electronics materials with 73 sites in Japan and overseas

1. History and business description

(1) History

The two companies being the Company's predecessors were Takachiho Electric, founded in 1947 in Tokyo, and Ohnishi Denki, founded in 1958 in Kyoto. Both companies began by handling insulation materials, subsequently broadened the scope of their product offerings to electronic materials used in electronic products following technology and development trends, and grew into independent technology trading companies.

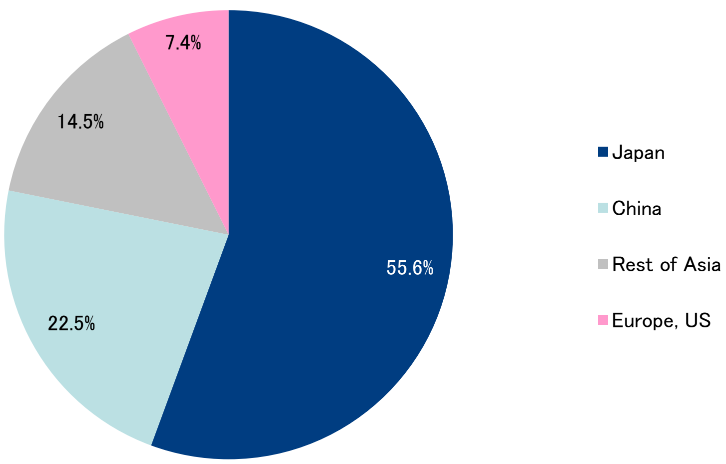
These companies merged in 2009 (with Takachiho Electric as the surviving entity) and changed the company name to Elematec Corporation. The Company has steadily grown since the merger, even though both predecessors mainly handled electronic materials, thanks to complementary geographical positions in Tokyo and Kyoto. It became a subsidiary of Toyota Tsusho through a TOB transaction in 2012.

(2) Business description

Currently, the Company handles a wide range of products, including electronic materials for electronics products, electrical parts, and equipment. It has 1,184 employees and 25 sites in Japan and 48 sites overseas on a consolidated basis as the business foundation (as of March 31, 2023). The business sites include three operations with processing services (one in Japan and two in China).

While the Company has developed business globally, its main customers are Japanese companies, and its overseas activities are mainly in China and other Asian areas, reflecting the overseas expansion by Japanese companies. The sales breakdown by region in FY3/23 was 55.6% in Japan, 22.5% in China (including Hong Kong), 14.5% in other Asian areas, and 7.4% in Europe and the US, according to the Company's financial results.

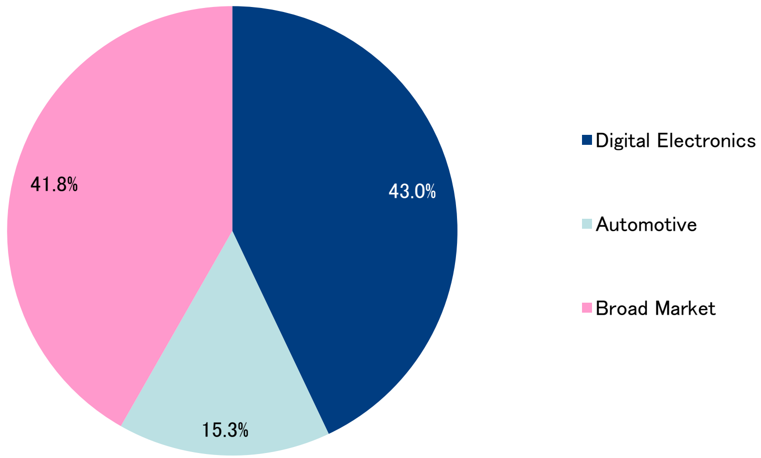
Net sales by region (FY3/23)



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

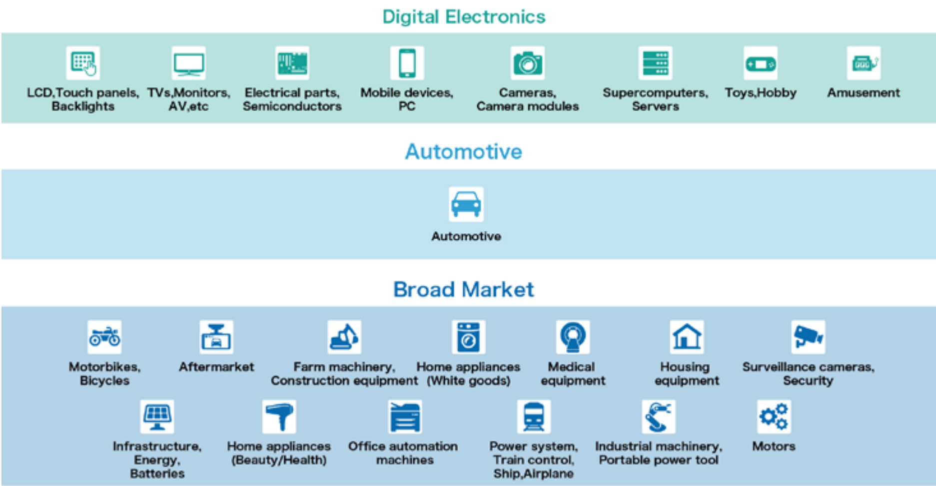
Grouping is important for management purposes because the Company has many customers on procurement and sales sides and handles a wide range of products. Previously, management was based on the products handled (supplier basis), but from FY3/15, the Company switched to a market-based classification system based on the products produced by client companies (destination basis). As a result, the Company currently divides its internal management and information disclosure into three segments: Digital Electronics, Automotive, and Broad Market. In FY3/23, Digital Electronics accounts for 43.0% of net sales, Automotive 15.3%, and Broad Market 41.8%.

Net sales trends by market (FY3/23)



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

The Company's focal markets



Source: The Company's website

Realizing stable growth in business performance leveraging numerous products and business partners, and advancing high value-added businesses

2. Features and strengths

(1) Rich product lineup and solid customer base

An important feature of the Company is that it has many different business partners and products. It handles a wide range of products, primarily electronic materials and electrical parts from about 7,200 suppliers (manufacturers) for about 6,200 customers (users). Individual suppliers and customers are not disclosed, but the Company's top 10 main customers account for approximately 45% of net sales (FY3/23). In this way, because of the diversity in suppliers, customers and products handled, the Company's operating performance is not significantly affected by any particular customer or product, enabling continuous and stable growth.

(2) Proposal capabilities and manufacturing capabilities (sites)

The Company has large numbers of customers, and receives many requests from them. On the other hand, having handled many products over a long time, the Company is familiar with the features and characteristics of a large number of products, and responds to customer requests by combining the knowledge of these products and its expertise from the past. Another of the Company's strengths is its ability to anticipate customers' needs and make proposals on its own. In short, it not only engages in passive business development, but also active business development.

Another strength of the Company is that it has manufacturing divisions (one plant in Japan, two plants overseas and numerous manufacturing outsourcers). This means it does not merely sell parts, but is capable of providing module products, customized products, and half-finished products in response to customer requests. In one sense, some customers may see the Company as "an expedient vendor," but many customers have continued doing business with the Company over a long period of time, which may also be one of its strengths.

(3) Three-dimensional earnings structure

In the case of an ordinary electronics component trading company, customers (X-axis) and products (Y-axis) are the important factors for increasing earnings, and the earnings structure can be described as flat. In addition to this, the Company also has a third axis (Z-axis) that includes planning (proposals), manufacturing, and quality control. In other words, it has a three-dimensional earnings structure.

Especially in recent years, the Company has strengthened its planning and proposal capabilities in addition to its mere trading company functions, and has become higher (thicker) in the Z-axis direction. In the same way that a taller building is stronger and less likely to collapse, the Company's earnings structure is strong and will not collapse easily. This three-dimensional earnings structure is the Company's feature, and a strength.

3. Main services and functions

The Company goes beyond just the basic services and functions of an electronics trading company, which include supply of optimal components, credit provision and financing, and management of delivery timing and inventory. The Company also provides even more sophisticated, high-value-added services and functions, such as planning and development/design and manufacturing. The Company highlights the following five services and functions as features, and it may be because of these functions that the Company is able to link diverse products to its businesses and incorporate them into its performance.

(1) Planning and development/design
Sales Division, Marketing & Development Division and Design Department collaborate on planning and development and design of new parts and units.

(2) Procurement agency service
Procuring components on behalf of customers to best match their requirements in terms of quality, cost, and delivery timing.

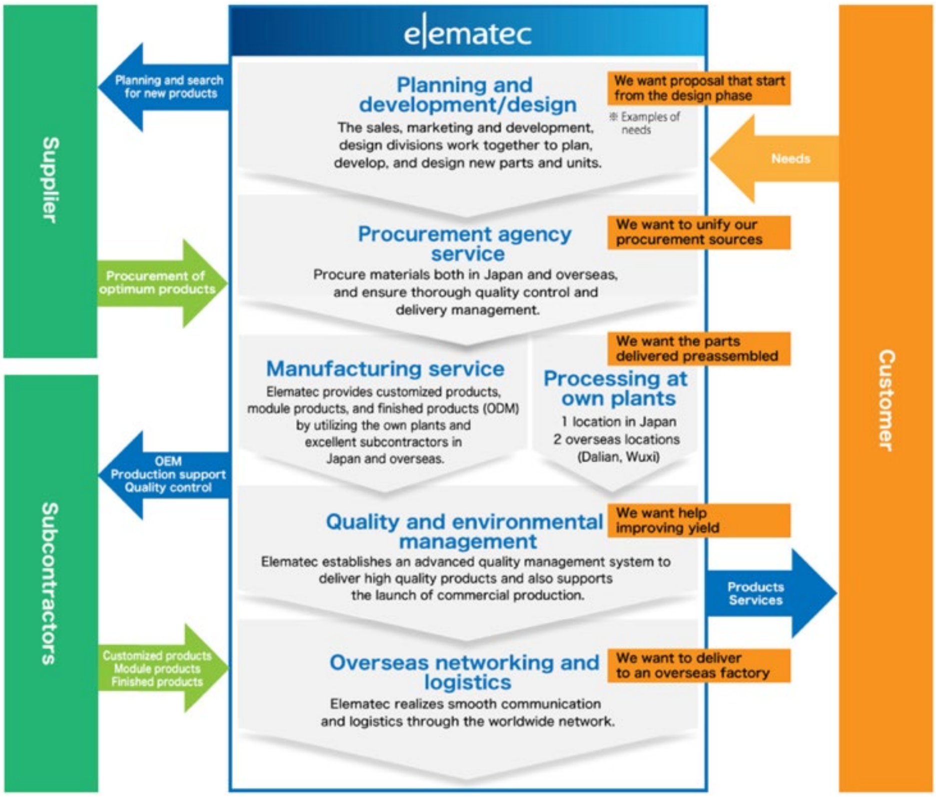
(3) Manufacturing service
Providing customized products, module products and original design manufacturing finished products (ODM) by utilizing its own factories and outstanding outsourcing both in Japan and overseas.

(4) Quality and environmental management
Maintaining a sophisticated quality control system to deliver high quality products.

(5) Overseas networking
Ensuring smooth global logistics utilizing its worldwide network.

The Company maintains a relatively high net profit margin by adding high-added-value services and functions to basic trading company functions. As the Company continues to make greater use of its five services and functions, its net profit margin should improve even more.

Details of the five services and functions



Source: The Company's website

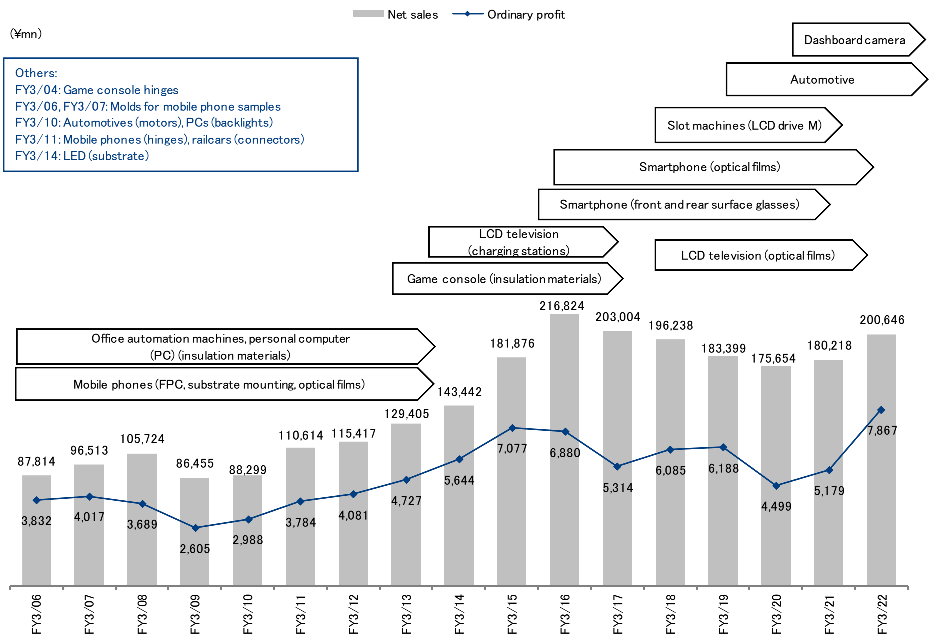
Has maintained earnings growth through a structure that enables it to ride a winning horse (take advantage of an opportunity)

4. Long-term results trends

Looking back at long-term results, it can be said that the Company has achieved stable growth in the electronics industry, which goes through big ups and downs, by overcoming waves such as economic cycles and product cycles. In the early 2000s, the Company's mobile phone business grew, but its key products were printed circuit board (FPC) materials, substrate mounting and optical films. Around 2010, LCD TV-related products became a major business due to the move to terrestrial digital broadcasting and other factors. Also, from 2010 onward, smartphones and tablets emerged as fast-growing products, and the Company sold various types of film, glass products, and other items to rapidly recover from the global financial crisis and achieve its highest profit in consecutive years. In recent years results have leveled off as the smartphone market has matured but growth has been maintained by strengthening its planning and proposal capabilities such as selling dashboard cameras as ODM products. Furthermore, the Company's next growth markets are shifting to the automotive-related and overseas manufacturers-related businesses. The Company not only has many business partners and products, but also has proposal and manufacturing capabilities, which raise expectations of a further increase in business opportunities.

In this way, the Company has maintained growth by providing appropriate parts and half-finished products according to the market and conditions at the time. This can be called a "strategy of being agile in seizing opportunities," but in reality, we at FISCO believe that the Company's strength and characteristic are its ability to "ride a winning horse." The Company is able to "ride a winning horse" because it has a broad customer base, a large number of products, and development capabilities, something that is not possible for any other company.

Long-term results trends



Note: ODM refers to the design and manufacture of other companies' branded products. The Company outsources manufacturing.
Source: Prepared by FISCO from the Corporate Profile

Business performance

All three business segments by market increased sales in FY3/23 and operating income rose 44.4% YoY, marking record highs

● Overview of FY3/23 results

(1) Trends in profit and loss

In FY3/23, the Company recorded net sales of ¥239,774mn (up 19.5% YoY), operating income of ¥12,052mn (up 44.4%), ordinary profit of ¥11,130mn (up 41.5%), and profit attributable to owners of parent of ¥7,696mn (up 43.2%). The Company set record highs in both net sales and profits.

The gross profit margin was 11.4%, a YoY improvement of 0.7 percentage points. This was due to yen depreciation in addition to a higher ratio of relatively high profitability products such as for automotive and game consoles. As a result, gross profit increased by 27.0%. SG&A expenses increased by 16.0% YoY to ¥15,331mn, which was primarily due to an increase in personnel expenses of ¥839mn largely from an increase in raises, promotions, and provision for performance-linked bonuses, etc., an increase of ¥137mn in packing and freight charges associated with the increase in net sales, and an increase of ¥1,140mn in other expenses (including increases in allowance for doubtful accounts and travel and transportation expenses from the lifting of restrictions on movement). However, because the sales growth rate exceeded the rate of increase to SG&A expenses, the SG&A expense ratio came to 6.4% (6.6% in the previous fiscal year), resulting in a significant YoY increase in operating income.

Moreover, the Company is an export-oriented trading company, so its performance is affected by exchange rates (yen appreciation has a negative impact, while yen depreciation has a positive impact). According to the Company, one yen change in the exchange rate has an impact of approximately ¥1,100mn on net sales and ¥70mn on ordinary profit. The average USD-JPY exchange rate in FY3/23 was ¥135.50 (¥112.39 in the previous fiscal year), which seems to have had a positive effect amounting to approximately ¥23,900mn on net sales and ¥1,600mn on ordinary profit.

Summary of FY3/23 results

(¥mn)

	FY3/22		FY3/23			
	Amount	Composition	Amount	Composition	Change	Change (%)
Net sales	200,646	100.0%	239,774	100.0%	39,128	19.5%
Gross profit	21,560	10.7%	27,384	11.4%	5,824	27.0%
SG&A expenses	13,214	6.6%	15,331	6.4%	2,117	16.0%
Operating income	8,346	4.2%	12,052	5.0%	3,706	44.4%
Ordinary profit	7,867	3.9%	11,130	4.6%	3,263	41.5%
Profit attributable to owners of parent	5,374	2.7%	7,696	3.2%	2,322	43.2%

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

By market, all three segments increased sales

(2) Sales by market

In the Digital Electronics segment, net sales were ¥102,996mn (up ¥17,034mn or 19.8% YoY), mainly due to an ¥8,387mn increase in toys and hobbies, primarily in game consoles, a ¥6,078mn increase in LCDs, touch panels (TP) and backlights (BL) for in-vehicle use, and a ¥1,557mn increase in electrical parts and Semiconductors.

In the Automotive segment, net sales were ¥36,653mn (up ¥8,549mn or 30.4% YoY) due to the recovery of automotive production at customers, and an increase in sales of automotive-related components such as cockpit modules.

In the Broad Market segment, net sales were ¥100,124mn (up ¥13,542mn or 15.6% YoY). This was primarily attributable to an increase of ¥8,040mn for aftermarket products mainly because of the strong performance of dashboard cameras, an increase of ¥2,343mn for home appliances (white goods) (mainly for air conditioners), and an increase of ¥2,126mn for industrial machinery due in part to the acquisition of new orders for semiconductor manufacturing equipment and vending machines.

Breakdown of net sales trends by market

(¥mn)

	FY3/22		FY3/23				
	Results	Composition	Results	Composition	YoY	Main target markets	Change
Digital Electronics	85,961	42.8%	102,996	43.0%	19.8%	Toys, Hobby	8,387
						LCDs, touch panels, and backlights	6,078
						Electrical parts, Semiconductors	1,557
Automotive	28,103	14.0%	36,653	15.3%	30.4%	Overall automotive	8,549
Broad Market	86,581	43.2%	100,124	41.8%	15.6%	Aftermarket	8,040
						Home appliances (white goods)	2,343
						Industrial machinery	2,126
Total	200,646	100.0%	239,774	100.0%	19.5%		39,128

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

(3) Sales by region

In terms of net sales by region, net sales in Japan were ¥133,354mn (up 22.2% YoY), net sales in China were ¥54,058mn (up 7.6%), net sales in other Asian areas were ¥34,672mn (up 7.9%), and net sales in Europe and the US were ¥17,689mn (up 93.5%) according to the Company's financial results. The increases in net sales in Japan was largely attributable to strong sales for automotives. In China, net sales increased amid comparatively strong sales of products related to electrical and parts, as well as toys and hobby items for major game console manufacturers. In other Asian areas, various components, mainly for electrical parts, increased. In Europe and the US, net sales increased largely due to recovery in sales for automotives in Europe.

By region, segment profit was ¥4,900mn (up 20.7% YoY) in Japan, ¥3,871mn (up 90.3%) in China, ¥1,628mn (up 6.2%) in other Asian areas, and ¥558mn (up 298.5%) in Europe and the US, as sales and profits rose in all regions.

Sales by region

(¥mn)

	FY3/22		FY3/23			
	Amount	Composition	Amount	Composition	Change	Change (%)
Net sales	200,646	100.0%	239,774	100.0%	39,128	19.5%
Japan	109,115	54.4%	133,354	55.6%	24,239	22.2%
China	50,253	25.0%	54,058	22.5%	3,805	7.6%
Other Asian areas	32,136	16.0%	34,672	14.5%	2,536	7.9%
Europe, US	9,141	4.6%	17,689	7.4%	8,548	93.5%
Operating income	8,346	4.2%	12,052	5.0%	3,706	44.4%
Japan	4,060	3.7%	4,900	3.7%	840	20.7%
China	2,034	4.0%	3,871	7.2%	1,837	90.3%
Other Asian areas	1,534	4.8%	1,628	4.7%	94	6.2%
Europe, US	140	1.5%	558	3.2%	418	298.5%
(Adjustment amount)	576	-	1,092	-	-	-

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

Financial base is sound, with ample cash of ¥32.9bn on hand

(4) Financial condition

As of the end of FY3/23, current assets totaled ¥107,306mn (down ¥1,689mn from the end of FY3/22). Key factors were a ¥2,213mn increase in cash and deposits, a ¥3,313mn decrease in notes and accounts receivable-trade, and a ¥413mn decrease in inventories. Inventories decreased from ¥18,342mn at the end of 1H FY3/23 to ¥15,354mn, showing an improvement to roughly the same level as the end of the previous fiscal year. Non-current assets were ¥6,606mn (up ¥270mn). This was mainly due to a ¥155mn increase in property, plant and equipment, a ¥36mn decrease in intangible assets, and a ¥151mn increase in investments and other assets. As a result, total assets at the end of FY3/23 were ¥113,913mn (down ¥1,419mn).

Meanwhile, total current liabilities were ¥46,530mn (down ¥7,579mn from the end of FY3/22). The main factors were a ¥7,598mn decrease in notes and accounts payable-trade and a ¥689mn increase in short-term loans payable. Total net assets were ¥65,577mn (up ¥5,932mn) due to factors including a ¥5,116mn increase in retained earnings resulting from the recording of profit attributable to owners of parent and a ¥824mn increase in foreign currency translation adjustment. As a result, the equity ratio at the end of FY3/23 was 57.6% (compared to 51.7% at the end of FY3/22).

Consolidated balance sheets

(¥mn)

	End of FY3/22	End of FY3/23	Change
Cash and deposits	30,753	32,966	2,213
Notes and accounts receivable-trade	61,224	57,906	-3,313
Inventories	15,767	15,354	-413
Total current assets	108,996	107,306	-1,689
Property, plant and equipment	3,276	3,431	155
Intangible assets	323	287	-36
Investments and other assets	2,736	2,887	151
Total non-current assets	6,336	6,606	270
Total assets	115,332	113,913	-1,419
Notes and accounts payable-trade	47,910	40,311	-7,598
Short-term loans payable	403	1,093	689
Total current liabilities	54,109	46,530	-7,579
Total non-current liabilities	1,578	1,804	226
Total liabilities	55,687	48,335	-7,352
Retained earnings	52,296	57,412	5,116
Total net assets	59,645	65,577	5,932

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

(5) Status of cash flows

Net cash provided in operating activities in FY3/23 was ¥4,910mn. The main inflows were ¥11,086mn in income before income taxes, ¥1,133mn in depreciation and amortization, a decrease of ¥4,498mn in notes and accounts receivable-trade, and a ¥1,052mn decrease in inventories, while the main outflows were a decrease of ¥9,075mn in notes and accounts payable-trade, and ¥3,140mn in income taxes paid.

Net cash used in investing activities was ¥872mn. The main outflows included ¥860mn in purchase of property, plant and equipment (mainly molds) and ¥58mn in purchase of intangible assets. Net cash used in financing activities was ¥2,299mn. The main outflows were ¥371mn in repayments of lease liabilities and ¥2,580mn in cash dividends paid, partially offset by ¥651mn net increase in short-term loans payable. As a result, cash and cash equivalents during FY3/23 increased ¥2,213mn, and the balance at the end of the period was ¥32,966mn. Cash on hand remains ample.

Statements of cash flows

(¥mn)

	FY3/22	FY3/23
Cash flows from operating activities	4,236	4,910
Income before income taxes	7,660	11,086
Depreciation and amortization	953	1,133
Decrease (increase) in notes and accounts receivable-trade	-4,305	4,498
Decrease (increase) in inventories	-3,217	1,052
Increase (decrease) in notes and accounts payable-trade	3,686	-9,075
Cash flows from investing activities	-599	-872
Purchase of property, plant and equipment	-693	-860
Purchase of intangible assets	-56	-58
Cash flows from financing activities	-1,710	-2,299
Net increase in short-term loans payable	230	651
Repayment of lease liabilities	-302	-371
Cash dividends paid	-1,637	-2,580
Net increase (decrease) in cash and cash equivalents	2,875	2,213
Cash and cash equivalents at the end of the period	30,753	32,966

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

Outlook

In FY3/24, expects sales to decrease in all segments except for Automotive due to a rebound from the previous fiscal year, and projects a 2.6% YoY decrease in net sales and a 12.1% decrease in operating income

● Forecasts for FY3/24

(1) Outlook of profit and loss

For FY3/24, the Company projects net sales of ¥233,500mn (down 2.6% YoY), operating income of ¥10,600mn (down 12.1%), ordinary profit of ¥10,300mn (down 7.5%), and profit attributable to owners of parent of ¥7,250mn (down 5.8%). While the Automotive segment is expected to remain strong, sales of the Digital Electronics and Broad Market segments are expected to decline due to the possibility of inventory build-up at customers for some products, resulting in lower sales. Additionally, the Company assumes a slight appreciation of yen against the US dollar with an average exchange rate of ¥130.00 (¥135.50 in the previous fiscal year) for the full year, and therefore projects a decrease in overall net sales.

Summary of FY3/24 full-year forecasts

(¥mn)

	FY3/23		FY3/24 E			
	Amount	Composition	Amount	Composition	Change	Change (%)
Net sales	239,774	100.0%	233,500	100.0%	-6,274	-2.6%
Operating income	12,052	5.0%	10,600	4.5%	-1,452	-12.1%
Ordinary profit	11,130	4.6%	10,300	4.4%	-830	-7.5%
Profit attributable to owners of parent	7,696	3.2%	7,250	3.1%	-446	-5.8%

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

(2) Net sales forecasts by market

By market, net sales in Digital Electronics segment are forecast to be ¥92,249mn (down ¥10,747mn or 10.4% YoY). An increase of ¥2,447mn is projected because the Company expects that shipments of toys and hobby items, mainly game consoles, will continue to increase. On the other hand, sales of LCDs, touch panels, and backlights are expected to decline by ¥9,041mn due to expected inventory adjustments at customers. Sales of mobile devices and PCs are also expected to decline by ¥2,176mn due to sluggish device sales at customers.

In the Automotive segment, net sales are forecast to be ¥45,316mn (up ¥8,663mn or 23.6% YoY) due to the acquisition of new projects and the expected steady growth in automotive production.

In the Broad Market segment, net sales are forecast to be ¥95,934mn (down ¥4,189mn or 4.2% YoY). Sales for aftermarket products are expected to decrease by ¥9,981mn due to factors including a significant decline in sales of dashboard cameras, which were strong in the previous fiscal year, as customers are expected to shift to in-house production. On the other hand, sales of medical equipment and housing equipment are expected to increase by ¥1,521mn and ¥1,382mn, respectively.

Net sales forecasts by market

(¥mn)

	FY3/23		FY3/24				
	Amount	Composition	Forecast	Composition	YoY	Main target markets	Change
Digital Electronics	102,996	43.0%	92,249	39.5%	-10.4%	LCDs, touch panels, and backlights	-9,041
						Mobile devices	-2,176
						Toys, Hobby	2,447
Automotive	36,653	15.3%	45,316	19.4%	23.6%	Overall automotive	8,663
Broad Market	100,124	41.8%	95,934	41.1%	-4.2%	Aftermarket	-9,981
						Medical equipment	1,521
						Housing equipment	1,382
Total	239,774	100.0%	233,500	100.0%	-2.6%		-6,274

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

Medium- to long-term growth strategy

Announced the new medium-term management strategy "elematec Pro+," with automotive, aftermarket and medical equipment as key markets

1. Review of the medium-term management strategy "elematec NEXT"

The following is a review of the achievements and challenges of the respective key measures set forth in "elematec NEXT" in 2020

(1) Strengthen high-value-added businesses

(Achievements)

- Expanded sales of highly functional products for game consoles
- Established Shin-Yokohama Lab
- Built a structure for the finished product business

(Challenges)

- Insufficient development and provision of competitive products
- Provision of added-value services was not always sufficient

(2) Cultivate leading domestic and overseas customers

(Achievements)

- Acquired accounts from US- and China-based major companies
- Began mass production of orders for US-based IT platform companies

(Challenges)

- Did not reach full-scale development of leading overseas customers (Europe, US and China)
- Development of leading customers was insufficient

(3) Focus on the automotive field

(Achievements)

- Received orders for mass production in cockpit module business
- Acquired accounts from major European Tier 1 companies
- Expanded sales of EV-related products (heaters, fireproof sheet ASSY, etc.)

(Challenges)

- Development of new customers was insufficient
- Capture more overseas Tier 1 companies
- Insufficient improvements, including enhancement of own factory functions

(4) Conduct strategic investment

(Achievements)

- Considered multiple investment and loan projects

(Challenges)

- Failed to acquire new products and business areas through alliances/M&As, and recruit excellent human resources

2. Basic policies of the new medium-term management strategy “elematec Pro+”

Following “elematec NEXT,” the Company announced a new medium-term management strategy “elematec Pro+” with FY3/26 being the final year. The following is an overview.

(1) External environment and challenges

The Company cites geopolitical risks and domestic and overseas market volatility, further advancement and diversification of customer needs, growing interest in sustainability issues, and changes in work styles and increasing diversity as trends in the external environment. In light of this external environment, the following challenges have been set forth.

1) Expand businesses outside Japan and China from the perspective of growth and risk diversification

- Allocate resources in North America and Europe
- Move away from procurement agency in ASEAN

2) Strengthen the functions of the Marketing & Development Division, strengthen cooperation with each department, and aim to acquire external resources

- Strengthen efforts based on business partners and products
- Continuous follow-up of medium- to long-term trends and expansion of investments and loans

3) Strengthen efforts to care for the global environment and resolve social issues

- Contribute to solving sustainability issues through its core business
- Support for suppliers based on customers’ emphasis on environmental considerations

4) Establish a system that allows each individual to have a sense of fulfillment and express himself/herself

- Promote diversity and inclusion
- Create a structure for education, training and assignment to enhance employee engagement

(2) Key measures and quantitative targets, and key markets

As a basic policy of the new medium-term management strategy, the Company states, "We will continue to evolve the previous measures, and in the new medium-term plan, we will expand and strengthen our management base while tackling challenges in potential areas." Based on this policy, it intends to promote the following four key measures.

1) Key measures

(Cultivate and deepen potential fields)

- Cultivate potential areas on a full-scale basis
- Strengthen the functions of the Marketing & Development Division

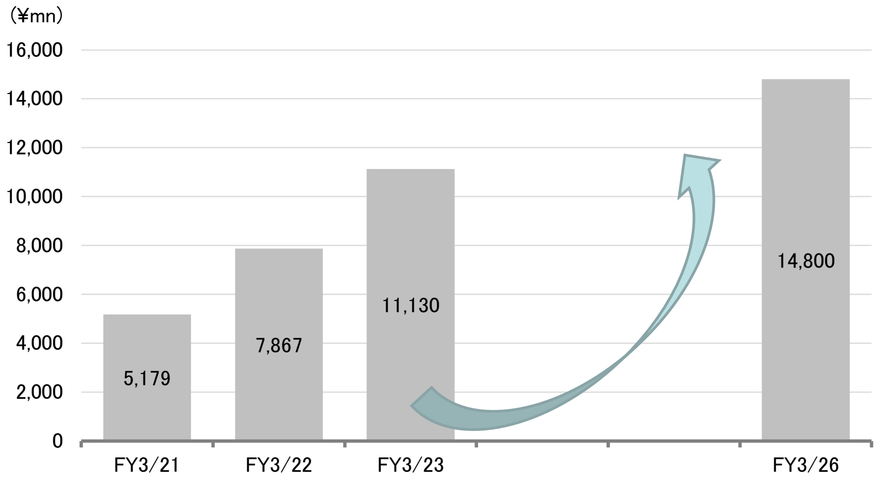
(Expand and strengthen management base)

- Expand customer base and business domains through M&A and alliances
- Sustainability and human capital efforts

2) Quantitative targets and key markets

The Company has set achieving a CAGR of 10% or more for ordinary profit from FY3/23 to FY3/26 as a quantitative target and has established that the three key markets for achieving this goal are automotive, aftermarket, and medical equipment.

Conceptual image of ordinary profit growth



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

3. Specific measures

(1) Cultivate potential areas on a full-scale basis

(Europe and the US)

- Enhance activity to have its products included in product specifications in its global customers
- Consider establishing a manufacturing base

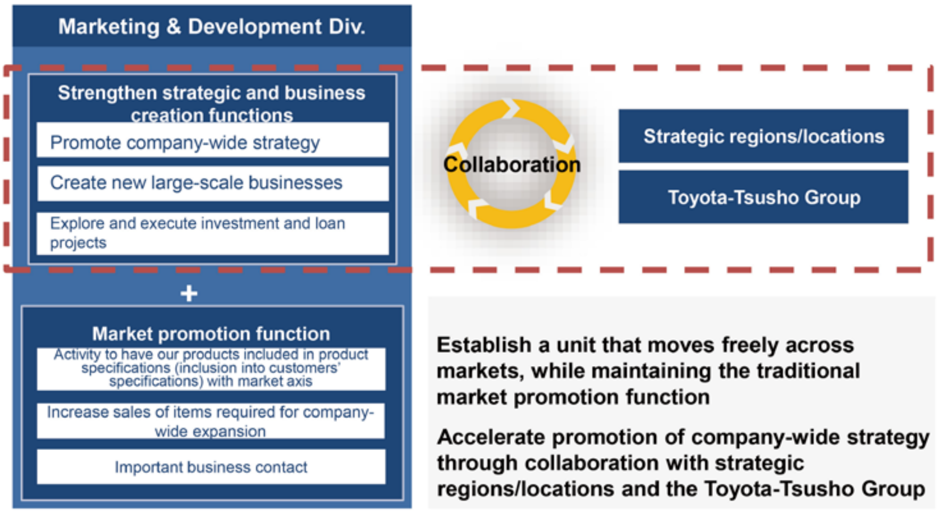
(ASEAN)

- Lateral expansion of successful business (finished products) in China
- Strengthen the development of "spec-in" (to have its products included in product specifications for its customers) and suppliers in the ASEAN region, respond to customers' shift to ASEAN

(2) Strengthen the functions of the Marketing & Development Division

The Company will review the functions of the Marketing & Development Division from the perspective of business creation, and strengthen cooperation with strategic regions/sites and the Toyota Tsusho Group.

Strengthen the functions of the Marketing & Development Division



Source: The Company's results briefing materials

(3) Automotive

For Automotive, it will capture the environmental response and electrification areas, where growth is expected, and untapped overseas OEM (mainly EV-related components) and Tier 1 companies.

In terms of the market environment, it is expected that EVs will grow rapidly, especially in the Chinese market, and that in-vehicle displays will become larger and more complex, transforming the car from a means of transportation to "transportation + information tools + entertainment." In addition, through the promotion of CASE and new participation from other industries, the Company expects to enter into areas where Tier 1 companies have not yet started (e.g., exterior and electrical components), and demand for integrated proposals for electronic circuit boards, design, and mounting is expected to increase.

As specific measures, the Company will expand sales of EV-related components (eAxle components and sensors, heaters, etc.). Also, as a strategy to capture overseas Tier 1 companies, it will strengthen proposals for high-performance Japanese products for HMI, advance integrated proposals for electronic circuit boards, design, and mounting utilizing the Design Department which is capable of electrical and mechanical design, and expand offices into Europe and the US, among other things. With regard to office expansion, the Company already opened its Poland Branch in May 2023, but plans to expand further as needed going forward.

(4) Aftermarket

For Aftermarket, the Company aims to expand earnings in the domestic market and enter overseas markets. As for the market environment, it understands that the private brand (PB) market will grow. As overseas and domestic home appliance retailers promote the development and sales of PB products, the sales share of PB products is rapidly expanding, and further expansion is expected in the future.

In line with this, the Company will strengthen the finished goods (ODM) business for major domestic mass retailers. As specific measures, it will strengthen supplier development (lateral deployment of successful cases in China) in the ASEAN region, and expand the range of products handled (finished products). Meanwhile, the Company will leverage the knowledge it has accumulated through business for major domestic mass retailers and carry out lateral expansion for the PB of local ASEAN companies. It will use the ASEAN market as a springboard to develop markets in Europe and the US.

(5) Medical equipment

For medical equipment, the Company will respond to the medical equipment connectivity market. As for the market environment, while demand for medical care is expected to increase alongside population aging on a global scale, especially in developed countries, as well as population growth, economic development, and rising incomes in emerging countries, medical equipment is expected to become more electronic.

Amid this environment, the Company plans to strengthen its business to meet diversifying medical needs. Specifically, the Company will expand its business for home health care (blood pressure monitors, body composition monitors, etc.), strengthen its finished products (OEM) business, and reinforce its efforts in the dental equipment field.

4. Sustainability and human capital efforts

The Company is also working proactively toward sustainability, and positions the realization of a safe and secure society, the reduction of environmental burdens and the realization of a recycling-oriented society, and human capital efforts as critical issues.

(1) Realization of a safe and secure society

Key measures include the realization of a society without traffic accidents and the development of proper medical environments.

1) Realization of a society without traffic accidents

As specific measures, the Company intends to contribute to the evolution of autonomous driving, driver assistance products, and sensing and other technologies in infrastructure. For this reason, the net sales target for related products (products that lead to a society without traffic accidents) is set at ¥31.0bn (FY3/22) to ¥32.5bn (FY3/26).

2) Arrangement of proper medical environments

As specific measures, the Company intends to contribute to the evolution of medical diagnostics and medical device testing equipment, and improve people’s QOL, including preventive and home health care. For this reason, the net sales target for related products (medical equipment-related products) is set at ¥8.4bn (FY3/22) to ¥12.2bn (FY3/26).

(2) Reduction of environmental burdens and realization of a recycling-oriented society

Key measures include the distribution of eco-friendly electronic and other materials, operation of quality and environmental management systems, promotion of recycling activities, and distribution of electronic and other materials related to clean energy.

As specific energy-related measures, the Company intends to contribute to the realization of a decarbonized society and promote efforts to spread clean energy. For this reason, the net sales target for related products (clean energy-related products) is set at ¥3.7bn (FY3/22) to ¥8.8bn (FY3/26).

As specific recycling-related measures, the Company intends to contribute to the development of rework and recycling business and aim to increase distribution of eco-friendly electronics and other materials (packaging materials, new refrigerants, etc.). For this reason, the net sales target for related products (eco-friendly products) is set at ¥2.7bn (FY3/22) to ¥5.5bn (FY3/26).

(3) Human capital efforts

The Company mainly promotes the following three key measures:

1) Enhancing employee training

Expand and enhance training content (in addition to strengthening training for each level, provide individual training on investment and loans, business strategy planning, etc.)

2) Promoting diversity

Implementation of measures to improve the ratio of women in career-track positions and the ratio of men taking parental leave (promotion of work style reforms such as flexible system design)

3) Improvement of employee engagement

In addition to implementing effective engagement improvement measures using surveys, conduct town hall meetings and provide health support for employees

(3) Ideal vision

In the new medium-term management strategy, the Company has determined the "Vision that Elematec Pursues" as follows.

For business partners: Partners with comprehensive capabilities to meet changing needs
For employees: A company in which individuals can realize their potential in a rewarding way
For society, the Earth, and the world: A company that contributes to the realization of a sustainable society and enriches people's lives

Shareholder return policy

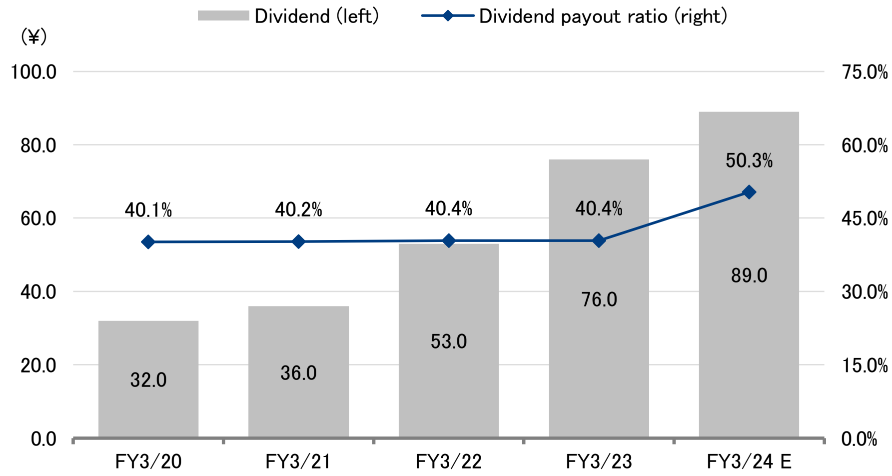
Changed its dividend policy, and plans an annual dividend of ¥89 (dividend payout ratio of 50.3%) for FY3/24

In principle, the Company returns profits to shareholders through dividends, and has set a target dividend payout ratio of at least 40%. In fact, the Company paid annual dividends of ¥32 in FY3/20, ¥36 in FY3/21, and ¥53 in FY3/22. The dividend payout ratios were 40.1%, 40.2%, and 40.4%, respectively. Regarding FY3/23 as well, the Company initially announced an annual dividend of ¥60 to maintain a dividend payout ratio of at least 40%, its basic target, but full-term results were strong, so the Company ultimately increased the annual dividend to ¥76 (interim dividend of ¥27, term-end dividend of ¥49, dividend payout ratio of 40.4%).

For the future, the Company announced that its dividend policy is to aim for the higher of a dividend payout ratio (consolidated) of 50% or DOE (dividend on equity ratio) of 3%. The Company cited the following reasons for changing the dividend policy: (1) increased cash on hand due to steady earnings growth, (2) an increase in stable sources of earnings, mainly from the Automotive segment, and (3) the addition of a DOE standard to allow the Company to pay dividends even in the event of a sharp decline in profits.

Based on the new policy, the Company plans to pay an annual dividend of ¥89 (interim dividend of ¥40, term-end dividend of ¥49, dividend payout ratio of 50.3%) for FY3/24. In this way, the Company's proactive approach to shareholder returns with an eye to improving capital efficiency is worthy of recognition.

Trends in dividend and dividend payout ratio



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

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