COMPANY RESEARCH AND ANALYSIS REPORT

SUN-WA TECHNOS CORPORATION

8137

Tokyo Stock Exchange Prime Market

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Index

Summary

Results for FY3/23 set new record highs. Aiming to quickly achieve a PBR of over 1.0x

SUN-WA TECHNOS CORPORATION <8137> (hereinafter, “the Company”) is an independent specialized trading company that handles equipment, devices and parts related to industrial electronics and mechatronics. The Company has steadily expanded its businesses by leveraging coverage of three major areas (electrical machinery, electronics, and general machinery) and two-way trade in which it sells equipment and materials for manufacturers’ production lines and then procures the products made by these manufacturers. In terms of the number of business partners, customers amount to around 3,100 companies while suppliers amount to around 2,100 companies on a non-consolidated basis. The Company’s main suppliers are YASKAWA Electric Corporation <6506> and OMRON Corporation <6645>.

1. FY3/23 results achieved record highs

In consolidated results for FY3/23, net sales increased 17.2% year on year (YoY) to ¥181,013mn and operating profit rose 58.8% to ¥7,630mn, for increases in sales and profit that surpassed the Company’s forecasts (net sales of ¥174,000mn and operating profit of ¥6,500mn) and set record highs for the second consecutive period. Capital investment increased in the semiconductor-related, automotive-related and solar power-related industries and production sites continued to be reorganized in the manufacturing sector with an awareness of supply chain risk, which resulted in brisk sales of electrical machinery, control equipment, electronic parts and other products. Operating profit increased by around ¥2.8bn YoY. The increases were ¥0.8bn from yen deprecation, ¥2.4bn from higher sales, and ¥0.6bn from an improved profit margin caused by product shortages. These factors absorbed a ¥1.0bn increase in SG&A expenses. The Company estimates that orders moved forward by customers contributed to an increase in profit of around ¥0.5-1.0bn. Orders received declined by 5.2% YoY to ¥189,540mnm, a reversal from the previous trend, due in part to early orders reaching an end, but the orders backlog increased by 11.7% to ¥81,608mn, setting a new all-time high.

2. For FY3/24, net sales and profits expected to decline, but orders projected to rise in 2H

For FY3/24 consolidated results, the Company is forecasting net sales to decrease by 2.9% YoY to ¥175,800mn and operating profit to decrease by 27.8% to ¥5,510mn. It is anticipated that capital investment in the semiconductor industry will be reined in and that early orders from customers received up to the previous period will dry up, but the decrease in sales will only be minor because the appetite for capital investment in the electric vehicle (EV)-related sector and solar power-related industry will remain robust and the Company has an extensive orders backlog, among other factors. On the profit front, the Company has taken a somewhat conservative view and forecast a double-digit decline due to the absence of the ¥0.8bn profit contribution from yen depreciation the previous period and a projected decline in profit of ¥0.5-1.0bn resulting from the absence of early orders received the previous period, and also because the economic outlook continues to be uncertain. The average assumed exchange rate for the period is ¥129.0 per U.S. dollar. It was ¥131.4 in FY3/23. (Yen appreciation of ¥1 per U.S. dollar negatively affects profit by around ¥50mn.) Orders are expected to return to an upward trajectory in 2H when a recovery in final demand is expected for computers, smartphones and other products.

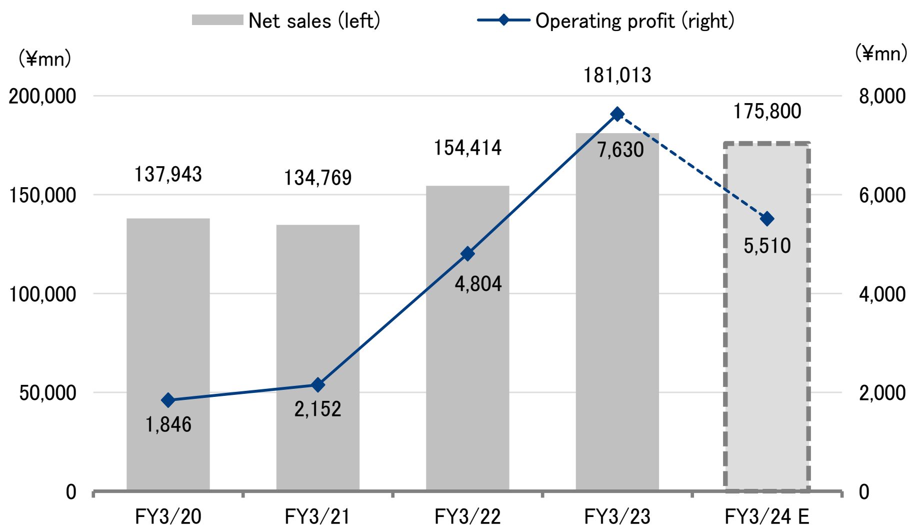
3. Added new initiatives to medium-term management plan to quickly achieve a PBR of over 1.0x

Under its three-year medium-term management plan, "SNS2024 (Sun-Wa New Stage 2024)," which began in FY3/23, the Company is implementing the following as basic policies: 1) Focus on growth fields that require innovation, 2) Provide even higher value-added products and new solutions, and 3) Help to realize a sustainable society through sustainability management. For FY3/25, the plan's final year, it set the goal of operating profit of ¥7.0bn (assuming an exchange rate of ¥129 per U.S. dollar). With decarbonization efforts making headway on a global scale, the Company will accelerate sales of environmentally friendly products and promote a new energy management system (EMS) business. In addition, it intends to strengthen initiatives for global SCM solutions, an area of increasing demand as production sites are reorganized, and plans to establish a local affiliate in India in FY3/24. The Company has also announced new initiatives aimed at achieving a price-to-book ratio (PBR) of over 1.0x as quickly as possible. Specifically, to improve capital profitability, it will establish the new Innovation Div. to develop technology strategy and also promote management that is aware of capital costs and the stock price. With regard to its policy on shareholder returns, the Company intends to pay a dividend based on a target payout ratio of 25-35% and will also buy back shares on a flexible basis depending on the timing and financial conditions. Further, it intends to beef up activities related to investor and shareholder relations. Net assets per share at the end of FY3/23 was ¥2,873, which is a PBR of just 0.7x. The Company intends to work to rectify this.

Key Points

- In FY3/23, new record-high results by a large margin thanks to active capital investment and orders being moved forward
- In FY3/24, expecting lower net sales and profit in reaction to early demand the previous period, but results to be supported by an ample orders backlog
- Steady progress to achieve operating profit of ¥7.0bn in FY3/25; new measures added to achieve PBR of over 1.0x

Results trends



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

Results trends

In FY3/23, new record-high results by a large margin thanks to active capital investment and orders being moved forward

1. FY3/23 results overview

In FY3/23, the Company achieved consolidated results that exceeded its forecast, with net sales of ¥181,013mn (up 17.2% YoY), operating profit of ¥7,630mn (up 58.8%), ordinary profit of ¥7,675mn (up 47.7%) and profit attributable to owners of parent of ¥5,493mn (up 53.6%), which set new record highs by a large margin. The increase in net sales was attributable to factors that include robust sales of relevant products amid brisk capital investment in the semiconductor-related, automobile-related and solar power-related industries, orders continuing to be moved forward against a backdrop of mounting supply chain risks and parts and materials shortages, and further yen depreciation on currency markets during the period.

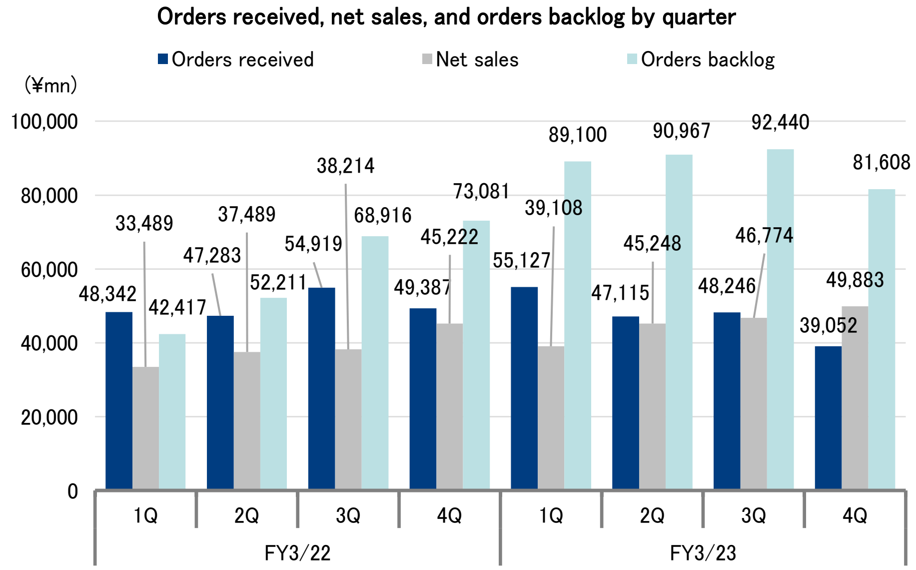
FY3/23 consolidated results

(¥mn)

	FY3/22		FY3/23				
	Result	% of sales	Company's forecast	Result	% of sales	YoY	vs. forecast
Net sales	154,414	-	174,000	181,013	-	17.2%	4.0%
Gross profit	18,772	12.2%	-	23,039	12.7%	22.7%	-
SG&A expenses	13,967	9.0%	-	15,408	8.5%	10.3%	-
Operating profit	4,804	3.1%	6,500	7,630	4.2%	58.8%	17.4%
Ordinary profit	5,195	3.4%	6,650	7,675	4.2%	47.7%	15.4%
Extraordinary profit and loss	28	-	-	34	-	-	-
Profit attributable to owners of parent	3,577	2.3%	4,650	5,493	3.0%	53.6%	18.1%
Orders received	199,931	129.5%	-	189,540	104.7%	-5.2%	-
Period-end order backlog	73,081	47.3%	-	81,608	45.1%	11.7%	-

Note: The Company's forecasts refer to the forecasts announced in October 2022
Source: Prepared by FISCO from the Company's financial results

Looking at order trends in FY3/23 on a quarterly basis, orders peaked in 1Q at ¥55,127mn, but early ordering ran its course subsequently, so orders decelerated and ended in 4Q at ¥39,052mn. For the full year, orders were down 5.2% YoY to ¥189,540mn, the first decline in three fiscal years. However, looking at the orders backlog, it peaked at the end of 3Q at ¥92,440mn and declined to ¥81,608mn at the end of 4Q. But this was still a record high, around three times higher than the end of FY3/21 when the orders backlog was ¥27,564mn. So there is no change in the fact that a large amount of orders have been built up.



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

Operating profit increased by around ¥2.8bn YoY. This was primary due to gains of around ¥2.4bn from higher net sales, approximately ¥0.8bn from the effects of yen depreciation*, and around ¥0.6bn from an improved profit margin caused by product shortages and other factors. These gains offset a ¥1.0bn increase in SG&A expenses. Profit increased ¥0.5-1.0bn due to customers moving orders forward because of shortages in parts and materials, and the Company also estimates increased profit of ¥0.7bn from the global SCM business, whose sales increased sharply with the COVID-19 pandemic. Non-operating income decreased by ¥347mn, but this was primarily due to recording a foreign exchange loss from yen appreciation toward the end of the period (increase in foreign exchange loss of ¥349mn YoY).

* In FY3/23, the average exchange rate was ¥131.4 to the U.S. dollar. The yen has accordingly weakened by ¥16 to the U.S. dollar since the end of FY3/22 when it stood at ¥115 to the U.S. dollar.

By region, the Company performed well in Japan and Asia overall amid significant growth across the three business segments of electrical machinery, electronics, and general machinery, each of which achieved record high net sales

2. Segment and regional trends

The Company discloses net sales after breaking them down into the three business segments of electrical machinery, electronics, and general machinery, according to the products handled. In addition, the Company discloses net sales and operating profit as segment information by region.

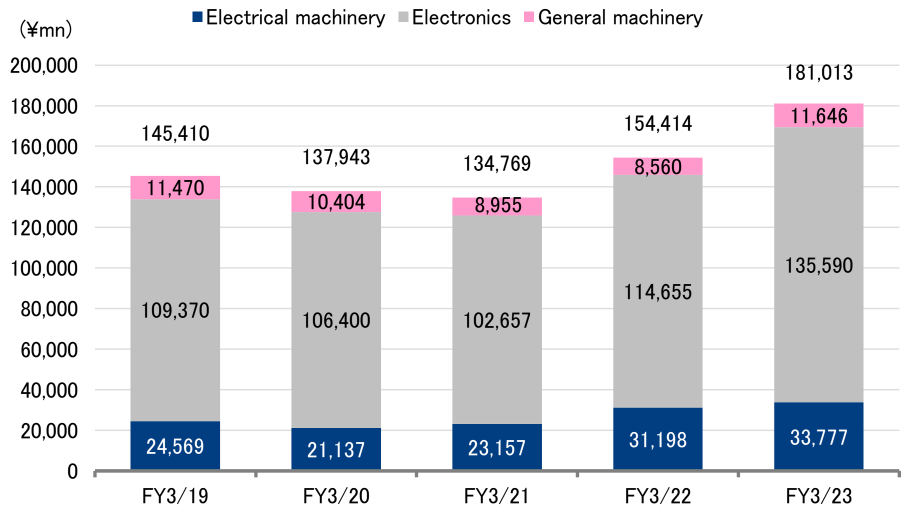
(1) Trends in net sales by business segment

Main products handled by the electrical machinery segment are AC servo motors, motion controllers, inverters, machine controllers and power conditioners. The Company primarily handles products from YASKAWA Electric Corporation. Despite lower sales of electrical machinery for the factory automation industry, net sales expanded by 8.3% YoY to ¥33,777mn, a record high for consecutive years, due to increases in sales by electrical machinery for the semiconductor-related industry, control equipment and electrical machinery for the solar power-related industry, and control equipment for the factory automation industry.

The main products in the electronics segment are wide ranging, including general electronic parts such as capacitors, connectors, relays and switches, as well as fan motors, stepping motors, LEDs, and power supplies. Despite electronic parts for the semiconductor-related industry decelerating in the second half and sales decreasing, net sales in this segment increased by 18.3% YoY to ¥135,590mn, setting a new all-time high for a second consecutive year. This was thanks to increased sales of electronic parts and electronic equipment to the factory automation industry and increased sales of electronic parts to the automotive on-board product industry and the amusement-related industry.

The main products in the general machinery segment include robots from YASKAWA Electric Corporation, as well as conveyors and reduction gears. Net sales rose 36.0% YoY to ¥11,646mn, setting a record high for the first time in four periods. This was thanks to major growth in sales of robots for the automotive-related and semiconductor-related industries and despite lower sales of conveyors for the FPD-related industry and facilities equipment for the consumer goods industry.

Net sales by business segment



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

(2) Trends in sales and profits by segment

In Japanese business, net sales increased 15.5% to ¥133,712mn and operating profit rose 75.6% to ¥5,354mn, both setting all-time highs. Sales increased for electrical machinery for the semiconductor-related industry, control equipment for the solar power-related industry, control equipment and electronic parts for the factory automation industry, electronic parts for the automotive on-board product industry, and industrial robots for the automotive-related industry, while sales of conveyors for the FPD-related industry decreased. This increase in net sales along with the effects of yen deprecation led the operating profit margin to rise to 4.0%, from 2.6% in the previous period.

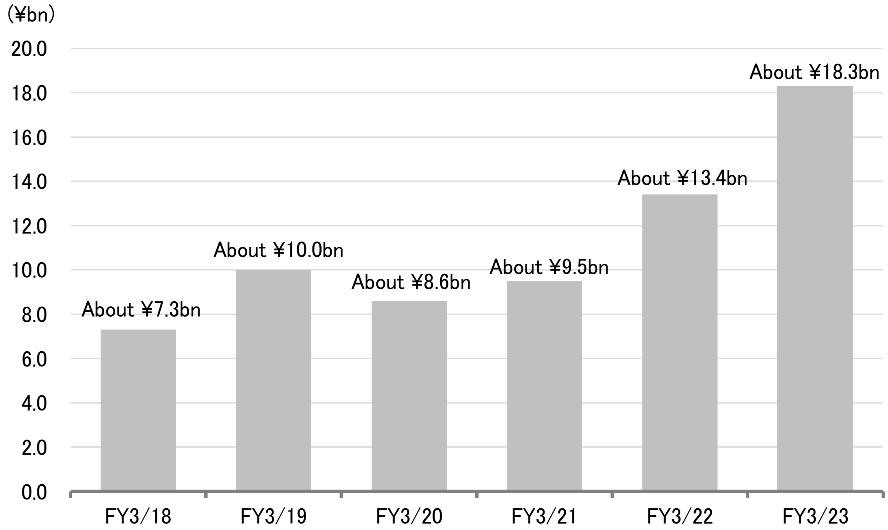
The Company's new initiatives have involved the April 2022 launch of its Customer Segment Team cross-regional dedicated sales organization for proposing optimal products and solutions to each customer industry, with the aim of developing new customers and deepening business transactions with existing customers. The Company succeeded in acquiring accounts with ultra-large companies as a result of promoting sales activities in fields requiring specialized technical knowledge (semiconductor production equipment, factory automation equipment, etc.), so its efforts are quickly starting to bear fruit. While the transaction volume is still small, it is expected to contribute to earnings going forward. In addition, the Company's smart sales sites*, which were launched in 2019 to promote locally based sales, are highly regarded by its customers and have apparently helped give rise to a greater range of sales items and more extensive business transactions. In September 2022, the Company opened its Shiga Sales Office (Hikone City, Shiga Prefecture) to serve as its sixth smart sales site in Japan.

* The term "smart sales site" refers to a small-scale sales office employing only about two sales staff members. These sites seek to deepen business transactions by bolstering relationships with preferred customers scattered across small and medium-sized regional cities, while also aiming to attract new customers. Internal operations of these sites enlist the support of remote branch offices, given that administrative staff are not assigned to such sites. Beginning in 2019, the Company opened smart sales sites in Japan that include the Shikoku Sales Office (Ehime Prefecture), the Nagaoka Sales Office (Niigata Prefecture), the Kofu Sales Office (Yamanashi Prefecture), the Kanazawa Sales Office (Ishikawa Prefecture), and the Kitakyushu Sales Office (Fukuoka Prefecture).

In Asian business, net sales increased 23.3% to ¥64,364mn and operating profit rose 34.1% to ¥2,581mn, both setting record highs. Sales increased for electrical machinery to the solar power-related industry, electronic parts to the factory automation and automotive on-board products industries, and electronic equipment to the semiconductor-related industries, which more than offset decreases in electrical machinery to the factory automation industry and electronic parts to the semiconductor-related industry. In China, which accounts for over 70% of Asian sales, sales increased 19.6% YoY as a strong performance by products for the solar power-related industry made up for decreased sales to Japan-affiliated companies because of the lockdown and other factors. In Asian countries other than China, sales increased 31.6% owing in part to increased sales from the global SCM solutions business* as customers increasingly reorganized their production sites due to rising supply chain risk. In China, the Company has been taking steps to strengthen regional sales activities, opening smart sales offices in Qingdao (Shandong Province) in September 2022, Changzhou (Jiangsu Province) and Wuhan (Hubei Province) in November and Chengdu (Sichuan Province) in March 2023.

* The global SCM solutions business is a contract service that handles materials procurement and distribution for customers using the Company's global network. More companies are using the service in part because supply chain risk materialized during the pandemic, meaning it was difficult for them to procure parts and materials. There are also increasing cases of the service being utilized by companies when relocating their production sites because of the complexity of coordinating with suppliers. Customers also benefit from the service because it lowers procurement costs and shortens lead times.

Trends in net sales in the global SCM solutions business



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

In Europe and the U.S., net sales increased by double-digits, rising 14.5% YoY to ¥7,112mn, but due to surging transportation costs, the region posted an operating loss of ¥48mn (a loss of ¥108mn the previous period). Sales of facilities equipment for the consumer goods industry declined, but there were increases in automation investment for EV-related automotive facilities, sales of electronic parts for the factory automation industry, and automation investment for EV-related facilities. The Company became a domestic distributor of sensors, 3D ultrasound sensors and switchgears manufactured by European companies and began handling the products in December 2022.

Net sales and operating profit by segment

(¥mn)

Net sales	FY3/19	FY3/20	FY3/21	FY3/22	FY3/23	YoY
Japan	115,993	110,335	108,252	115,811	133,712	15.5%
Asia	37,188	34,454	35,492	52,216	64,364	23.3%
Europe/ U.S.	8,084	6,398	4,711	6,214	7,112	14.5%
Other	1,733	1,396	931	748	846	13.2%
Adjustment	-17,589	-14,641	-14,617	-20,575	-25,022	-
Total	145,410	137,943	134,769	154,414	181,013	17.2%

Operating profit	FY3/19	FY3/20	FY3/21	FY3/22	FY3/23	YoY
Japan	1,939	1,285	1,197	3,049	5,354	75.6%
Asia	1,208	592	917	1,924	2,581	34.1%
Europe/ U.S.	254	-84	-1	-108	-48	-
Other	3	7	16	-16	-3	-
Adjustment	4	46	23	-44	-253	-
Total	3,410	1,846	2,152	4,804	7,630	58.8%

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

Net sales in FY3/23 (• = positive YoY change, × = negative YoY change)

	Japan			Asia			Europe/ U.S.		
	Electrical machinery	Electronics	General machinery	Electrical machinery	Electronics	General machinery	Electrical machinery	Electronics	General machinery
Semiconductor-related industry	○				×				
Solar power-related industry	○			○					
Factory automation industry	○	○		×	○			○	
Automotive-related industry		○	○		○				
FPD-related industry			×						
Consumer goods industry									×
Amusement-related industry								○	

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

In FY3/24, expecting lower net sales and profit in reaction to early demand the previous period, but results to be supported by an ample orders backlog

3. Outlook for FY3/24 results

In terms of the outlook for FY3/24 consolidated results, the Company forecasts decreased sales and profits, with net sales of ¥175,800mn (down 2.9% YoY), operating profit of ¥5,510mn (down 27.8%), ordinary profit of ¥5,690mn (down 25.9%), and profit attributable to owners of parent of ¥3,950mn (down 28.1%).

FY3/24 consolidated results forecast

(¥mn)

	FY3/23		FY3/24				
	Full-year results	% of sales	1H forecast	YoY	Full-year forecast	% of sales	YoY
Net sales	181,013	-	85,300	1.1%	175,800	-	-2.9%
Operating profit	7,630	4.2%	2,600	-21.2%	5,510	3.1%	-27.8%
Ordinary profit	7,675	4.2%	2,700	-24.5%	5,690	3.2%	-25.9%
Profit attributable to owners of parent	5,493	3.0%	1,870	-26.0%	3,950	2.2%	-28.1%
Earnings per share (¥)	355.08		120.79		255.14		

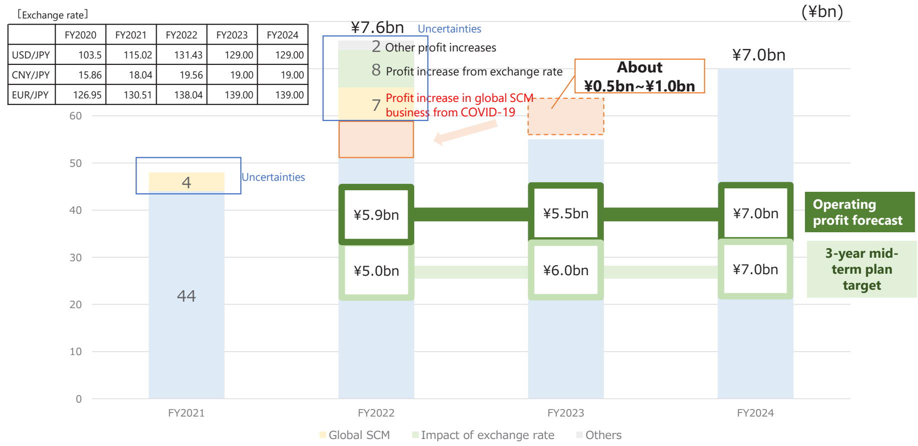
Source: Prepared by FISCO from the Company's financial results

While it is impossible to be optimistic about the orders outlook due to the early ordering that took place up to the previous term running its course, semiconductor manufacturers reducing capital investment, and production adjustments for personal computers and smartphones becoming prolonged, orders received in April 2023 in Japan were better than expected, and, as reported in certain newspapers, it appears that the appetite of the Company's customers for investment has not waned. However, the brakes are still being applied in China, except in the solar power-related industry. In the EV-related sector, active investment will continue in Japan and overseas in FY3/24, and investment in environmental measures for decarbonization is expected to be firm. In addition, the orders backlog at the end of the previous period was at a high level, in excess of ¥80.0bn, and there have been virtually no cancellations, so net sales is forecast to decrease only by a small margin.

A large decrease in operating profit is expected against the decrease in net sales primarily because of the absence of early ordering (¥0.5-1.0bn), which was a major boost to profit the previous period, and the absence of the effects of yen depreciation, which were ¥0.8bn. In addition, in the global SCM business, which received a profit boost the previous period of ¥0.7bn due to the COVID-19 pandemic, the outlook for FY3/24 is uncertain, so profit has not been forecast, which, overall, feels quite conservative. The assumed exchange rate for FY3/24 is ¥129 to the U.S. dollar*, and given that the rate is currently trending around ¥135 to the U.S. dollar, the assumption allows some room for increases.

* The assumed exchange rate for the full year is ¥129 per U.S. dollar (the actual exchange rate the previous period was ¥131.4). Every one yen of appreciation against the U.S. dollar reduces the Company's profit by around ¥50mn annually.

FY3/24 results forecast (forecast impact on operating profit)



Source: The Company's results briefing materials

Regarding order trends, while there is a strong degree of uncertainty, if there is not any further worsening in external conditions—the Ukraine situation, economic friction between the U.S. and China, energy price spikes, etc.—we at FISCO believe that orders will begin increasing in fall 2023. As explained above, investment will continue to expand in the EV-related sector and solar power-related industry, demand is expected to head up in the fall for smartphones and personal computers, areas where production adjustments had been taking place, and the appetite for capital investment by related industries, including semiconductors, is expected to improve. In addition, such measures as expanding smart sales sites in Japan and overseas, a unique initiative of the Company, and acquiring new customers through its Customer Segment Team, a dedicated cross-regional sales organization, can be expected to have an effect. The Company also plans to establish a local affiliate in India.

Long-term vision and medium-term management plan

Turns "what customers want to accomplish" into "what they can accomplish." Aiming to be the best manufacturing partner

1. Long-term vision

The Group's Corporate Creed is "Develop Talents, Build Business, Contribute to Society." Guided by this creed, the Group utilizes its global network to provide its customers with the most up-to-date information, needs-oriented solutions, and the most reliable services, along with collaborating with partner companies. Through these efforts, the Group has helped to promote industrial development and to realize a sustainable society. In the past few years, there have been significant changes in global social conditions, and the market environment has been changing drastically. In this environment, to set an even clearer direction for the Group, it formulated "Sun-Wa Vision 2030" as its long-term vision for FY3/31 and "SNS2024 (Sun-Wa New Stage 2024)" as its three-year medium-term management plan beginning in FY3/23 (announced in May 2022). The Group's Mission (Mission and Purpose), Vision (the Group's Ideals), Values (Values for Fulfilling the Mission and Realizing the Vision) are described below.

The Group has defined its Mission as follows: "We connect technologies in the world to create new value and support the development of a prosperous society." Leveraging its global network, the Group intends to contribute to the development of a sustainable society by offering the latest technology proposals and optimal products. Moreover, the Group has embraced the following as its Vision: "We are the best partner in manufacturing to make our customers' wants and needs possible, and connect businesses around the world with relationships of trust."

The Group has identified the following three concepts as its Values to carry out its mission and achieve its Vision: "Customer First" "Spirit of Challenge" and "Teamwork and Communication." With "Customer First" the Group makes every effort to serve as a partner who has the best understanding of the customer – a partner who identifies true customer needs by always considering things from the customer's perspective and sharing values with customers. With "Spirit of Challenge," the Group sets high goals to drive its own growth, enhances its creativity and professionalism by tackling challenges positively without fearing change, and strives to boost the enterprise's energy and vitality. Finally, with "Teamwork and Communication," the Group creates new value by respecting others, understanding differences, and recognizing their value. In addition, the Group attaches importance to partner companies as it aims to improve its collective capabilities.

Steady progress to achieve operating profit of ¥7.0bn in FY3/25; new measures added to achieve PBR of over 1.0x

2. Medium-term plan, "SNS2024 (Sun-Wa New Stage 2024)"

(1) Management goals

In its medium-term plan starting in FY3/23, the Company changed its KGI from net sales to operating profit. Previously, the Company believes that if net sales grow, profit would inevitably follow and increase too. However, the Company has once again recognized that in these times, as the market environment changes at an increasingly faster pace and as markets mature, growth in net sales does not necessarily lead to profit growth. Therefore, it will implement a management strategy that views profits as the starting point in an effort to further increase corporate value. In addition, it announced additional measures in May 2023 aimed at achieving a PBR of over 1.0x as quickly as possible.

The Company has not changed its performance targets for FY3/25, the final year of the plan. They are net sales of ¥195.0bn and operating profit of ¥7.0bn (assumed exchange rate changed from ¥115 to ¥129 per U.S. dollar). The target for operating profit was surpassed in FY3/23 thanks to early orders and yen deprecation, as was explained above, but profit is expected to decline in the absence of these factors in FY3/24, so the final year's targets were not changed. As long as macroeconomic factors do not deteriorate further, the Company appears to be in a position to achieve its targets.

The Company is forecasting the operating profit margin to rise from 3.1% in FY3/22 to 3.6%, primarily from an increase in the gross profit margin. The overseas sales ratio* is projected to increase from 33.7% in FY3/22 to 40% in FY3/25. On a real basis, annual growth of 13% is being projected. Approximate regional shares in FY3/22 were China 70%, other Asian countries 19% and the Europe and the U.S. 11%. For FY3/25, these are projected to be China 65%, other Asian countries 25% and Europe and the U.S. 10%, so the most growth is expected from other Asian countries. The background reasons for this are an expected increase in sales from the global SCM business from customers reorganizing their production sites, which was explained above, and the Company's focus on developing the Indian market. There is also rampant demand in China, so the Company's strategy is to increase sales by enhancing smart sales sites and other offices. If the Company is able to achieve its performance targets for FY3/25, for its next step, it will aim for net sales of ¥250.0bn and operating profit of ¥10.0bn by FY3/28.

* Overseas sales ratio is net sales from overseas business (overseas affiliates) divided by consolidated net sales (before consolidation eliminations)

Management goals in the "SNS2024(Sun-Wa New Stage 2024)"

(¥mn)

	FY3/22 Results	FY3/23		FY3/24 Forecast	FY3/25 Target	Average annual growth rates	FY3/28 Target
		Forecast	Results				
Net sales	154,414	174,000	181,013	175,800	195,000	8.1%	250,000
Operating profit	4,804	6,500	7,630	5,510	7,000	13.4%	10,000
(profit margin)	3.1%	3.7%	4.2%	3.1%	3.6%		4.0%
Overseas sales ratio*	33.7%	-	35.9%	38.0%	40.0%		

*Overseas sales ratio is the ratio of net sales from overseas business (overseas affiliates) to consolidated net sales (before consolidation eliminations)
Source: Prepared by FISCO from the Company's financial results and results briefing materials

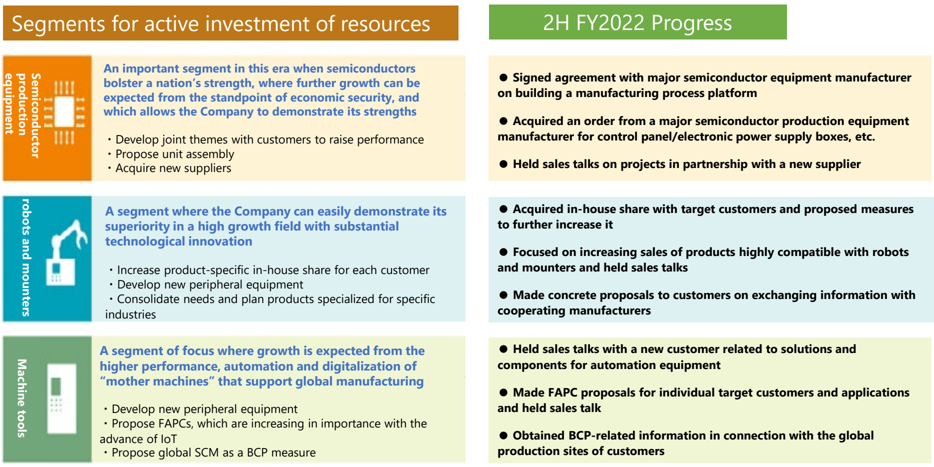
(2) The strategic policy as well as progress

In terms of the basic policies that the Company will implement in "SNS2024," the Company has set forth three basic policies: a) Focus on growth fields that require innovation, b) Provide even higher value-added products and new solutions, and c) Help to realize a sustainable society through sustainability management. By implementing these policies, the Company intends to reach its performance targets. Progress made thus far on the policies is described below.

a) Focus on growth fields that require innovation

The Company has classified the customer segments where it will allocate resources based on the dual axes of its strengths and market appeal (market size, growth rate, and profitability). These customer segments are classified into the following three fields: fields where resources are actively allocated, fields where resources are selectively allocated, and other fields. By formulating and executing business strategies tailored to each customer segment, the Company seeks to increase gross profit.

Progress and results of strategic policies by customer segment



Source: The Company's results briefing materials

The Company has identified three fields as fields where resources are actively allocated: semiconductor production equipment, robots and mounters, and machine tools. The semiconductor production equipment field is positioned as a crucial segment where the Company can demonstrate its strengths, given that the semiconductor industry is seen as a crucial field as a matter of national government policy and can also be expected to grow from the perspective of economic security. The Company has identified its main strategies as developing joint themes with customers that lead to improved performance, advancing proposals for unit assemblies that lead to cost reductions, and developing relationships with new suppliers, which is essential to attracting new prospective customers. By implementing these strategies, the Company aims for growth of at least 15% per year in gross profit. With regard to progress made in 2H FY3/23, the Company entered into an agreement with a major semiconductor production equipment manufacturer to build a manufacturing process platform and it acquired new orders for control panel/electronic power supply boxes and other products. It also succeeded in acquiring a new customer that is a major player in the industry. Gross profit in FY3/23 rose 24.8% YoY, exceeding the forecast to get off to a good start, but in FY3/24, the relative strength of customers will vary, so it is possible that the brakes will be applied temporarily.

The robots and mounters field is a high-growth sector with rapid technological innovation, and is a segment where the Company can easily demonstrate its competitive advantages. The Company's main strategies entail a policy of gathering information and customer needs and placing focus on designing products tailored to specific industries, in addition to promoting efforts that involve increasing product-specific in-house share for each customer and developing new customers for peripheral devices. By implementing these strategies, the Company aims for growth of at least 10% per year in gross profit. Regarding progress in 2H FY3/23, the Company acquired in-house share at target customers and proposed measures to further increase it and also focused on increasing sales of products that are highly compatible with robots and mounters. Gross profit in FY3/23 edged up 0.4% YoY, falling short of the forecast, but the main factor was a slowdown in orders from chip mounter manufacturers caused by protracted stagnation in the smartphone and personal computer markets. In FY3/24, however, the field is expected to get back on a growth track owing to anticipated increases in investment by the automotive-related industry centering on the EV-related sector.

In the machine tools field, machine tools serve as so-called "Mother Machines" that support global manufacturing. The field is positioned as a segment where the development of higher performance Mother Machines, as well as their automation and digitalization, offer prospects for growth. The Company pushes ahead with main strategies that include proposing factory automation PCs (FAPCs), which are becoming increasingly important in the development of new customers for peripheral devices and adoption of IoT, and making proposals for the business of global SCM solutions that serve as BCP measures. By implementing these strategies, the Company aims for growth of at least 10% per year in gross profit. With regard to progress in 2H FY3/23, the Company held sales talks with a new customer on solutions and components for automation equipment and made proposals of FAPCs for individual target customers and applications and thereby acquired opportunities for sales negotiations. It also worked to acquire BCP-related information in connection with the global production sites of customers. Gross profit in FY3/23 increased 15.0% YoY, nearly in line with expectations. However, the Company believes gross profit may stagnate in FY3/24 in part as a reaction to the growth of the previous period.

The Company has identified the following three fields as fields where resources are selectively allocated: factory automation equipment, on-board products, and facilities. Selective allocation of resources refers to the process of business domains by collaborating with partner companies through such means as forming capital and business alliances, depending on conditions. The factory automation equipment field has an expansive customer base and a wide range of product models, and is accordingly the field with the largest gross profit from among the Company's operations. The Company has three strategies for the future: focus on the factory automation component industry on a global scale, create strategic products based on mass production applications, and strengthen the supply of information by actively harnessing digital tools. By implementing these strategies, the Company aims for growth of at least 10% per year in gross profit. With respect to progress in 2H FY3/23, the Company held new sales talks with an ultra major company on starting to build a system for global sales expansion, increased sales of control and detection equipment and acquired opportunities for sales negotiations through proposal activities. Further, the Company communicated information through direct mail and online sales activities to introduce strategic products and events. Gross profit in FY3/23 increased significantly, by 31.0% YoY, as growth far exceeded the forecast, but partly as a reaction to this some slowing is possible in FY3/24.

In the on-board products field, the advent of a once-in-a-century period of transformation makes this a segment in which the Company is likely to encounter evolution of automotive electrical systems and market expansion, particularly with respect to CASE* technologies. The Company has three main strategies in this field: develop new customers through cross-field expansion of existing products, develop new strategic products globally, and build an organization geared to developing new customers. By implementing these strategies, the Company aims for growth of at least 10% per year in gross profit. As for progress in 2H FY3/23, the Company's sales activities resulted in sales talks with a new prominent tier 1 manufacturer that led to prototyping and new orders. The Company proposed distinctive new strategic products and technologies to tier 1 manufacturers. It also strengthened its sales force and had quality control employees participate in sales talks. As a result of these efforts, gross profit in FY3/23 grew steadily, for a YoY increase of 14.5%. Double-digit growth is expected in this field in FY3/24 as well against the backdrop of a recovery in automobile production.

* CASE: A word coined from the initial letters of the words Connected, Autonomous (automated driving), Shared & Services (car sharing and services) and Electric (electric vehicles). It is a keyword that encapsulates next-generation trends in the automobile industry.

The facilities field is positioned as a segment that covers a wide range of industries and one with heightened engineering needs to address automation and sustainability. The Company's main strategies in this field include making added-value proposals to customers through unified sales and engineering, expanding projects by collaborating with system integrators in the food industry, and improving profitability through facility packaging and cross-field expansion. By implementing these strategies, the Company aims for growth of at least 10% per year in gross profit. As for progress in 2H FY3/23, the number of inquiries for new facilities increased and orders were received for projects in the food products industry through collaboration with a systems integrator. In addition, as a new solution, the Company devised and proposed a packaging concept that includes robotic picking using a barcode positioning system and 3D cameras and data collection on CO_2 emissions. Gross profit in FY3/23 fell 10.5% YoY, the only field to record a decline. The Company believes that profit may continue to stagnate in FY3/24 as well due to the impact of economic slowing.

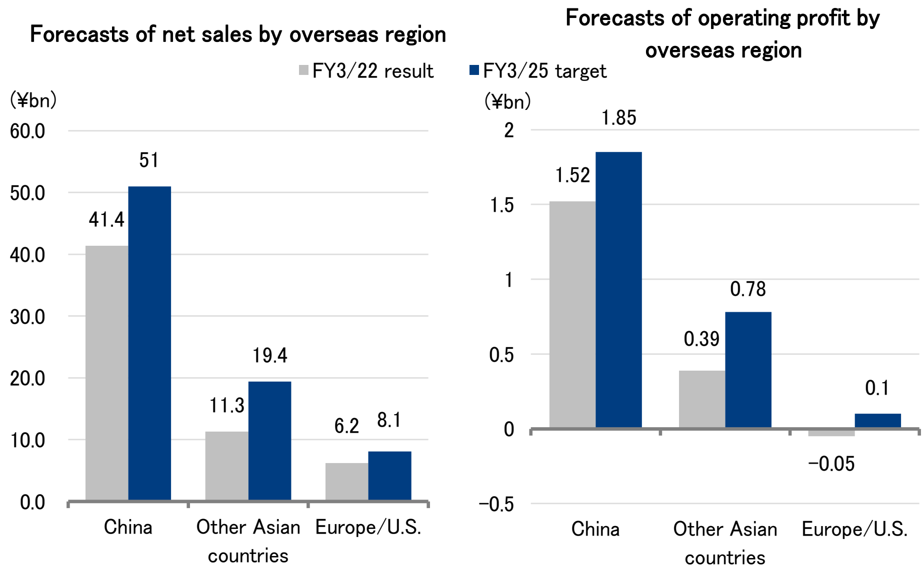
The Company aims to achieve a total increase of ¥4.1bn in gross profit across the aforementioned six fields over the next three years of the plan period, and is also poised to attain higher levels of gross profit in other fields as well. It got off to a smooth start in FY3/23 thanks in part to strong performances from the factory automation equipment and semiconductor production equipment fields, which have a high share of sales.

b) Provide even higher value-added products and new solutions

With regard to providing even higher value-added products and new solutions, the Company intends to identify fields of focus and secure resources through development of a technology strategy, raise business efficiency and provide value by formulating and promoting Sun-Wa DX (SDX), and raise the overseas sales ratio by providing solutions for bolstering the resilience of global supply chains.

Regarding the overseas sales ratio, the Company will promote strategies formulated for each region to achieve its target for FY3/25 of 40% (it was 35.9% in FY3/23). In China, the Company will expand from its 15 current sites to 20 sites, provide the latest technologies and high-quality services, and develop a human resources system that is a good fit with local employees. It will aim for net sales of ¥51.0bn and operating profit of ¥1.85bn (net sales of ¥41.4bn and operating profit of ¥1.52bn in FY3/22). In addition, in Asia, the Company will build a stable business base and strengthen sales capabilities as a distributor while also developing the organization for comprehensive sales activities. It will aim for net sales of ¥19.4bn and operating profit of ¥0.78bn (net sales of ¥11.3bn and operating profit of ¥0.39bn in FY3/22). (It will have 12 sites when including the Indian affiliate to be established in September.) In Europe and the U.S., the Company will take on the challenge of new business, conduct global export sales of products, and work to increase recognition of the Company. By doing so it is aiming for net sales of ¥8.1bn and operating profit of ¥0.1bn (net sales of ¥6.2bn and an operating loss of ¥0.05bn in FY3/22). (It has six sites in the region.)

With regard to new products, the Company is conducting proposal activities to sell odor sensors from a European manufacturer to cosmetic manufacturers and other companies in Japan. The exchange rate assumed by the Company's medium-term management plan was changed from ¥115 to ¥129 per U.S. dollar.



Source: Prepared from the Company's medium-term management plan materials

c) Help to realize a sustainable society through sustainability management

The Company continues to view measures to realize a sustainable society as one of management's most important issues. Therefore, it will promote these measures through its business activities while working to foster the education and development of its employees. Notably, the Company carries an extensive range of electrical machinery, electronic parts, and facilities and machinery that can achieve energy and labor savings as measures to combat global warming. We at FISCO believe that the Company has substantial growth opportunities as an enterprise that will contribute to a decarbonized society through its business activities.

With regard to its approach to a decarbonized society, through sales of environmentally friendly products, the Company intends to create emission reduction effects that are over 100 times more than its greenhouse gas emissions (Scopes 1, 2 and 3) by fiscal 2050 (compared to fiscal 2020) and is also targeting a 20% reduction in its own greenhouse gas emissions (Scopes 1 and 2) by fiscal 2030 (compared to fiscal 2020) by continuing initiatives to reduce its environmental impact. In addition, it will launch the energy management system (EMS) business as a new business and promote solution proposals that include reducing costs from electricity charges, the burden of which has been increasing.

With regard to diversity and inclusion, the Company has set a goal of having at least 10% female managers by FY3/30 (8.3% in FY3/23) and will work to increase employee engagement by further promoting work style reforms started by its DX promotion project and seeking to foster an awareness within each employee of improving business performance and taking part in management by encouraging their participation in the employee shareholding association.

(3) Additional measures

The Company announced the following three new additional measures in order to quickly achieve a PBR of over 1.0x and sustainably raise corporate value.

a) Increase return on capital by promoting "SNS2024"

The Company established the new Innovation Div. in April 2023 and will develop a technology strategy to further expand high value-added business and raise profitability. The Innovation Div. was organized to further strengthen the Company's engineering business, which it has worked to develop over the past several years. The new unit will work for greater coordination with the sales division than in the past in order to conduct order acquisition activities with an emphasis on profitability. The Company originally focused on obtaining orders for potential projects to the extent possible and this resulted in not meeting profitability targets.* Learning from this, the Company will focus on capturing projects with higher value-added for which it can demonstrate a competitive advantage.

* The target gross profit ratio of the engineering business division was initially set at 25-30%, but it was in the lower half of the 10% range over the past several years, slightly above the company-wide average.

In addition, the Company intends to promote management with an awareness of capital costs and the stock price, and as a part of this, it will reduce its cross-shareholdings, which are currently just over ¥8.0bn. The Company has extensively held the shares of its business partners, but it will reduce its holdings by selling shares that if sold will not have an impact on that company's stock price. Proceeds from these sales will be allocated to share buybacks and for other uses.

b) Enhance shareholder returns

The Company targets a consolidated payout ratio of 25-35%, its indicator of performance-linked profit distribution, and also buys back its own shares on a flexible basis depending on the timing and financial conditions (details provided below).

c) Enhance investor and shareholder relations

In order for its stock price to appropriately reflect its corporate value, the Company believes it is necessary to not only improve its business performance but also further enhance the information it discloses to investors and shareholders. It will establish a new PR/IR Office and strengthen briefings for institutional and individual investors as well as individual interviews for shareholder relations.

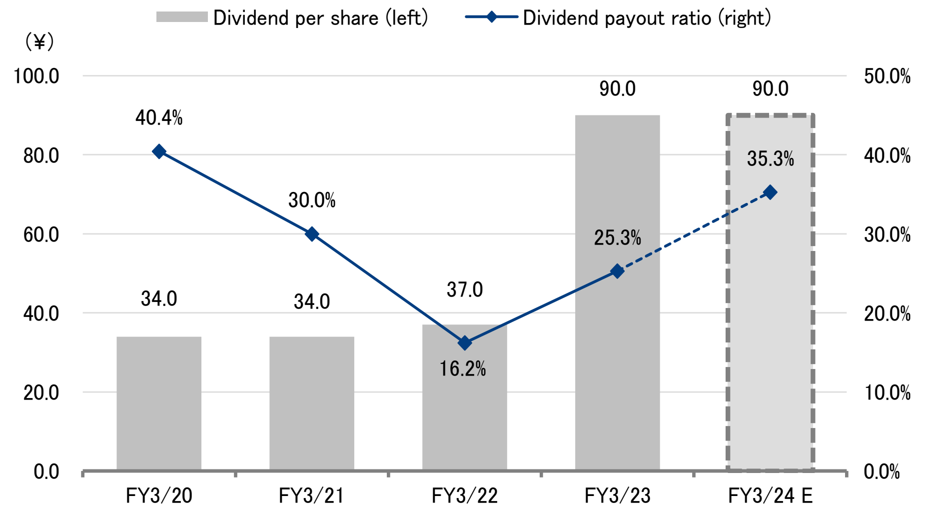
Shareholder return policy

Strengthen shareholder return policy to quickly achieve a PBR of over 1.0x

The Company announced that it will be strengthening its shareholder return policy, which is one of the measures it is taking to quickly achieve a PBR of over 1.0x. Specifically, it indicated that it will be targeting a consolidated payout ratio of 25-35% as a specific indicator of profit distribution while maintaining a basic policy of conducting shareholder returns based on consolidated results from a medium- to long-term perspective as it continues to maintain a stable dividend. Based on this policy, the Company's per-share dividend for FY3/23 was increased significantly from the previous year, by ¥53.0 to ¥90.0 (for a payout ratio of 25.3%), and it plans to pay the same dividend, ¥90.0 (payout ratio of 35.3%), in FY3/24 as well. Going forward, the Company can be expected to increase its dividend if the consolidated payout ratio falls below 25.0%.

In addition, with regard to share buybacks, the Company has clarified its policy of flexible purchases depending on the timing and financial conditions, and it announced a share buyback in May 2023. Specifically, it will acquire up to ¥700,000 shares for an acquisition price of up to ¥1.0bn. The buyback will be conducted from May to October 2023. The amount is equivalent to 4.52% of total shares outstanding (excluding treasury stock), and the total payout ratio, which includes dividends and share buybacks, is expected to be just under 60%. Net assets per share at the end of FY3/23 was ¥2,873, for a PBR of just 0.7x, so active shareholder returns aimed at achieving a PBR of over 1.0x are expected going forward.

Dividend per share and dividend payout ratio



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

Simplified income statement and main indicators

(¥mn)

	FY3/20	FY3/21	FY3/22	FY3/23	FY3/24 E
Net sales	137,943	134,769	154,414	181,013	175,800
YoY	-5.1%	-2.3%	14.6%	17.2%	-2.9%
Gross profit	14,421	14,224	18,772	23,039	-
Gross profit margin	10.5%	10.6%	12.2%	12.7%	-
SG&A expenses	12,574	12,071	13,967	15,408	-
SG&A expenses ratio	9.1%	9.0%	9.0%	8.5%	-
Operating profit	1,846	2,152	4,804	7,630	5,510
YoY	-45.8%	16.6%	123.2%	58.8%	-27.8%
Operating profit margin	1.3%	1.6%	3.1%	4.2%	3.1%
Ordinary profit	2,144	2,567	5,195	7,675	5,690
YoY	-40.9%	19.7%	102.4%	47.7%	-25.9%
Profit attributable to owners of parent	1,341	1,786	3,577	5,493	3,950
YoY	-49.0%	33.2%	100.3%	53.6%	-28.1%
EPS (¥)	84.11	113.23	228.33	355.08	255.14
Dividend (¥)	34.00	34.00	37.00	90.00	90.00

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

Status of Cash Flows

(¥mn)

	FY3/20	FY3/21	FY3/22	FY3/23
Cash flows from operating activities	3,238	1,589	792	-545
Cash flows from investing activities	-200	-141	244	-731
Cash flows from financing activities	-945	-309	-580	906
Cash and cash equivalents at end of period	11,568	12,629	13,565	13,661

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

Management indicators

(¥mn)

	FY3/20	FY3/21	FY3/22	FY3/23
Equity ratio	44.2%	45.9%	40.9%	41.7%
Interest-bearing debt ratio	21.1%	20.1%	20.5%	21.5%
ROE	4.2%	5.4%	9.8%	13.3%
Net cash	5,343	6,065	6,244	4,588

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

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