COMPANY RESEARCH AND ANALYSIS REPORT

Elematec Corporation

2715

Tokyo Stock Exchange Prime Market

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Index

Summary

Currently promoting a 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. Profits declined year on year in FY3/24 1H, but reached the second-highest level ever, following the record-high profits achieved in the same period of the previous fiscal year

Results for FY3/24 1H were ¥102,135mn in net sales (down 17.1% year on year [YoY]), operating income of ¥4,556mn (down 31.3%), ordinary income of ¥4,203mn (down 31.3%) and profit attributable to owners of parent of ¥3,060mn (down 26.5%). By market, the Automotive segment saw revenue increase by 24.7% YoY with customers' increased production and adoption of new products. In the Digital Electronics segment, however, revenue declined 25.5% YoY mainly due to weak sales of LCD and other display-related products as well as electrical parts, semi-conductors and others. The Broad Market segment also saw revenue decline 21.8% YoY due to weak sales in the aftermarket, including a slump in dashboard cameras, and sluggish sales in power systems, train controls, ships and office automation machines. By region, revenue increased in Europe and the US, where automotive-related sales were strong, but other regions, including Japan, saw revenue decline. Gross profit margin improved by 0.7ppt YoY due to yen depreciation and changes in product composition, but with lower revenue declined by 11.7%. Operating income fell significantly as SG&A expenses increased 5.9% YoY. Operating income declined YoY given the strong performance in the same period of the previous fiscal year, but results for 1H were the second highest ever and are not necessarily cause for pessimism.

2. In FY3/24, operating income expected to decrease by 25.3 % YoY

For FY3/24 results, the Company is forecasting net sales of ¥207,000mn (down 13.7% YoY), operating income of ¥9,000mn (down 25.3%), ordinary income of ¥8,400mn (down 24.5%), and profit attributable to owners of parent of ¥6,000mn (down 22.0%). The initial forecast (net sales down 2.6%, operating income down 12.1% YoY) was thus revised downward. In net sales by market, we see nearly the same trend as in 1H, with the Automotive segment expected to remain strong and grow 27.4% YoY, but the Digital Electronics segment forecast to decline 28.9% YoY due to weak sales of display-related products, electrical parts and others. The Broad Market segment is also expected to decline 13.1% YoY due to expected declines in aftermarket (mainly dashboard cameras) and office automation machines. These figures assume an average USD-JPY exchange rate of ¥140 yen (versus ¥135.50 yen in the previous fiscal year).

3. Promoting the medium-term management strategy “elematec Pro+”

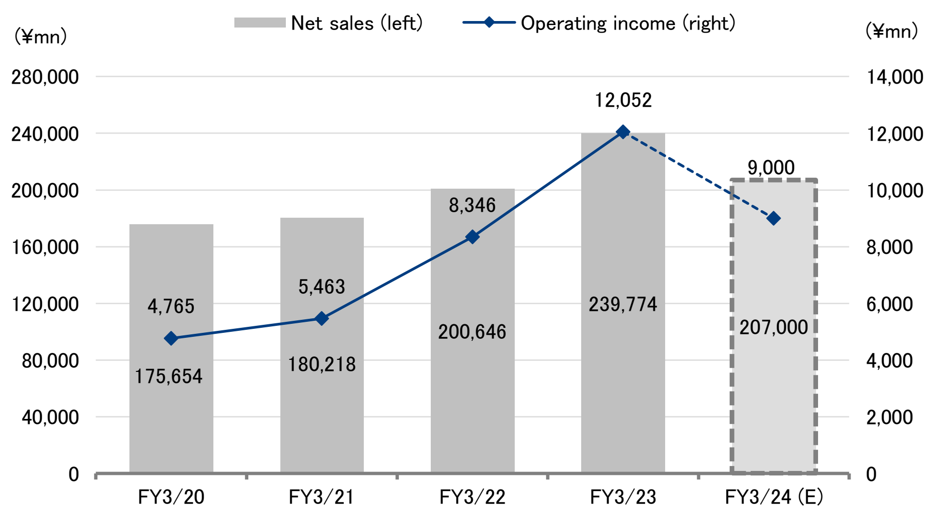
The Company announced its medium-term management strategy, “elematec Pro+” in April 2023. Under this medium-term management strategy, it will continue and further work on expanding high-value-added businesses, acquiring leading overseas customers, and focusing on the automotive business domain, which 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. Although the current business performance is stagnant, the Company’s policy remains unchanged to proceed steadily with these key measures.

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 Company has already announced that it will increase its annual dividend for FY3/24 to ¥85 per share (¥76 in the previous year) despite the decline in business results, which can be seen as a sign of its confidence in a future earnings recovery.

Key Points

- A general electronics trading company that handles a wide range of products, including electronic materials and electrical parts and equipment
- FY3/24 1H operating income declined 31.3% YoY, but maintained the second-highest level on record
- Announced the medium-term management strategy “elematec Pro+” and aims for a CAGR of 10% or more in ordinary income

Results trends



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

Company overview

An electronics trading company specializing in electronic 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 electronics products following technology and development trends, and grew into independent technology trading companies.

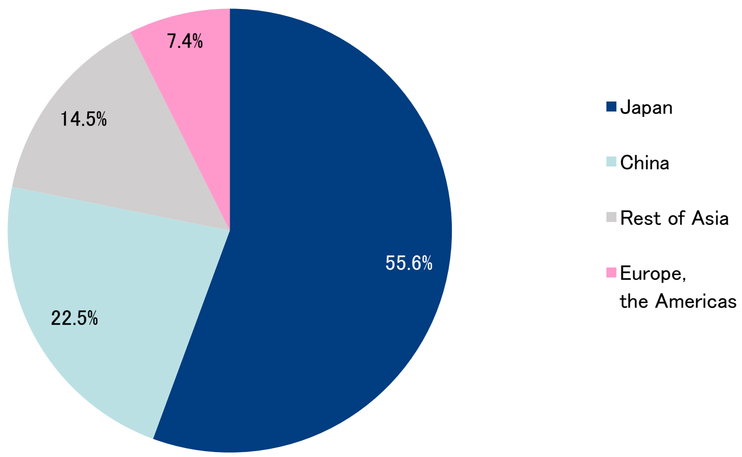
These companies merged in 2009 (with Takachiho Electric as the surviving entity) and changed the company name to Elematec Corporation. The Company has steadily grown since the merger, even though both companies mainly handled electronic materials, thanks to complementary geographical positions in Tokyo 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 (South Korea, India, Southeast Asia, etc.), and 7.4% in Europe and the Americas (US, Mexico, Czech Republic), according to the Company's financial results.

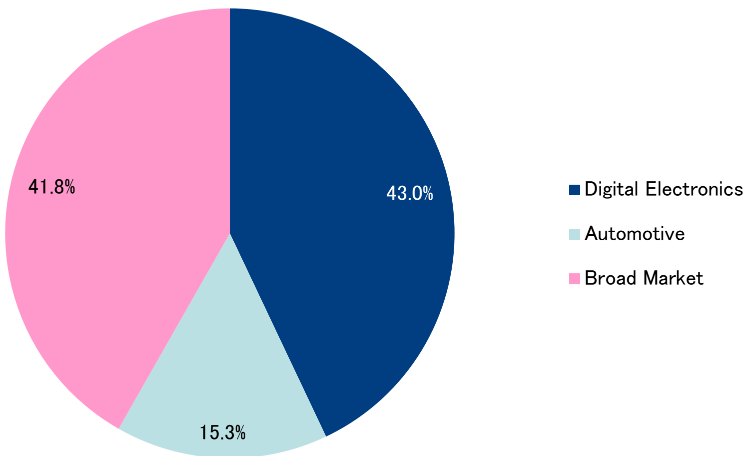
Net sales by region (FY3/23)



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

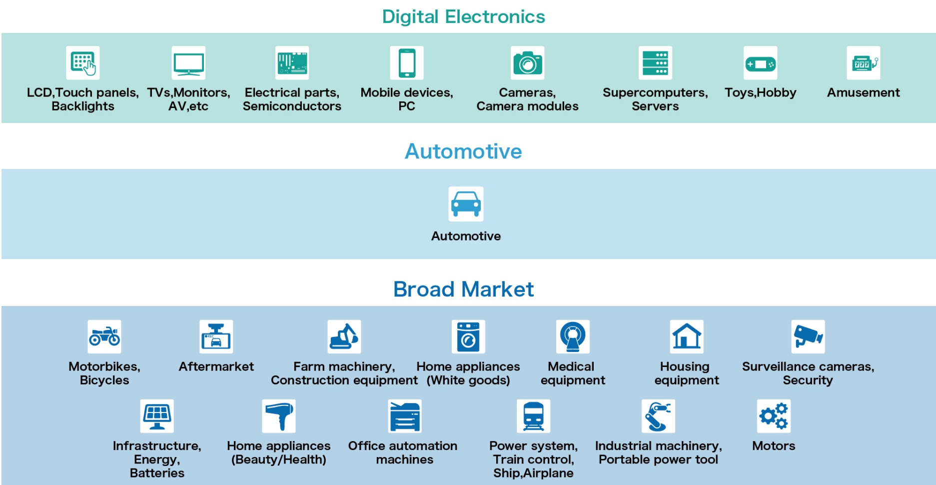
Grouping is important for management purposes because the Company has many customers on procurement and sales sides and handles a wide range of products. Previously, management was based on the products handled (supplier basis), but from FY3/15, the Company switched to a market-based classification system 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. The sales breakdown in FY3/23 was 43.0% in Digital Electronics, 15.3% in Automotive, and 41.8% in Broad Market.

Net sales trends by market (FY3/23)



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

The Company's focal markets



Source: Reprinted from 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," and 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 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

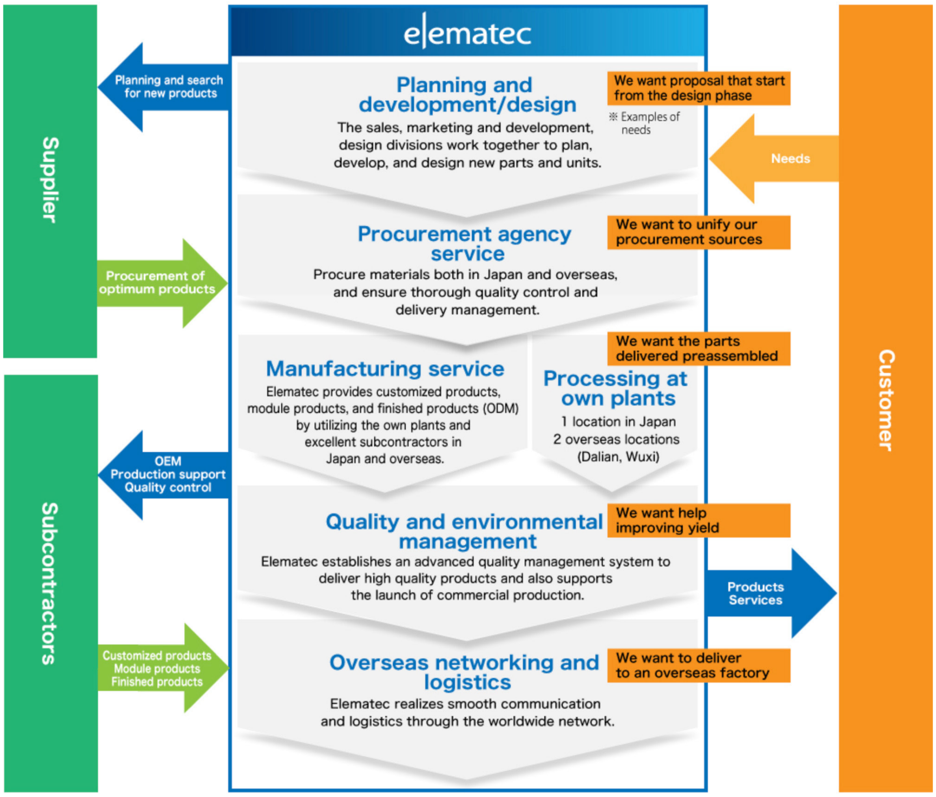
Maintaining a sophisticated quality control system to deliver high quality products.

(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: Reprinted from the Company's website

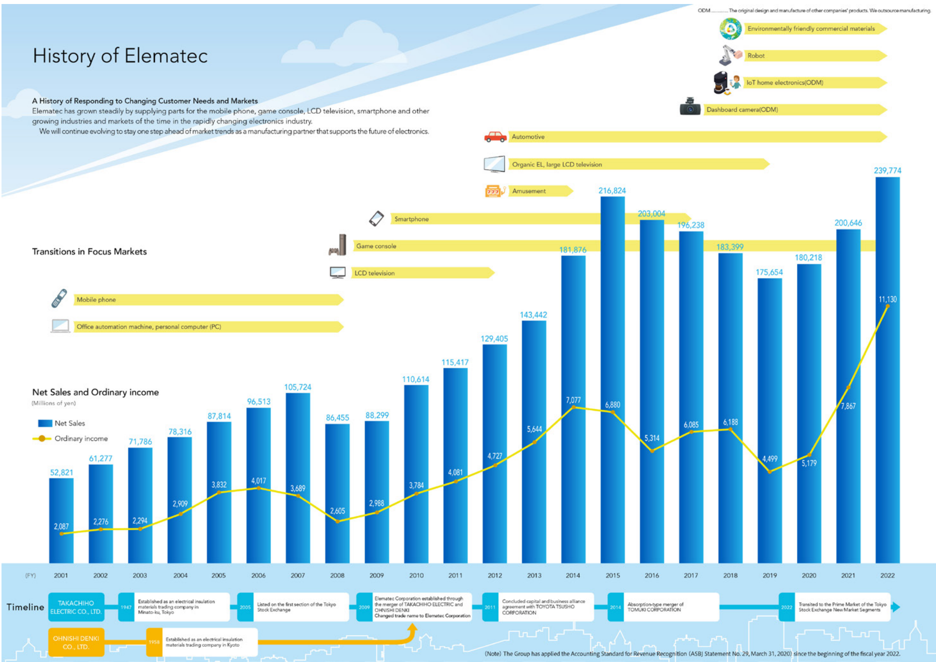
Has maintained earnings growth through a structure that enables it to ride a winning horse (take advantage of an opportunity)

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 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: Reprinted from the Company's Corporate Profile

Business performance

Operating income in FY3/24 1H declined 31.3% YoY, but was still at the second-highest level on record. Medium- to long-term upward trend remains unchanged

● Overview of FY3/24 1H results

(1) Trends in profit and loss

In FY3/24 1H, the Company recorded net sales of ¥102,135mn (down 17.1% YoY), operating income of ¥4,556mn (down31.3%), ordinary income of ¥4,203mn (down 31.3%), and profit attributable to owners of parent of ¥3,060mn (down 26.5%).

By market, revenue in the Automotive segment increased, but declined in the Digital Electronics and Broad Market segments. By region, revenue increased in Europe and the US where the automotive sector was strong, but declined in other regions, including Japan.

Gross profit margin improved 0.7ppt YoY, to 12.1%. While a loss on valuation of inventory of ¥130mn was recorded, cost ratios improved due to a depreciating yen and changes in product composition. Still, a decline in revenue caused gross profit margin to fall by 11.7% YoY. SG&A expenses increased 5.9% to ¥7,784mn, due largely to an increase in personnel expenses of ¥70mn primarily from an increase in raises and promotions, etc., a decline in packing and freight charges of ¥196mn associated with a drop in revenue, and an increase of ¥558mn in other expenses, including an allowance for doubtful accounts of ¥310mn. In addition, because the Company is an export-oriented trading company, its performance is affected by exchange rates (yen appreciation has a negative impact, while yen depreciation has a positive impact). According to the Company, a one yen change in the exchange rate has an impact of approximately ¥1,300mn on net sales and ¥70mn on ordinary income. The average USD-JPY exchange rate in FY3/24 1H was ¥141.06 (¥134.03 in the previous fiscal year).

Summary of FY3/24 1H results

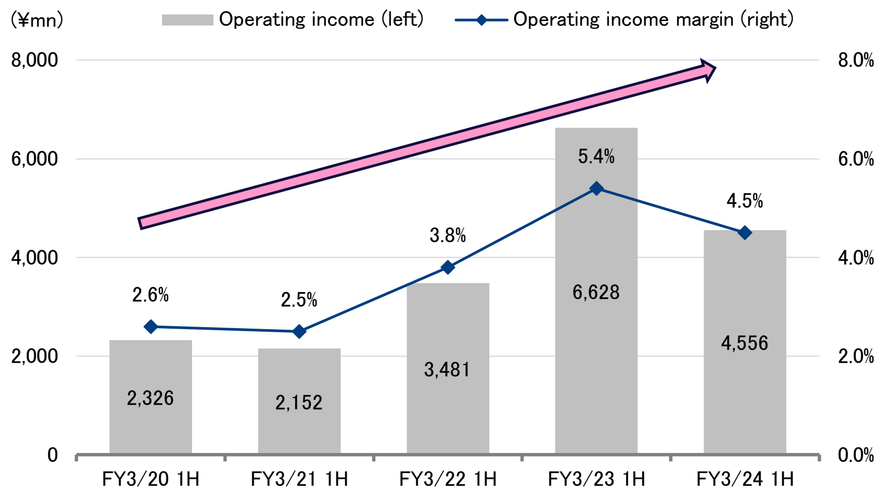
(¥mn)

	FY3/23 1H		FY3/24 1H			
	Amount	Composition	Amount	Composition	Change	Change (%)
Net sales	123,167	100.0%	102,135	100.0%	-21,032	-17.1%
Gross profit	13,980	11.4%	12,341	12.1%	-1,639	-11.7%
SG&A expenses	7,351	6.0%	7,784	7.6%	433	5.9%
Operating income	6,628	5.4%	4,556	4.5%	-2,072	-31.3%
Ordinary income	6,122	5.0%	4,203	4.1%	-1,919	-31.3%
Profit attributable to owners of parent	4,164	3.4%	3,060	3.0%	-1,104	-26.5%

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

Operating income declined YoY given the strong performance in the same period of the previous fiscal year, but results for 1H were the second highest ever and are not necessarily cause for pessimism. As is clear from the chart below, levels are about double compared to FY3/20 1H, and seen in the medium to long term, operating income can be said to be maintaining its upward trend.

Change in 1H operating income and operating income margin



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

The Automotive segment continued to grow due to customers' increased production and adoption of new products, but revenue declined in the Digital Electronics and Broad Market segments due to a rebound from the previous fiscal year

(2) Net sales by market

In the Digital Electronics segment, net sales were ¥40,835mn (down ¥14,013mn or 25.5% YoY), mainly due to a ¥8,422mn decline in display-related sales, including LCDs, touch panels (TPs) and backlights (BLs). Sales of electrical parts and semiconductors were down ¥4,261mn due to sluggish customer production, while sales of mobile devices and PCs fell by ¥1,194mn due to weak demand for smartphones and other products.

Net sales in the Automotive segment were solid at ¥21,090mn (an increase of ¥4,178mn or 24.7% YoY), due in part to a recovery in customers' automobile production as well as the adoption of new products and other factors.

In the Broad Market segment, net sales were ¥40,209mn (down ¥11,197mn or 21.8% YoY). Net sales declined ¥5,327mn in the aftermarket, mainly due to a slowdown in the popularity of dashboard cameras, which has run its course. Power systems, train controls and ships declined ¥1,067mn and office automation machines fell by ¥1,015mn.

Breakdown of net sales trends by market

(¥mn)

	FY3/23 1H		FY3/24 1H				
	Amount	Composition	Amount	Composition	Change (%)	Main target markets	Change
Digital Electronics	54,848	44.5%	40,835	40.0%	-25.5%	LCDs, touch panels, and backlights	-8,422
						Electrical parts, Semiconductors	-4,261
						Mobile devices, PCs	-1,194
Automotive	16,912	13.7%	21,090	20.6%	24.7%	Overall automotive	4,178
Broad Market	51,406	41.7%	40,209	39.4%	-21.8%	Aftermarket	-5,327
						Power systems, train controls, ships	-1,067
						Office automation machines	-1,015
Total	123,167	100.0%	102,135	100.0%	-17.1%		-21,032

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

(3) Net sales by region

In terms of net sales by region, net sales in Japan were ¥56,556mn (down 14.0% YoY), net sales in China were ¥21,980mn (down 26.2%), net sales in other Asian areas were ¥14,160mn (down 26.9%), and net sales in Europe and the US were ¥9,438mn (up 15.0%) according to the Company's financial results. The strong sales in Europe and the US were largely attributable to growth in the automotive sector.

By region, segment profit was ¥1,352mn (down 55.5% YoY) in Japan, ¥1,541mn (down 14.8%) in China, ¥747mn (down 15.5%) in other Asian areas, and ¥407mn (up 72.1%) in Europe and the US.

Sales by region

(¥mn)

	FY3/23 1H		FY3/24 1H			
	Amount	Composition	Amount	Composition	Change	Change (%)
Net sales	123,167	100.0%	102,135	100.0%	-21,032	-17.1%
Japan	65,800	53.4%	56,556	55.4%	-9,244	-14.0%
China	29,801	24.2%	21,980	21.5%	-7,821	-26.2%
Other Asian areas	19,361	15.7%	14,160	13.9%	-5,201	-26.9%
Europe, US	8,204	6.7%	9,438	9.2%	1,234	15.0%
Operating income	6,628	5.4%	4,556	4.5%	-2,072	-31.3%
Japan	3,038	4.6%	1,352	2.4%	-1,686	-55.5%
China	1,807	6.1%	1,541	7.0%	-266	-14.8%
Other Asian areas	885	4.6%	747	5.3%	-138	-15.5%
Europe, US	236	2.9%	407	4.3%	171	72.1%
(Adjustment amount)	660	-	508	-	-	-

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

Financial base is sound, with ample cash of ¥41.2bn on hand

(4) Financial condition

As of the end of FY3/24 1H, current assets totaled ¥115,052mn (up ¥7,746mn from the end of FY3/23). Key factors were a ¥8,281mn increase in cash and deposits, a ¥1,776mn decrease in notes and accounts receivable-trade, and a ¥1,315mn increase in inventories. Non-current assets were ¥6,823mn (up ¥216mn). This was mainly due to a ¥120mn increase in property, plant and equipment, a ¥34mn decrease in intangible assets, and a ¥130mn increase in investments and other assets. As a result, total assets at the end of FY3/24 1H were ¥121,876mn (down ¥7,962mn).

Meanwhile, current liabilities were ¥51,709mn (up ¥5,179mn from the end of FY3/23). The main factors were a ¥5,431mn increase in notes and accounts payable-trade and a ¥538mn decrease in short-term loans payable. Total net assets were ¥68,125mn (up ¥2,547mn) due to factors including a ¥1,054mn increase in retained earnings resulting from the recording of profit attributable to owners of parent and a ¥1,480mn increase in foreign currency translation adjustment. As a result, the equity ratio at the end of FY3/24 1H was 55.9% (compared to 57.6% at the end of FY3/23).

Consolidated balance sheets

(¥mn)

	End of FY3/23	End of FY3/24 1H	Change
Cash and deposits	32,966	41,248	8,281
Notes and accounts receivable-trade	57,906	56,129	-1,776
Inventories	15,354	16,669	1,315
Total current assets	107,306	115,052	7,746
Property, plant and equipment	3,431	3,552	120
Intangible assets	287	253	-34
Investments and other assets	2,887	3,017	130
Total non-current assets	6,606	6,823	216
Total assets	113,913	121,876	7,962
Notes and accounts payable-trade	40,311	45,742	5,431
Short-term loans payable	1,093	555	-538
Other	3,206	3,292	86
Total current liabilities	46,530	51,709	5,179
Total non-current liabilities	1,804	2,041	237
Total liabilities	48,335	53,750	5,415
Retained earnings	57,412	58,467	1,054
Foreign currency translation adjustment			
Total net assets	65,577	68,125	2,547

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

(5) Status of cash flows

Net cash provided in operating activities in FY3/24 1H was ¥10,731mn. The main inflows were ¥4,203mn in income before income taxes, ¥548mn in depreciation and amortization, a decrease of ¥3,684mn in notes and accounts receivable-trade and of ¥2,556mn in bankruptcy reorganization claims, etc., and an increase of ¥3,588mn in notes and accounts payable-trade. Primary outflows included a decline of ¥2,555mn in allowance for doubtful accounts and an increase of ¥518mn in inventories.

Net cash used in investing activities was ¥581mn. The main outflows included ¥516mn in purchase of property, plant and equipment (mainly molds) and ¥19mn in purchase of intangible assets. Net cash used in financing activities was ¥2,822mn. The main outflows were ¥629mn in decrease in short-term loans payable ¥185mn in repayments of lease liabilities and ¥2,006mn in cash dividends paid. As a result, cash and cash equivalents during FY3/24 1H increased ¥8,281mn, and the balance at the end of the quarter was ¥41,248mn. The Company still has ample cash on hand and its financial position is stable.

Consolidated Statements of cash flows

(¥mn)

	FY3/23 1H	FY3/24 1H
Cash flows from operating activities	-2,820	10,731
Income before income taxes	6,122	4,203
Depreciation and amortization	559	548
Increase (decrease) in allowance for doubtful accounts	-17	-2,555
Decrease (increase) in notes and accounts receivable-trade	-5,240	3,684
Decrease (increase) in bankruptcy reorganization claims	1	2,556
Decrease (increase) in inventories	-1,474	-518
Increase (decrease) in notes and accounts payable-trade	-1,819	3,588
Cash flows from investing activities	-439	-581
Purchase of property, plant and equipment	-443	-516
Purchase of intangible assets	-20	-19
Cash flows from financing activities	-783	-2,822
Net increase (decrease) in short-term loans payable	886	-629
Repayment of lease liabilities	-197	-185
Cash dividends paid	-1,473	-2,006
Net increase (decrease) in cash and cash equivalents	-3,189	8,281
Cash and cash equivalents at the end of the quarter	27,563	41,248

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

Outlook

In FY3/24, expects sales to decrease in all segments except for the Automotive segment due to a rebound from the previous fiscal year, and projects a 13.7% YoY decrease in net sales and a 25.3% decrease in operating income

● Forecasts for FY3/24

(1) Outlook of profit and loss

For FY3/24, the Company expects the same trend to continue as in 1H, and projects net sales of ¥207,000mn (down 13.7% YoY), operating income of ¥9,000mn (down 25.3%), ordinary income of ¥8,400mn (down 24.5%), and profit attributable to owners of parent of ¥6,000mn (down 22.0%). While the Automotive segment is expected to remain strong, sales of the Digital Electronics and Broad Market segments are expected to decline.

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%	207,000	100.0%	-32,774	-13.7%
Operating income	12,052	5.0%	9,000	4.3%	-3,052	-25.3%
Ordinary income	11,130	4.6%	8,400	4.1%	-2,730	-24.5%
Profit attributable to owners of parent	7,696	3.2%	6,000	2.9%	-1,696	-22.0%

Note: Figures for FY3/24 forecast are after revision
Source: Prepared by FISCO from the Company's results briefing materials

(2) Net sales forecasts by market

By market, net sales in Digital Electronics segment are forecast to be ¥73,269mn (down ¥29,727mn or 28.9% YoY). Sales of LCDs, touch panels, and backlights are expected to decline by ¥17,007mn due to expected ongoing inventory adjustments at customers. Electrical parts and semiconductors are also expected to decline by ¥5,008mn due to sluggish production at customers. Inventory adjustments are likely in toys and hobby items, primarily game consoles, and a ¥4,735 decline in revenue is forecast.

In the Automotive segment, net sales are forecast to be ¥46,687mn (up ¥10,034mn or 27.4% YoY) due to the acquisition of new projects related to EV (Electric Vehicle) and the expected steady growth in automotive production.

In the Broad Market segment, net sales are forecast to be ¥87,042mn (down ¥13,081mn or 13.1% YoY). Sales for aftermarket products are expected to decrease by ¥11,802mn due to factors including a significant decline in sales of dashboard cameras, which were strong until the previous fiscal year, as customers shifted to in-house production and market diffusion has settled down. Sales of office automation machines are expected to decline by ¥1,662mn, and sales of power systems and train controls are also expected to fall by ¥1,115mn.

Net sales forecasts by market

(¥mn)

	FY3/23		FY3/24 (E)				
	Amount	Composition	Amount	Composition	Change (%)	Main target markets	Change
Digital Electronics	102,996	43.0%	73,269	35.4%	-28.9%	LCDs, touch panels, and backlights	-17,007
						Electrical parts, semiconductors	-5,008
						Toys, Hobby	-4,735
Automotive	36,653	15.3%	46,687	22.6%	27.4%	Overall automotive	10,034
Broad Market	100,124	41.8%	87,042	42.0%	-13.1%	Aftermarket	-11,802
						Office automation machines	-1,662
						Power systems, train controls	-1,115
Total	239,774	100.0%	207,000	100.0%	-13.7%		-32,774

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

Medium- to long-term growth strategy

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

1. Basic policies of the medium-term management strategy "elematec Pro+"

The Company has announced its medium-term management strategy, "elematec Pro+" (FY3/24 to FY3/26) to follow on from "elematec NEXT" which was undertaken through the previous fiscal year. Below is an overview of that strategy.

(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.

a) 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

b) 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

c) 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

d) 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 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 fields." Based on this policy, it intends to promote the following four key measures.

a) Key measures

(Cultivate and deepen potential fields)

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

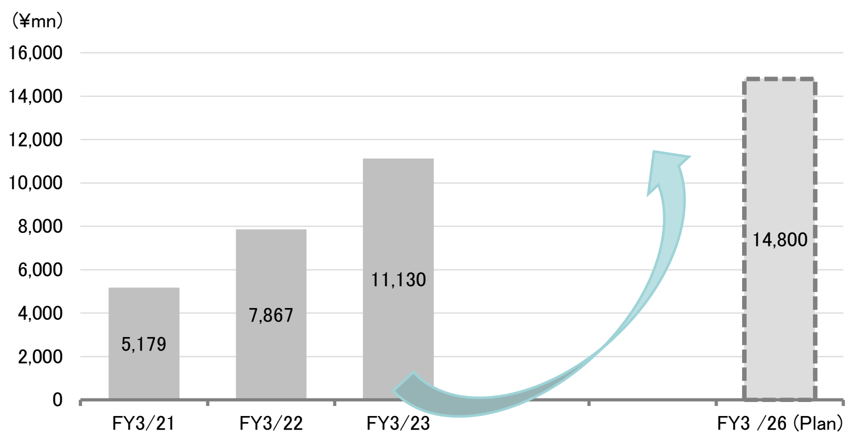
(Expand and strengthen management base)

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

b) Quantitative targets and key markets

The Company has set achieving a CAGR of 10% or more for ordinary income 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 income growth



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

2. 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

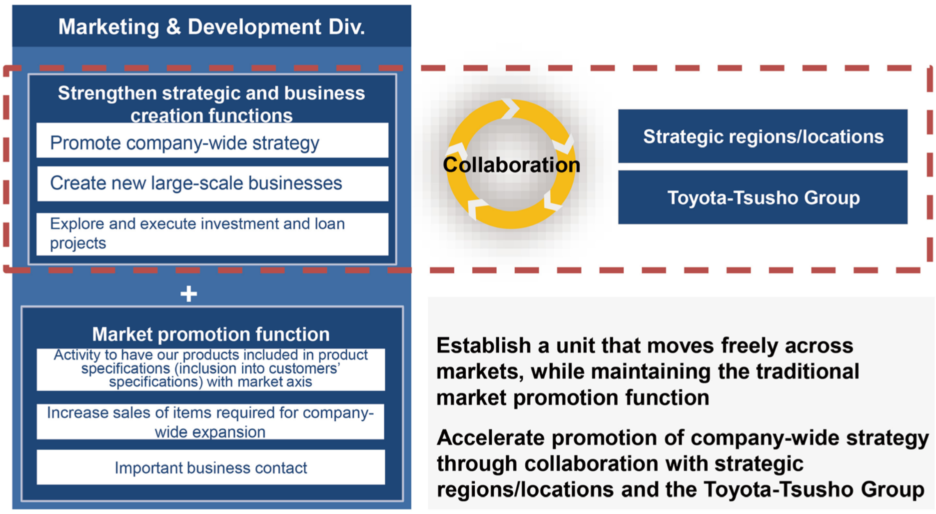
(ASEAN)

- 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: Reprinted from 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.

Initiatives progressing steadily

3. Progress with individual plans

(1) Full-scale cultivation of potential areas: Opening of Poland Branch

To date, the Company has opened a Europe Headquarters (Czech Republic) and a Germany Branch (Frankfurt). Thie new Poland Branch was opened with the goal of expanding sales in automotive-related businesses, etc. Going forward, the Company will further strengthen activity to see its products included in customer specifications in Europe and the US, and to move into Europe's Mega Tier 1.

(2) Strengthen the functions of the Marketing & Development Division: Establishment of a Development Planning Team

To achieve a Company-wide strategy under "elematec Pro+," the Company has established a new Development Planning Team. This team will be positioned a layer above the previous functional strategy and business strategy, responsible for promoting cross-group initiatives—including employees seconded from parent company Toyota Tsusho Corporation—for Company-wide strategies related to the entire organization (including promotion of investments and loans, realization of materiality, and development of potential areas).

Strengthen the functions of the Marketing & Development Division

Source: Reprinted from the Company's results briefing materials

(3) Focus on the automotive business domain
Continue focus on expanding sales of environmentally friendly/electricity-related materials for EVs.

Environmentally friendly/electricity-related materials for EVs

Materials/Products	Achievements
Heater module	Mass production orders for various heater modules
Motor generator-related materials	Mass production orders for magnets for motors
Battery refractory sheet ASSY	New adoption decision for other automobile models

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

Future developments include widespread deployment of domestic results to Europe's Mega Tier 1.

(4) Cultivate leading domestic and overseas customers
Results from the previous fiscal year: Increase in orders from US IT platform companies
Results from the current fiscal year: Achievements were recognized, other products changed commercial distribution to the Company and began for-fee trial production

In addition to the above, the Company has received orders for a new trial of foldable materials for a major US company, and will accelerate the development of major overseas companies.

Focus on respect for diversity and building of governance structures

4. Sustainability 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. The following is the progress to date and focus areas in key fields.

(1) Initiatives for SDGs: Human rights policy
In order to respect the human rights of all stakeholders involved in its business, the Company has formulated the Elematec Group Human Rights Policy based on its management principles and on "CODE 10," the ten provisions of its Code of Ethical Conduct.

(Outline of human rights policy)
- Compliance with international norms and laws
- Scope of application
- Respect for human rights through business activities
- Human rights due diligence
- Correction and remedy
- Complaint-handling mechanism
- Education
- Information disclosure
- Dialogue and consultation with stakeholders

(2) Initiatives for SDGs: Formulation of medium to long-term materiality goals

The Company has established medium- to long-term goals for materiality in the areas of: "Realization of a safe and secure society," "Reduction of environmental burdens and realization of a recycling-oriented society," "Construction of organizations that respect diversity and grow together," and "Construction of governance structures trusted by all stakeholders."

Materiality and Medium- to Long-term Goals

■ Formulation of medium- to long-term materiality goals

Materiality	Medium- to long-term goals
Realization of a safe and secure society	**Expand sales of high value-added products that respond to the evolution of mobility** - FY3/2022: 31.0 billion yen → FY3/2026: 32.5 billion yen
	Expand sales of products for medical diagnostic and testing equipment, etc. - FY3/2022: 8.4 billion yen → FY3/2026: 12.2 billion yen
Reduction of environmental burdens and realization of a recycling-oriented society	**Expand sales of commercial products for environmentally friendly vehicles and clean energy equipment** - FY3/2022: 3.7 billion yen → FY3/2026: 8.8 billion yen
	Expand sales of environmentally friendly products - FY3/2022: 2.7 billion yen → FY3/2026: 5.5 billion yen
Construction of organizations that respect diversity and grow together	**Provide opportunities for all employees to reach their full potential** - Review of employment system, promotion of health management, full renewal of personnel system, etc.
Construction of governance structures trusted by all stakeholders	**Strengthening the functions of the Board of Directors and ensuring compliance** - Increase in the ratio of External Members of the Board, election of female officers, etc. - Establishment of a specialized department in charge of compliance promotion

Source: Reprinted from the Company's results briefing materials

Shareholder return policy

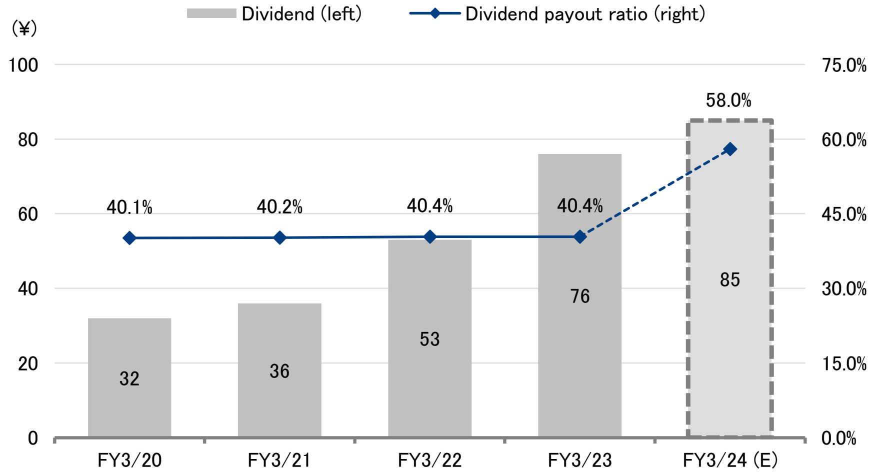
Changed its dividend policy, and plans to increase annual dividend to ¥85 (dividend payout ratio of 58.0%) for FY3/24

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 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 ¥85 (interim dividend of ¥40, term-end dividend of ¥45, dividend payout ratio of 58.0%) 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. Further, the Company's decision to increase its dividend despite the forecasted decrease in profits can be seen as a sign of its confidence in a future earnings recovery.

Trends in dividend and dividend payout ratio



Note: Figures follow reductions in FY3/24 forecast
Source: Prepared by FISCO from the Company's financial results

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