COMPANY RESEARCH AND ANALYSIS REPORT

SUN-WA TECHNOS CORPORATION

8137

Tokyo Stock Exchange Prime Market

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Summary

Forecast of a recovery in net sales from 2H onward and launch of new shareholder benefits to achieve a PBR of over 1.0x

SUN-WA TECHNOS CORPORATION <8137> (hereinafter, "the Company") is an independent 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 equipment, 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. It operates 30 business locations in Japan and 34 overseas (as of May 31, 2024).

1. Decreased sales and profits in FY3/24 due to a slowdown in the recovery of market demand and inventory adjustments by customers

In consolidated results for FY3/24, there was a decline in both sales and profits as net sales decreased 8.2% year on year (YoY) to ¥166,138mn and operating profit fell 18.5% to ¥6,215mn. The fall in net sales was due to orders received declining by 27.8% to ¥136,895mn as a repercussion of the accelerated procurement of parts in the period up to the previous fiscal year, as well as the prolonging of inventory adjustments by customers as the pressure on receivers of supplies seen in the previous fiscal year dissipated. Looking at results by industry, although demand related to renewable energy and labor-saving robotics was firm, there was a decline in sales of general electronic parts and electronic devices for the factory automation and semiconductor production equipment industries, as well as electrical machinery for the mounter industry.

2. Decreases in sales and profits forecast for FY3/25 but shift to recovery anticipated in 2H

For its FY3/25 consolidated results, the Company is forecasting a decline in both sales and profits with net sales decreasing 6.7% YoY to ¥155,070mn and operating profit falling 50.4% to ¥3,080mn. This forecast factors in the continuation of inventory adjustments by customers, as well as a slowdown in the Chinese economy and uncertainty in terms of geopolitical risk. Looking at sales on a half-year basis, the Company is forecasting net sales of ¥67,600mn in 1H and then a recovery to ¥87,470mn in 2H. At present, there are signs that some customers are moving toward resuming orders. The assumed exchange rate for the period is ¥137.90 to the U.S. dollar, anticipating that the yen will appreciate compared to the FY3/24 rate of ¥140.56 to the U.S. dollar. If exchange rates remain around current levels, it will have a positive impact on results*.

* The effects of a change of ¥1 to the U.S. dollar on business results translates to ¥510mn in net sales and ¥50mn in operating profit (assuming other currencies move at the same rate as the U.S. dollar).

3. Steady progress toward growth targets in the 11th medium-term management plan, "SNS2024 (Sun-Wa New Stage 2024)"

Under its 11th 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) Contribute to the realization of a sustainable society. In FY3/25, it plans to reinforce its sales capabilities by reorganizing its sales structure with the aim of further enhancing profitability. In addition to steadily cultivating new customers among major global companies, in May 2024 it established a second office in India as a countermeasure to risk associated with China. It is also advancing development in partnership with MTEC CO., LTD., and it continues to receive steady enquiries about the robotics solutions package launched in 2023 through this collaboration. It is expected to contribute to improved profitability going forward. The results of these initiatives are expected to manifest from FY3/26 onward and at FISCO, we expect to see a return to growth in business results.

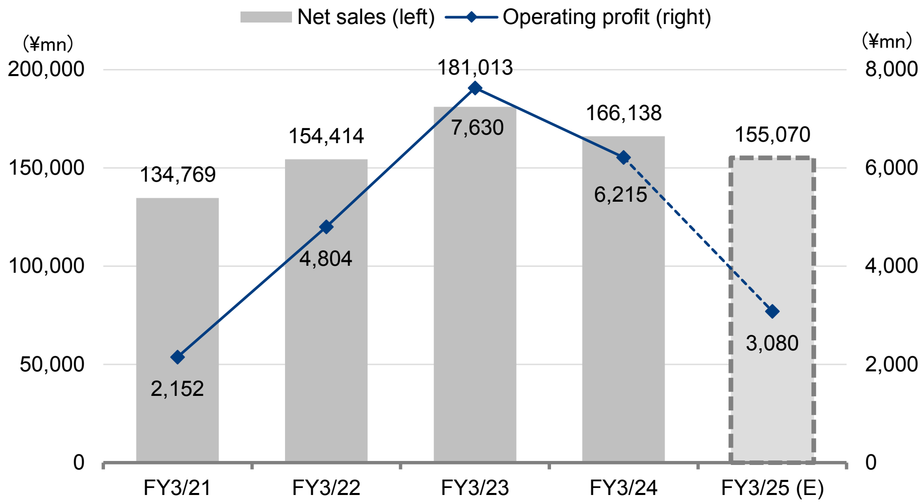
4. Enhancing shareholder return and launching new shareholder benefits to quickly achieve a PBR of over 1.0x

One of the initiatives being implemented by the Company as part of its strategy to quickly achieve a PBR of over 1.0x is to enhance shareholder returns. Its dividend policy includes a target payout ratio of 25-35% and in FY3/25 it plans to pay an annual dividend of ¥110.0 per share, comprising a regular dividend of ¥100.0 and a 75th anniversary commemorative dividend of ¥10.0 (payout ratio of 69.0%). This marks an increase of ¥15.0 compared to the previous fiscal year. It also plans to introduce a new shareholder benefits scheme. At the end of March each year, shareholders possessing 100 or more shares will receive a QUO card. The value of the card will be in accordance with the number of shares and the period for which they have been held (shareholders who have held between 100 and 499 shares for a period of less than two years will receive a ¥1,000 card, shareholders who have held 500 or more shares for a period of less than two years will receive a ¥2,000 card, while shareholders who have held the same number for two or more years will receive a ¥3,000 card).

Key Points

- Decreases in sales and profits in FY3/24, but still the second best in the Company's history following the previous fiscal year
- Decreases in sales and profits forecast for FY3/25 but this will bottom out in 1H and shift to recovery in 2H
- Aims to maintain high levels of ROE by maximizing consolidated operating profit and quickly achieve a PBR of over 1.0x

Results trends



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

Results trends

Decreases in sales and profits in FY3/24, but still the second-best in the Company's history following the previous fiscal year

1. FY3/24 results overview

In FY3/24, the Company posted lower sales and profits however, each item exceeded its revised forecast (announced in January 2024) with net sales of ¥166,138mn (down 8.2% YoY), operating profit of ¥6,215mn (down 18.5%), ordinary profit of ¥6,631mn (down 13.6%) and profit attributable to owners of parent of ¥5,007mn (down 8.9%), which were the second-best results ever, following the previous fiscal year.

FY3/24 results (consolidated)

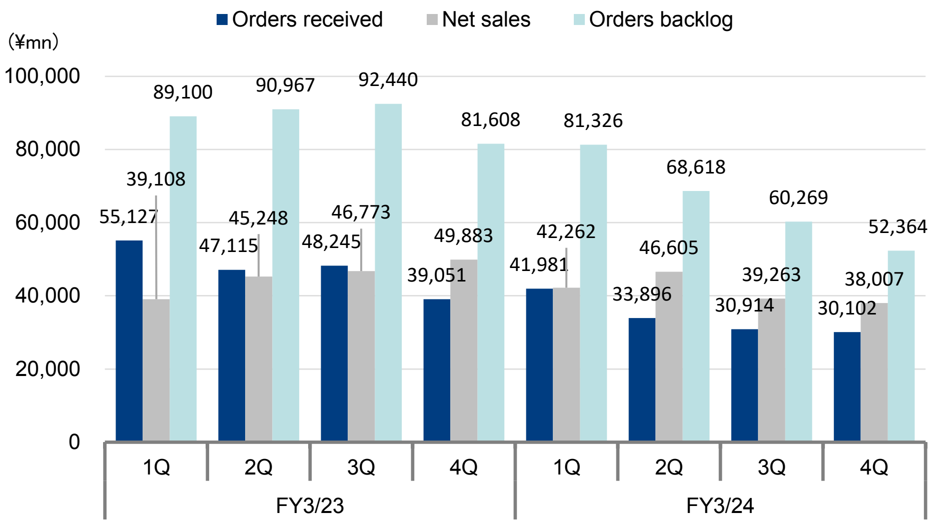
(¥mn)

	FY3/23		FY3/24				
	Results	% of sales	Company's forecast	Results	% of sales	YoY	vs. forecast
Net sales	181,013	-	165,000	166,138	-	-8.2%	0.7%
Gross profit	23,039	12.7%	-	21,778	13.1%	-5.5%	-
SG&A expenses	15,408	8.5%	-	15,562	9.4%	1.0%	-
Operating profit	7,630	4.2%	5,700	6,215	3.7%	-18.5%	9.0%
Ordinary profit	7,675	4.2%	6,000	6,631	4.0%	-13.6%	10.5%
Extraordinary profit and loss	34	-	-	710	-	-	-
Profit attributable to owners of parent	5,493	3.0%	4,800	5,007	3.0%	-8.9%	4.3%
Orders received	189,540	104.7%	-	136,895	82.4%	-27.8%	-
Orders backlog	81,608	45.1%	-	52,364	31.5%	-35.8%	-
Exchange rate (¥/U.S. dollar)	131.43		140.56	140.56			

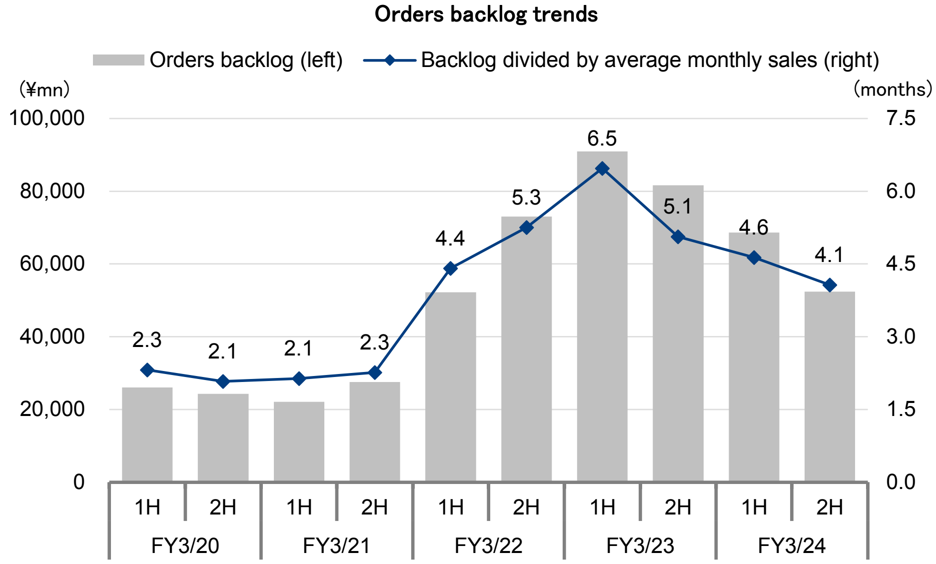
Note: The Company's forecasts refer to the revised forecasts announced in January 2024.
Source: Prepared by FISCO from the Company's financial results

In the overall manufacturing sector, major factors in results included the accelerated procurement of parts that had continued up to FY3/23 coming to an end, a cool down in appetite for investment in facilities driven by the slowing of the economy, and the prolonging of inventory adjustments by customers. As a result, orders received returned to roughly the same level as three years ago, declining by 27.8% YoY to ¥136,895mn, while the year-end orders backlog decreased 35.8% compared to the end of FY3/23 to ¥52,364mn. Looking at quarterly trends, orders peaked at ¥55,127mn in 1Q FY3/23 and then declined to ¥30,102mn in 4Q FY3/24. However, this was a relatively small decrease of 2.6% compared to the previous quarter, and the Company seems to be of the opinion that it has just about stopped the decline. The orders backlog peaked at the end of 3Q FY3/23 at ¥92,440mn and by the end of FY3/24, it had decreased to just under 60% of this level at ¥52,364mn. However, this is still about 1.9 times higher than levels recorded three years ago. Prior to the COVID-19 pandemic, the orders backlog had been equivalent to around two months' worth of net sales, while recently it has remained equivalent to about four months' worth, so it is anticipated that the backlog will continue to decrease for the time being. However, since the pandemic, customers have been working to maintain appropriate inventory levels and reviewing ordering policies, so it is possible that the orders backlog will come to rest at a level equivalent to a little more than two months' worth of net sales.

Orders received, net sales, and orders backlog by quarter



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



Note: Average monthly sales = Total sales for the six-month period divided by 6
Source: Prepared by FISCO from the Company's supplementary material on financial results

Looking at the reasons behind the increase and decrease factors in operating profit in FY3/24, despite positive contributions of ¥176mn from an improved operating profit margin, ¥177mn from exchange rate fluctuations*, and ¥48mn from a decrease in SG&A expenses, the ¥1,816mn decline in net sales exerted downward pressure, resulting in an overall decrease of ¥1,415mn YoY. Non-operating income increased ¥371mn YoY, mainly due to foreign exchange gain (¥362mn). The Company also recorded extraordinary income of ¥701mn in gain on sale of investment securities. In FY3/24, the Company introduced a policy of incrementally selling its cross-shareholdings portfolio as a measure to practice management that is conscious of capital cost and share price, and this gain is part of these efforts. Funds from these sales will be allocated to growth investments and shareholder return, and the Company intends to sell more of its investment securities in FY3/25 and beyond.

* The average exchange rate was ¥140.56 to the U.S. dollar. The yen has accordingly weakened by about ¥9 to the U.S. dollar compared to the previous fiscal year, when it stood at ¥131.43. This has resulted in a ¥208mn increase in profits for the Company's Japanese business companies. Furthermore, although this has caused a ¥121mn decrease in profits at overseas business companies through stocking and selling transactions, as the year-end exchange rate had a cheaper yen price than the previous fiscal year's year-end rates, this difference boosted profit by ¥90mn.

Double figure sales increase in the general machinery segment due to growth in sales to the automotive-related industry, but by region, sales and profits decreased in Japan and Asia

2. Segment and regional trends

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

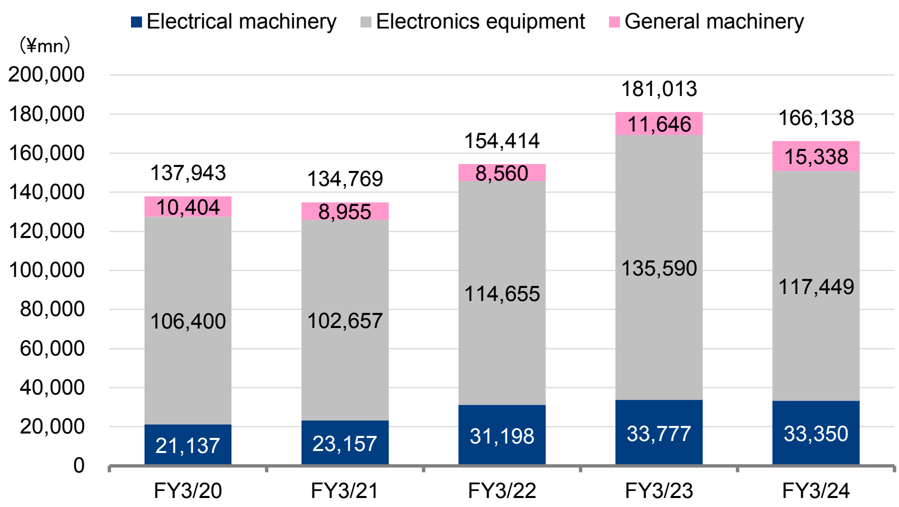
(1) Trends in net sales by business segment

Main products in the electrical machinery segment are servo motors, motion controllers, inverters, machine controllers and power conditioners. The Company primarily handles products from YASKAWA Electric Corporation <6506>. Main customers include SCREEN Holdings Co., Ltd. <7735>, KOKUSAI ELECTRIC CORPORATION <6525>, Panasonic Holdings Corporation <6752>, NIKON CORPORATION <7731>, and Daifuku Co., Ltd. <6383>. Net sales decreased 1.3% YoY to ¥33,350mn due to a decline in sales of electrical machinery (servo motors, etc.) to the semiconductor production equipment industry, electrical machinery (linear motors, etc.) to the mounter industry, and control equipment (power conditioners, etc.) to the solar power-related industry. Sales dropped particularly sharply in 4Q, declining 25.8% YoY to ¥5,832mn, thereby returning to levels recorded three years ago.

The main products in the electronics equipment 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 supply equipment. Main customers include DENSO CORPORATION <6902>, YASKAWA Electric Corporation, Mitsubishi Electric Corporation <6503>, OMRON Corporation <6645>, and FUJI ELECTRIC CO., LTD. <6504>. Net sales decreased by 13.4% YoY to ¥117,449mn, the first decline in three years, due to a fall in sales of electronic parts (connectors, terminal blocks, etc.) and electronic devices (industrial-use circuit boards, etc.) to the factory automation industry, as well as electronic parts (connectors, etc.) and electronic devices (industrial-use PCs, etc.) to the semiconductor production equipment industry, and electronic parts (onboard cameras, etc.) to the automotive-related industry.

The main products in the general machinery segment include robots from YASKAWA Electric Corporation, as well as transfer devices and reduction gears. Main customers include DENSO CORPORATION, Subaru Corporation <7270>, FUJIFILM Holdings Corporation <4901>, AGC Inc. <5201>, and SUMCO CORPORATION <3436>. Net sales increased 31.7% YoY to ¥15,338mn due to an increase in sales of facilities equipment (assembly equipment) to the automotive-related industry despite a decrease in sales of transfer devices (wafer sorters, etc.) to the semiconductor production equipment industry. This represents a record high sales total for a second consecutive year.

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 the Japanese business, net sales decreased 14.3% to ¥114,550mn and operating profit declined 32.0% to ¥3,638mn. This decrease in both sales and profits was primarily due to a decline in sales of electronic parts (connectors, terminal blocks, etc.) and electronic devices (industrial-use circuit boards, etc.) to the factory automation industry, electrical machinery (servo motors, etc.) to the semiconductor production equipment industry, and electrical machinery (linear motors, etc.) to the mounter industry.

In the Asian business, net sales decreased 4.9% to ¥61,194mn and operating profit decreased 9.2% to ¥2,344mn. In China, despite an increase in sales of electrical machinery (servo motors, etc.) to the solar power-related industry, there was a decline in sales of electronic parts (connectors, LCDs, etc.) and electronic devices (industrial-use circuit boards, etc.) to the factory automation industry, as well as electronic devices (industrial-use PCs, etc.) to the factory automation and semiconductor production equipment industries. China accounted for almost 80% of the Company's sales in Asia, with a slight increase in sales YoY, driven by the solar power-related industry, but there was a decrease in sales to the rest of Asia, which accounts for a little over 20%. Additionally, trade friction between the U.S. and China sparked movement by non-Chinese companies to move production facilities to Southeast Asia and India. In order to respond to this, in September 2023 the Company established a local office in India (Bengaluru) and started business operations. The Indian government has clear policies supporting not only the local automotive industry, but also the semiconductor and electronics industries. Therefore, the Company intends to capture the resulting demand for electrical machinery, electronic parts, and facilities equipment, among other products.

In Europe and the U.S., net sales decreased by 2.0% YoY to ¥6,970mn, and operating profit was ¥147mn (compared to a loss of ¥48mn in the previous year). There was a decrease in sales of electronic parts (power supplies, etc.) to the amusement-related industry and facilities equipment (robotics, etc.) to the automotive-related industry.

Net sales and operating profit by segment

(¥mn)

(Net sales)	FY3/21	FY3/22	FY3/23	FY3/4	YoY
Japan	108,252	115,811	133,712	114,550	-14.3%
Asia	35,492	52,216	64,364	61,194	-4.9%
Europe/ U.S.	4,711	6,214	7,112	6,970	-2.0%
Other	931	748	846	773	-8.7%
Adjustment	-14,617	-20,575	-25,022	-17,350	-
Total	134,769	154,414	181,013	166,138	-8.2%

(Operating profit)	FY3/21	FY3/22	FY3/23	FY3/4	YoY
Japan	1,197	3,049	5,354	3,638	-32.0%
Asia	917	1,924	2,581	2,344	-9.2%
Europe/ U.S.	-1	-108	-48	147	-
Other	16	-16	-3	-10	-
Adjustment	23	-44	-253	95	-
Total	2,152	4,804	7,630	6,215	-18.5%

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

Decreases in sales and profits forecast for FY3/25 but this will bottom out in 1H and shift to recovery in 2H

3. FY3/25 consolidated results forecast

In terms of the outlook for FY3/25 consolidated results, the Company forecasts decreased sales and profits, with net sales of ¥155,070mn (down 6.7% YoY), operating profit of ¥3,080mn (down 50.4%), ordinary profit of ¥3,220mn (down 51.4%), and profit attributable to owners of parent of ¥2,410mn (down 51.9%). This forecast factors in the continuation of inventory adjustments by customers, as well as a slowdown in the Chinese economy and uncertainty in terms of geopolitical risk. Although the operating profit margin is expected to fall from 3.7% in FY3/24 to 2.0%, this is largely because the proportion of fixed costs such as personnel expenses will rise as sales fall. The assumed exchange rate for the period is ¥137.90 to the U.S. dollar, anticipating that the yen will appreciate compared to the FY3/24 rate of ¥140.56. If the yen depreciates by ¥1 to the U.S. dollar, the estimated effect on earnings translates to ¥510mn in net sales and ¥50mn in operating profit, so if exchange rates remain around current levels, it will have a positive impact on results.

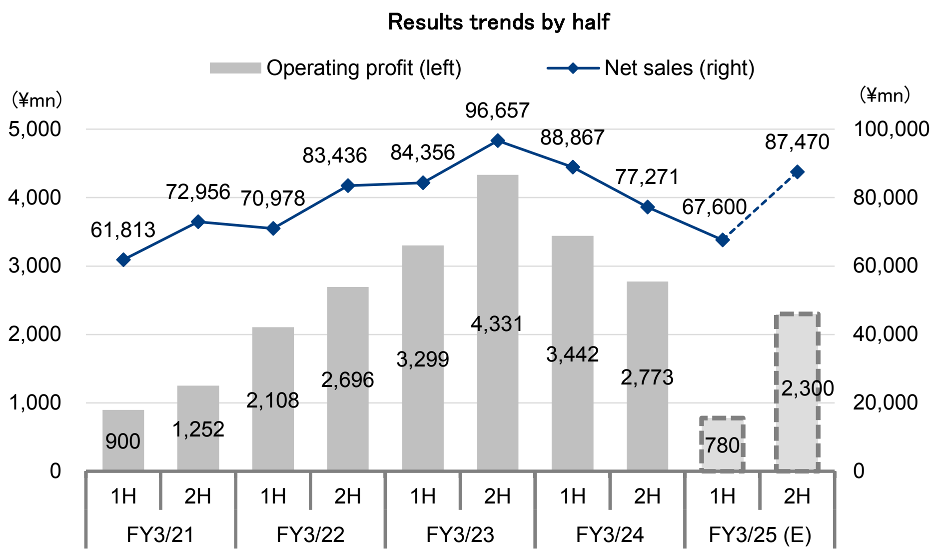
FY3/25 consolidated results forecast

(¥mn)

	FY3/24		FY3/25						
	Full year results	% of sales	1H forecast	YoY	2H forecast	YoY	Full year forecast	% of sales	YoY
Net sales	166,138	-	67,600	-23.9%	87,470	13.2%	155,070	-	-6.7%
Operating profit	6,215	3.7%	780	-77.3%	2,300	-17.1%	3,080	2.0%	-50.4%
Ordinary profit	6,631	4.0%	840	-77.3%	2,380	-18.8%	3,220	2.1%	-51.4%
Profit attributable to owners of parent	5,007	3.0%	760	-75.3%	1,650	-14.6%	2,410	1.6%	-51.9%
Earnings per share (¥)	329.87		50.29		109.19		159.48		
Exchange rate (¥/U.S. dollar)	140.56		-		-		137.90		

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

Currently, movement regarding orders varies depending on the customer, but orders for onboard electrical products for the automotive sector are expected to remain firm, while movement is anticipated in the robotics industry and other industries with deeply rooted needs for labor saving. Therefore, on an orders basis, 2H FY3/24 was most likely the low point and orders will recover slightly in 1H FY3/25. In 2H, orders are expected to return to normal levels as inventory adjustments come to an end. Looking at results for each half, the forecast for 1H is for net sales of ¥67,600mn and operating profit of ¥780mn, which represents a further decrease on the results for 2H FY3/24 (net sales of ¥77,271mn and operating profit of ¥2,773mn). However, a rebound is forecast for 2H, with net sales of ¥87,470mn and operating profit of ¥2,300mn, both of which will be an increase compared to 1H.



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

Long-term vision and medium-term management plan

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

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, 11th 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.

Expected to fall short of FY3/25 operating profit target of ¥7.0bn, but more growth expected from FY3/26 onward due to implementing growth strategies

2. Progress of the 11th medium-term management plan "SNS2024 (Sun-Wa New Stage 2024)"

(1) Management goals and progress

In its three-year medium-term management plan started in FY3/23, the Company changed its KPI from net sales to operating profit. In FY3/25, the final year of the plan, it is targeting an operating profit of ¥7.0bn while also advancing initiatives to enhance corporate value aimed at achieving a PBR of over 1.0x as quickly as possible. Looking at progress up to FY3/24, in FY3/23 it achieved an operating profit of ¥7.6bn, hitting its final year target two years ahead of schedule, while in FY3/24, operating profit still exceeded the initial target of ¥6.0bn. However, the forecast for FY3/25 is an operating profit of ¥3.0bn, which would fall short of the ¥7.0bn target. While this is partly due to the slowdown in the Chinese economy and downturn in the market environment, another factor is that, as mentioned earlier, in the two years from FY3/22, supply shortages for parts led to a boom in customers procuring these parts in advance. This has eaten into future demand, so one of the reasons for the decline in profit in FY3/25 is a repercussion of this movement.

However, the cumulative total of operating profit for these three years is ¥16.8bn, which is not far removed from the target total of ¥18.0bn. Additionally, it is also 1.9 times higher than the cumulative total of operating profit for the three years from FY3/20 to FY3/22, and the operating profit margin has risen from 2.1% to 3.4%. This demonstrates growth in both profit size and profitability, so it can be argued that the growth strategies the Company has been implementing since FY3/23 are showing a certain degree of effectiveness

Management goals in the 11th medium-term management plan "SNS2024 (Sun-Wa New Stage 2024)"

(¥bn)

Consolidated operating profit	Initial target	Results	Operating profit ratio	Net sales
FY3/23	5.0	7.6	4.2%	181.0
FY3/24	6.0	6.2	3.7%	166.1
FY3/25 (E)	7.0	3.0	2.0%	155.0
Cumulative 3-year total (reference)	18.0	16.8	3.4%	502.1
FY3/20-FY3/22	-	8.8	2.1%	427.1

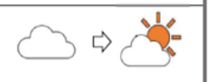
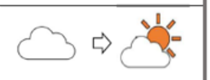
Source: Prepared by FISCO from the Company's financial results and results briefing materials

(2) Strategic policy and progress

In terms of the basic policies that the Company will implement in “SNS2024 (Sun-Wa New Stage 2024),” 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) Contribute to the realization of a sustainable society. In regard to “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 (semiconductor production equipment, robots and mounters, machine tools), fields where resources are selectively allocated (factory automation equipment, automotive components, and facilities), and other fields. By formulating and executing business strategies tailored to the Company plans to allocate resources into each customer segment, the Company seeks to increase gross profit and strengthen profitability.

Looking at the composition of gross profit (non-consolidated, domestic business) by field in FY3/24, the factory automation equipment field accounted for the highest proportion at 36%, followed by the semiconductor and LCD production equipment field at 12%, the automotive components field at 8%, the facilities field at 7%, the robots and mounters field at 6%, and the machine tools field at 4%. The Company is aiming for a three-year average annual growth rate for gross profit of at least 10% in each of these fields (and at least 15% for semiconductor production equipment) and has been working to achieve these targets. Looking at results up to FY3/24, it achieved 27.6% in the automotive components field and 11.7% in the factory automation equipment field, both of which exceeded targets, but results in other fields all fell short. A cool down in appetite for investment in facilities and the prolonging of inventory adjustments by customers have been negative factors, but for FY3/25, there are indications of improvement in all fields except for machine tools.

FY3/24 profit growth rate by customer segment

Customer segment	FY3/21→24 profit growth rate target (3-year average)	FY3/21→23 profit growth rate		Outlook for Company in current fiscal year
		Growth rate result	Progressive evaluation	
Semiconductor production equipment	15% or more	7.5%	△Minor delay	
Robots and mounters	10% or more	–14.3%	▲Major delay	
Machine tools	10% or more	6.6%	△Minor delay	
Factory automation equipment	10% or more	11.7%	○As planned	
Automotive components	10% or more	27.6%	◎Major progress	
Facilities	10% or more	–0.5%	▲Delay	

Source: The Company’s results briefing materials

Looking at the achievements of initiatives implemented in each customer segment in FY3/24, in the semiconductor production equipment field, which is one of the fields where resources are actively allocated, the Company has been getting a better understanding of customer needs and using “ultra-leading-edge product” proposals to develop accounts with major global companies. Transactions resulting from this initiative have already started, although volumes are still low. “Ultra-leading-edge product” refers to innovative, extremely new products developed by venture and foreign-owned companies among others. The Japanese government is also showing intent to pursue policies that nurture the semiconductor industry and to support the enhancement of the competitiveness of semiconductor production equipment, which holds the key to the national policy, the Company will provide cutting-edge technology and critical component units while expanding its market share.

In the robots and mounters field, the Company has opened sales talks with new customers through intraorganizational development and the provision of cutting-edge early-stage technologies. Demand for PCs and smartphones has stagnated over the last year or two, leading to a considerable drop in sales to the chip mounter manufacturers that are its main customers. However, production of these electronic devices is expected to recover in FY3/25, resulting in an upturn in orders from chip mounter manufacturers. The Company has also successfully established an account with a major robotics manufacturer, so it is anticipating growth in this field from FY3/26 onward. In the machine tools field, the Company managed to open sales talks through proposals for process integration, automation, and energy-saving equipment, as well as for PCs for use in factory automation, where importance is growing with the shift to IoT. It also managed to initiate sales talks through supply chain proposals for customers engaged in global production.

Looking at fields for selective investment of resources, in the factory automation equipment field, the Company successfully cultivated major global customers and it also initiated sales talks through proposals suggesting uses for new early-stage technologies from suppliers and theoretical proposals that have a finger on the pulse of industry trends and customer needs. In the automotive components field, it has deepened transactions with main Tier 1 customers and cultivated new Tier 1 customers by strengthening its sales structure through personnel reinforcements, enhancing quality control systems, and making proposals that offer added value. Many of these sales talks have been related to autonomous driving, vehicle electrification, and connected vehicles, and the Company is anticipating stable growth in this field in the future. In the facilities field, the Company started sales of the 3D Connect Series, robotics solution packages developed in collaboration with MTEC CO., LTD. based on a business partnership started in 2023, and it has opened sales talks and received orders for these packages. It also engaged in sales talks regarding laser welding for the manufacture of EV secondary batteries.

Strategy in each customer segment and main achievements

Segment	Company's mission and value provided (1-3)	FY3/24 results
Semiconductor production equipment	Support the enhancement of the competitiveness of semiconductor production equipment manufacturers who provide the technical foundation for Japan's national strategy of strengthening the semiconductor industry 1) Provides cutting-edge technology, 2) supplies critical component units, 3) solves customer production issues	Gained a better understanding of customer needs and initiated sales talks through ultra-leading-edge product proposals 1) Coordinated with surface processing technology and measuring technology manufacturers, 2) agreed contracts for controllers, 3) acquired joint development themes
Robots and mounters	Amid rising demand driven by global labor shortages, match technological needs to early-stage technologies to provide robotic solutions 1) Proposes solutions and components, 2) coordinates with application needs sales, 3) provides proposals that strengthen the supply chains of global customers	Initiated sales talks through intraorganizational development and the provision of cutting-edge early-stage technologies 1) Aggregated needs to plan products catered specifically for the industry, 2) acquired new parts for collaborations with manufacturers and negotiated onboard products, 3) launched a robotics solution package (3D Connect Series)
Machine tools	Contribute to the growth of the machine tools industry by automating, digitalizing, and enhancing the performance of the mother machines that support global manufacturing 1) Proposes solutions and components, 2) coordinates with application needs sales, 3) provides proposals that strengthen the supply chains of global customers	Initiated sales talks pertaining to the diversification and global production of customers' products 1) Initiated sales talks through proposals for process integration, automation, and energy-saving equipment, 2) opened sales talks for PCs for use in factory automation, where the importance is growing with the shift to IoT, 3) engaged in sales talks for supply chain proposals that cater for customers' global production structures
Factory automation equipment	Supply devices and components used as parts by the equipment manufacturers who are supporting the automation of manufacturing production lines in a way that leaves customers highly satisfied in terms of quality, cost, and delivery 1) Delivers through global supply chains, 2) connects to new technologies through products, 3) captures changes and trends in the factory automation market	Initiated sales talks for proposals pertaining to the strategies of global factory automation device manufacturers and early-stage technologies from suppliers 1) Cultivated global factory automation device manufacturers, 2) initiated sales talks through proposals suggesting uses for new early-stage technologies from suppliers, 3) opened sales talks through theoretical proposals that have a finger on the pulse of industry trends and customer needs
Automotive components	As the industry enters a once-in-a-century period of transformation, provide value and raise customer satisfaction by meeting the new needs of customers through innovation 1) Identifies customer needs and challenges and proposes solutions, 2) proposes products corresponding to new technological themes, 3) raises customer satisfaction by strengthening customer service	Enhanced quality control systems and grew transactions with main Tier 1 customers 1) Grew transactions by cultivating new customers and strengthening relationships with main Tier 1 customers, 2) initiated sales talks related to autonomous driving, vehicle electrification, and connected vehicles, 3) raised customer satisfaction by strengthening its sales structure through personnel reinforcements, enhancing quality control systems, and making proposals that offer added value
Facilities	Be the best partner in manufacturing by enhancing productivity at customers' factories through the provision of innovative and optimized facilities solution packages 1) Provides solution packages, 2) proposes production facilities that solve customer challenges, 3) proposes facility upgrades that enhance productivity at customers' factories	Opened sales talks by developing a package product for industrial robots inhouse and launching it to market, and by enhancing its aftercare structure 1) Expanded sales and opened sales talks concerning the 3D Connect Series developed in collaboration with MTEC, 2) engaged in sales talks regarding laser welding for the manufacture of EV secondary batteries, 3) enhanced its aftercare structure, contributed to the upgrading of dilapidated facilities, and captured demand for the renewal of robots, programmable logic controllers, and mechanical parts related to processing and electrical equipment

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

Aims to maintain high levels of ROE by maximizing consolidated operating profit and quickly achieve a PBR of over 1.0x

3. Efforts to practice management that is conscious of capital cost and share price

Although the Company's ROE is above 10% at 10.8% for FY3/24, the share price remains below 1.0x PBR at 0.75x. The Company believes this is because investors do not fully understand its business and growth strategies for sustainable growth, and because the Company's shares have little fluidity and its market capitalization is only in the ¥3.0bn range, which is not large, it is difficult for major institutional investors to target the Company's shares. Taking this into account, the Company intends to improve profitability through steady implementation of its medium-term management plan in addition to enhancing shareholder returns, carrying out investor and shareholder relations activities and achieving its target of a PBR of over 1.0x as soon as possible.

Share price indicators

	FY3/20	FY3/21	FY3/22	FY3/23	FY3/24
ROE	4.2%	5.4%	9.8%	13.3%	10.8%
PBR	0.41x	0.49x	0.55x	0.68x	0.75x
Year-end share price	¥815	¥1,081	¥1,348	¥1,943	¥2,390
Dividend payout ratio	40.4%	30.0%	16.2%	25.3%	28.8%

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

(1) Strategy for enhancing profitability

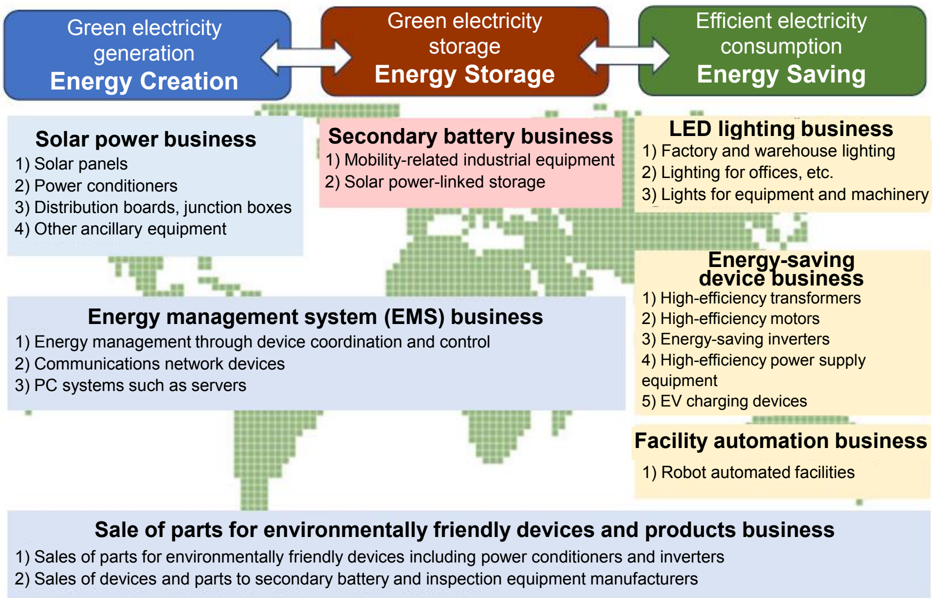
a) Sales strategy

In April 2024, the Company reorganized its sales organizations with the aim of further raising profitability. Specifically, in Japan, it shifted from a three-branch structure (Kanto, Nagoya, Kansai) to a five-branch structure (split the Kanto Branch into North Kanto and South Kanto and established a new Kyushu Branch). Overseas, it worked with the three regional control organizations (China region, Asia Pacific region, and Europe and U.S. region) to strengthen customer-centric sales in each region to an even greater degree. Additionally, it is realizing coordination between each branch and customer segment team while strengthening sales based on technology proposals with the aim of maintaining and improving profitability.

b) Product strategy

As movement toward green transformation (GX) aimed at realizing a decarbonized society gains pace in Japan and overseas, the Company has also established a project that will work to expand sales of environmentally friendly products on a Company-wide basis. Demand related to areas such as solar panels, electricity storage systems, and energy-saving devices is forecast to grow in the medium- to long-term and the Company anticipates it can sustainably grow net sales by expanding domestic and overseas sales of a wide-range of products it handles, including relevant products, electronic parts, and facilities equipment.

Promotion of green transformation (GX)



Source: Reprinted from the Company's results briefing materials

c) Technological strategy

As one of the Company's measures to enhance profitability, its Innovation Division works to develop and expand sales of new high-added-value products through alliances with companies that own proprietary technologies among other methods. Specific products include the 3D Connect Series of robotics solution packages and in 2023, it launched AR^2 System, which uses AR markers*, as the first product in the series.

* AR markers are markers that display information in augmented reality (AR) by showing digital content in a virtual space. Various things, including images, faces, and buildings, can be used as AR markers.

The 3D Connect Series is a solutions package that combines modules for various functions, from design through to operation, using Planning Simulator, a process simulator that enables motion controllers for applications such as 3D CAD software and robots to be operated simultaneously in real time. This corrects any inconsistencies in the coordination between reality and virtual spaces when operating robots, encouraging digital manufacturing. The newly launched AR^2 System has two distinctive features. One is that a camera mounted onto a robot can read AR markers attached to a target and automatically orient itself, enabling the relative positioning of the robot to be corrected with high precision. The other is that operating conditions (recipes for behavior) can be planted in AR markers, enabling operational instructions that let the robot make decisions. Usually, the operation of robots requires teaching data for a specific operation to be created and applied, but adding AR^2 System to this process offers a more efficient solution. Another advantage is that it is relatively easy to introduce and use, even for companies that do not have robot operational know-how, and since the product launched, it has received a large number of enquiries, and an order from an automotive equipment manufacturer has already been finalized.

AR^2 has been well received as it lowers the barriers to the introduction of robots by enabling the addition of manufacturers' standards to packaged products, and the Company is targeting ¥5.0bn in sales over the three years from FY3/25. It is also more profitable than the introduction of robots alone, so it is expected to contribute to efforts to enhance profitability and to net sales growth in the general machinery segment.

d) Overseas strategy

In its overseas strategy, the Company is establishing a support structure for customers that are moving to minimize the impact of risk associated with China by moving production to India and other Asian countries. It is doing this by establishing a sales platform through local sales agents in order to expand the scope of sales. The overseas sales ratio* is projected to increase from 34% in FY3/22 to 38% in FY3/25. Looking at approximate regional shares of sales, the share of China is forecast to rise from 24% in FY3/22 to 25% in FY3/25, while the share of the rest of Asia will rise from 6% to 9% over the same period. It is thought that the share of China will trend downward after peaking at 27% in the previous fiscal year. Regarding the rest of Asia, in May 2024, the Company established a second office in Bengaluru, India, to engage the growing Indian market. It will target the local subsidiaries of Japanese companies expanding into the country.

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

Sales composition by region

	FY3/22	FY3/23	FY3/24	FY2/25 (E)
Japan	66%	65%	62%	62%
China	24%	24%	27%	25%
Asia	6%	8%	7%	9%
Europe/U.S.	4%	3%	4%	4%

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

e) DX strategy

The Company has established Sun-Wa DX (SDX) as a DX promotion project which aims to use DX to improve operational efficiency and build a framework for enhancing profitability. The five main themes of initiatives are outlined below.

- Enhance customer value by making data usage more sophisticated: Visualize customer segment strategy KPI, make utilization of sales support tools more sophisticated, build a technical information database
- Improve operational efficiency: Digitalize document output from core systems, enhance application and approval workflows, automate operations using RPA, centralize information, standardize and aggregate concentrate work processes, introduce warehouse management and export control systems
- Train and recruit DX personnel: Implement training to enhance the IT literacy of all employees, cultivate DX personnel through reskilling, recruit appropriate personnel
- Realize the swift visualization of key management indicators: Realize the efficient aggregation of global data, enhance the management dashboard, review sales support tools
- Renew the Company website: Renew the website based on the concept of “connecting technology around the world” (planned for implementation in November 2024)

(2) Strengthening the shareholder return policy

In order to strengthen its shareholder return policy, the Company is targeting a consolidated payout ratio of 25-35% as its indicator of performance-linked profit distribution. Following on from a series of considerable dividend increases from FY3/23 onward, it has introduced a shareholder benefits scheme with the aim of increasing the number of stable individual shareholders from FY3/25 onward.

(3) 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. In April 2023, it established the PR/IR Office as a specialist IR organization. It plans to continue carrying out IR activities, including holding briefings for institutional and individual investors given by directors and the officer in charge of IR, and regularly sharing information with the media (radio, specialist publications). In addition to this, the opinions shared by investors and shareholders during investor and shareholder relations activities are being shared at Board of Directors meetings and other high-level meetings so that they can be incorporated when reviewing management strategy. It is also working to raise name recognition by exhibiting at various trade shows and the regular hosting of Sun-Wa Technical Seminar ’21, a seminar for engineers working at business partners.

(4) SDGs initiatives

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 it 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.

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 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.

Shareholder return policy

Paying dividends with a target consolidated payout ratio of 25-35% and introducing a new shareholder benefits scheme

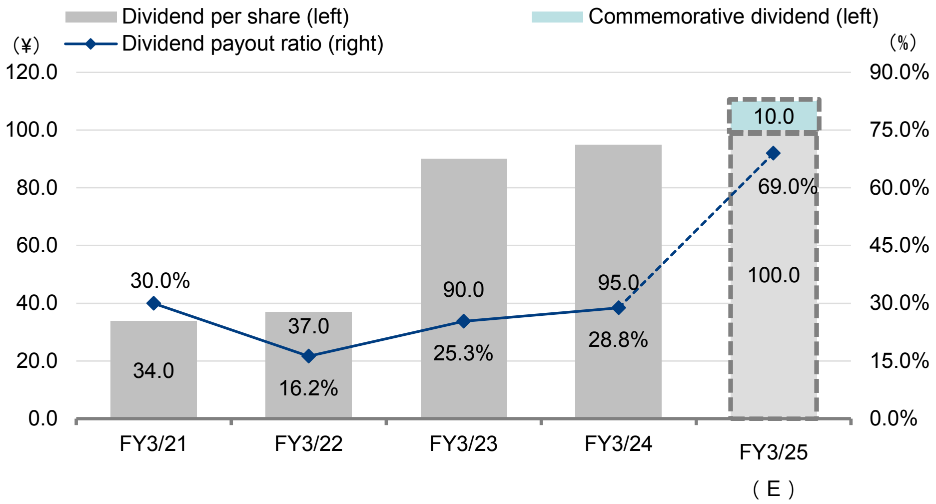
The Company is working on strengthening its shareholder return policy, which is one of the measures it is taking to quickly achieve a PBR of over 1.0x. In regard to dividends, after considering how to balance investment needed to realize sustainable growth and raise corporate value with the maintenance of financial soundness needed to deal with risks, it has decided to maintain a stable dividend (since listing, it has never lowered its dividend) while conducting shareholder returns based on consolidated results from a medium- to long-term perspective, and is therefore targeting a consolidated payout ratio of 25-35%. Based on this policy, the Company's per-share dividend for FY3/24 was increased by ¥5.0 to ¥95.0 (for a payout ratio of 28.8%). In FY3/25, under its policy of strengthening shareholder returns, the Company plans to raise the regular dividend by ¥5.0 to ¥100.0 despite the forecast of a fall in profit. In addition to this, it will pay a 75th anniversary commemorative dividend of ¥10.0 to give a total dividend of ¥110.0 (payout ratio of 69.0%). This represents the fourth consecutive year of dividend increases.

Also, it has introduced a shareholder benefits scheme with the aim of increasing the number of stable individual shareholders. At the end of March each year, shareholders possessing 100 or more shares will receive a QUO card. The value of the card will be in accordance with the number of shares and the period for which they have been held. Shareholders who have held between 100 and 499 shares for a period of less than two years will receive a ¥1,000 card, while shareholders who have held the same number for two or more years will be given a special long-term holding benefit* (equivalent to ¥1,000) on top of this, receiving a ¥2,000 card. (Shareholders with 500 or more shares will receive a ¥2,000 or ¥3,000 card, respectively). A rough calculation of the investment yield of the dividend and shareholder benefits combined, based on the share price for May 14 (¥2,232) results in a 5% yield for investors holding 100 shares, which could be considered to be an attractive return for investors looking to make income gains.

* On condition that the shareholder has been recorded in the shareholder registry as having held the same numbered shares for at least five consecutive record dates, with the record dates being March 31 and September 30 each year. Shareholders who have held shares consecutively since March 31, 2023, will be the first to earn the right to a special long-term holding benefit.

Although the Company is working to quickly achieve a PBR of over 1.0x, net assets per share at the end of FY3/24 was ¥3,174 for a PBR of just 0.7x. PBR at the end of FY3/20 was 0.4x and since then, the Company has gradually raised the level by enhancing ROE and strengthening shareholder returns. Going forward, we at FISCO expect that if the Company continues to maintain and enhance ROE, actively engage in shareholder return, and carry out investor and shareholder relations activities aimed at raising name recognition, then it can achieve its target of a PBR of over 1.0x.

Dividend per share and dividend payout ratio



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

Simplified income statement and main indicators

(¥mn)

	FY3/21	FY3/22	FY3/23	FY3/24	FY3/25 (E)
Net sales	134,769	154,414	181,013	166,138	155,070
YoY	-2.3%	14.6%	17.2%	-8.2%	-6.7%
Gross profit	14,224	18,772	23,039	21,778	-
% of sales	10.6%	12.2%	12.7%	13.1%	-
SG&A expenses	12,071	13,967	15,408	15,562	-
% of sales	9.0%	9.0%	8.5%	9.4%	-
Operating profit	2,152	4,804	7,630	6,215	3,080
YoY	16.5%	123.2%	58.8%	-18.5%	-50.4%
% of sales	1.6%	3.1%	4.2%	3.7%	2.0%
Ordinary profit	2,567	5,195	7,675	6,631	3,220
YoY	19.7%	102.4%	47.7%	-13.6%	-51.4%
Profit attributable to owners of parent	1,786	3,577	5,493	5,007	2,410
YoY	33.2%	100.3%	53.6%	-8.9%	-51.9%
EPS (¥)	113.23	228.33	355.08	329.87	159.48
Dividend (¥)	34.0	37.0	90.0	95.0	110.0

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

Simplified balance sheet

(¥mn)

	FY3/21	FY3/22	FY3/23	FY3/24	Change amount
Current assets	64,430	82,209	94,263	86,350	-7,913
Cash and deposits	13,113	14,049	14,145	19,081	4,936
Trade receivables and contract assets	42,453	51,997	58,922	47,417	-11,505
Non-current assets	11,951	10,868	12,318	12,356	38
Total property, plant and equipment	2,590	2,230	2,272	2,256	-16
Intangible assets	170	226	221	166	-55
Total investments and other assets	9,190	8,411	9,824	9,933	109
Total assets	76,381	93,078	106,581	98,707	-7,874
Current liabilities	36,372	52,797	59,870	45,124	-14,746
Payment obligations	29,455	40,676	45,335	32,589	-12,746
Non-current liabilities	4,978	2,257	2,227	5,615	3,388
Total liabilities	41,350	55,054	62,097	50,740	-11,357
Interest-bearing debt	7,048	7,805	9,557	12,007	2,450
Shareholders' equity	30,802	33,277	38,202	40,620	2,418
Accumulated other comprehensive income	4,228	4,746	6,282	7,346	1,064
Total net assets	35,030	38,023	44,484	47,966	3,482

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

Status of Cash Flows

(¥mn)

	FY3/21	FY3/22	FY3/23	FY3/24
Cash flows from operating activities	1,589	792	-545	4,226
Cash flows from investing activities	-141	244	-731	883
Cash flows from financing activities	-309	-580	906	-608
Cash and cash equivalents at end of period	12,629	13,565	13,661	18,597

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

Management indicators

(¥mn)

	FY3/21	FY3/22	FY3/23	FY3/24
Equity ratio	45.9%	40.9%	41.7%	48.6%
Interest-bearing debt ratio	20.1%	20.5%	21.5%	25.0%
ROE	5.4%	9.8%	13.3%	10.8%
Net cash (¥mn)	6,065	6,244	4,588	7,074

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

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