

Q2/FY2016 (57th) Results Briefing

August 31, 2016

RYOYO ELECTRO CORPORATION

(Tokyo Stock Exchange - 8068)

<http://www.ryoyo.co.jp>

Date of establishment : February 27, 1961

Capital : 13.672 million yen

Represented by : Kenhachiro Ogawa
– Chairman & CEO
Takayoshi Oouchi
– President & COO

Number of employees : (As at July 31, 2016)
Consolidated: 507
Non-consolidated: 452
*Whole group: 603

Business areas : ◇Sales of semiconductors/devices
◇Sales of ICT products (HW/SW)
◇Sales of embedded devices
◇Various engineering support
◇Various services

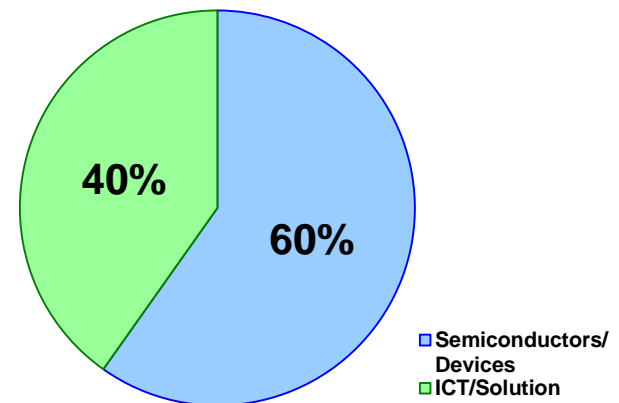
ISO 9001 / 14001 / 27001 :
All offices in Japan (excluding the satellite office)

Domestic network : Sendai, Koriyama, Matsumoto,
Omiya, Hachioji, Yokohama, Nagoya,
Kyoto, Osaka, Fukuoka

Overseas network : Dalian, Shanghai, Shenzhen, Hong
Kong, Taipei, Bangkok, Kuala
Lumpur, Singapore, Silicon Valley

Domestic subsidiaries : Ryoyo Semicon,
Ryoyo Security Service,
iStream

Sales by product (H1/FY2016)



H1/FY2016 Business results



(Unit: 100 million yen)

	FY2015	FY2016		YoY	/ Plan	Comments
	H1	Original plan	H1			
Sales	587	530	493	(16.0%)	(7.0%)	Significantly decreased in semiconductors/devices
Gross profit	46.2 (7.9%)	43.5 (8.2%)	41.1 (8.3%)	(11.1%)	(5.5%)	Higher gross profit rate thanks to the lower proportion of low-margin transactions which compensate the effects of exchange fluctuation (yen appreciation)
SG&A	35.0	35.5	33.2	(5.2%)	(6.4%)	Decreased in both labor cost and other expenses
Operating income	11.2 (1.9%)	8.0 (1.5%)	7.9 (1.6%)	(29.6%)	(1.5%)	Lower than the previous year due to less sales, but generally as per the plan
Non-operating income	3.2	0.0	0.1	(95.7%)	—	Decreased in gain from investment securities
Ordinary income	14.4 (2.5%)	8.0 (1.5%)	8.0 (1.6%)	(44.2%)	+0.2%	Higher than the original plan thanks to an extraordinary income
Extraordinary income	2.7	0.0	0.3	(90.6%)	—	Decreased in gain on sale of investment securities
Income before income taxes	17.1	8.0	8.3	(51.5%)	+3.3%	
Income taxes	6.1	2.7	2.6	(56.9%)	(2.9%)	
Profit attributable to owners of parent	11.0 (1.9%)	5.3 (1.0%)	5.6 (1.1%)	(48.6%)	+6.5%	

Sales by segment: Slump in semiconductors/devices



(Unit: 100 million yen)

	FY2015 H1	FY2016 H1	Diff	YoY	Comments	
Total	587	493	(94)	(16.0%)		
Semiconductors/Devices	379	295	(85)	(22.3%)		
By application	Communications	96	43	(53)	(55.4%)	Large-scale orders for LC which contributed to sales of the previous year ended
	Digital consumer electronics and other home electronics	49	42	(7)	(14.6%)	Decreased in products for TVs, digital cameras and white goods
	Vehicle installation	20	15	(6)	(28.7%)	Decreased transactions related to vehicle installation such as monitors and car navigation
	PC and peripherals	107	99	(8)	(7.2%)	Despite slight decrease in products for PCs, mainly affected by decrease in those for peripherals such as HDD
	Industrials and others	107	97	(11)	(10.2%)	Affected by weak demand due to slowdown of Chinese economy as well as Kumamoto Earthquake
ICT/Solution	207	198	(9)	(4.4%)		
By product	PC/Server/Network	59	50	(9)	(14.8%)	Affected by postponed launch of new products as well as a drop in prices of hardware products
	I/O equipment	37	42	+5	+13.2%	Expanding business related to printers
	Software/Embedded devices	111	106	(5)	(4.8%)	Generally going sideways in software products, but for embedded devices decreased transactions for terminals in the finance industry

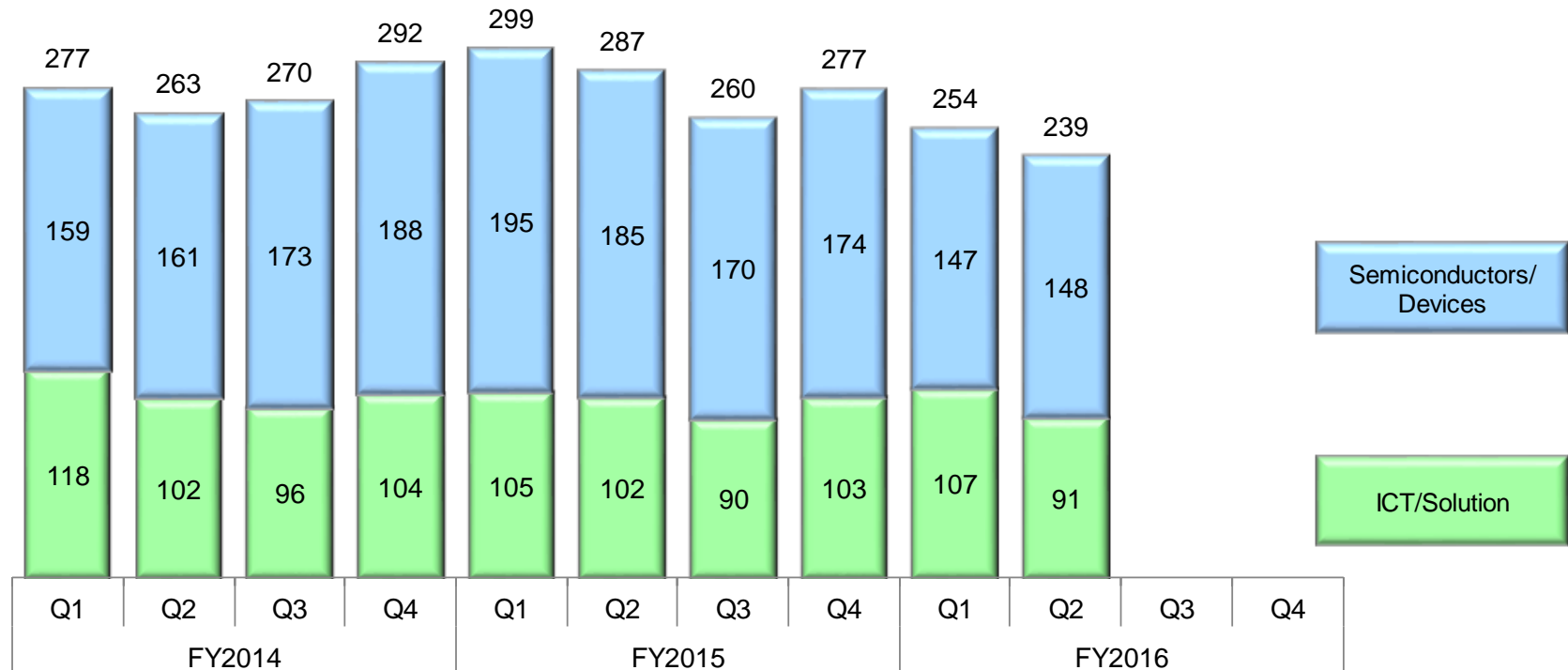
➤ **Semiconductors/Devices:**

With the end of some transactions as well as sluggish demand, the situation remains tough

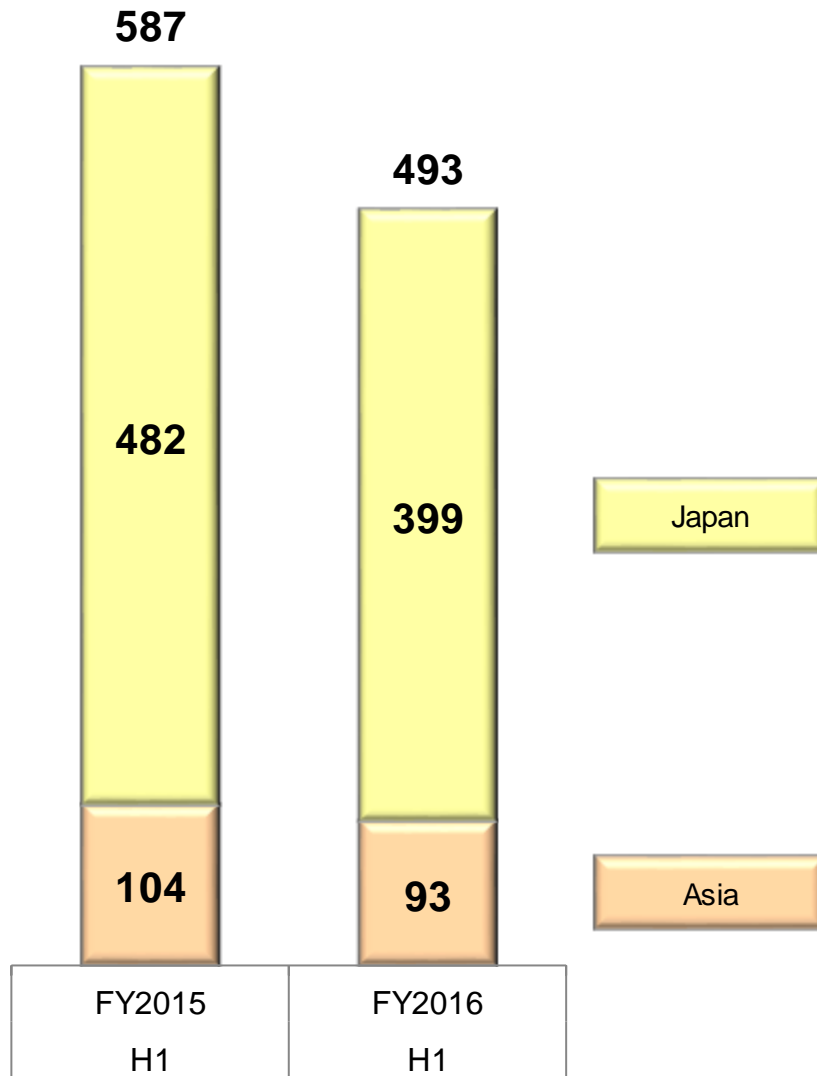
➤ **ICT/Solution:**

The transaction volume of I/O equipment which was strong in the last quarter has been reduced, and demand from customers closing the account in March is returning to normal

(Unit: 100 million yen)



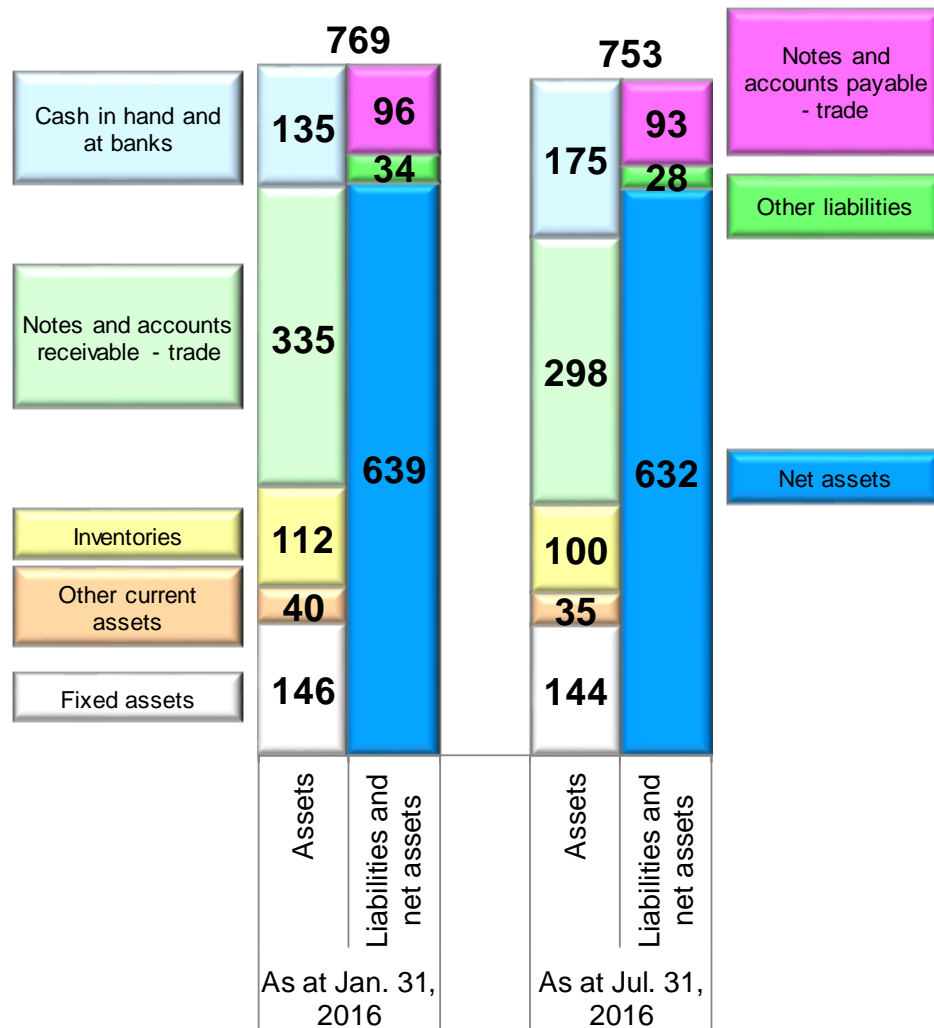
(Unit: 100 million yen)



Decline in both Japan and Asia

- Japan:
Mainly affected by the end of some large-volume transactions, but the both semiconductors/devices and ICT/solution are by and large in a slump
- Asia (Singapore, Hong Kong, Shanghai):
Increased in products for cell phones and printers, but decreased in those for industrial equipment and TVs

(Unit: 100 million yen)



Continue to maintain the strong financial position

- **Cash in hand and at banks :**
Considerably increased due to less capital fund
- **Accounts receivable / Inventories / Accounts payable :**
Decreased in line with less sales
- **Net assets :**
Implemented a buyback (150,000 shares)
- **Equity ratio : 83.9%**

FY2016 Business plan



➤ **Sales:**

Lower than the previous year due to the end of large-volume orders as well as the current uncertain situation

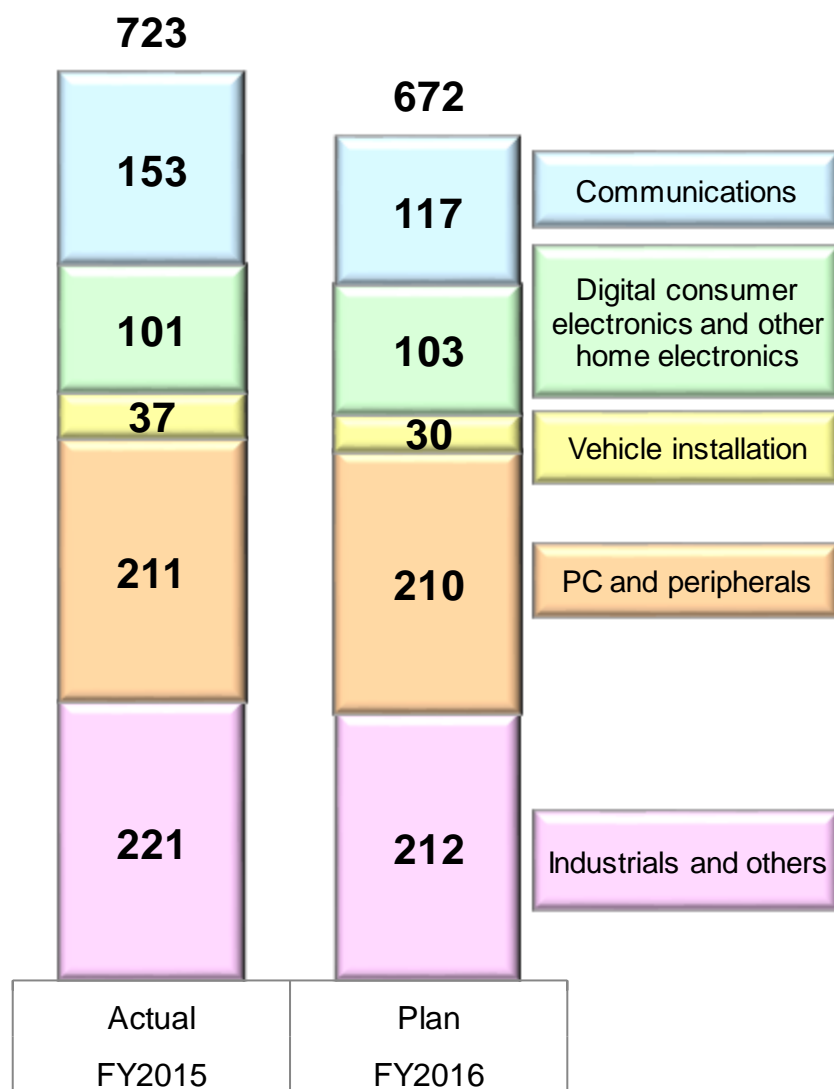
➤ **Gross profit / Operating income / Ordinary income / Net profit:**

Higher than the previous year, since the impacts of loss on abandoned inventory and loss on inventory revaluation which were recognized in FY2015 will be eliminated

(Unit: 100 million yen, %)

	FY2015 Total (Actual)	FY2016		Total (Plan)	Diff	YoY
		H1 (Actual)	H2 (Plan)			
Sales	1,123	493	607	1,100	(23)	(2.1%)
Gross profit	78.5	41.1	50.9	92.0	+13	+17.2%
	(7.0%)	(8.3%)	(8.4%)	(8.4%)		
SG&A	69.8	33.2	37.8	71.0	+1	+1.8%
Operating income	8.8	7.9	13.1	21.0	+12	+139.5%
	(0.8%)	(1.6%)	(2.2%)	(1.9%)		
Ordinary income	11.0	8.0	13.0	21.0	+10	+91.6%
Profit attributable to owners of parent	7.4	5.6	8.3	13.9	+6	+87.0%
	(0.7%)	(1.1%)	(1.4%)	(1.3%)		
ROE	1.1%			2.2%		

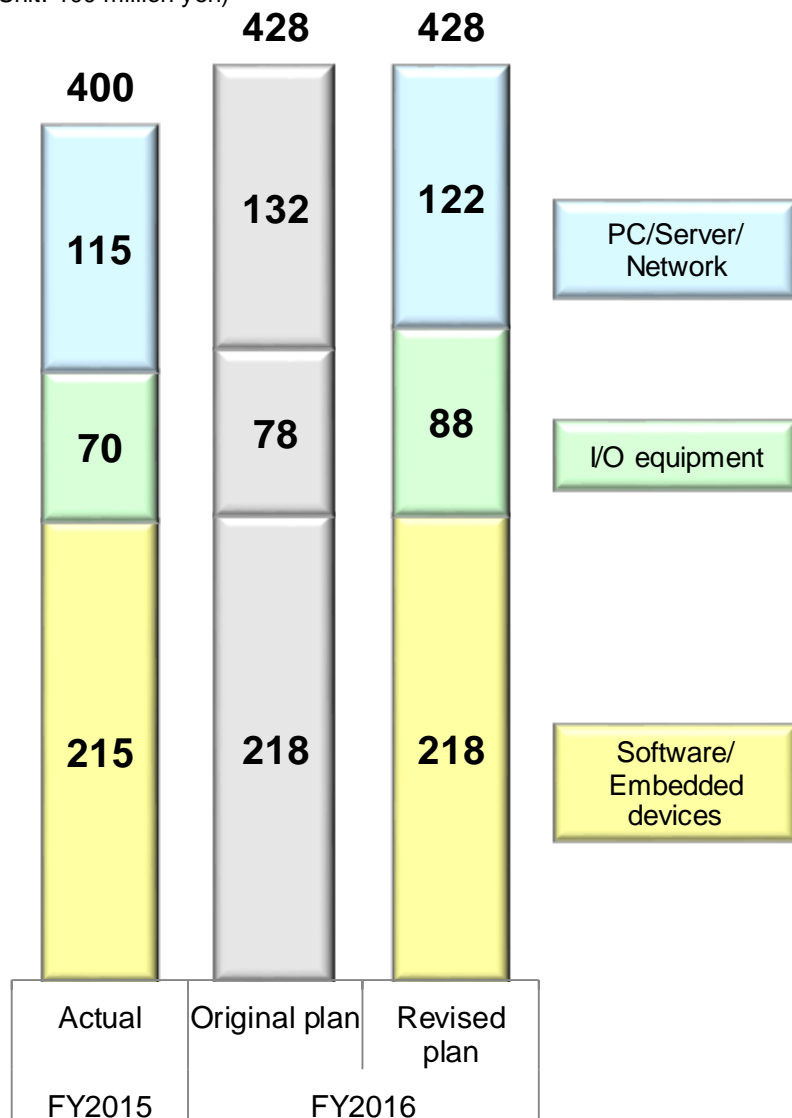
(Unit: 100 million yen)



**-5,100 million yen (-7.1%):
End of some large-volume orders**

- **Communications:**
Sales will be decreased due to the end of some large-volume orders
- **Digital consumer electronics and other home electronics:**
Sales will remain stable mainly in products for TVs and game machines
- **PC and peripherals:**
The weak demand for PCs will be compensated by printers and other peripherals
- **Industrials and others:**
The future situation is still uncertain, especially for businesses where end-users are in China

(Unit: 100 million yen)



**+2,800 million yen (+6.9%):
Sales expected to be increasing in all
product groups**

- **PC/Server/LAN:**
Delay in launch of new products as well as a deeper-than-expected drop in product prices
- **I/O equipment:**
In addition to higher sales in products for printer in H1, new orders for signage-related products expected
- **Software/Embedded devices:**
The increasing sales in embedded devices will compensate the downward trend in products for PCs

➤ **Dividend policy:**

Allocation of profit earning through our business activity is one of our most important matters. While we seek to maintain the stable management base and expand business, we also seek a return for shareholders based on our financial condition and business performance.

In FY2015 and the subsequent periods, **we will target 100% of the payout ratio to a net profit of each period** through dividend payment and payback

		Dividend per share			Payout ratio	Buyback
		Interim (Q2)	Year-end	Total		
FY2016	(Forecast)	-	20 yen	40 yen	70.6%	Unknown
	(Actual)	20 yen	-	-	-	150,000 shares
FY2015	(Actual)	15 yen	15 yen	30 yen	100.0%	-
FY2014	(Actual)	15 yen	15 yen	30 yen	44.9%	-

Medium-term actions

Basic policy

Contribute to customers' higher value added by creating new strengths through the IoT approach

Basic strategy I

Expand the core businesses through the IoT approach

Basic strategy II

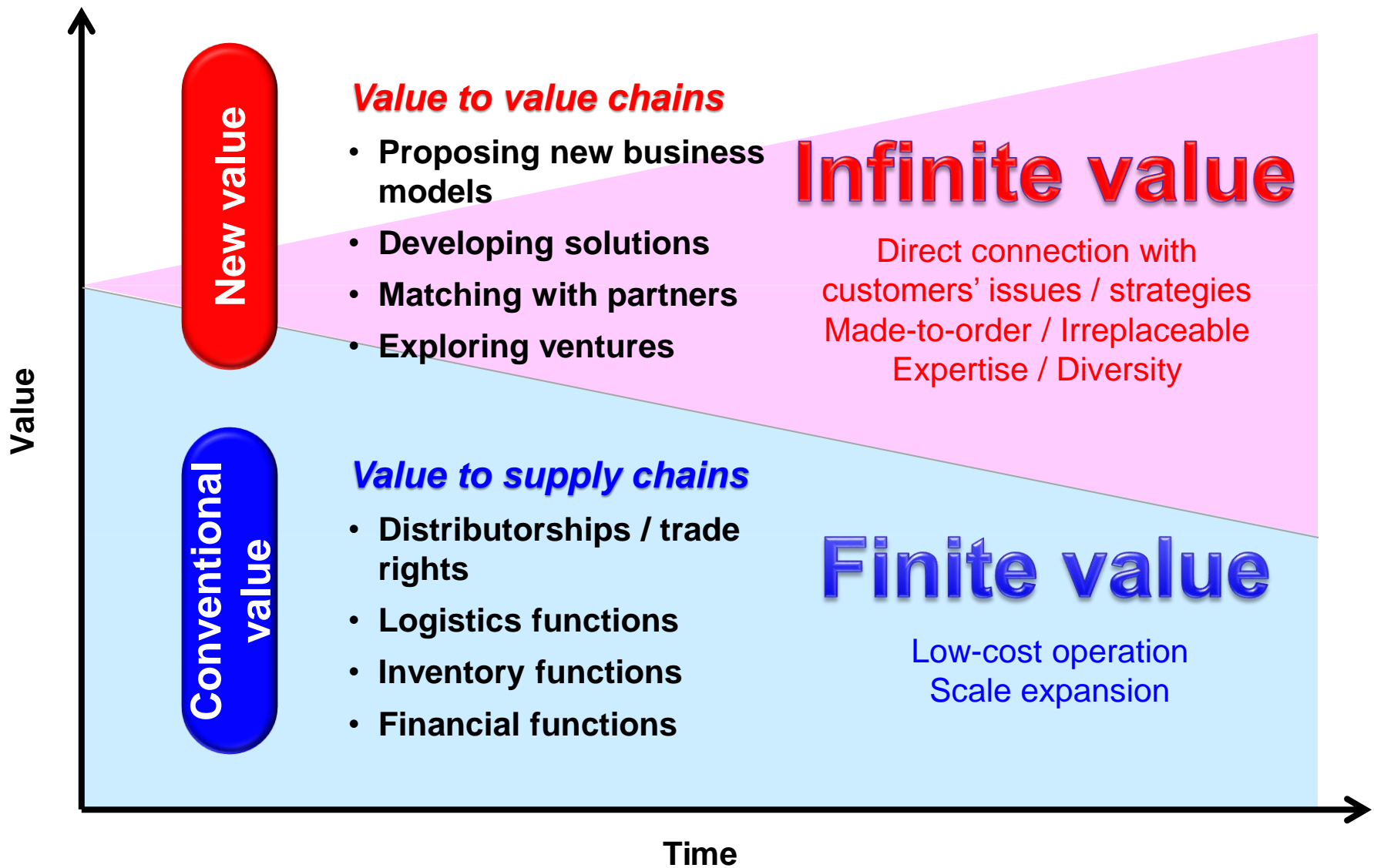
Strategically focus investments on growing markets

Basic strategy III

Accelerate the global strategy

Basic strategy IV

Strengthen the business base for sustainable growth



Stage 1 **Hop**

Up to FY2013

With development of a new business model focusing on embedded, we remained rather a trader

Launched IS(*) business

Accelerated business tie-up

(*) IS: Intelligent System
A concept to create "valuable data" by analyzing sensor information collected by embedded devices and integrating it with other information

Stage 2 **Step**

FY2014 – FY2015

With growth strategy focusing on IoT, we've shifted from a trader to a solution-based service provider

Built system to share IoT approach company-wide

Enhance IoT products (including capital tie-up)

Enhance IoT services



Big Data

Stage 3 **Jump**

FY2016 (current year) – FY2018

We'll achieve a transformation into a high-value added company by exploring both existing and new projects

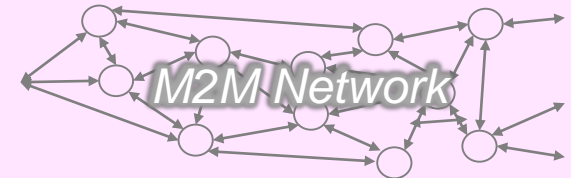
Setup of "IoT Sales HQ"

Launch WiFi solution services

Enhance F&Mi services

Develop "IoT Starter Kit"

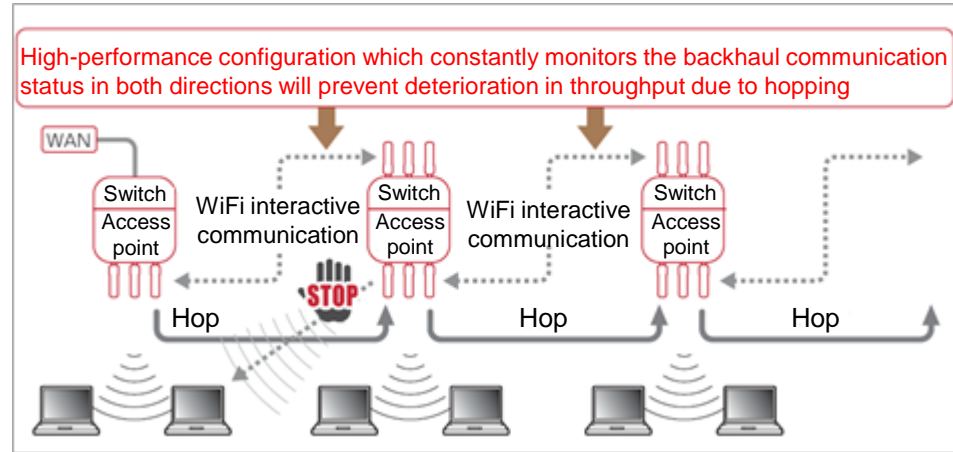
Develop "IoT" into the third core business



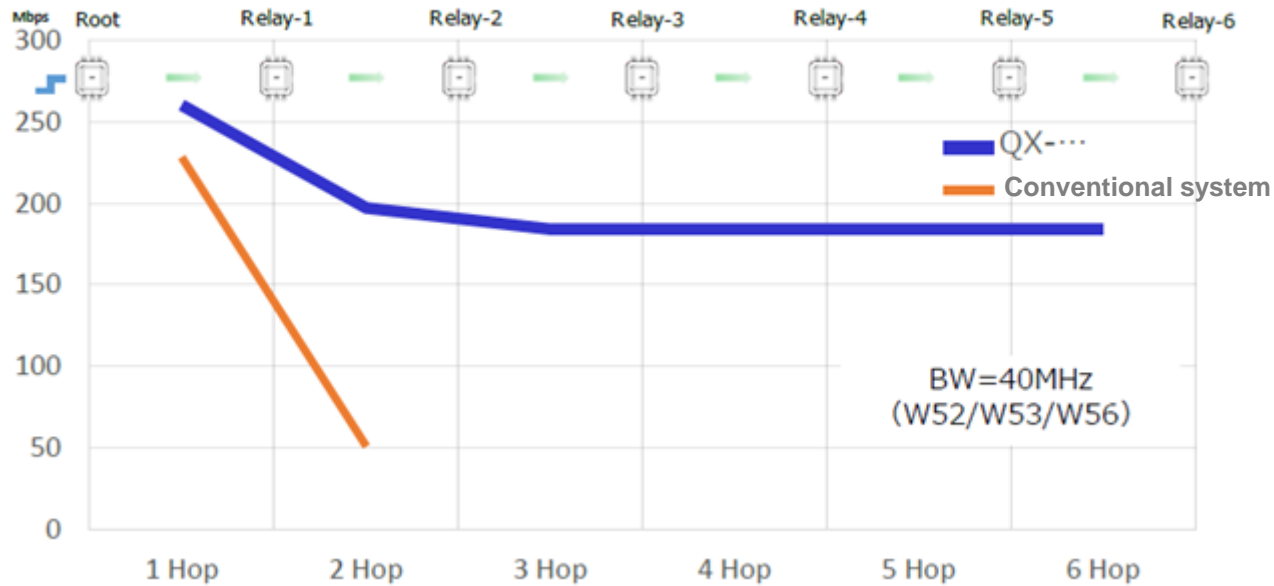
Multi-channel WiFi backhaul system



Excellent throughput even with multiple APs connected with WiFi hopping



Throughput features during WiFi hopping (40MHz bandwidth)



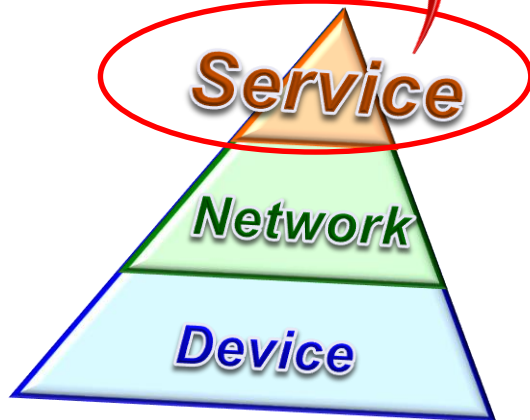
Field & Mobile Work Innovation

- Improve through ICT areas which have not been covered by ICT yet
- Stimulate customers' potential needs to be directly connected with their businesses through original services

Enhanced services

- R/PORTAL (Work Order Management System)
- Multilingual service applications
- Business messenger

etc.



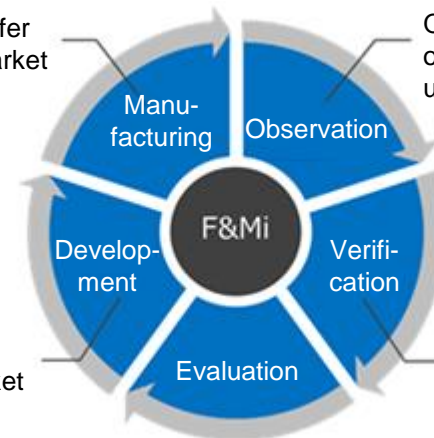
- Main element of IoT -

Target customers

- | | |
|-----------------------|-----------------|
| Wholesalers/retailers | Transportation |
| Amusement | Food & Beverage |
| Tourism | Medical |
| Hotels | Travel agency |

Turn to IPs and offer throughout the market

Observe customer's operation to understand their issues



Offer software not available in the market

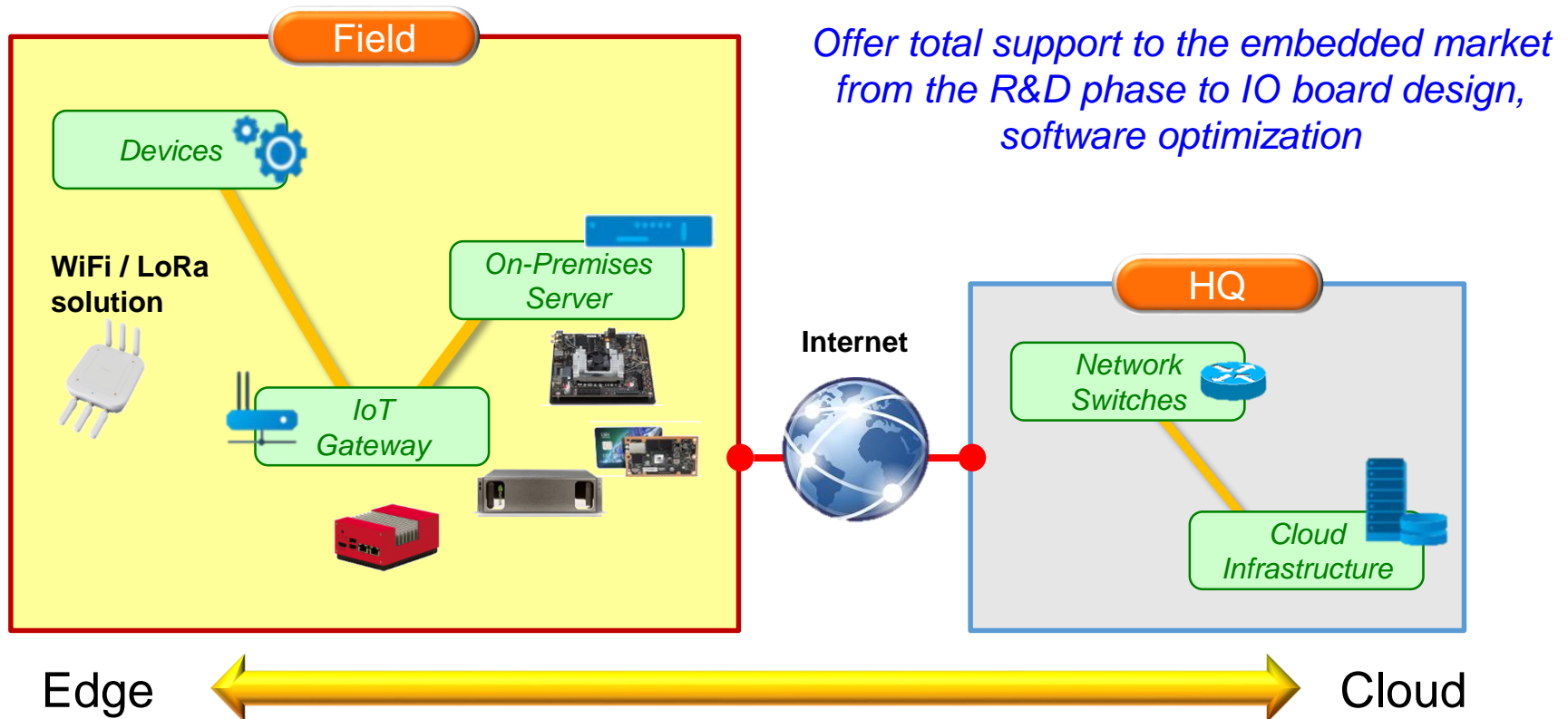
Make a hypothesis to create solution

- Issue (1) • Edge-side energy
- Issue (2) • Communication cost



WiFi / LoRa solution

Gateway / DeepLearning



<H1/FY2016 Business results>

- Lower sales and profit than the previous year, but generally as per the original plan in terms of operating income, ordinary income and net profit
- Payback of 150,000 shares (approx. 200 million yen) implemented. 5 yen per share added to H1 dividend.

<FY2016 Business plan>

- While business environment remains severe and sales have been weak, we'll target to a considerable increase in each level of profits by improving the gross margin rate.

<Medium-term actions>

- After a wide range of initiatives on IoT, we're now expecting "fruits" from them. Developing IoT to the third core business will make us a high-value added company.

- **Notice**

The business forecast and other forecasts contained in this report are based on certain assumptions, which we deemed reasonable at the time of release, and the actual results may differ due to the economic environment or various other factors.

- Contact -

Corporate Strategy Office
Corporate Planning Department
Ryoyo Electro Corporation

Tel: +81-3-3546-5088

e-mail: irmanager@ryoyo.co.jp