

# **FY2016 (57th) Results Briefing**

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March 10, 2017

**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 January 31, 2017)  
Consolidated: 498  
Non-consolidated: 444  
\*Whole group: 596

**Business areas** :

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

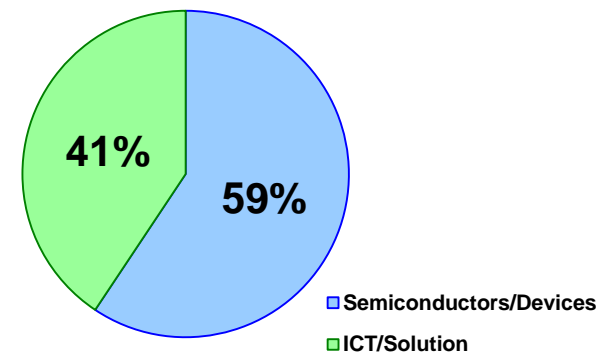
**Certification** : ISO 9001 / 14001 / 27001

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

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

**Domestic subsidiaries** : Ryoyo Semicon, Ryoyo Security Service, iStream

**Sales by product (FY2016)**



# FY2016 Business results



### ➤ Domestic economy:

- The appetite of capital investment and the recovery in consumer spending are still weak; and
- Different uncertainties such as exchange fluctuations, and global economy and political situation, are emerging.
  - ➔ Business performance in the private sector is going to be affected directly and/or indirectly.

### ➤ Electronics industry:

- The sign of recovery such accelerated movement towards practical use of IoT (Internet of Things) is going to be observed;
- The semiconductors/devices segment is being affected by slowdown of Chinese economy as well as Kumamoto Earthquake; and
- The ICT segment is facing less appetite in IT infrastructure investment but enjoying stable growth in services, supports and software products.

# P/L : Significantly lower sales but higher profits than the previous year



(Unit : 100 million yen)

	FY2015 Actual	FY2016		Actual	YoY	Comments
		Original plan (Announced on Mar 9)	Revised plan (announced on Nov 29)			
Sales	1,123	1,100	970	984	(12.4%)	Mainly affected by a significant decrease in semiconductors/devices
Gross profit (%)	78.5 (7.0%)	92.0 (8.4%)	81.3 (8.4%)	81.0 (8.2%)	+3.1%	Improved profits both in terms of amount and rate thanks to loss on abandoned inventory and loss on inventory revaluation
SG&A	69.8	71.0	67.8	67.3	(3.6%)	Decreasing logistics and other expenses as well as labor cost
Operating income (%)	8.8 (0.8%)	21.0 (1.9%)	13.5 (1.4%)	13.7 (1.4%)	+56.6%	
Non-operating income	2.2			1.7	(21.3%)	
Ordinary income (%)	11.0 (1.0%)	21.0 (1.9%)	13.5 (1.4%)	15.5 (1.6%)	+41.0%	
Extraordinary income	1.3			(2.0)	—	Recognized loss on valuation of investment securities and shares of subsidiaries and associates
Income before income taxes	12.2			13.4	+9.7%	
Income taxes	4.8			5.2	+8.3%	
Profit attributable to owner of parent (%)	7.4 (0.7%)	13.9 (1.3%)	8.5 (0.9%)	8.2 (0.8%)	+10.7%	
ROE	1.1%	2.2%	1.3%	1.3%		

# Sales by segment: Slump in semiconductors/devices



(Unit: 100 million yen)

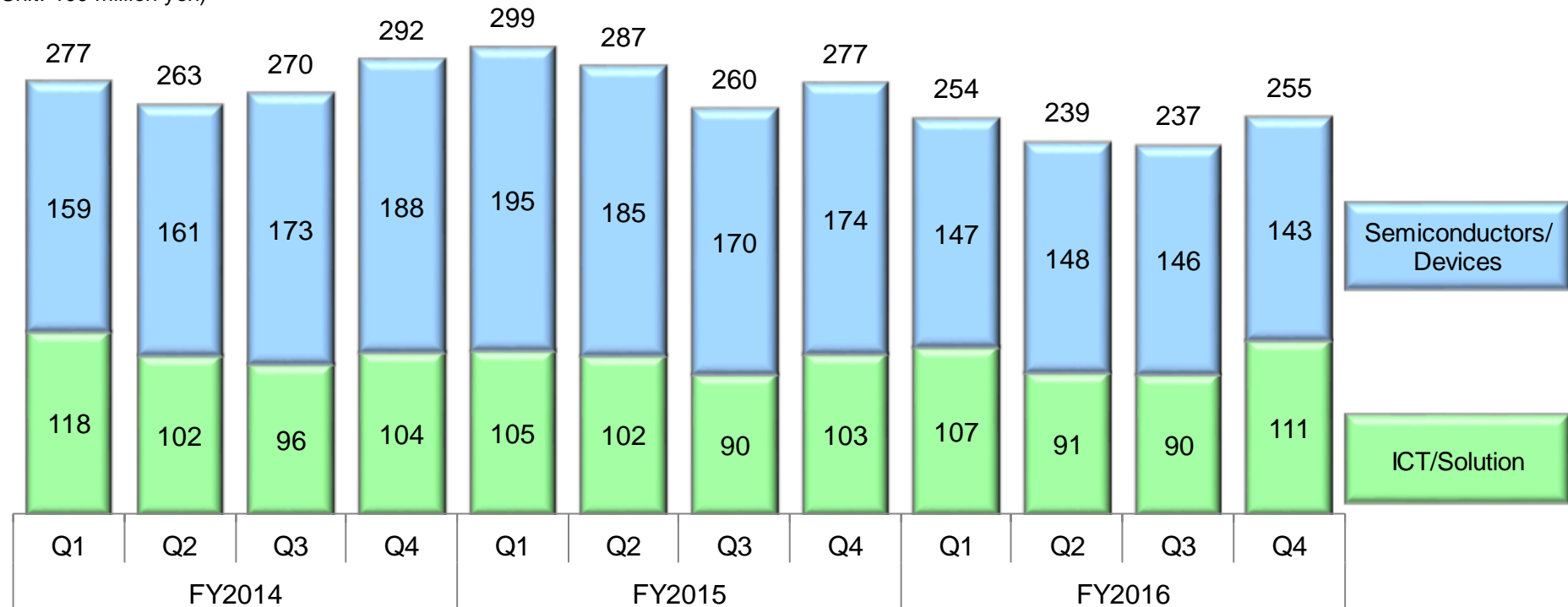
	FY2015 Actual	FY2016		Actual	YoY	Comments	
		Original plan (Announced on Mar 9)	Revised plan (Announced on Nov 29)				
Sales	1,123	1,100	970	984	(12.4%)		
Semiconductors/Devices	723	672	580	584	(19.2%)		
By Application	Communications	153	117	89	86	(43.5%)	Ended of large-volume orders which contributed to sales of the previous year and below the plan due to decrease in yields in some projects
	Digital consumer electronics and other home electronics	101	103	82	80	(21.2%)	Slowing down in products for TVs and game machines, our core products, since H2
	Vehicle installation	37	30	28	27	(26.7%)	Generally as planned despite the end of some projects
	PC and peripherals	211	210	190	199	(5.9%)	Remains sluggish with lower sales than the previous year in products for both PCs and peripherals
	Industrials and others	221	212	191	192	(13.0%)	Affected by Kumamoto Earthquake and postponement of some projects, while expected to be recovering in H2
ICT/Solution	400	428	390	400	(0.0%)		
By product	PC/Server/Network	115	132	95	100	(13.0%)	Focusing on high-profitability projects, such as services and supports, to compensate a sharp drop in unit price due to the smaller number of large-volume projects
	I/O equipment	70	78	80	80	+14.2%	Exceeding the previous year with a contribution of large-volume projects in the printer segment
	Software	118	111	123	125	+5.5%	Stable demand from enterprisers despite the original plan where lower sales were expected
	Embedded devices and others	97	107	92	95	(1.8%)	Significantly growth in graphic products, but shrinking in terminals for financial business

# Quarterly change in sales : Increase for the first time in the past four quarters

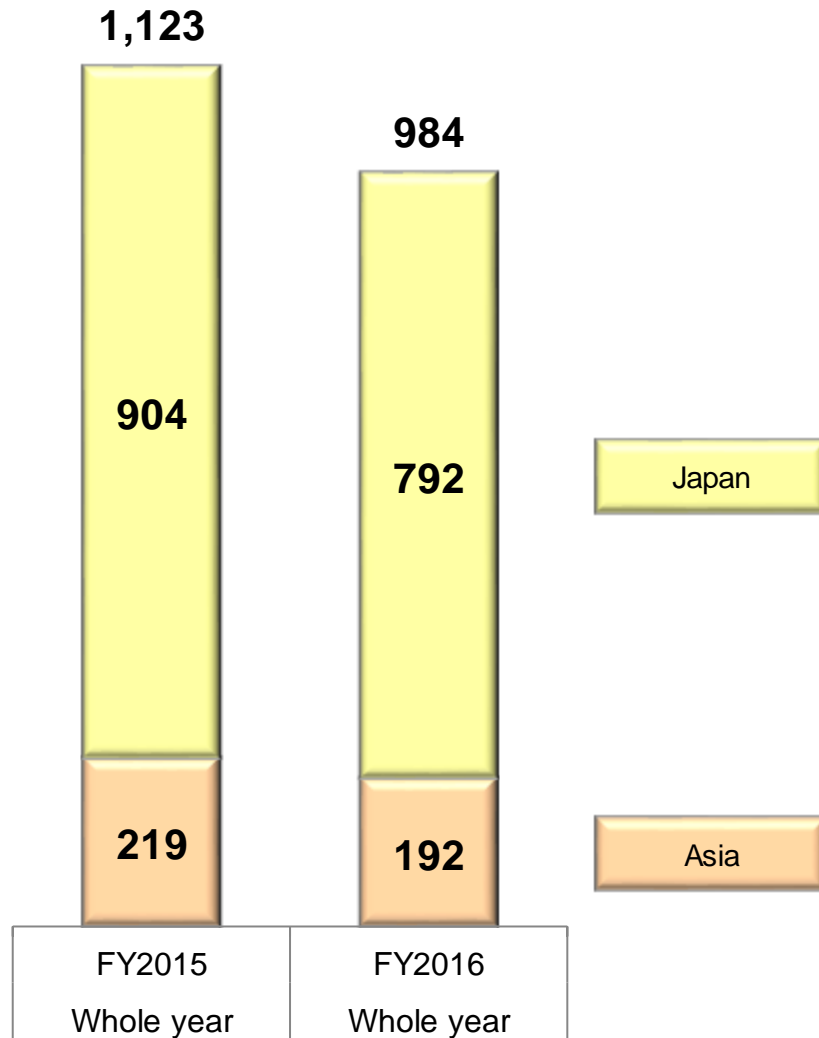


- **Semiconductors/Devices:**  
Hovering around 14 billion yen in all quarters without significant fluctuations
- **ICT/Solution:**  
Increased from Q3 to Q4 in all segments and the total sales were also second highest in the past three years

(Unit: 100 million yen)



(Unit: 100 million yen)

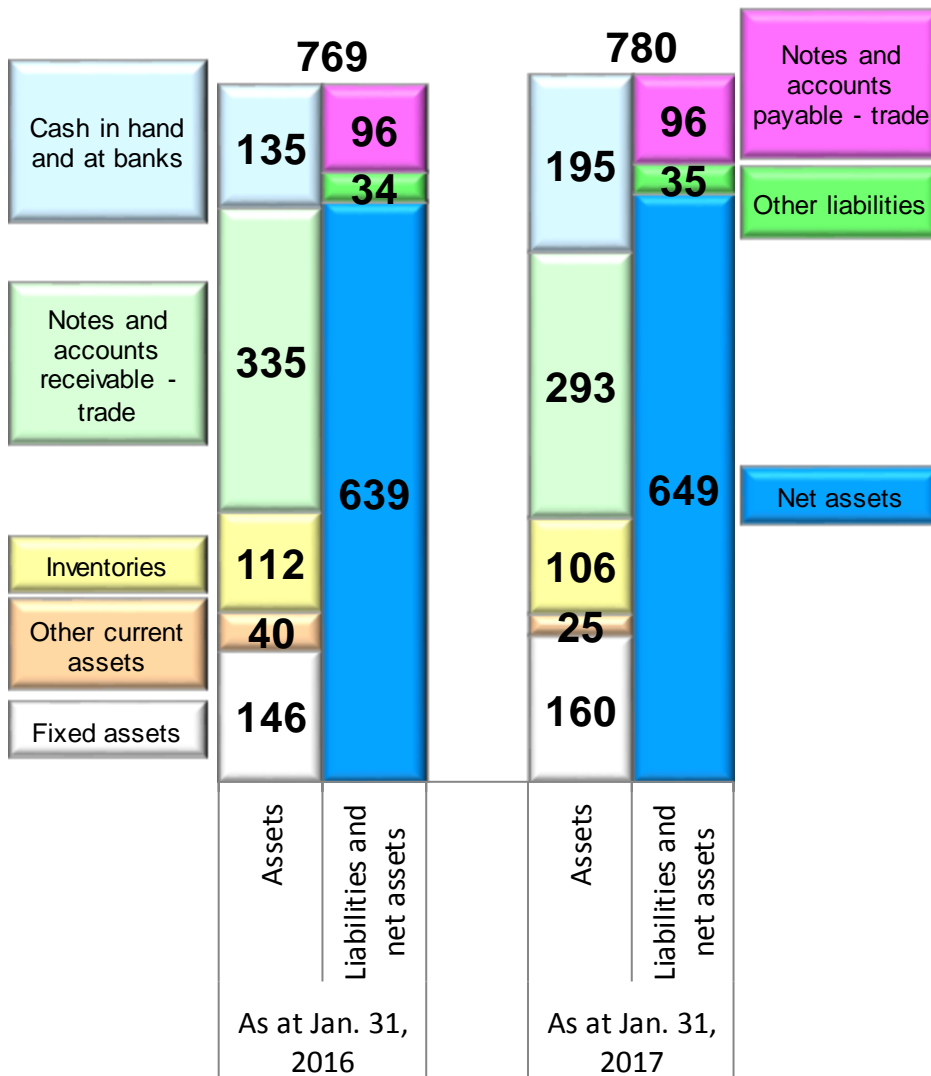


**Decline in both Japan and Asia**

- Japan :  
Mainly affected by the end of some large-volume transactions, but the semiconductors/devices segment are by and large in a slump
- Asia  
(Singapore, Hong Kong, Shanghai, Bengaluru) :  
Decreased in products for embedded products for terminal in finance business as well as semiconductors for TVs and industrial equipment



(Unit: 100 million yen)



**Continue to maintain the strong financial position**

- **Cash in hand and at banks :**  
Considerably increased due to less capital fund, despite higher dividend and payback
- **Accounts receivable payable :**  
Decreased in line with less sales
- **Net assets :**
  - Implemented a shares buyback in H1
  - Increased in valuation difference on available-for-sale securities
- **Equity ratio :**  
83.1%

# FY2017 Business plan



➤ **Sales:**

While the semiconductors/devices segment has remained sluggish, we can expect the contribution of IoT business which will be launched with a full-range scale from H2 onwards

➤ **Operating income:**

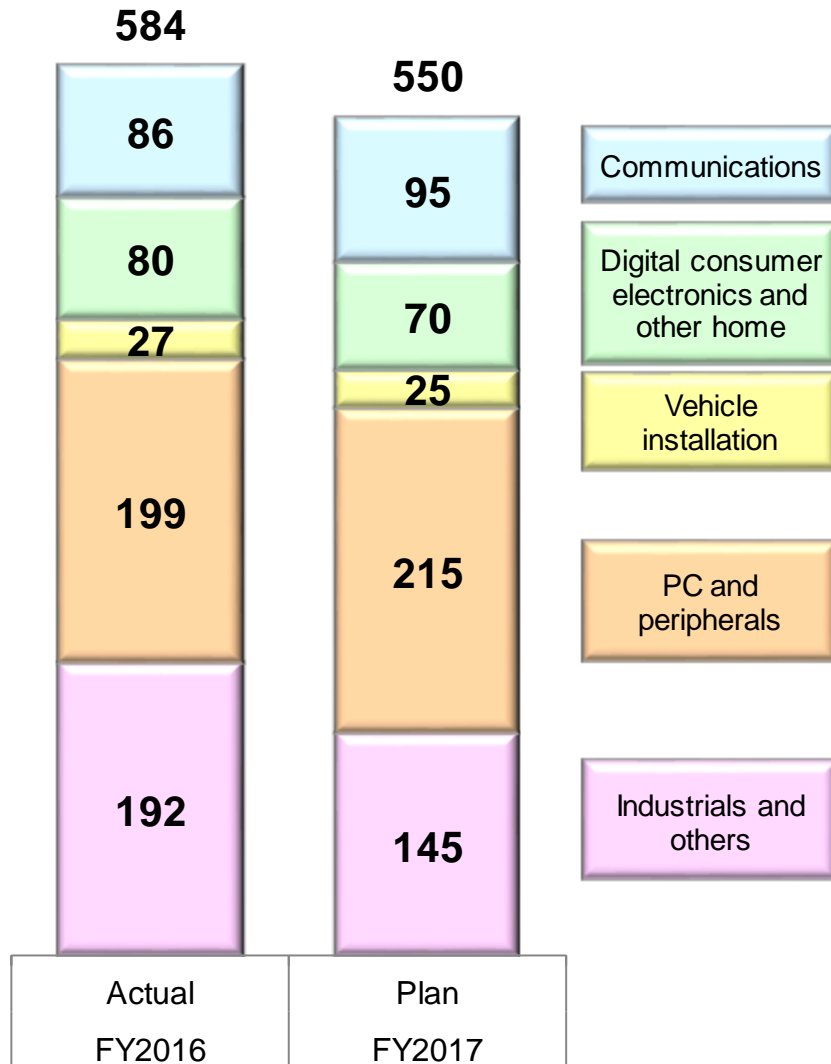
Expected to be higher than the previous year due to an improvement of the gross profit rate contributed by IoT business which will be launched with a full-range scale which compensates higher SG&A

(Unit: 100 million yen, %)

	FY2016 Total (Actual)	FY2017		Total (Plan)	Diff	YoY
		H1 (Plan)	H2 (Plan)			
Sales	984	480	520	1,000	+16	+1.6%
Gross profit	81.0 (8.2%)	41.0 (8.5%)	45.5 (8.8%)	86.5 (8.7%)	+5.5	+6.8%
SG&A	67.3	34.5	36.5	71.0	+3.7	+5.5%
Operating income	13.7 (1.4%)	6.5 (1.4%)	9.0 (1.7%)	15.5 (1.6%)	+1.8	+12.9%
Ordinary income	15.5	7.0	9.5	16.5	+1.0	+6.8%
Profit attributable to owner of parent	8.2 (0.8%)	4.5 (0.9%)	6.5 (1.3%)	11.0 (1.1%)	+2.8	+33.7%
ROE	1.3%			1.7%		



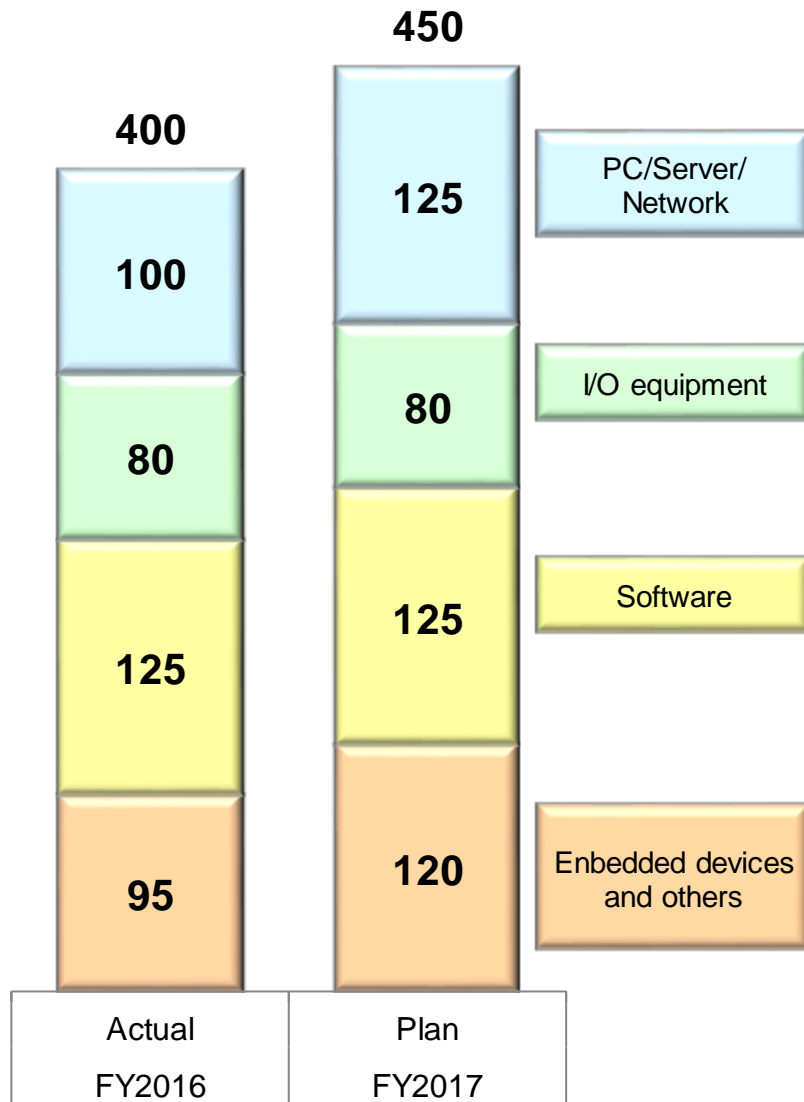
(Unit: 100 million yen)



**-3.4 billion yen (-5.8%) over the previous year:  
Significant decrease in products for industrials**

- **Communications:**  
Improved suppliers' yields in communication module businesses
- **Digital consumer electronics and other home electronics:**  
Decreased in products for TVs and game machines, our core products
- **PC and peripherals:**  
Increasing in both PCs and peripherals
- **Industrials and others:**  
Significantly decreasing due to a transfer of the distribution rights as well as production adjustments by some customers

(Unit: 100 million yen)



**+5.0 billion yen (+12.5%) over the previous year:  
Expected growth in IoT business**

- **PC/Server/Network:**  
Growing along with IoT projects
- **I/O equipment:**  
In addition to a contribution of large-volume projects, the demand for signage-related products will be stable
- **Software:**  
The PC market is going to be bottoming out and the demand from enterprises will remain stable since FY2016
- **Embedded devices:**  
Graphic products which have advantages in terms of AI and Deep Learning will be growings

➤ **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 FY2017 and the subsequent periods, we will target 100% of the total return ratio to the profit attributable to owner of parent of each period through dividend payments and share buyback

		Dividend per share			Payout ratio	Share buyback
		Interim (Q2)	Year-end	Total		
FY2017	<b>(Forecast)</b>	30 yen	30 yen	60 yen	133.7%	—
FY2016	<b>(Actual)</b>	20 yen	20 yen	40 yen	119.2%	150,000 shares
FY2015	<b>(Actual)</b>	15 yen	15 yen	30 yen	100.0%	600,000 shares

## Medium term actions

No change in the basic policy and strategies

Accelerate a shift to the business model focusing on high-value added, rather than scale, and increase the profit rate and then the profit (amount)

Revised the FY2018 Business plan



**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

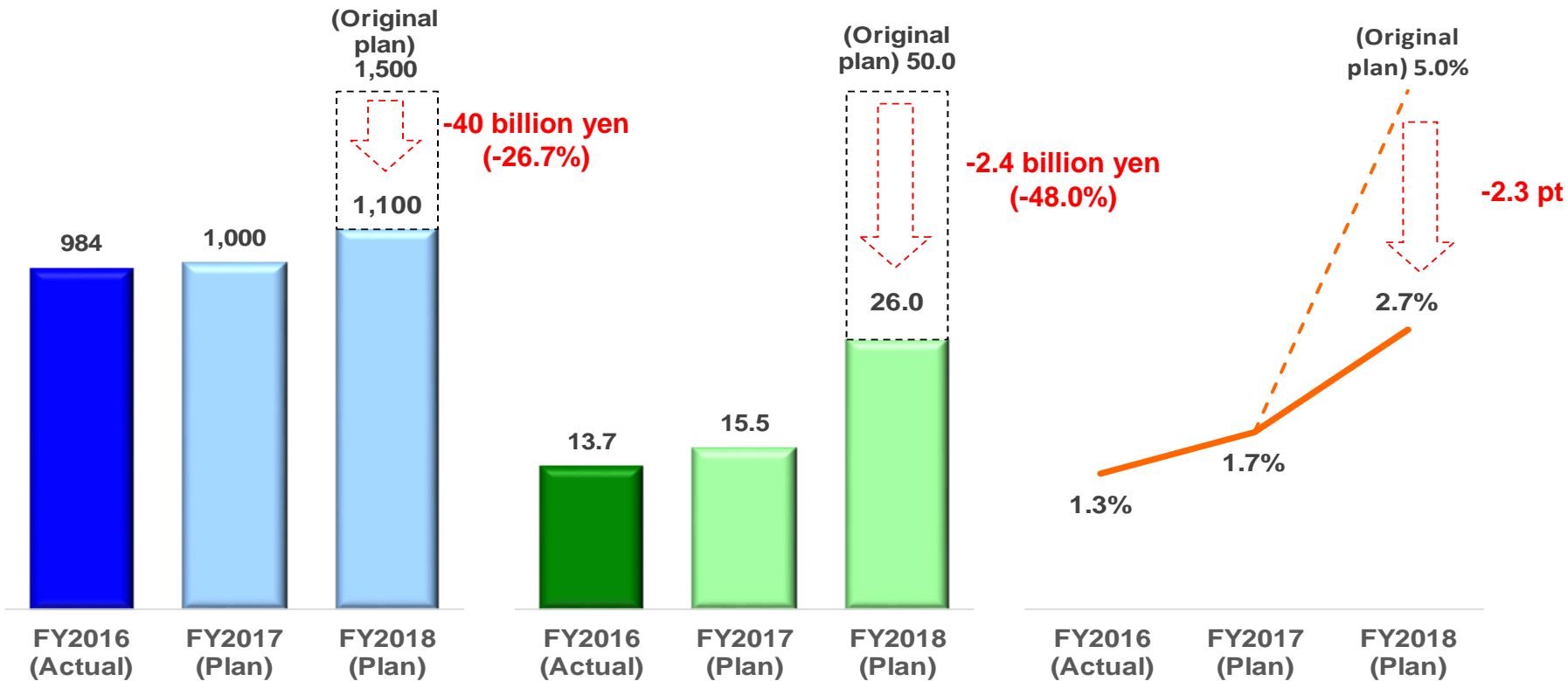
## Revised the targets in the medium-term business plan announced in August 2015

- Based on conservative consideration on changes in external environments and other factors -

### Sales

### Operating income

### ROE



## Changes in external environments

- Japan's semiconductor market which is more serious than expected
- Increasing uncertainties in global economy (e.g. slowdown in emerging countries, political uncertainties in US and EU)

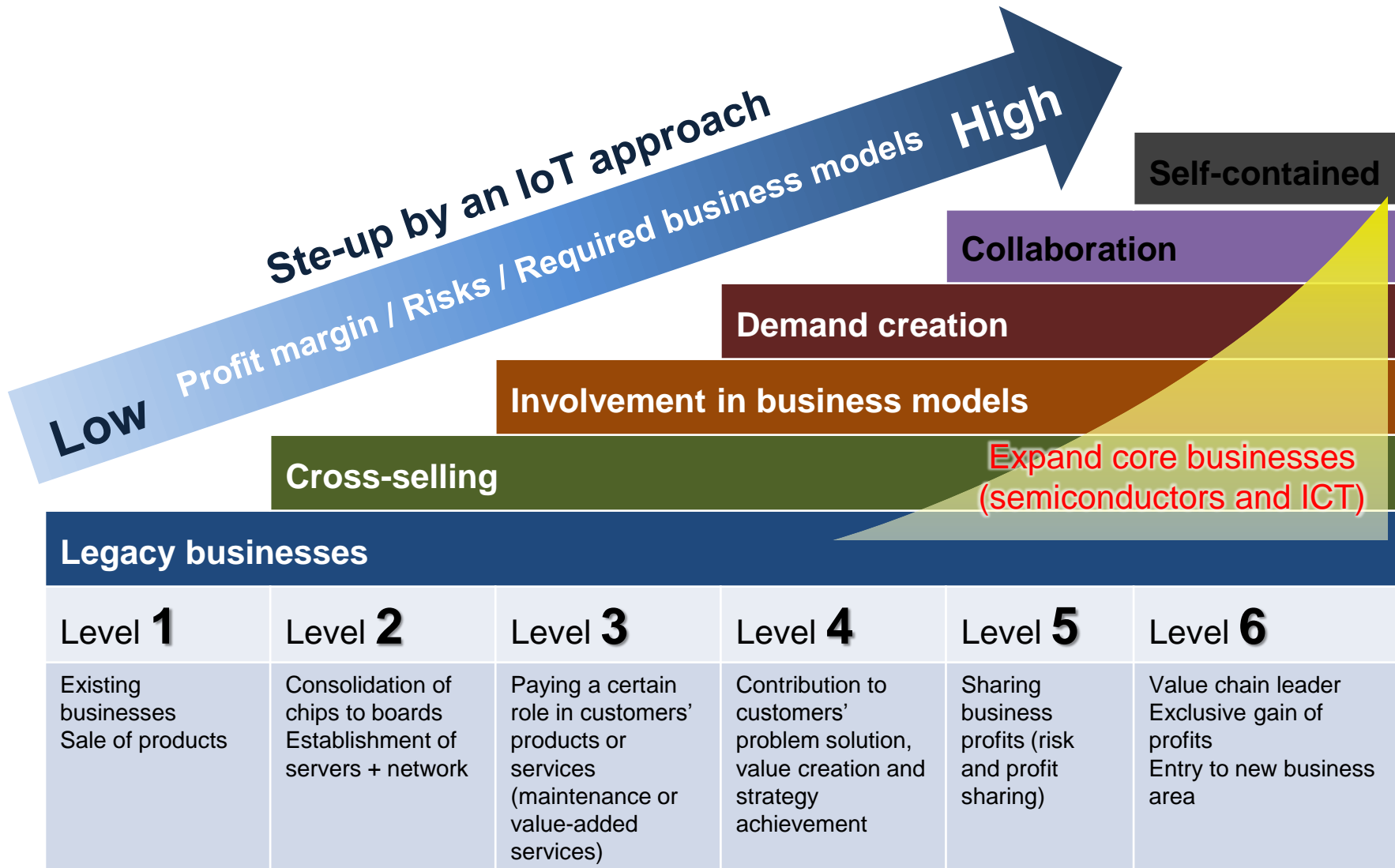
### ◆ Breakdown of revisions of the business plan

**○ Existing businesses: -28 billion yen**

(Major factors)

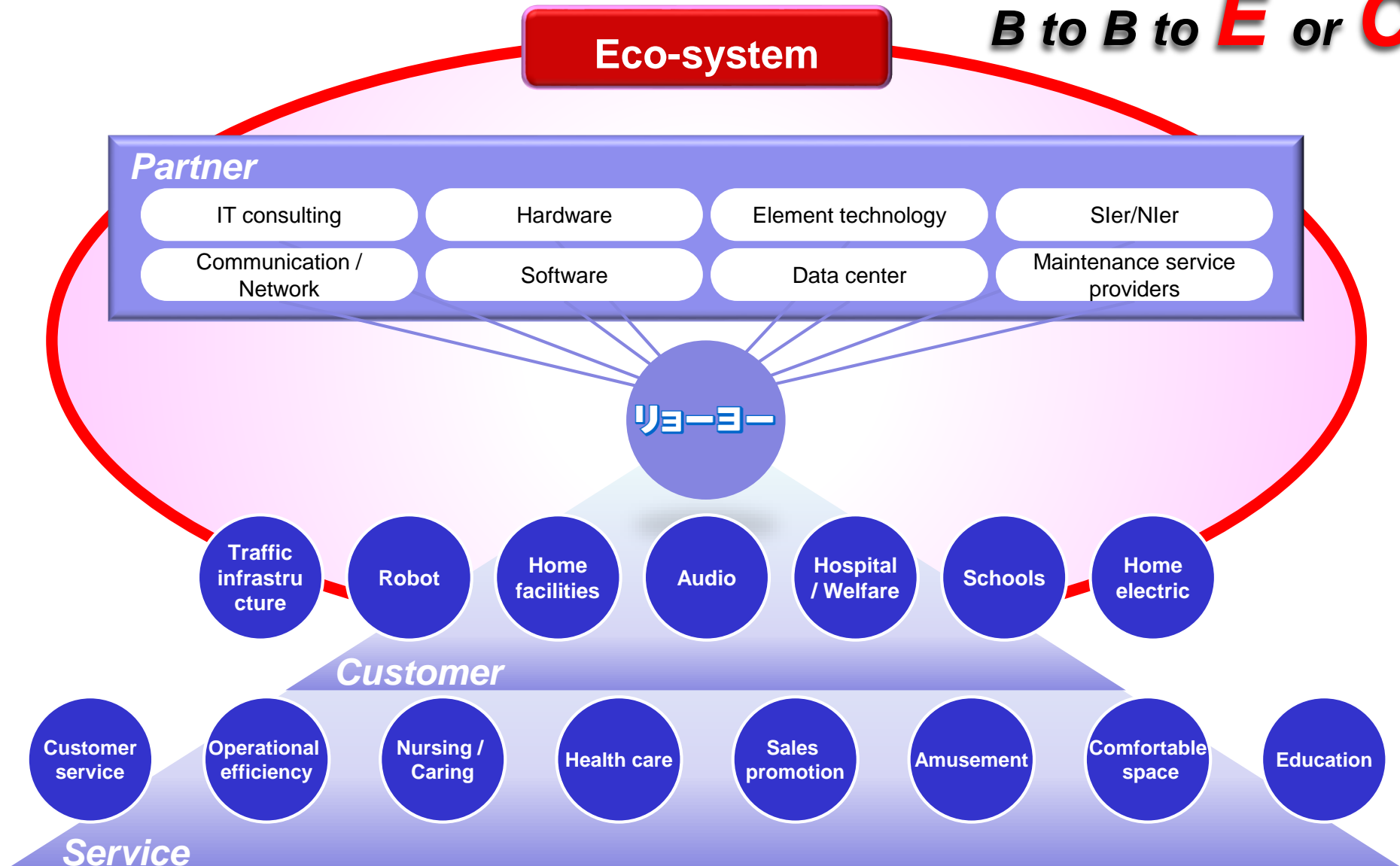
- Slump in industrials-targeted businesses mainly for China
- Transfer of the agency due to changes by semiconductor makers in their business policies
- Switching business strategies in ICT hardware business
  - Drop in product unit price, shift to cloud computing
- Strategic withdrawal from low-profitability businesses
  - Focus resources on other businesses

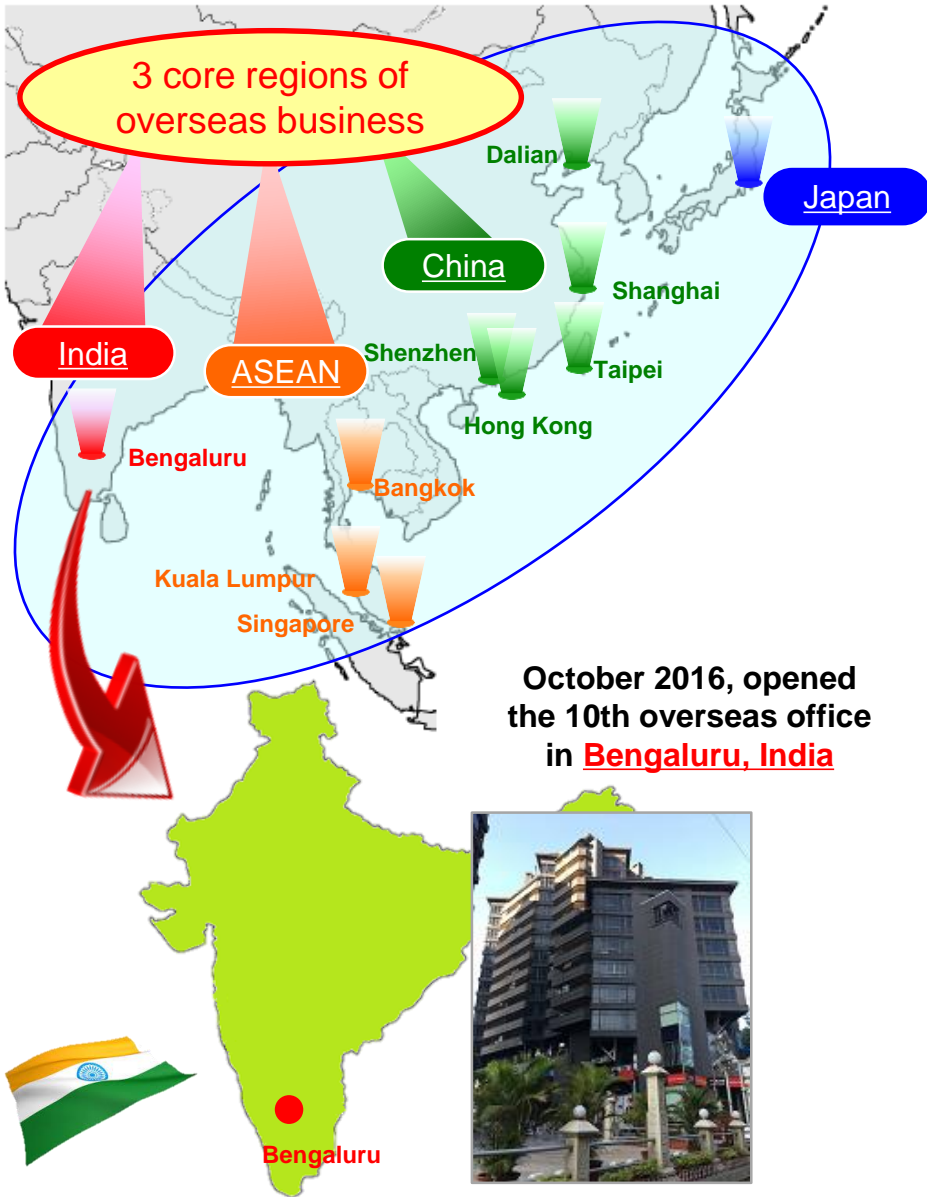
**○ IoT business: -12 billion yen**





**B to B to E or C**

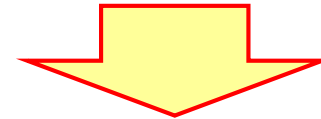




<<Changes in business environments surrounding us>>

### Immediate challenges

- Shrinking domestic market due to sluggish private consumption
- Drastic changes in the semiconductor market
- Globalization of customers' business (local production for local consumption)



<Acceleration of global strategies>



- Reinforce the business structure by expanding business bases in Asia
- Create demands for the ICT/solution business in Asia based on our core business, mainly semiconductors/devices
- Explore the Indian market drastically growing

### ➤ Return to shareholders:

**Payout ratio: No change in the policy (100%) for time being**

**→ Despite the revised target ROE, keep 5% from a medium- and long-term perspective and eye further dividend increase in FY2018**

### ➤ M&A:

**Considering M&A to expand the IoT business, and targets include “Sler,” “Nler” and “a software company”**

**→ Allocating “15 billion yen” to strategic investments covering FY2021**

### ➤ Operational reform:

**As part of working style renovation, considering IT investments which contribute to better productivity per capita as well as work flow renovation and introduction of new communication tools**

## ➤ Basic corporate governance policy:

**We are working on organization building where corporate governance is maintained effectively, recognizing that bettering corporate governance is one of the most important business issues in order to ensure health, transparent and efficient operations, maximize corporate values and subsequently contribute to the society**

		Board of directors			Audit committee		Operating officers	
		Internal	External	Ratio of external	Internal	External		Acting as director as well
FY2016	- Assessed effectiveness of the board of directors - Comply with all 73 principles of corporate governance Code	6	2	25.0%	1	3	6	4
FY2015	- Increased the number of outside directors	6	2	25.0%	1	3	7	4
FY2014	- Revised the operating officer system	4	1	20.0%	1	3	10	2
FY2013	- Increased the number of representative directors - Invited an outside director - Established the criteria for the selection of outside officers	5	1	16.7%	1	3	8	
FY2012	- Introduced the stock option scheme	5	0	—	1	3	8	
FY2011		6	0	—	1	3	4	
FY2010		6	0	—	1	3	3	
FY2009		7	0	—	1	3	5	
FY2008	- Abolished the retirement pay for directors	11	0	—	1	3	4	
FY2007		7	0	—	2	2	10	



### <FY2016 Business results>

- Sales were significantly lower than the previous year due to a prolonged slump in semiconductors/devices
- On the other hand, profits exceeded the previous year as special factors in each segment have disappeared

### <FY2017 Business plan>

- Increased sales by growth in ICT which compensates a prolonged slump in semiconductors/devices
- Target an increase in profits at all levels by improving the profit rates with launch of IoT business

### <Medium-term actions>

- Revised the targets in the medium-term business plan (up to FY2018) announced in August 2015

Sales: 150 billion yen → 110 billion yen,  
Operating income: 5.0 billion yen → 2.6 billion yen,  
ROE: 5.0% → 2.7%

- **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 -**

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