

# **H1/FY2017 (58<sup>th</sup>) Results Briefing**

September 1, 2017

**RYOYO ELECTRO CORPORATION**

(Tokyo Stock Exchange - 8068)

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

**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, 2017)  
Consolidated: 513  
Non-consolidated: 454

**Business areas** :

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

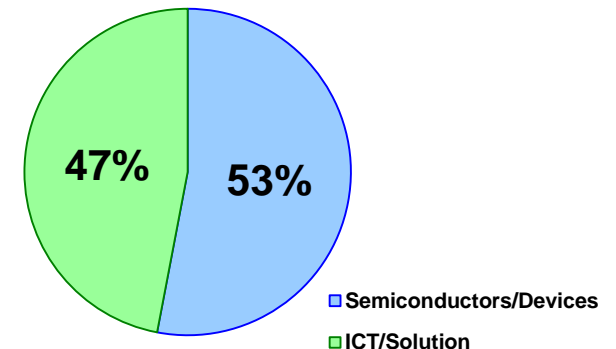
**Certification** : ISO 9001 / 14001 / 27001

**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 (H1/FY2017)**



# H1/FY2017 Business results

## ➤ Business results:

- Sales were lower than the same period last year, mainly due to transfer of the distribution rights, and in some segments, below the original plan for production adjustment and other reasons;
- **Gross profit, operating income, ordinary income and quarterly net profit are in line with the original plan**, thanks to the increasing ratio of higher profitable ICT/Solution segment as well as the improvement of the profit margin in the semiconductor/device segment; and
- **Ordinary income and quarterly net profit are higher than the same period last year as well**, supported by the upward swing of extraordinary income.

## ➤ Key actions:

- We have continued to study and implement business collaborations (including capital tie-up) with partner companies for further accelerating and expanding IoT-related businesses; and
- We are seeing the fruits of previous efforts in IoT-related businesses, including the introduction and transit to demonstration test of the technology.

(Unit: 100 million yen)

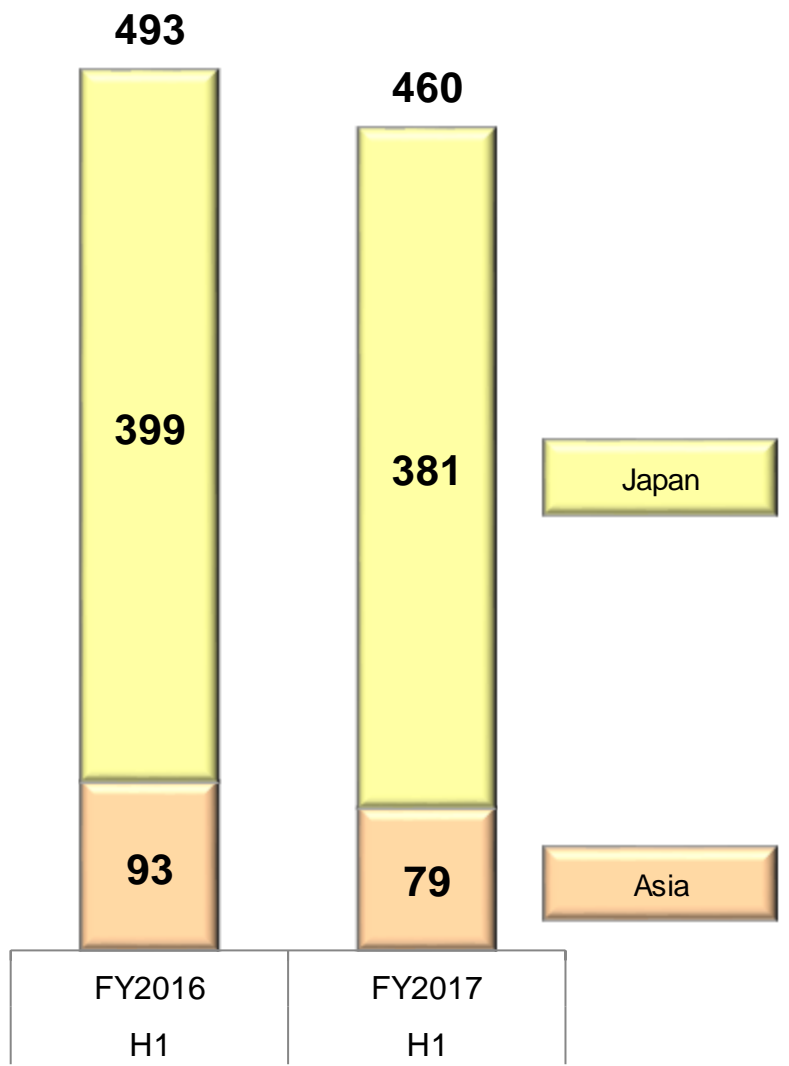
	FY2016 H1	FY2017		YoY	/ Plan	Comments
		Original plan	H1			
Sales	493	480	460	(6.6%)	(4.1%)	
Gross profit	41.1 8.3%	41.0 8.5%	41.8 9.1%	+1.8%	+2.1%	Higher than both the previous period and the plan, due to the better profit margin after improved product composition
SG&A	33.2	34.5	34.9	+5.2%	+1.3%	Increased in labor cost
Operating income	7.9 1.6%	6.5 1.4%	6.9 1.5%	(12.5%)	+6.1%	Lower than the previous period due to increased SG&A, but exceeds the plan
Non-operating income	0.1	0.5	1.4	+876.5%	+170.6%	Increasing gain from investment securities
Ordinary income	8.0 1.6%	7.0 1.5%	8.2 1.8%	+2.9%	+17.8%	Higher than the previous period, supported by extraordinary income significantly exceeding the plan
Extraordinary income	0.3	0.0	0.1	(54.1%)	—	
Income before income taxes	8.3	7.0	8.4	+1.2%	+19.5%	
Income taxes	2.6	2.5	2.6	(0.3%)	+4.6%	
Profit attributable to owner of parent	5.6 1.1%	4.5 0.9%	5.8 1.2%	+1.9%	+27.8%	

(Unit: 100 million yen)

		FY2016 H1	FY2017 H1	YoY	Comments
<b>Total</b>		<b>493</b>	<b>460</b>	<b>(6.6%)</b>	
<b>Semiconductors/Devices</b>		<b>295</b>	<b>244</b>	<b>(17.0%)</b>	
By application	Communications	43	38	(9.8%)	Demand for communication module-related products, which we expected was growing, was dropping sharply
	Digital consumer electronics	42	28	(33.4%)	Significantly decreased in products for both TVs and amusement
	Vehicle installation	15	12	(18.5%)	Decreased due to the end of some projects
	PC and peripherals	99	91	(8.1%)	Increased in products for peripherals, which is not compensated by a decrease in products for PCs
	Industrials and others	97	75	(22.1%)	Significantly decreased due to the transfer of the distribution rights and production adjustment in solar power businesses
<b>ICT/Solution</b>		<b>198</b>	<b>216</b>	<b>+9.0%</b>	
By product	PC/Server/Network	50	50	(0.2%)	No significant change from the previous period, except a higher ratio of services and supports
	I/O equipment	42	36	(15.2%)	Remains strong but lower than the previous period with the contribution of large projects
	Software	63	75	+17.9%	Continuous strong demand for corporate use PCs, the sales of which were much higher than the previous period
	Embedded devices and others	43	56	+30.4%	Driven by graphic products the sales of which are significantly increasing

# Segment information (sales by region)

(Unit: 100 million yen)

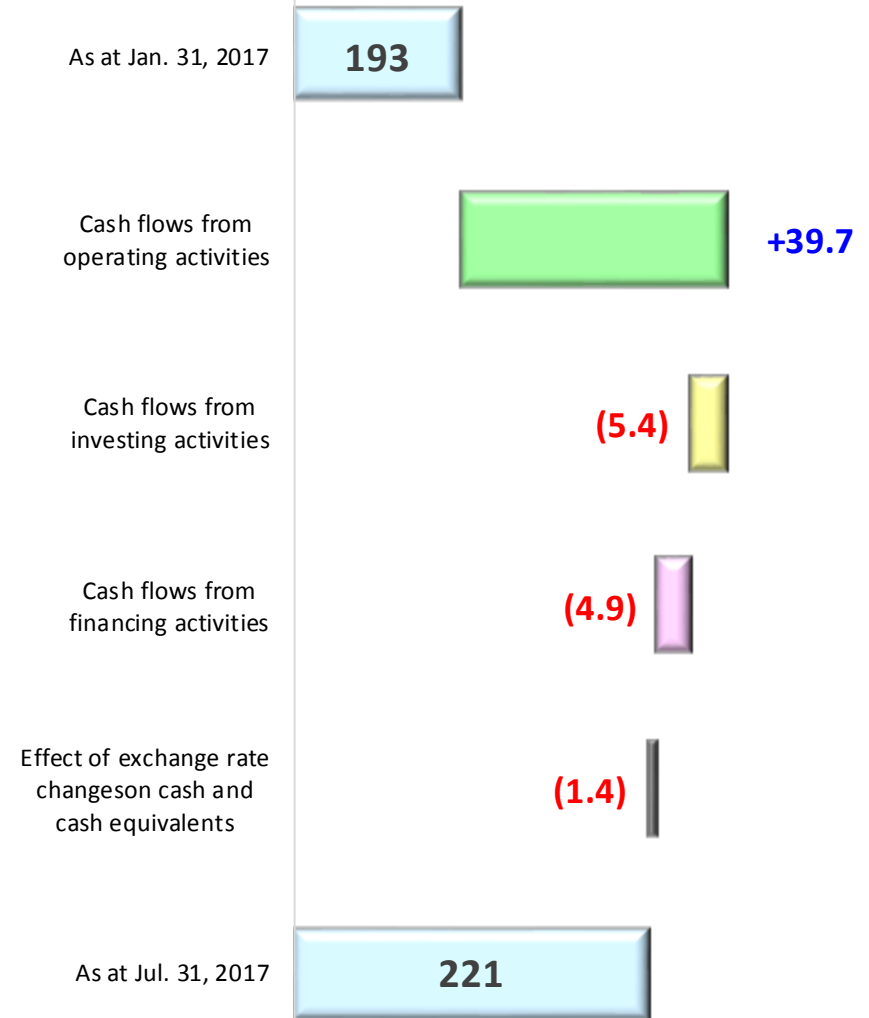
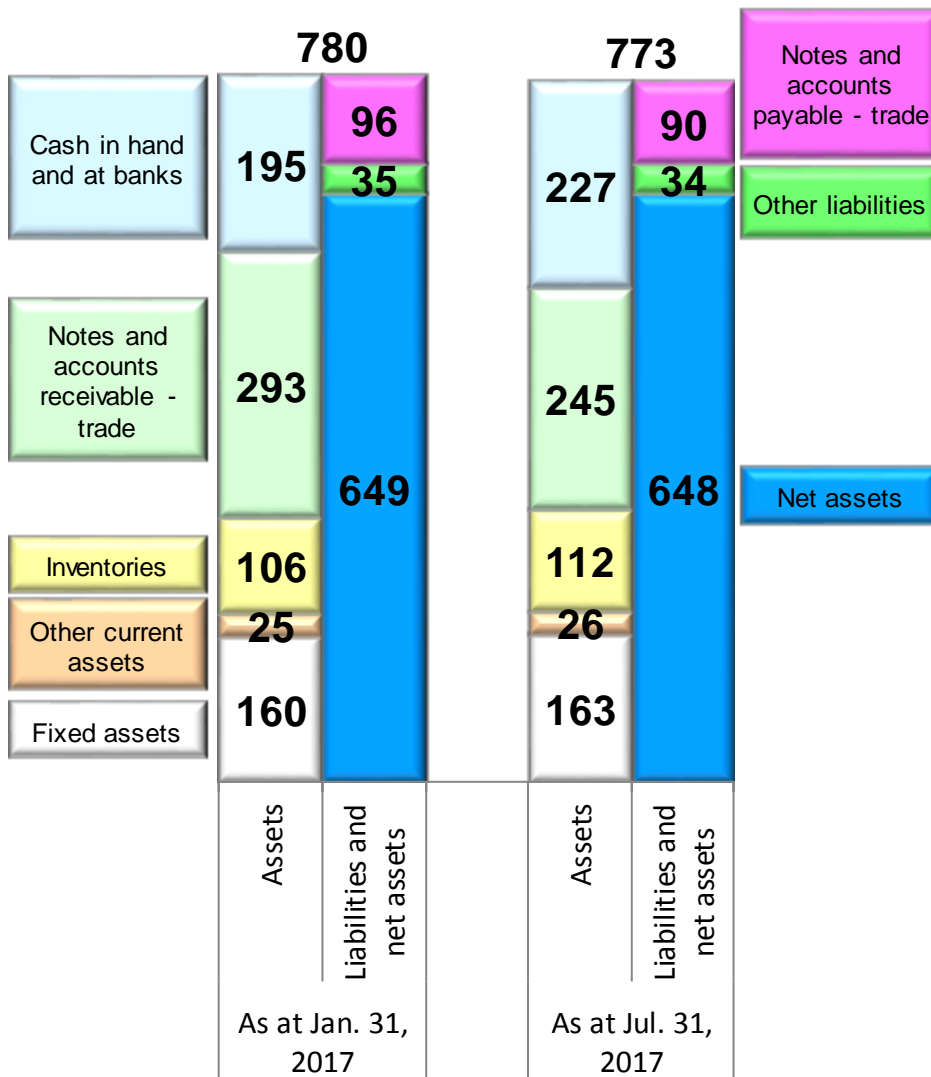


**Decline in both Japan and Asia**

- Japan:  
Lower than the previous period, due to a decrease in semiconductors for industrial use or PCs
- Asia (Singapore, Hong Kong, Shanghai, Bengaluru):  
Decreased in products for TVs and game machines

(Unit: 100 million yen)

(Unit : 100 million yen)





**FY2017 Business plan**

➤ **Sales:**

No change from the original plan, despite the weak sales in H1 mainly in Semiconductors/Devices

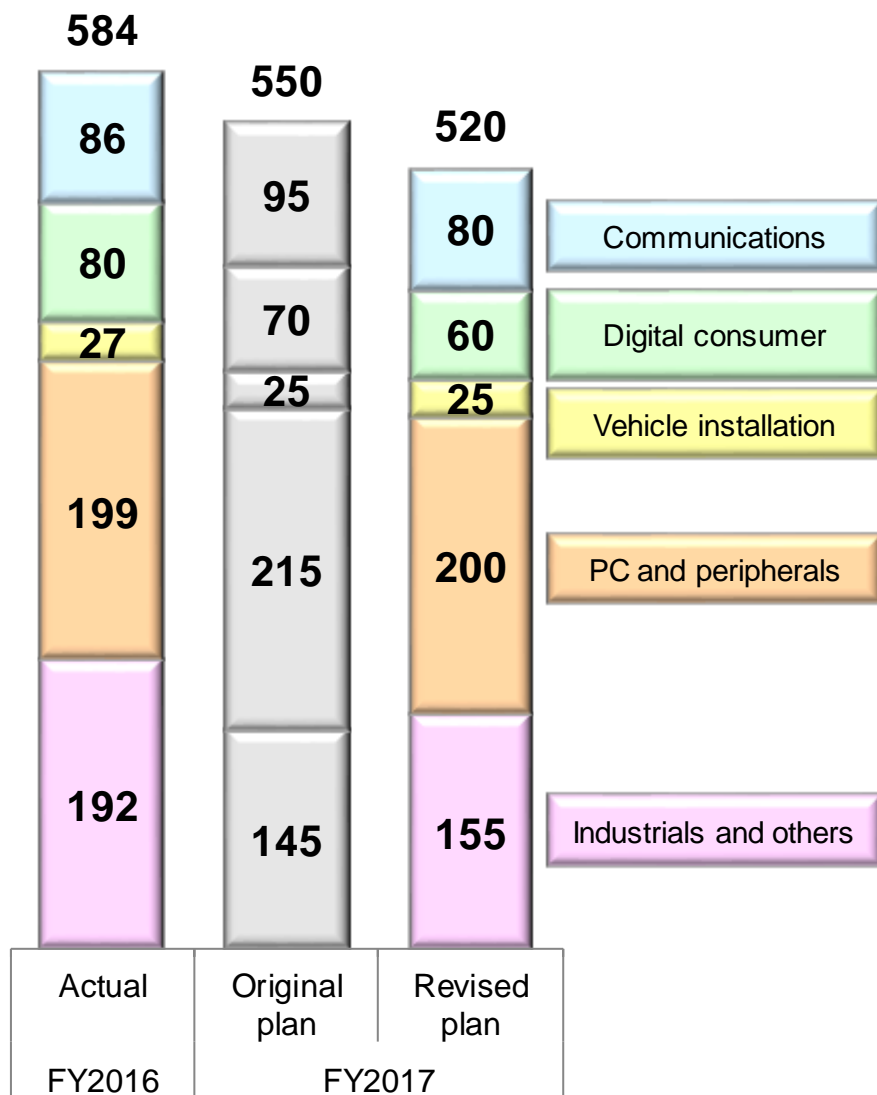
➤ **Gross profit:**

Expected to be lower than H1, due to a higher ratio of large projects of Semiconductor/Devices to total sales

(Unit: 100 million yen, %)

	FY2016 Total (Actual)	FY2017			VS. Original plan		YoY (After revision)	
		H1 (Actual)	H2 (Balance)	Total (Revised plan)	Original plan	Amount		Ratio
Sales	984	460	540	1,000	1,000	—	—	+1.6%
Gross profit	81.0 (8.2%)	41.8 (9.1%)	46.7 (8.6%)	88.5 (8.9%)	86.5 (8.7%)	+2.0	+2.3%	+9.3%
SG&A	67.3	34.9	38.1	73.0	71.0	+2.0	+2.8%	+8.5%
Operating income	13.7 (1.4%)	6.9 (1.5%)	8.6 (1.6%)	15.5 (1.6%)	15.5 (1.6%)	—	—	+12.9%
Ordinary income	15.5	8.2	8.3	16.5	16.5	—	—	+6.8%
Profit attributable to owners of parent	8.2 (0.8%)	5.8 (1.2%)	5.2 (1.0%)	11.0 (1.1%)	11.0 (1.1%)	—	—	+33.7%
ROE	1.3%			1.7%	1.7%			

(Unit: 100 million yen)



**-3,000 million yen:  
Downward revision, mainly for  
communications**

- **Communications:**  
Sharply decreasing demand for communication modules which was expected to be increasing
- **Digital consumer electronics:**  
More decrease in products for game machines
- **PC and peripherals:**  
Downward revision in sales of products for PCs
- **Industrials and others:**  
Lower than the previous period due to the transfer of the distribution rights, etc.



➤ 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 payback


		Dividend per share			Payout ratio	Payback
		Interim (Q2)	Year-end	Total		
FY2017	(Forecast)	-	30 yen	60 yen	133.7%	-
	(Actual)	30 yen	-	-	-	-
FY2016	(Actual)	20 yen	20 yen	40 yen	119.2%	150,000 shares

**RYOYO's goal –  
High value added business**

## IoT/AI




**Airline**  
Introduction of a communication tool among ground staff




**Drugstore**  
Introduction of operational order management system for chain stores



**Constructor**  
IoT project consulting



**Auto part manufacturer**  
Automation of appearance inspection process with graphics and AI technologies



**Amusement park**  
Development from entertainment contents to wide area W-Fi infrastructure

New markets/  
applications



# RYOYO



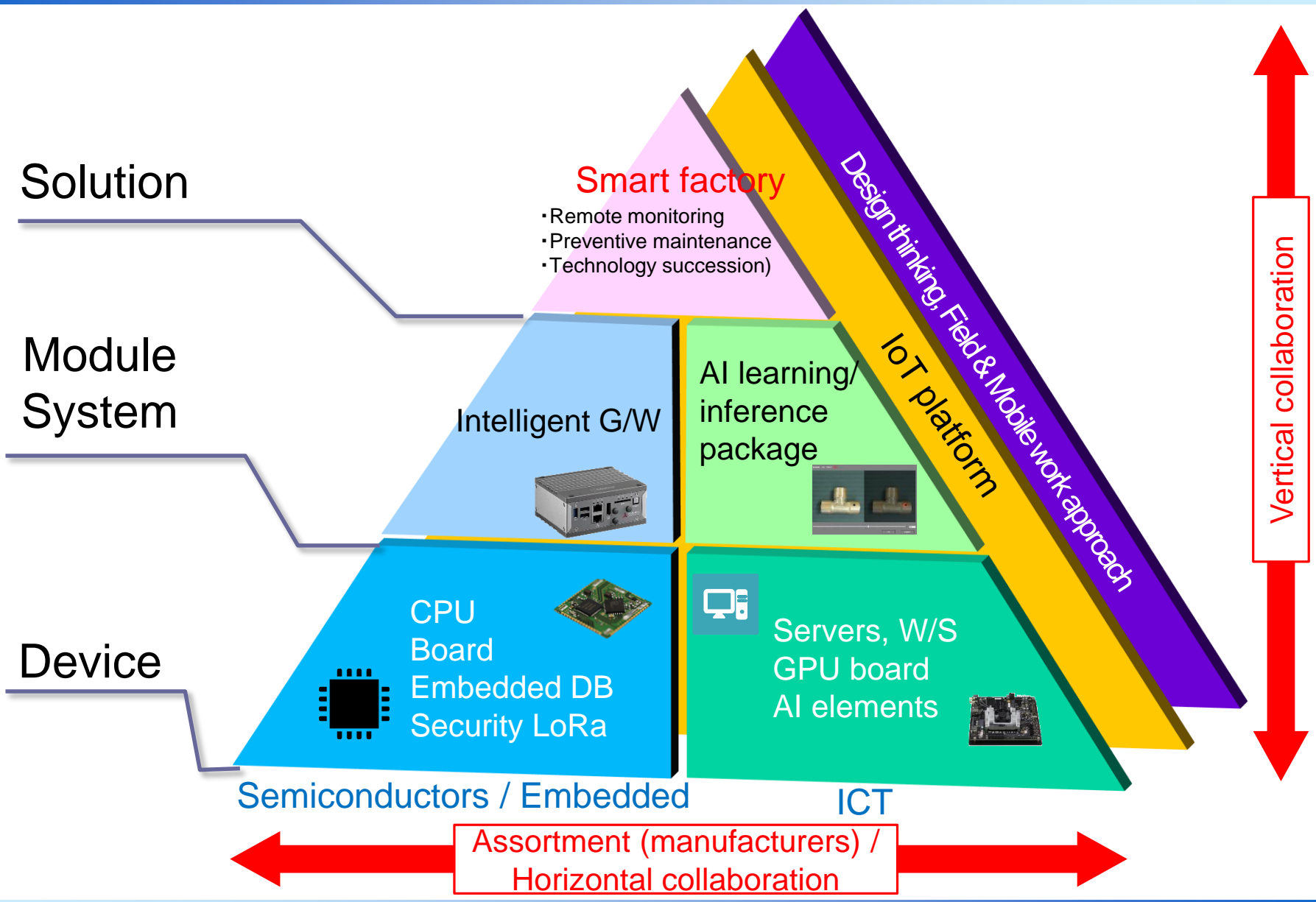
New solution/  
services



Semiconductors/Devices



ICT/Solution





## Introduced a chatbot-based communication tool for ANA AS

### Customer's need

Utilization of ICT to improve the efficiency of information sharing among staff for safe and on-time operations

### Design Thinking to understand the actual situation and issues at a workplace

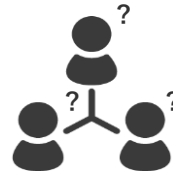
Hearing wrong, Missing hearing, Rehearing



Frequent operation suspension



Inter-departmental communication



### Solution proposed

Business messenger connecting people at a workplace

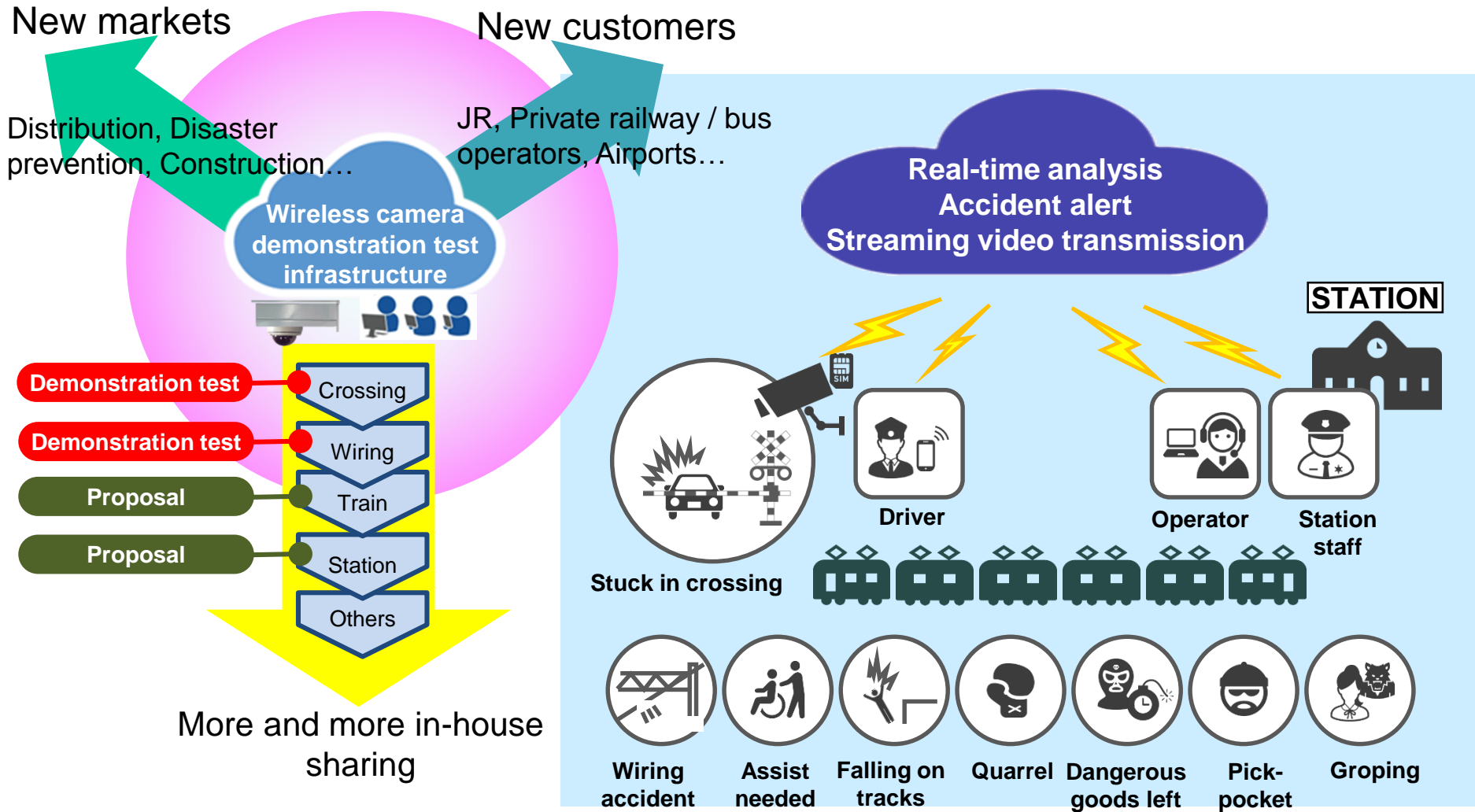


Use of text to visualize and record information

Asynchronous communication (Efficient use of time)

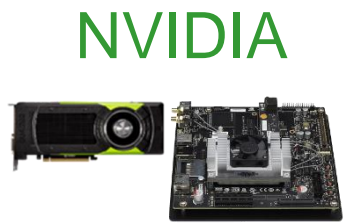
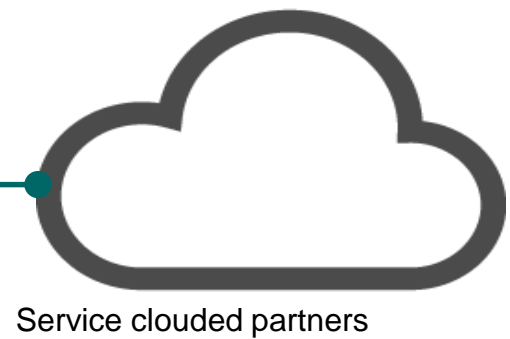
Linkage with other system by using bot

Explore new applications, customers and industries based on knowledge acquired from demonstration test



AI vendors  
Collaboration with emerging companies specialized in AI

Major customers  
Stronger relationships with major customers, mainly domestic electric companies



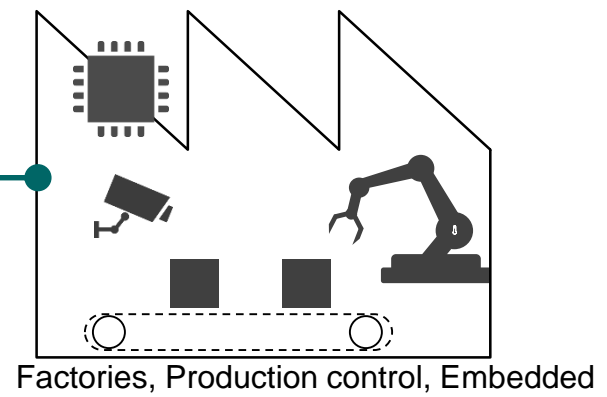
AI/DL platform  
One-stop learning and inference place

Evaluation kit  
For automation of appearance inspection process



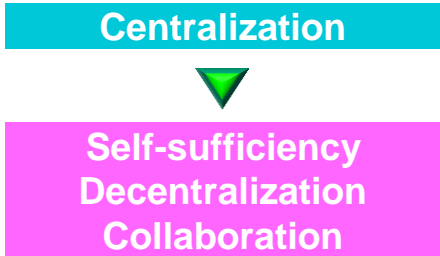
AI consignment development  
Preventive maintenance, technology accession and automation for the manufacturing sector

Medical devices  
CT/MRI image processing engine



## With tie-up with Uhuru, establish a system to implement and expand practical use of IoT swiftly

### ➤ Changes in IoT model



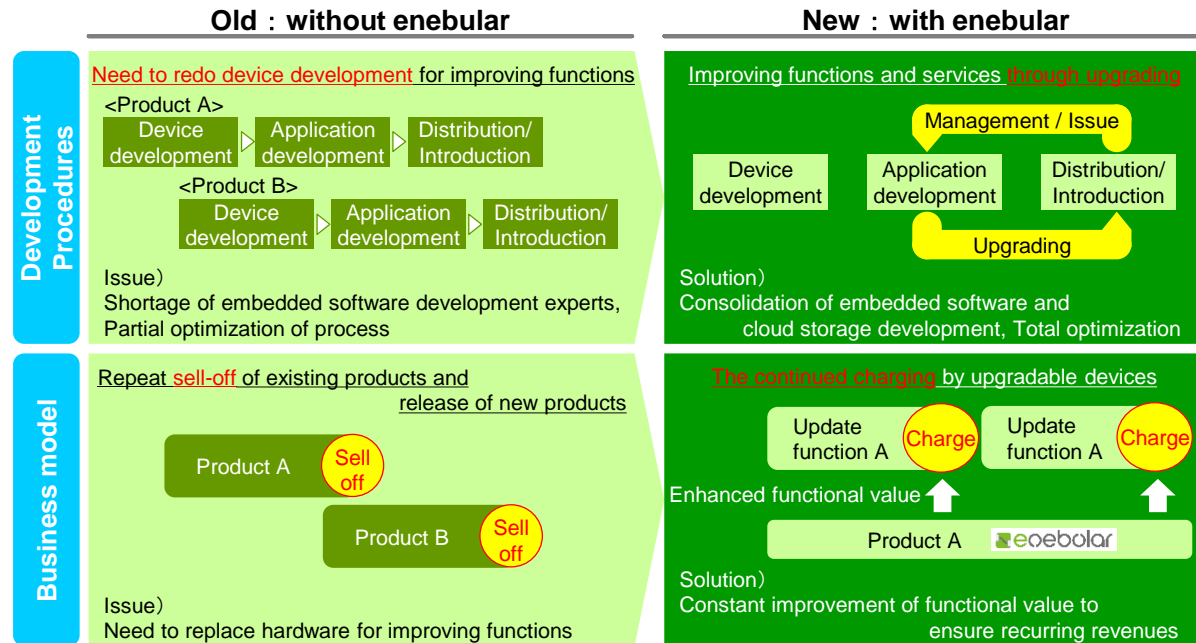
**Integrate bulk data collected from edges into cloud storage**

**Mount AI and analytics functions to edges and change these functions flexibly by updating software**

**In the “self-sufficiency, decentralization, and collaboration model” which requires edges to have the high capacity, special embedding technologies are essential for commercial use**



**The Uhuru’s IoT orchestration “enebular” helps to establish a new value chain connecting from the linkage of edges with cloud storage to commercial use**



- **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.

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