

**FY2017 (58th)
Results Briefing**

March 13, 2018

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, 2018)
Consolidated: 510
Non-consolidated: 452
*Whole group: 597

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

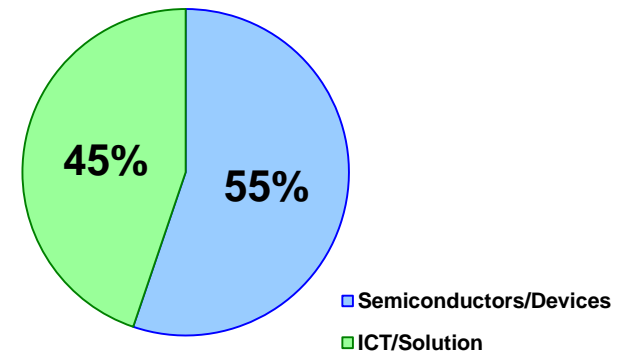
Certifications : ISO 9001 / 14001 / 27001

Domestic network : Sendai, Koriyama, Matsumoto, Omiya, Tokyo (head office), 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 (FY2017)



FY2017 Business results

(Unit: 100 million yen)

	FY2016 Actual	FY2017		YoY	VS. Plan	Comments
		Plan (As of Aug. 31)	Actual			
Sales	984	1,000	922	(6.3%)	(7.8%)	
Gross profit	81.0	88.5	75.9	(6.3%)	(14.2%)	Lower than the previous year and the original plan due to decreased sales and loss from write-off of inventories
	8.2%	8.9%	8.2%			
SG&A	67.3	73.0	73.4	+9.1%	+0.5%	Recognized bad debts of development fee license, in addition to increased labor cost
Operating income	13.7	15.5	2.5	(81.7%)	(83.8%)	
	1.4%	1.6%	0.3%			
Non-operating income	1.7	1.0	1.8	+4.9%	+80.9%	
Ordinary income	15.5	16.5	4.3	(72.0%)	(73.8%)	
	1.6%	1.7%	0.5%			
Extraordinary income	(2.0)	0.0	0.6	—	—	
Income before income taxes	13.4	16.5	4.9	(63.6%)	(70.4%)	
Income taxes	5.2	5.5	2.8	(46.9%)	(49.9%)	Loss not covered by deferred tax accounting increased the effective tax rate
Profit attributable to owner of parent	8.2	11.0	2.1	(74.1%)	(80.7%)	
	0.8%	1.1%	0.2%			

Sales by segment: Increase in ICT/Solution

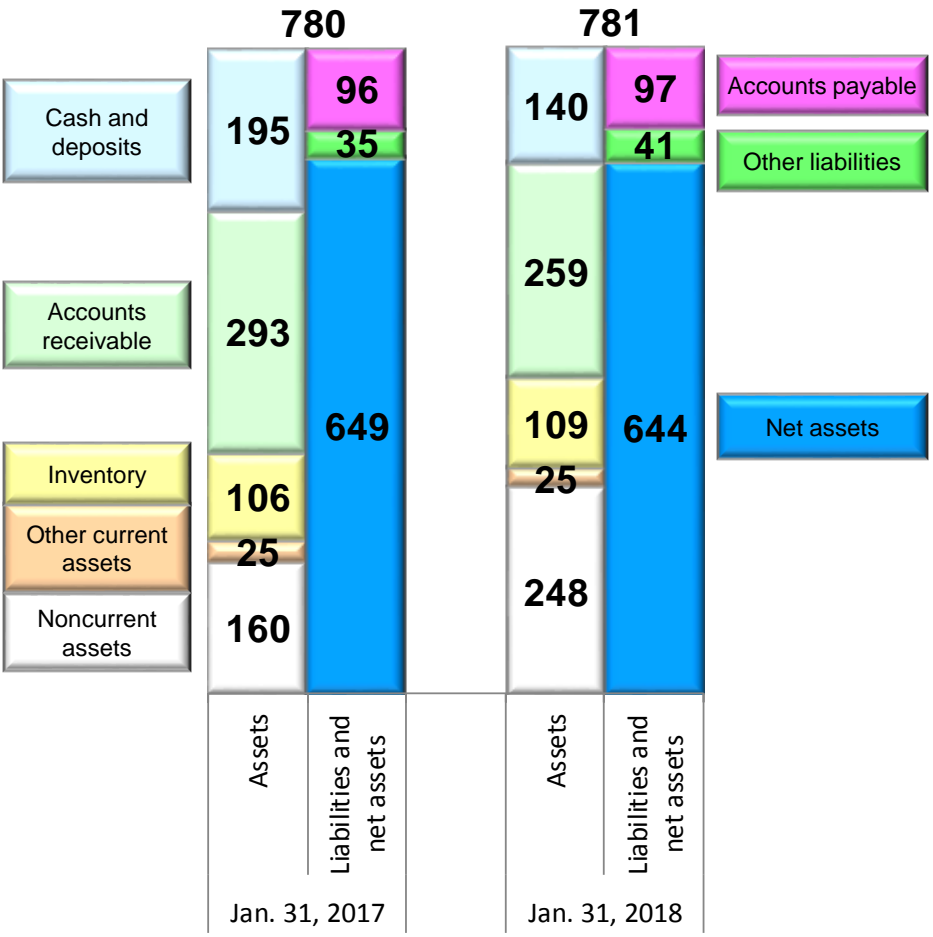
(Unit: 100 million yen)

	FY2016 Actual	FY2017		YoY	VS. Plan	Comments	
		Plan (As of Aug. 31)	Actual				
Sales	984	1,000	922	(6.3%)	(7.8%)		
Semiconductors/Devices	584	520	509	(12.8%)	(2.1%)		
By application	Communications	86	80	81	(6.3%)	+1.1%	Slightly lower than the previous period due to discontinuation of some products
	Digital consumer electronics	80	60	58	(27.5%)	(3.6%)	Generally as planned, despite of lower sales in products for game machines and TVs
	Vehicle installations	27	25	25	(7.5%)	+0.9%	No significant change from the previous period or the original plan
	PCs and peripherals	199	200	187	(5.8%)	(6.5%)	Decreased in products for both PCs and peripherals such as printers
	Industrial and others	192	155	158	(17.6%)	+2.1%	Significantly lower than the previous period mainly due to transfer of the distribution rights
ICT/Solution	400	480	413	+3.3%	(13.9%)		
By product	PC/Server/Network	100	120	94	(5.7%)	(21.7%)	Below the plan, since businesses associated with IoT were not going well as expected
	I/O equipment	80	80	78	(3.2%)	(2.7%)	Generally as planned, mainly in the printer business
	Software	125	155	139	+11.1%	(10.6%)	Higher than the previous period, thanks to strong sales in products for PCs, but lower than the plan which was ambitious
	Embedded devices and others	95	125	103	+7.8%	(17.9%)	Growing sales in graphic products, but missed the plan

B/S & C/F: Changes since the end of the previous period

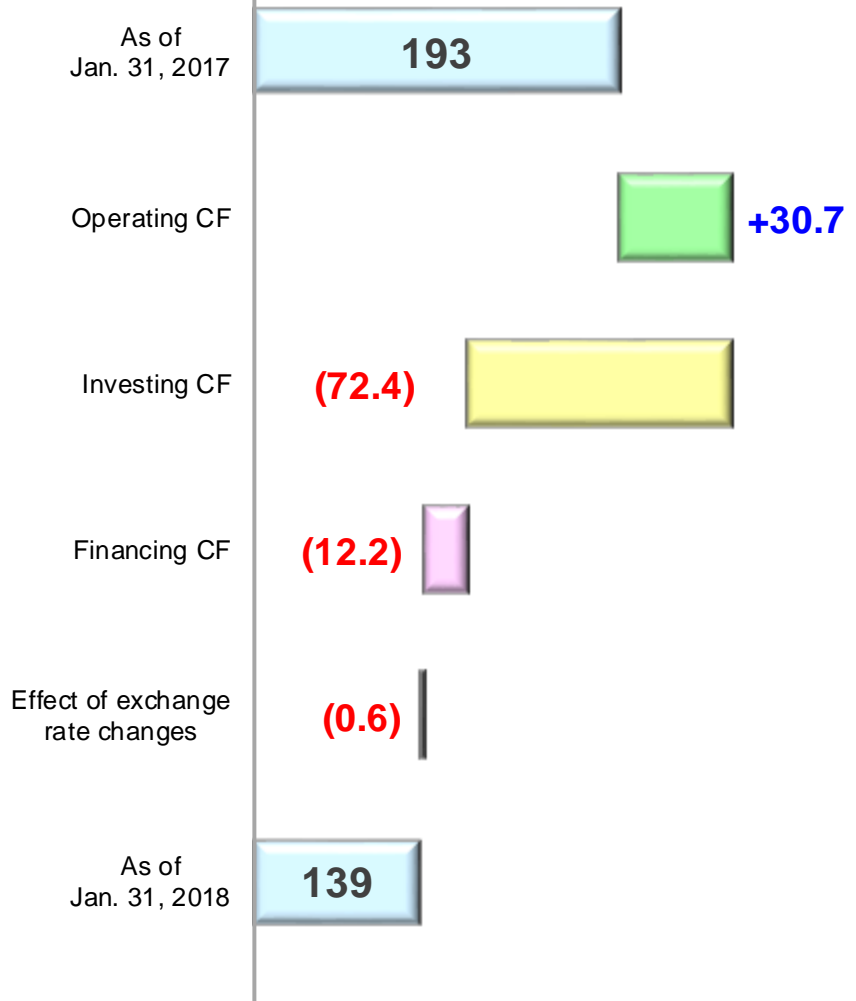
➤ B/S

(Unit: 100 million yen)



➤ C/F

(Unit: 100 million yen)



(*) The discrepancy in cash and deposits between B/S and C/F is due to different criteria on fixed deposits.

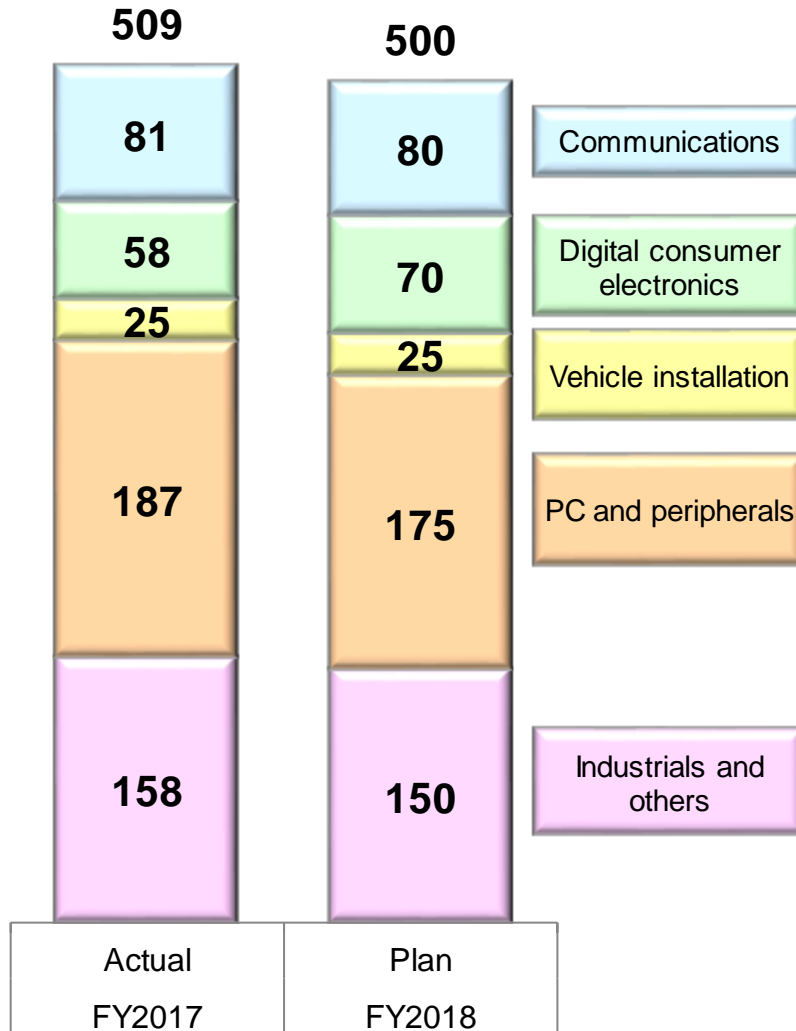
FY2018 Business plan

The medium-term business plan previously announced will be revised based on the FY2018 plan

(Unit: 100 million yen)

	FY2017 Total (Actual)	FY2018				YoY		VS. MT plan	
		H1 (Plan)	H2 (Plan)	Total (Plan)	Medium-term plan (Announced on Mar. 2017)	Diff	%	Diff	%
Sales	922	470	460	930	1,100	+8	+0.8%	(170)	(15.5%)
Gross profit	75.9 8.2%	42.5 9.0%	43.0 9.3%	85.5 9.2%	99.0 9.0%	+9.6	+12.6%	(13.5)	(13.6%)
SG&A	73.4	37.5	38.0	75.5	73.0	+2.1	+2.9%	+2.5	+3.4%
Operating income	2.5 0.3%	5.0 1.1%	5.0 1.1%	10.0 1.1%	26.0 2.4%	+7.5	+297.7%	(16.0)	(61.5%)
Ordinary income	4.3 0.5%	6.0 1.3%	6.0 1.3%	12.0 1.3%	26.0 2.4%	+7.7	+177.5%	(14.0)	(53.8%)
Profit attributable to owners of parent	2.1 0.2%	4.0 0.9%	4.0 0.9%	8.0 0.9%	17.5 1.6%	+5.9	+276.0%	(9.5)	(54.3%)
ROE	0.3%			1.2%	2.7%				

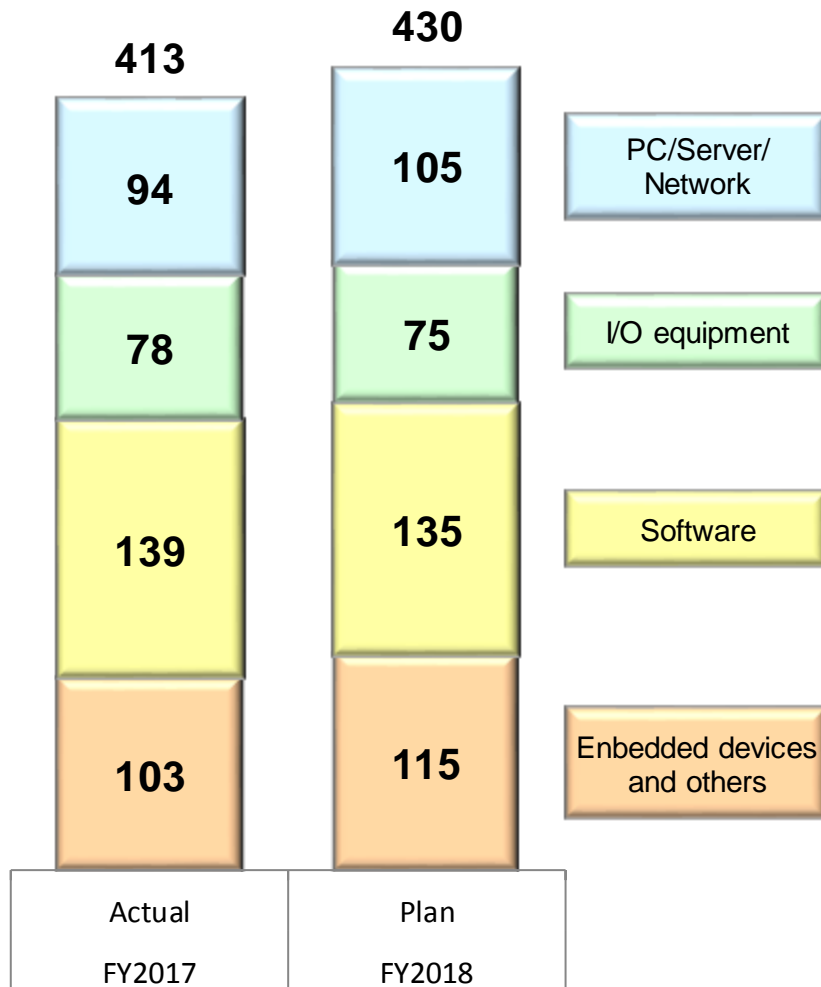
(Unit: 100 million yen)



**-900 million yen (-1.8%)
over the previous year**

- **The transfer of distributorship will affect all segments except digital consumer electronics**
- **Digital consumer electronics :**
Growth in products for TVs and game machines
- **PC and peripherals :**
Significant decrease in products for peripherals (printers)
- **Industrials and others :**
Recovery in businesses related to heavy electric (e.g. solar power, electric railway)

(Unit: 100 million yen)



**+1,700 million yen (+4.1%)
over the previous year**

- **PC/Server/Network :**
Contribution to profits expected by increasing orders for IoT projects and highly-profitable solution business

- **I/O equipment & Software :**
No significant change in forecast since the previous period

- **Embedded devices and others :**
Growth in graphic products for medical use and AI/Deep Learning

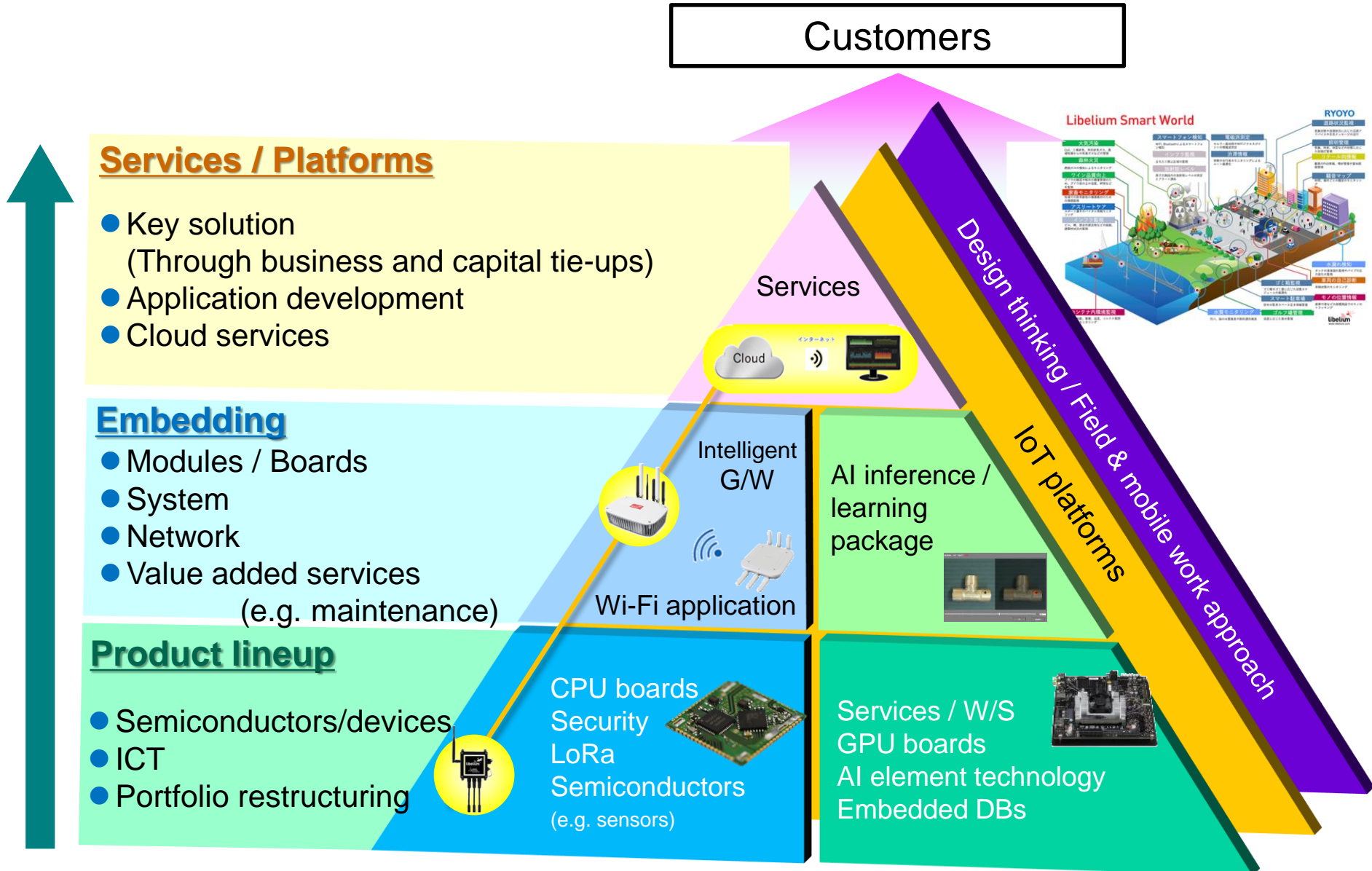
➤ Dividend policy:

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.

As our policy on return to shareholders, we will target 100% of the total return ratio through stable dividend payment and buyback

		Dividend per share			Payout ratio	Buyback
		Interim (Q2)	Year-end	Total		
FY2018	(Forecast)	30 yen	30 yen	60 yen	183.8%	Unknown
FY2017	(Forecast)	-	30 yen	60 yen	691.0%	-
	(Actual)	30 yen	-	-	-	-
FY2016	(Actual)	20 yen	20 yen	40 yen	119.2%	150,000 shares

Our actions

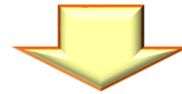


Basic policy

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

		Our goals	Now
Basic strategies	I) Expand the core businesses through the IoT approach	<ul style="list-style-type: none"> • Explore new markets/customers from an IoT perspective • Expand semiconductors/ICT products by first approaching to services/platforms 	<ul style="list-style-type: none"> • Our business in the IoT market is not growing as expected, with a limited contribution to the core businesses
	II) Strategically focus investments on growing markets	<ul style="list-style-type: none"> • Obtain key solutions driving growth in future • Focus investments in R&D 	<ul style="list-style-type: none"> • The investments have been implemented as planned, whereby we are expecting a contribution to revenues • We are considering further investments, including large-scale ones such as M&A
	III) Accelerate the global strategy	<ul style="list-style-type: none"> • Reinforce businesses led by overseas entities 	<ul style="list-style-type: none"> • We have set up a new office in India • A new business (company) has been launched in Thailand • We have developed a new organization which allows us to support throughout domestic and overseas businesses
	IV) Strengthen the business base for sustainable growth	<ul style="list-style-type: none"> • Foster global human resources • Develop IT environments to activate marketing efforts • Promote diversity management 	<ul style="list-style-type: none"> • Comprehensive organizational reform • Business process review

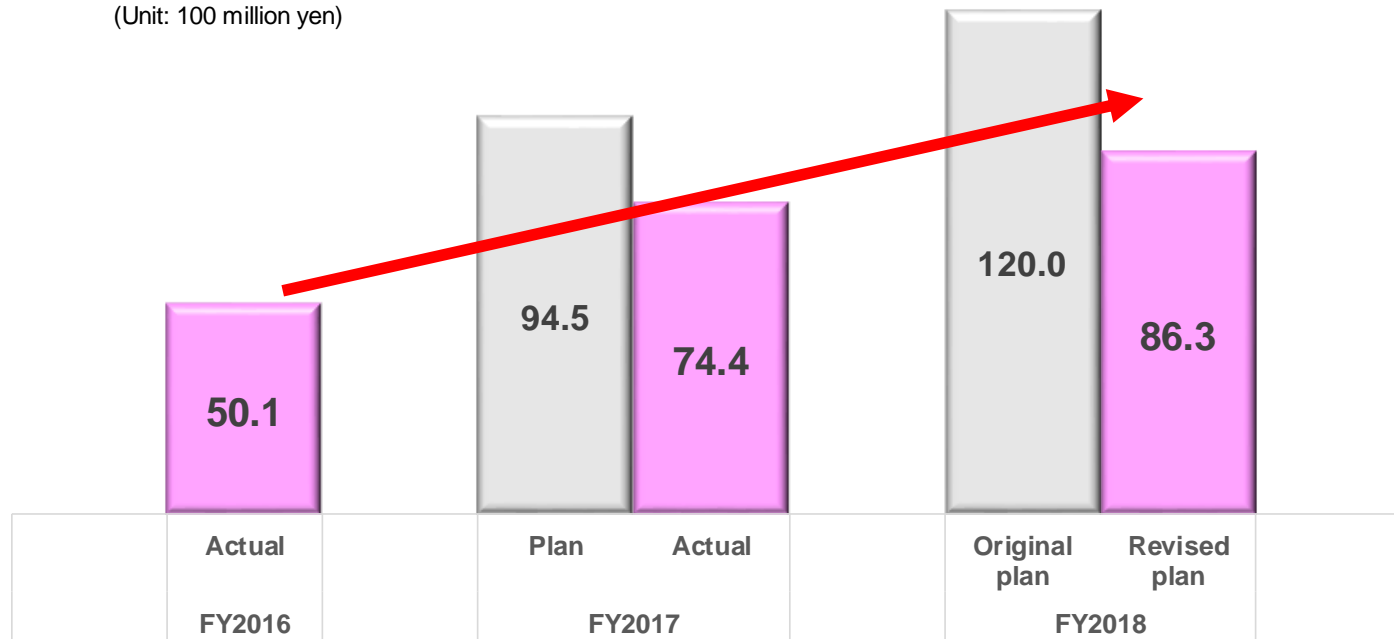
- Explore new markets/customers from an IoT perspective
- Expand semiconductors/ICT products by first approaching to services/platforms



Although not reaching the original plan, IoT related businesses are growing

<Changes in revenues of IoT related businesses>

(Unit: 100 million yen)



- Obtain key solutions driving growth in future through tie-ups with partners
- Focus investments in R&D

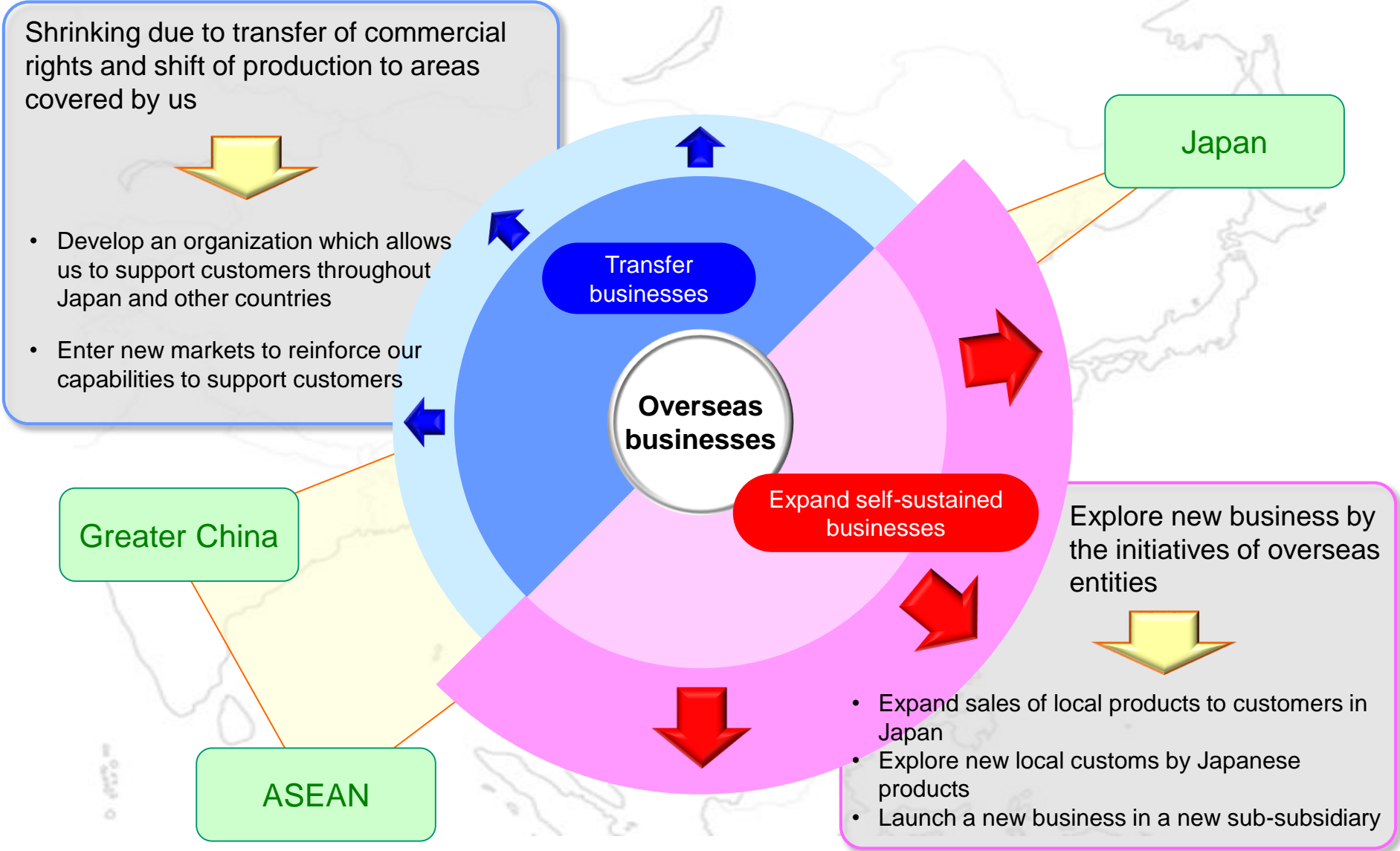
<Capital / business tie-ups>

- Uhuru Developing and providing solutions to support customers in early commercializing PoC to IoT by utilizing the Uhuru's IoT platform "enebular"
- Afero Developing "quick", "easy" and "safe" platforms for non IP devices which will be growing in the future IoT market
- otta Launched a new IoT service based on beacon technology to address the social issue of decrease in resources who watch children and elderly people

<Investments in solution development>

- Expecting growing orders for the store IT portal (WOMS) which have been widely used in drug stores and other shops by making it cloud-based
- Initiating development efforts to shift the use from PoC to commercialization of the Librium's solution which allows sensing and visualizing environment data

III) Accelerate the global strategy



Sep/2015 Announced the medium-term business plan (FY2016-FY2018)

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

Mar/2017 Revised the targets in the medium-term business plan

- The gross margin rose (8.2% → 8.7%) by IoT and ICT, but sales were weak due to a slump in semiconductors and a delay in launching IoT
- Accelerate the shift to the high value added business model, rather than seeking large scale, to improve profitability

Mar/2018 Re-revised the targets in the medium-term business plan

To announce a new medium-term business plan (FY2019-FY2021)

- Significantly increase human resources dedicated for IoT to accelerate the shift to high value added businesses

Invite some external management

- Sep: Launched management reform
- Mar: Implement comprehensive organizational reform and business process review
- Developing business strategies, including restructuring of semiconductor business by strengthening the portfolio, reinforcement of marketing efforts for IoT related businesses, acquisition of strengths through M&A reinforcement of pass-through domestic and overseas structure

Change of President

Apr. 26: Start new management (Plan)

- **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