

**FY2018 (59th)  
Results Briefing**

August 31, 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  
Moritaka Nakamura  
– President & COO

**Number of employees** : (As at July 31, 2018)  
Consolidated: 524  
Non-consolidated: 472  
\*Whole group: 614

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

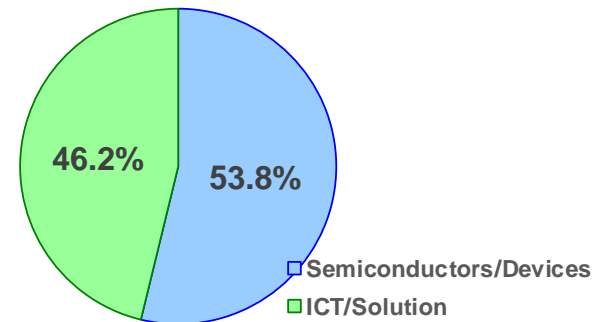
**Certifications** : ISO9001 / 14001 / 27001

**Domestic network** : Sendai, Koriyama, Matsumoto, Omiya, Tokyo (head office), Hachioji, Yokohama, Nagoya, Kyoto, Osaka, Fukuoka (11 offices)

**Overseas network** : Dalian, Shanghai, Shenzhen, Hong Kong, Taipei, Bangkok, Sriracha, Kuala Lumpur, Singapore, Bangalore, Silicon Valley (11 offices)

**Domestic subsidiaries** : Ryoyo Semicon, Ryoyo Security Service (2 companies)

**Sales by product (H1/FY2018)**



# H1/FY2018 Business results

## ➤ External business environments (Electronics industry):

- The electronics market continues to be growing mainly for the automobile, industrial equipment and data center industries.
- However, possible impacts of the US-China trade war (e.g. shrinking of production activities in China due to higher duty and subsequent higher production cost, and relocation of production from China to other countries for ‘local production for local consumption’)
- is increasingly being concerned.

## ➤ Our business performance:

- Partly affected by the transfer of distributorship, sales were lower than the previous year.
- Significantly improved gross margin has compensated higher SG&A, which led to the return to profitability in terms of operating income, ordinary income and net profit.
- We have started to work on restructuring the business base toward the next three years, ‘D-period’.

➤ **Sales:**

Due to the impact of the transfer of distributorship the overall sales were lower than the previous year

➤ **Gross profit:**

A significant increase in the gross profit margin due to some factors, such as expansion of high-profitable businesses and an increase in rebates, compensated an increase in SG&A and contributed to the higher profit than the previous year

(Unit: 100 million yen)

	FY2017	FY2018		YoY		VS. Plan	
	Actual	Plan	Actual	Diff	%	Diff	%
Sales	460	470	451	(9)	(2.0%)	(19)	(4.0%)
Gross profit	41.8 9.1%	42.5 9.0%	44.8 9.9%	+3.0	+7.1%	+2.3	+5.4%
SG&A	34.9	37.5	36.9	+1.9	+5.6%	(0.6)	(1.6%)
Operating income	6.9 1.5%	5.0 1.1%	7.9 1.8%	+1.0	+14.7%	+2.9	+58.2%
Ordinary income	8.2 1.8%	6.0 1.3%	8.9 2.0%	+0.7	+8.2%	+2.9	+48.8%
Profit attributable to owners of parent	5.8 1.2%	4.0 0.9%	6.2 1.4%	+0.4	+7.8%	+2.2	+54.9%

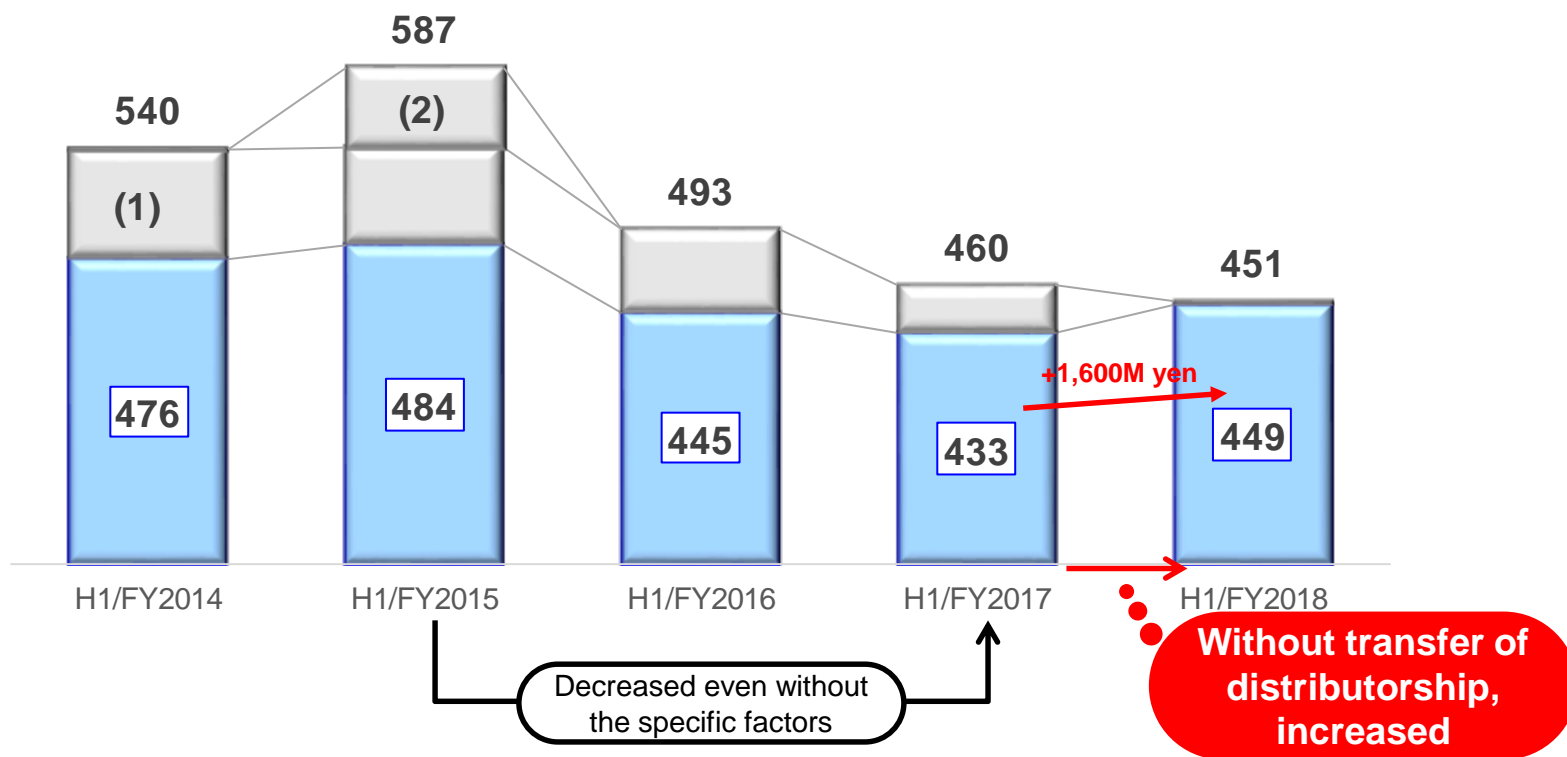
(Unit: 100 million yen)

	FY2017 Actual	FY2018 Actual	Diff	%	Comments
Sales	460	451	(9)	(2.0%)	
Semiconductors/Devices	244	243	(2)	(0.7%)	
By application					
Communications	38	32	(6)	(15.9%)	Decrease in products for communication devices
Digital consumer electronics	28	21	(7)	(25.1%)	Significantly affected by sluggish sales of large-lot orders such as products for TVs or game machines
Vehicle installation	12	14	+2	+15.2%	Increasing sales in products for vehicle installation, especially in-vehicle cameras and driving recorders
PC and peripherals	91	91	(0)	(0.0%)	No change from the previous year, contributed by expanding distributorship which has compensated a sharp drop in sales of products for printers
Industrials and others	75	85	+10	+12.8%	Higher sales from products for railway companies than expected
ICT/Solution	216	209	(7)	(3.5%)	
By product					
PC/Server/Network	50	46	(4)	(7.5%)	Decreased in the number of orders for IT system projects, mainly servers
I/O equipment	36	37	+1	+2.3%	Higher sales than the previous year, supported by growth of sales from products for LCD monitors which has compensated a slight drop in those for printers
Software	75	75	+1	+0.8%	No significant change from the previous year
Embedded devices and others	56	51	(5)	(9.3%)	Impacts of the end of spot projects that contributed to sales in the previous year has not been compensated increasing sales in graphic products

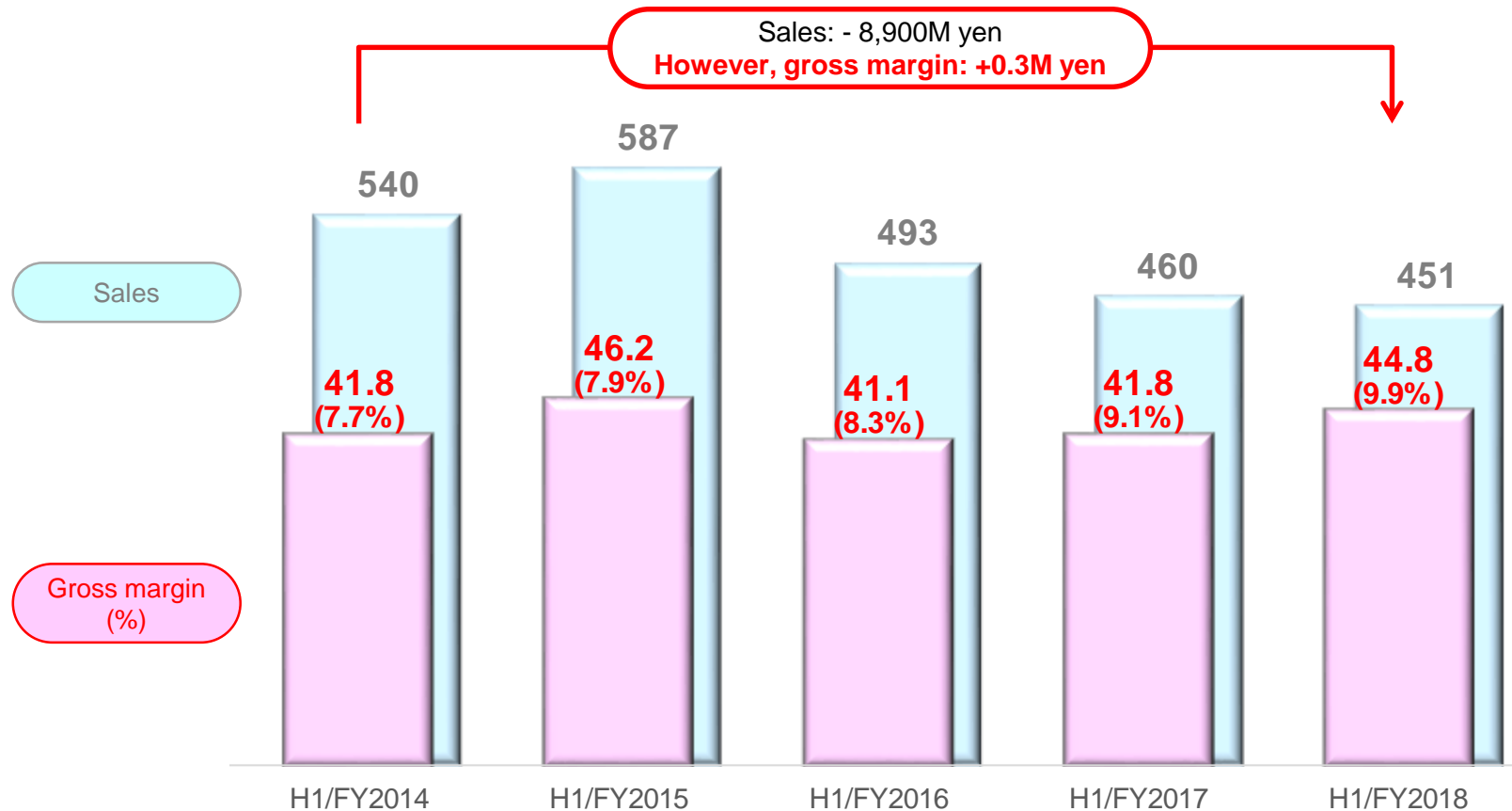
H1 sales have decreased for three periods in a row



- <Specific factors>
- (1) Transfer of distributorship (2 projects)
  - (2) End of large-scale lower-margin projects (withdrawal)



- Despite a continued decrease in sales, due to higher profitability, gross margin has increase for two periods in a row
- Gross margin has increased by 2.2 points over H1/FY2014

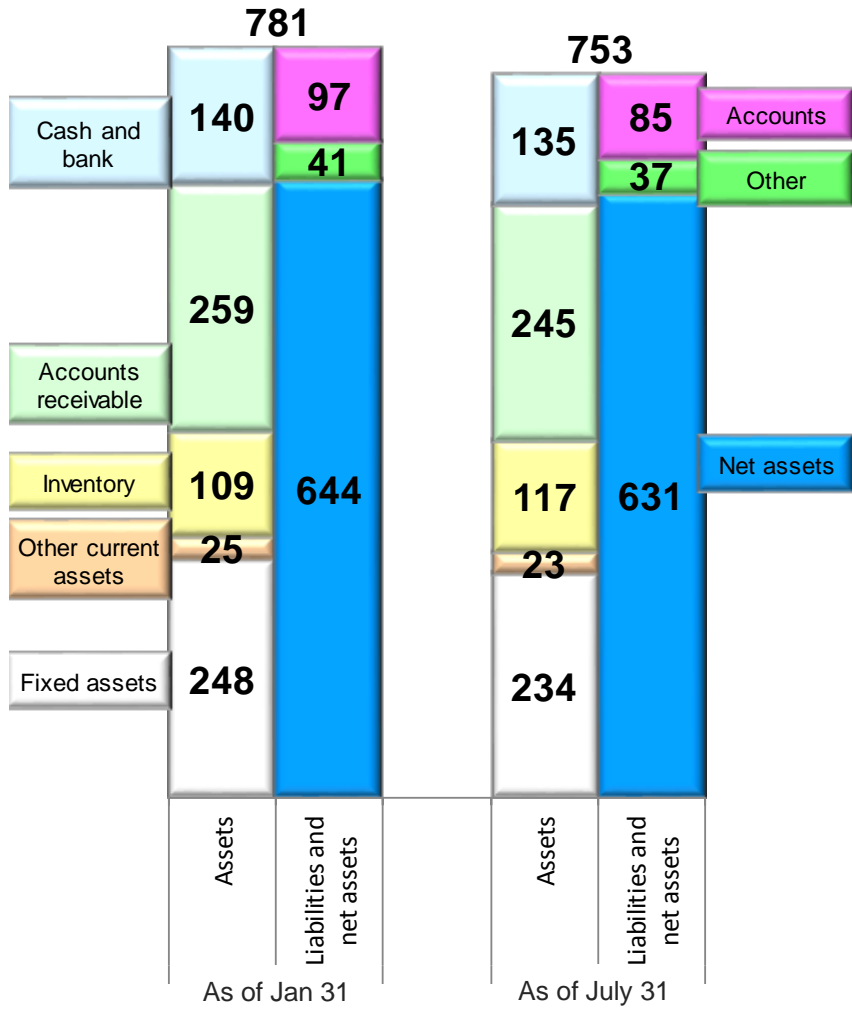




## B/S & C/F: Changes since the end of the previous period (Jan. 31, 2018)

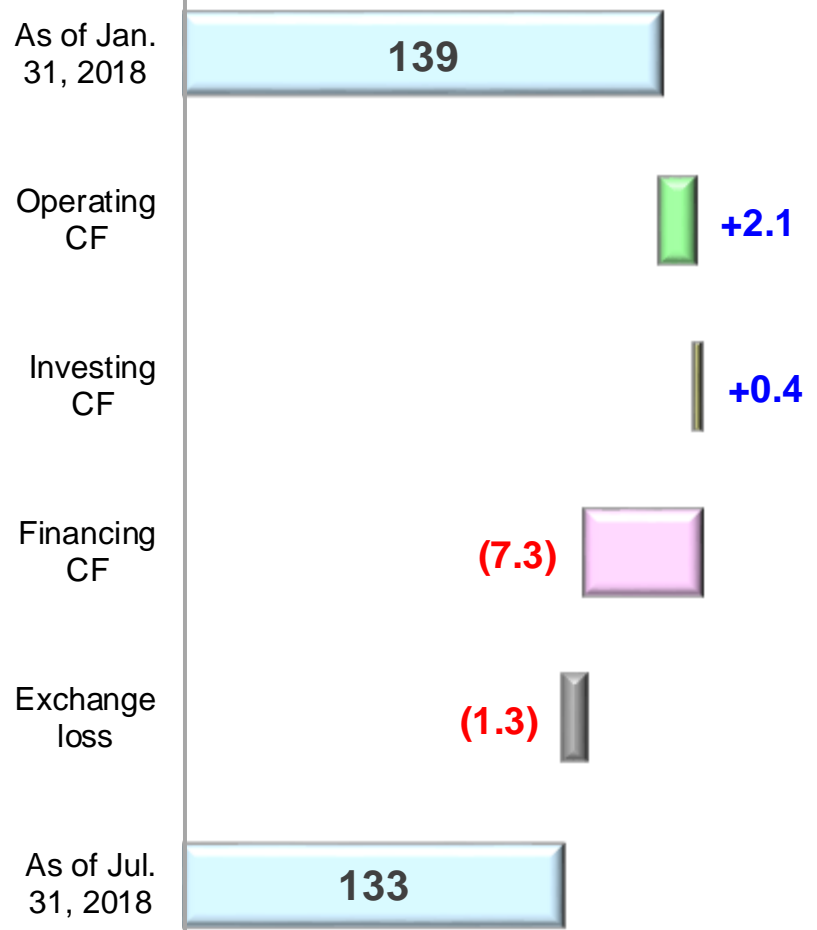
### ➤ B/S

(Unit: 100 million yen)



### ➤ C/S

(Unit: 100 million yen)



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

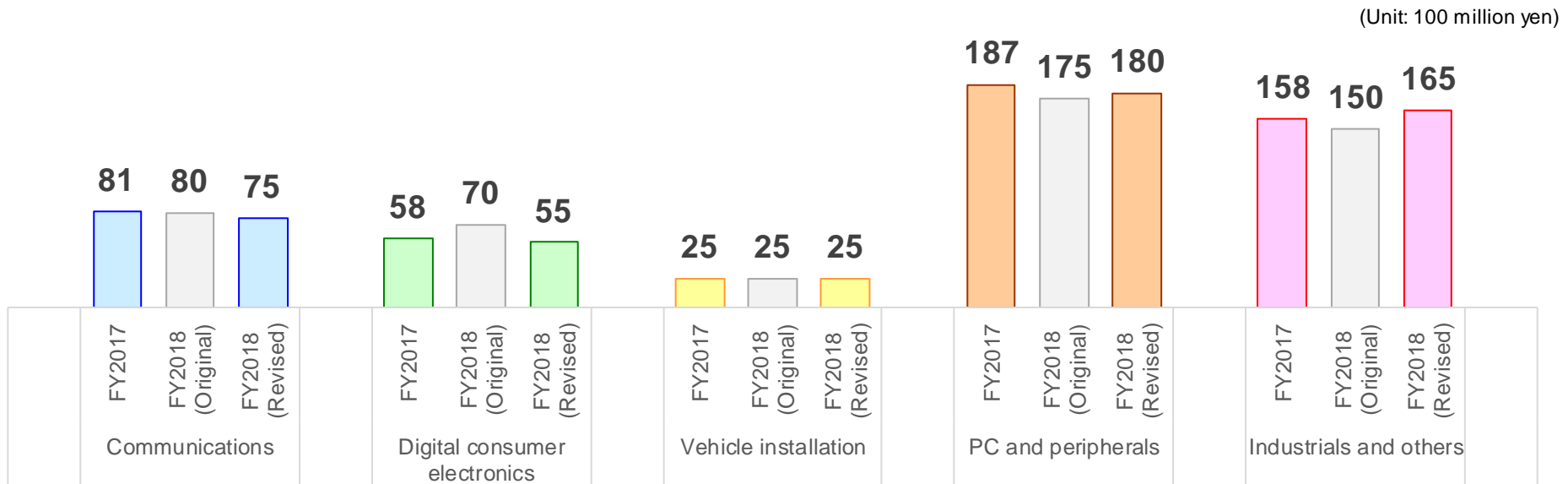
# FY2018 Business plan

- **Sales:**  
No change from the original plan, expecting a start of large-scale projects in H2
- **Gross profit to Net profit:**  
Revised the original plan upward based on better results in H1 than plan

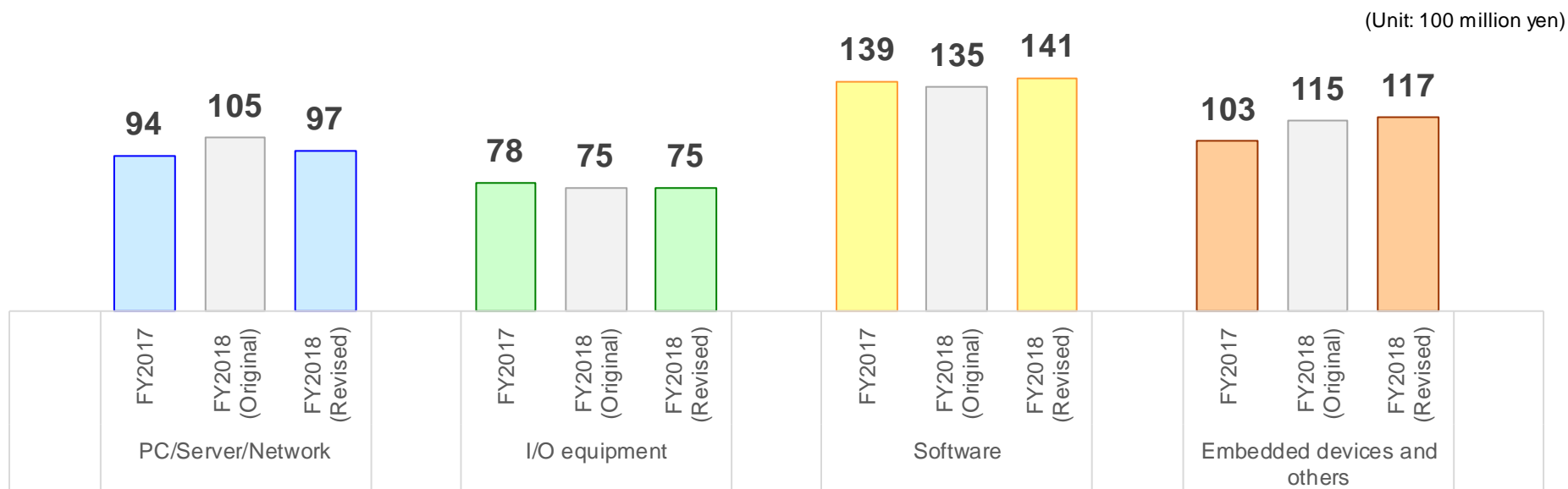
(Unit: 100 million yen)

	FY2017 Whole year (Actual)	FU2018				YoY		VS. Original plan	
		H1 (Actual)	H2 (Plan)	Whole year (Revised plan)	Original plan	Diff	%	Diff	%
Sales	922	451	479	930	930	+8	+0.8%	—	—
Semiconductors/Devi	509	243	257	500	500	(9)	(1.8%)	—	—
ICT/Solution	413	209	221	430	430	+17	+4.1%	—	—
Gross profit	75.9	44.8	42.7	87.5	85.5	+11.6	+15.3%	+2.0	+2.3%
	8.2%	9.9%	8.9%	9.4%	9.2%				
SG&A	73.4	36.9	38.6	75.5	75.5	+2.1	+2.9%	—	—
Operating income	2.5	7.9	4.1	12.0	10.0	+9.5	+377.2%	+2.0	+20.0%
	0.3%	1.8%	0.9%	1.3%	1.1%				
Ordinary income	4.3	8.9	5.1	14.0	12.0	+9.7	+223.8%	+2.0	+16.7%
	0.5%	2.0%	1.1%	1.5%	1.3%				
Profit attributable to owner of parent	2.1	6.2	3.4	9.6	8.0	+7.5	+351.1%	+1.6	+20.0%
	0.2%	1.4%	0.7%	1.0%	0.9%				
ROE	0.3%			1.5%	1.2%				

- **Communications:**  
Revised the H2 plan based on the current weak sales in products for both communication devices and infrastructure
- **Digital consumer electronics and other home electronics:**  
While expecting a start of new projects in H2, significantly downward revision based on the H1 performance
- **Industrials and others:**  
Expecting an increase in sales, contributed sharp growth of projects for railway companies which would compensate impacts of the end of distributorship



- **PC/Server/Network:**  
Conservatively revision for the H2 plan based on the H1 performance
- **I/O equipment and Software:**  
Stable without significant change from the previous year
- **Embedded devices and others:**  
For graphic products, expecting release of new products as well as contribution of large-scale projects



➤ **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 payout ratio through dividend payment and payback

		Dividend per share			Payout ratio	Payback
		Interim (Q2)	Year-end	Total		
FY2018	(Forecast)	30 yen	30 yen	60 yen	153.2%	Unknown
FY2017	(Actual)	30 yen	30 yen	60 yen	691.0%	-
FY2016	(Actual)	20 yen	20 yen	40 yen	119.2%	150,000 shares

**Toward the next 3-years plan**

## Factors giving significant impacts on our recent business performance

Lower competitiveness of the trading function which is our core business

Transfer of distributorship

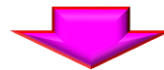
Delay in approaching the IoT area

Considerable stock-related loss

Slump of the semiconductor business



Most of these are caused by our internal issues, not external factors



If we are able to solve these issues, our business could be recovered



**Trial and Error** = Penetrate the new system (organization, business process) and develop the competitive business base for the coming years

Feb-18

Mar-18

• Organizational reform (Introduction of BU structure, including overseas operation)

Apr-18



<Define our target corporate image and slogan>

May-18

Jun-18

Jul-18

Aug-18

Sep-18

Oct-18

Nov-18

Dec-18

Jan-19

For each business segment,  
**Recognize the current situation**

**Identify root challenges**

**Develop business strategies**

For business infrastructure,  
**Recognize the current situation**  
(e.g. technology, IT, HR, business)

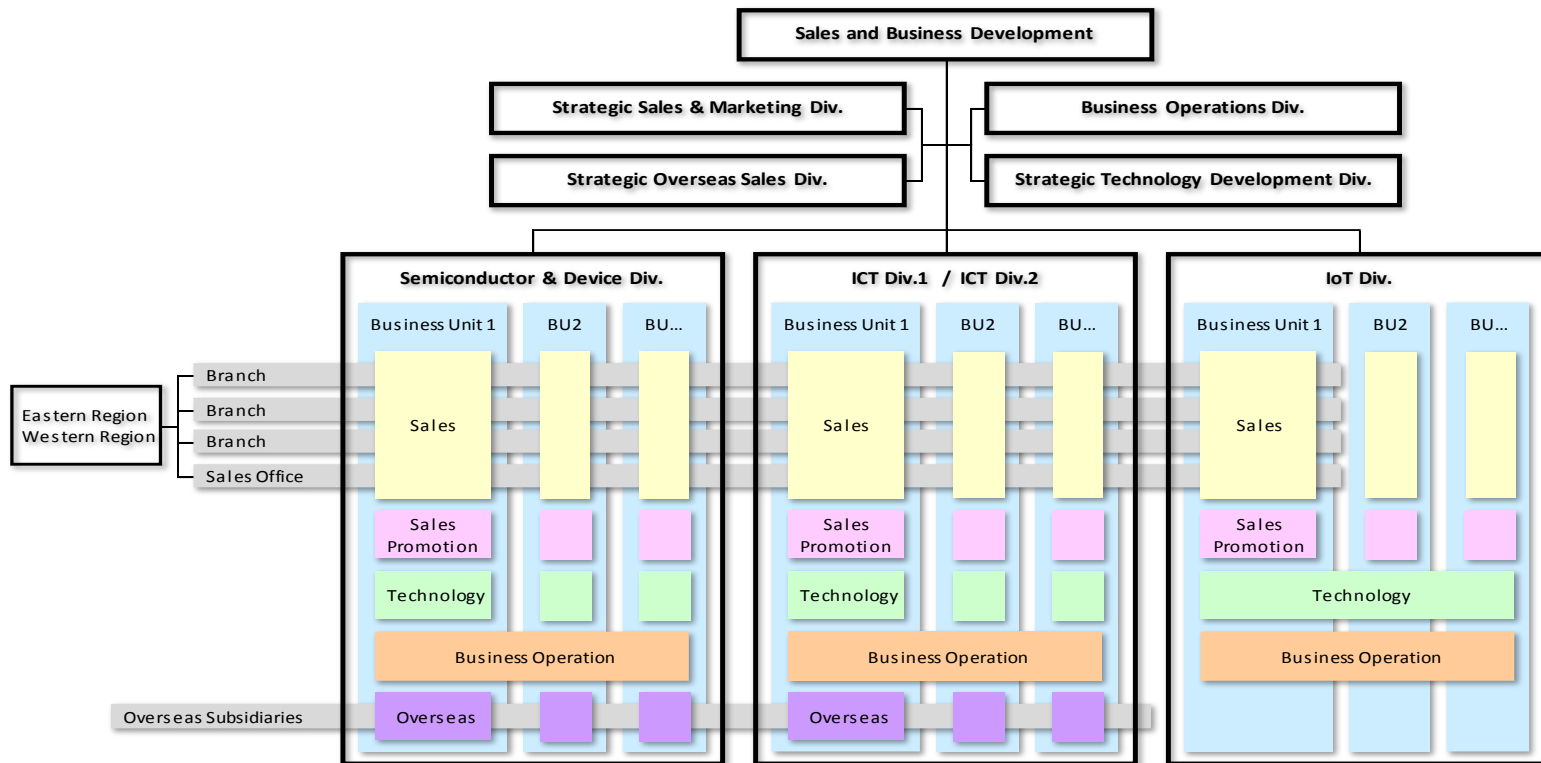
**Define challenges**

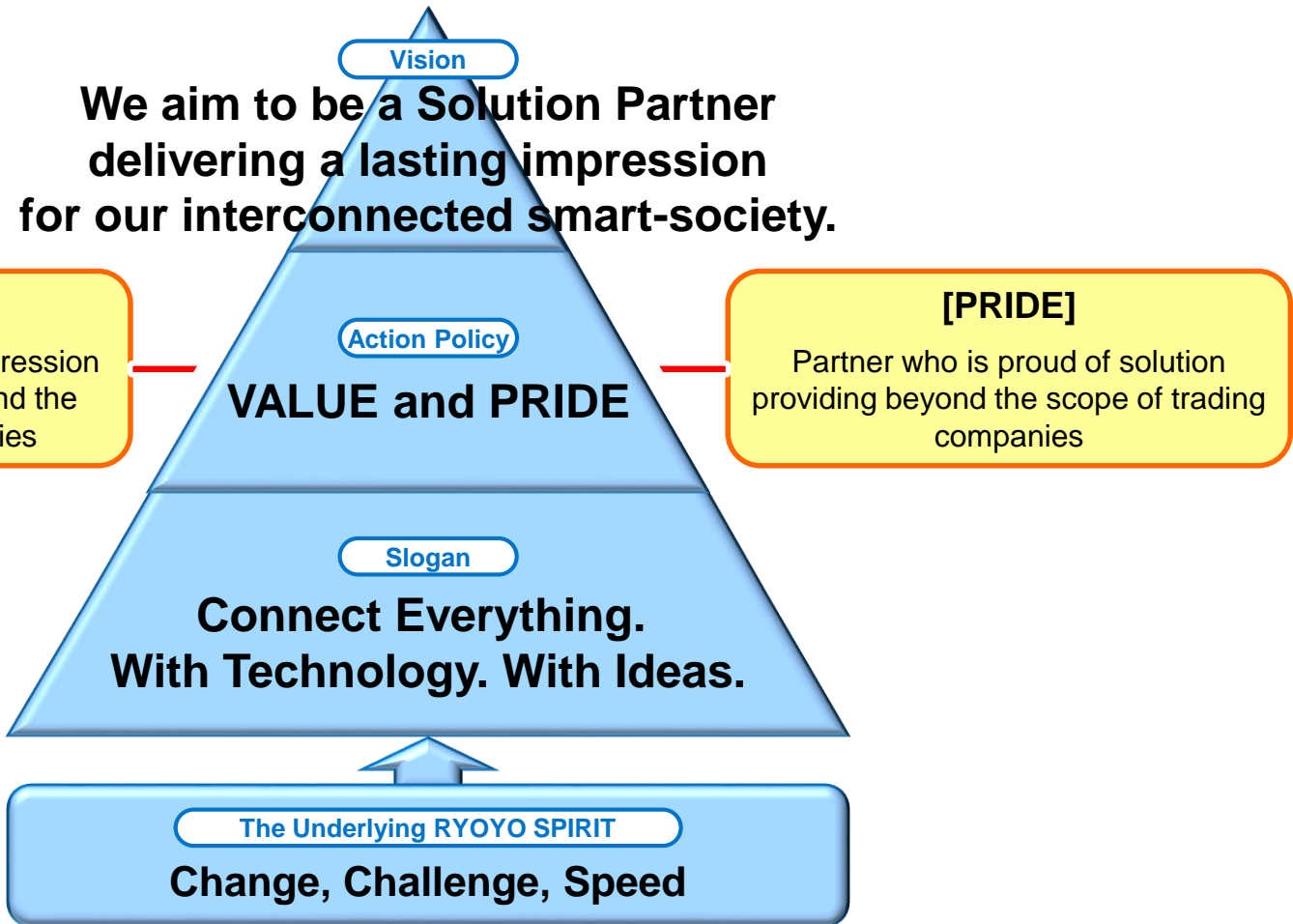
**Develop functional strategies**

**Develop/ Announce the next (3-year) business plan**

(Plan)

- **Establish the integrated support structure** for all of the head office and domestic and overseas offices and allocate necessary functions for business (sales, sales promotion, technology and operation) to each BU
- Along with a shift to the business unit structure, develop new business processes and expedite the operational and decision-making flows





**Framework of the next 3-year plan (Draft)**

- **Restructure the trading functions**
- **Take action for “Only RYOYO”**
- **Upgrade the business infrastructure**

**(Specific business performance targets are being prepared and will be included in the “next-period business plan”)**

Explore new demands by introducing the new product (NVIDIA Jetson Xavier)

[NVIDIA Jetson Xavier] High speed-processing and energy-efficient AI-based computer board (evaluation kit)



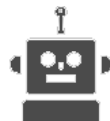
Compared to the conventional product (Jetson TX2)...

Operational capacity: **2,000%**

Energy efficiency: **1,000%**



Explore demands from various areas, including robots, smart city, factory, agriculture and medical



**“Field & Mobile Innovation” which creates new values in an operational level**

Reform operations of any type of industry (customer) with ICT / IoT resources

Integrated work order management system between shops and HQ  
(Work Order Management System)

**woms**

- WOMS: Interactive communication portal to achieve consistent and high-quality operation

Simplify and ensure various communications (e.g. ordering, information sharing) between a HQ and shops

- In addition to the existing “on-premises” version, release the “cloud” version which can be introduced more easily and is more cost effective



It is gathering more and more interest from not only the drugstore industry where we have won order already, but also security service companies and mobile phone shops

**Expecting it will become one of our core products within a few years**

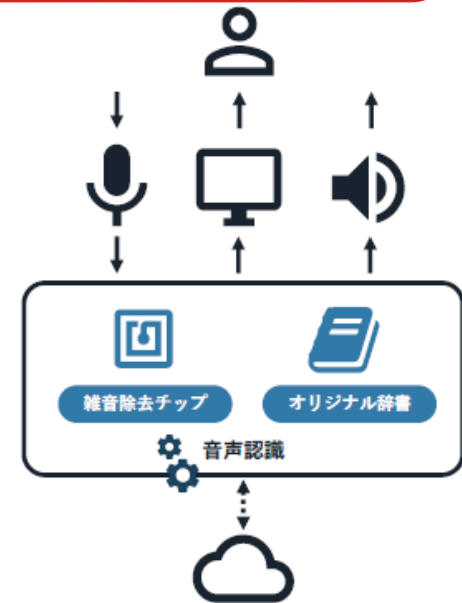
Our own development work achieving high values:

Voice recognition, technology development and commercialization

We have developed the technology achieving highly precise voice recognition on a real time basis and applied for the first patent

➤ Features of our proprietary voice recognition technology:

- With our purpose-based AI technologies, demonstrate the high recognition performance  
→ Development of new algorithm by our own structure
- With the stand-alone operation, maintain the high responsiveness  
→ Completion the recognition process in a local device, not depending on network environments
- With the strong noise killer chip, catch precise voice data  
→ Collaboration with our existing partners

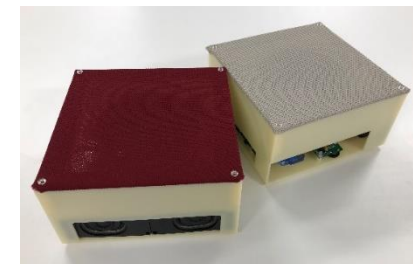


➤ Current status:

- Launched the technology in the market by offering to replace with remote controllers or touch panels

➤ Next steps:

- Develop upgrade versions which are compatible with shop operations



- **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](mailto:irmanager@ryoyo.co.jp)**