

**FY2018 (59th)
Results Briefing**

March 12, 2019

RYOYO ELECTRO CORPORATION

(Tokyo Stock Exchange - 8068)

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

FY2018 Business results

➤ **Sales:**

Managed to achieve higher sales than the previous year, with the negative impact of the transfer of distributorship compensated

➤ **Profit:**

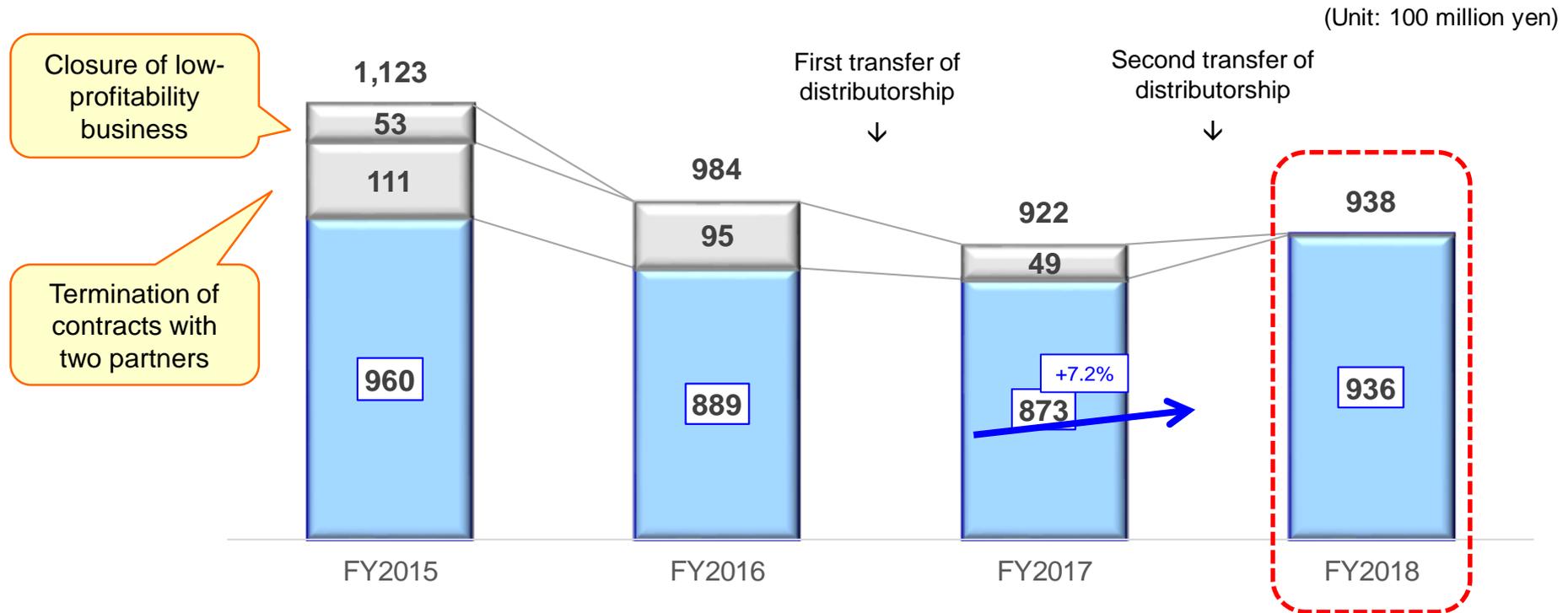
- Gross margin (9.5%) reached the highest level since FY1997
- JPY 320 million recorded as expenses in Q4, including loss from inventory revaluation and stock option expenses
- Decreased loss from inventory revaluation uplifted the profit rates significantly

(Unit: 100 million yen)

	FY2017	FY2018						YoY		VS. Plan	
	Actual	Q1	Q2	Q3	Q4	Total	Plan	Diff	%	Diff	Plan
Sales	922	227	225	240	247	938	930	+16	+1.7%	+8	+0.9%
Gross profit	75.9	22.5	22.3	22.5	22.0	89.3	87.5	+13.3	+17.6%	+1.8	+2.0%
	8.2%	9.9%	9.9%	9.4%	8.9%	9.5%	9.4%				
SG&A	73.4	18.1	18.8	18.9	20.9	76.7	75.5	+3.3	+4.5%	+1.2	+1.6%
Operating income	2.5	4.4	3.5	3.6	1.1	12.6	12.0	+10.1	+400.1%	+0.6	+4.8%
	0.3%	1.9%	1.6%	1.5%	0.4%	1.3%	1.3%				
Ordinary income	4.3	4.6	4.3	3.6	2.2	14.7	14.0	+10.4	+241.0%	+0.7	+5.3%
	0.5%	2.0%	1.9%	1.5%	0.9%	1.6%	1.5%				
Profit attributable to owners of parent	2.1	3.1	3.1	2.4	1.6	10.2	9.6	+8.1	+379.5%	+0.6	+6.3%
	0.2%	1.4%	1.4%	1.0%	0.6%	1.1%	1.0%				

- Higher sales by 1,600 million yen (+1.7%), with the negative impact of the transfer of distributorship compensated

⇒ Excluding the negative impact of the transfer of distributorship (-4,700 million yen), sales increased by JPY 6,300 million over the previous year



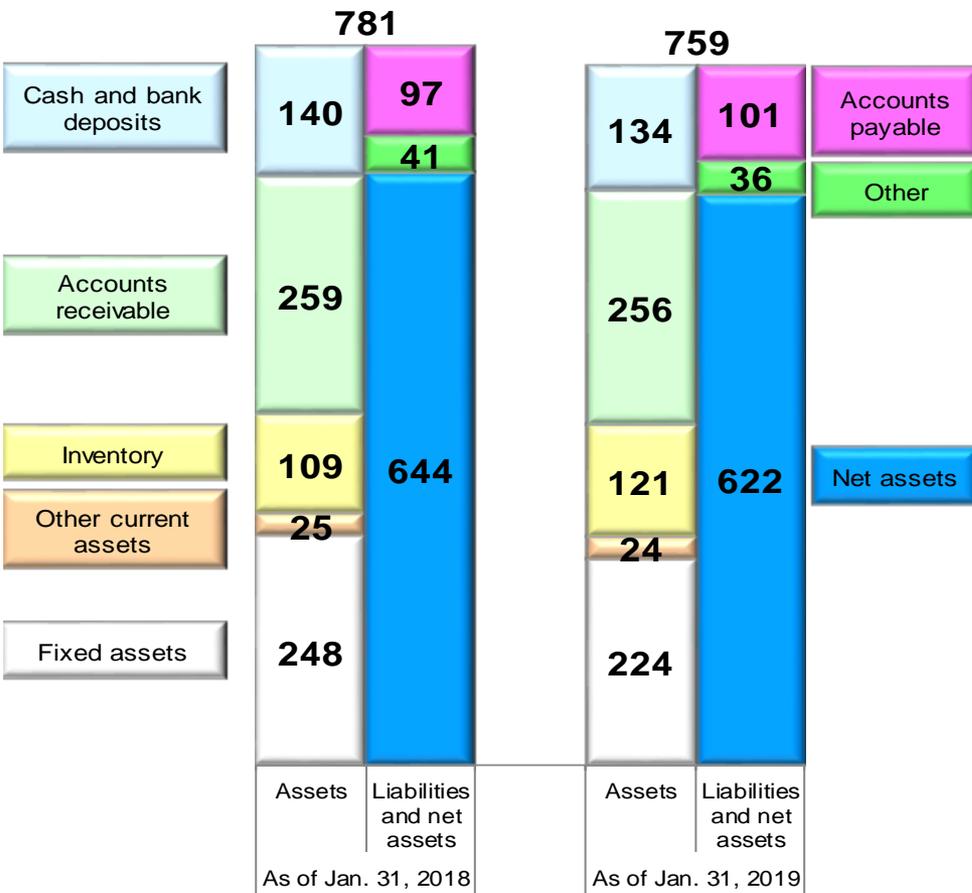
Sales by segment: Generally as planned in semiconductors/devices, while ICT contributed to an increase in sales

(Unit: 100 million yen)

	FY2017 Actual	FY2018		YoY	VS. Plan	Comments	
		Plan	Actual				
Sales	922	930	938	+1.7%	+0.9%		
Semiconductors/Devices	509	500	499	(2.0%)	(0.2%)		
By application	Communications	81	75	68	(16.2%)	(9.6%)	Shrinking sales of LCD for smart phones
	Digital consumer electronics	58	55	47	(19.4%)	(15.3%)	Overall, in a slump, despite the commencement of a new business for TVs
	Vehicle installation	25	25	29	+16.1%	+17.1%	Increasing sales in products for vehicle installation, such as in-vehicle cameras and driving recorders
	PC and peripherals	187	180	195	+4.5%	+8.6%	Increasing sales in both PCs and peripherals, despite the negative impact of transfer of distributorship
	Industrials and others	158	165	160	+1.1%	(3.1%)	Higher sales than the previous year, with contributions of products for railway companies which attained great demand in H1
ICT/Solution	413	430	439	+6.3%	+2.1%		
By product	PC/Server/Network	94	97	98	+4.5%	+1.2%	Increased, mainly contributed by new security products
	I/P equipment	78	75	78	(0.1%)	+3.7%	Higher sales in monitors compensated a decrease in printers
	Software	139	141	150	+8.4%	+6.5%	Significantly increased in line with growing production of PCs
	Embedded devices and others	103	117	113	+9.9%	(3.6%)	Increased, supported by growing sales of AI or DeepLearning-related products that compensated the negative impact of end of spot projects

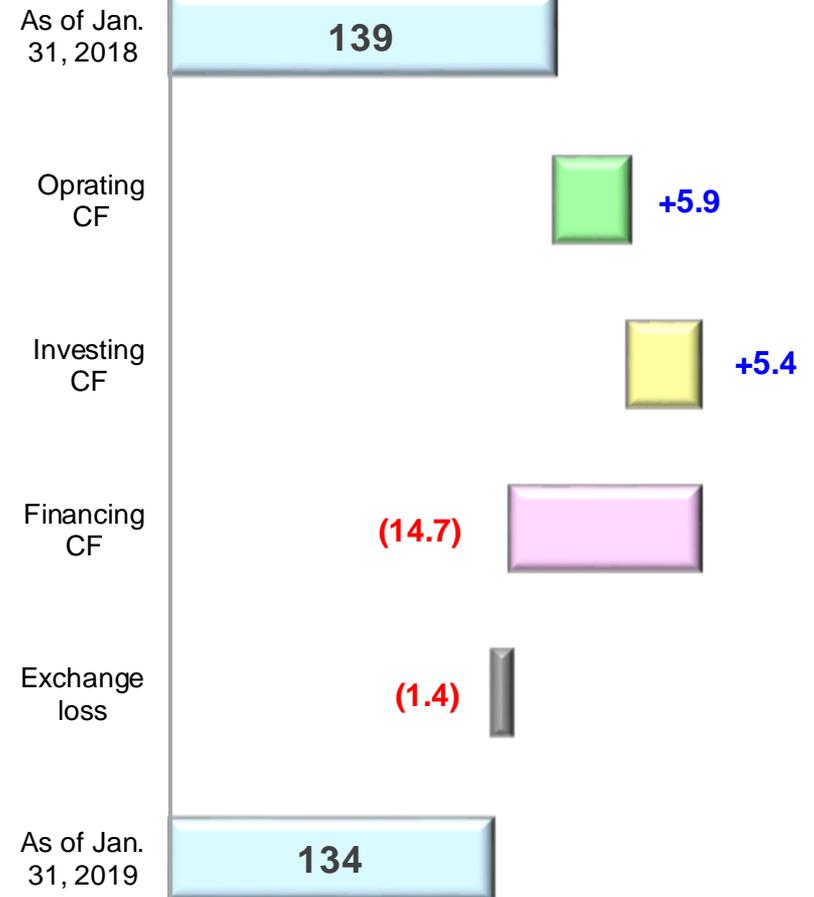
➤ **B/S**

(Unit: 100 million yen)



➤ **C/F**

(Unit: 100 million yen)



Net 3-years plan

“Overcome competition by moving customers”



Promote new challenges meeting changes in the world, while restructuring the fundamental functions as an electronics-specialized trading company

Restructure the trading functions

- Understand our customers and pursue the 'basic expected to trading companies', i.e. delivering "what" is expected (including information and services) with "quantity" expected and "quality" expected at "price" expected "when" expected → Make the best of the existing customer base by digging into their needs
- Explore/expand new customers, products and markets for business expansion

Challenge to "Only RYOYO"

- Develop unique technologies/products by strengthening technological resources and investing in R&D (= "Only RYOYO")
- Create our values that no one else can provide by pursuing "differentiation", "originality" and "uniqueness" through the combination of existing products and "Only RYOYO"
- Consider M&A and partnerships to ensure definite strengths

Enhance the management infrastructure

- Expedite the basic business cycle through a transition to the business unit structure and a review of business processes, and maximize marketing productivity through active investments on IT resources
- Reinforce the governance system that ensures the healthy and transparent management
- Launch the new HR system that achieves the work-style meeting changes in the society (in May)

(1) Maximize business opportunities in existing products x existing customers

- Deep into the needs of the existing customers, which is our assets

(2) Explore business opportunities of existing customers to new products

- Explore new products (e.g. China, Europe) and offer to the existing customers, which is our assets

(3) Explore new customers/markets with existing products

- Accelerate marketing activities with existing products
- Open new overseas offices in prospective markets

- Basic framework of strategy -

Products \ Customers	Existing	New
Existing	(1)	(2)
New	(3)	

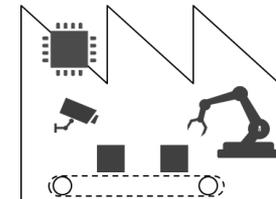
Our first office in Europe opened in Munich, Germany (13th overseas office)

Company name	Ryoyo Electro Europe GmbH
Location	Munich, Germany
Capital	25,000 euro
Shareholding	Ryoyo Electro Corporation: 100%
Establishment	March 2019
Operation	April 2019 (plan)
Business	Sales of semiconductors, devices, ICT products, etc.

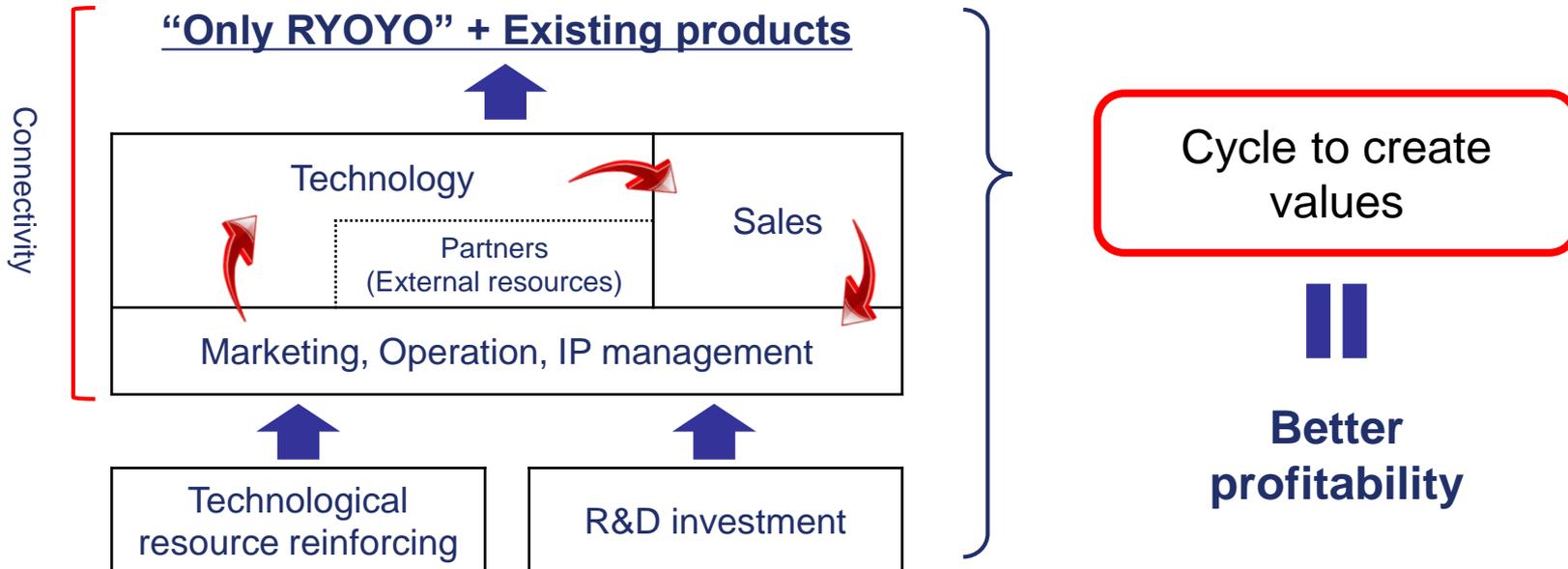
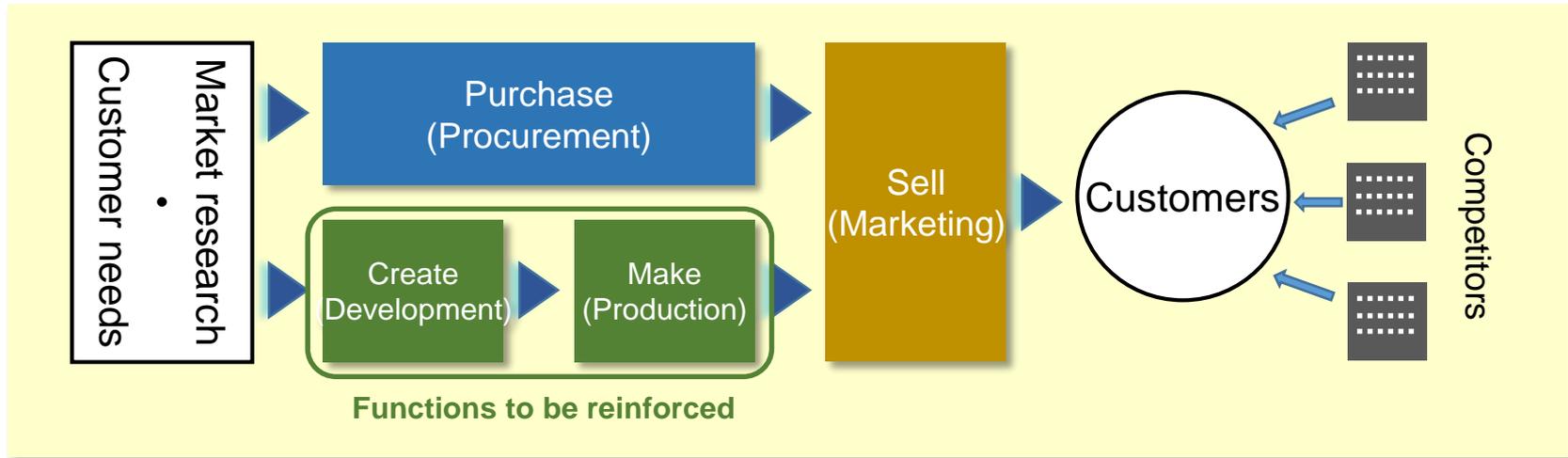
Break away from dependency on Asia and enter into Europe



Explore business opportunities by focusing on automobile and other manufacturing industries, collect market information for future business expansion, and research new products



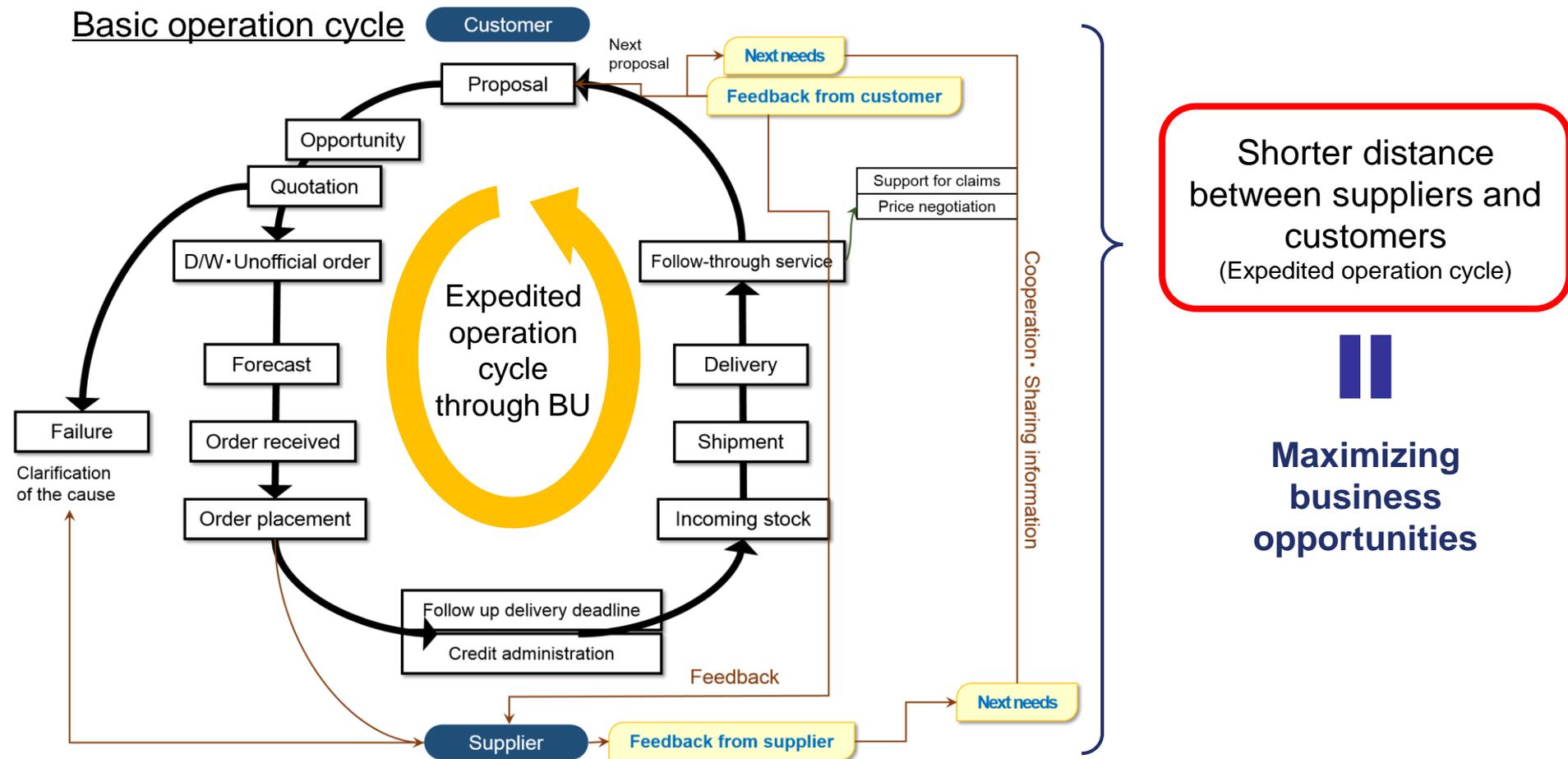
**Following the new office in Munich, Germany,
setting up a new sales office in North America is under consideration**



In March 2018, we transited to the business unit structure in preparation for the new business plan

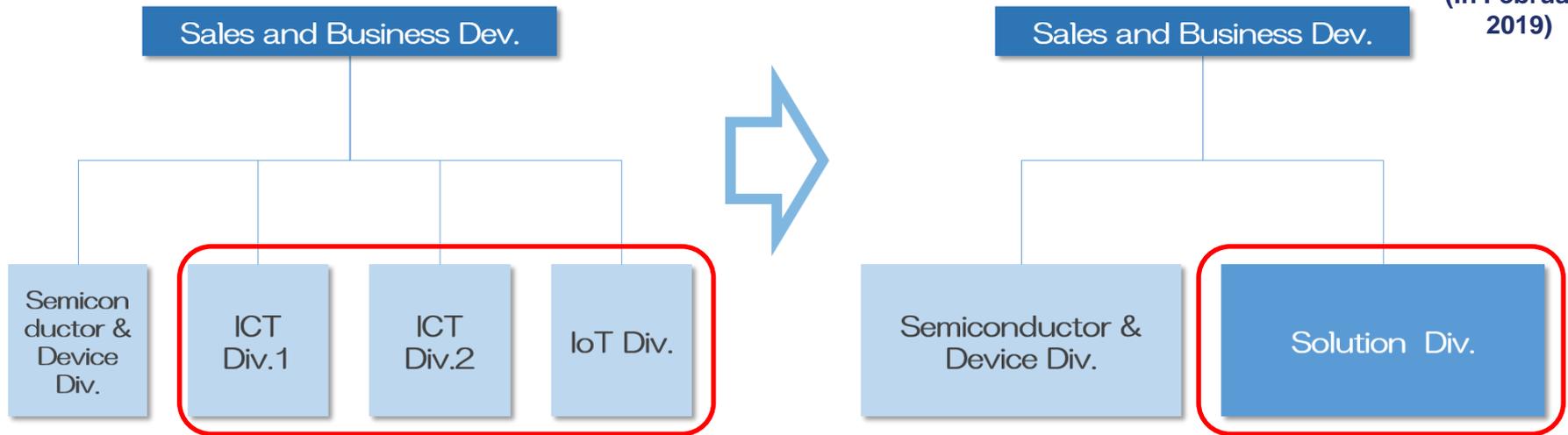
(Structural reform for “restructuring the trading functions” and “challenge to ‘Only RYOYO’”)

Basic operation cycle



**With the integration of ICT business and IoT business,
Sharpen our strength covering devices, clouding and applications**

(In February 2019)



Enhance cross-selling and upselling through information sharing

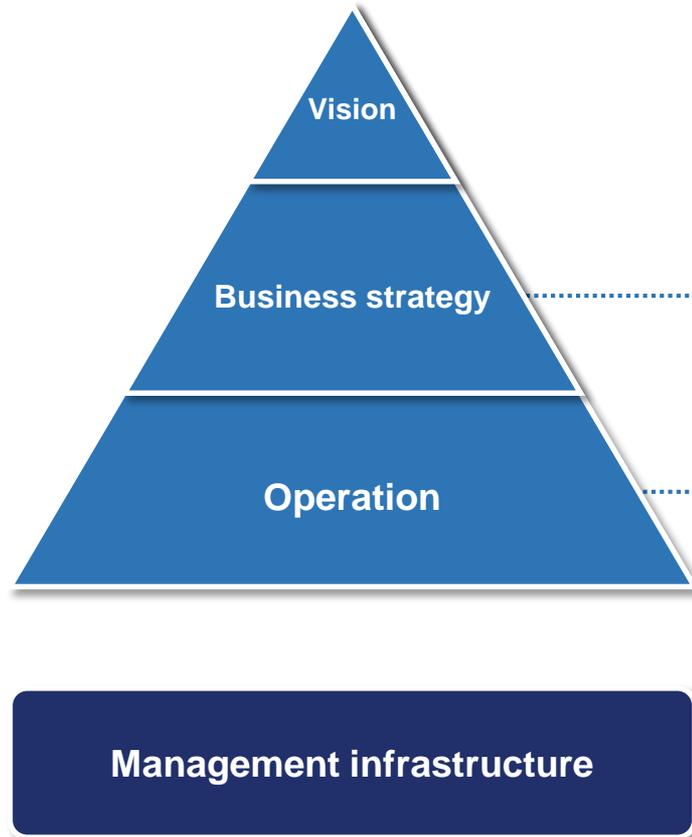
Expand synergies of targets, strategies and products

Promote joint business model development

Share and liquidate resources

Expand business opportunities / Accelerate business solution creation

<Management components>



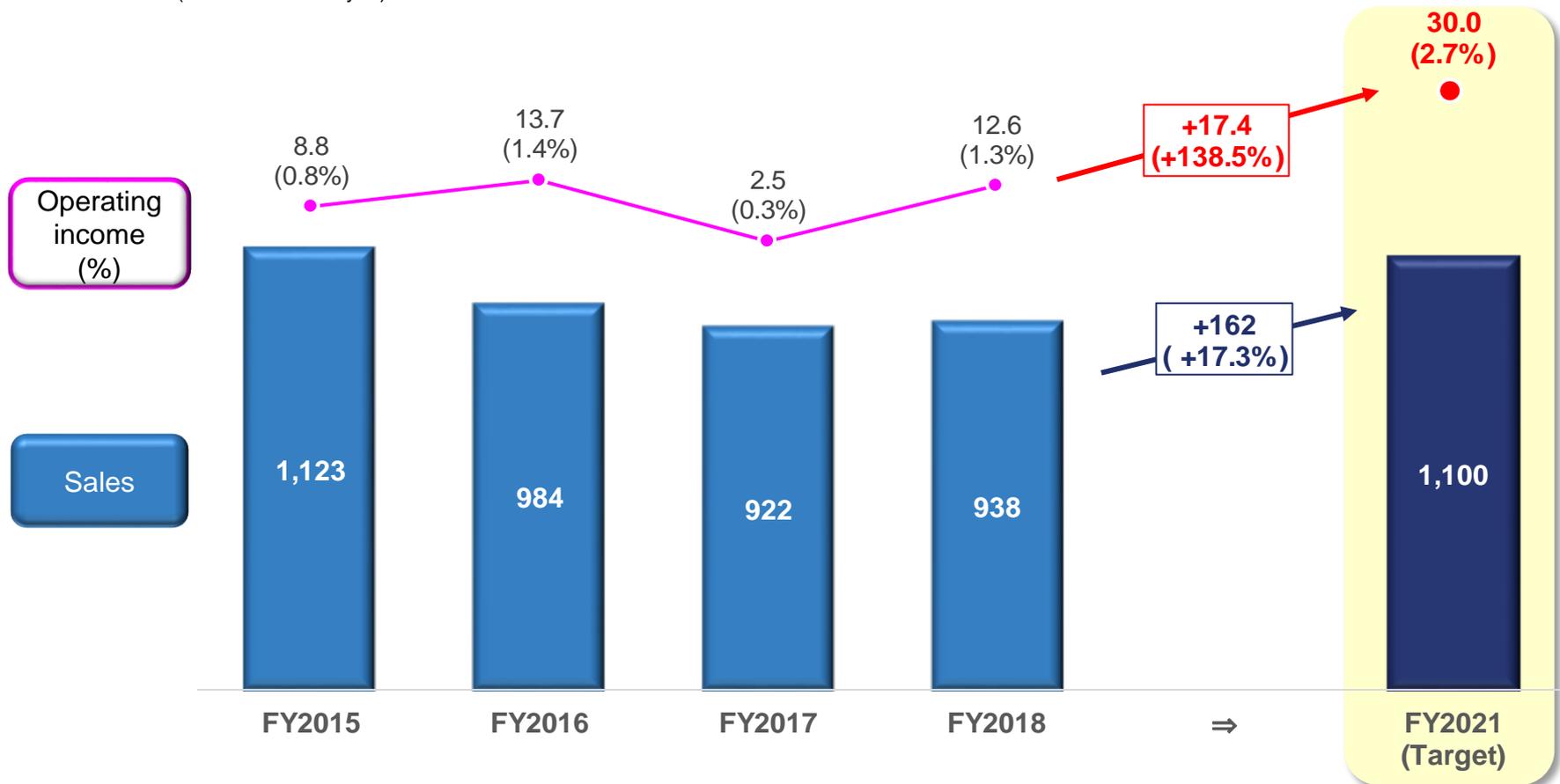
1,000 million yen investments for the next three years in operation and management infrastructure which form the base of business strategy

- Restructure the trading functions
- Challenge to “Only RYOYO”
- Sales operation
- Business processes
- Risk management (internal control)
- Corporate governance
- Organizational structure
- HR / evaluation system
- Management information system
- IT infrastructure

<Targets in the final year (FY2021)>

Sales: 110,000 million yen, Operating income: 3,000 million yen

(Unit: 100 million yen)



FY2019 Business plan

**Our business is seeing some upward factors,
but may be affected by the current weak demand**

- US-China trade conflict and increasing uncertainties of economies in US, Europe and China
 - With a scale-down trend in production of electronics parts and electric device manufactures, which pushing down demand temporarily, the timing of recovery would need to be monitored carefully

- Active investments in communication (e.g. Wi-Fi, LPWA) and security infrastructure for the coming Tokyo Olympics
 - ⇒
 - Demand for AI and IoT is expected to be growing, and business opportunities for devices are also increasing in conjunction with infrastructure development

- **Sales:**
Expecting an increase in both semiconductors/devices and ICT/solution
- **Gross profit and Operating income:**
Targeting higher operating income by compensating increased ‘aggressive’ expenses (e.g. investment in the management infrastructure and R&D) with the increasing gross margin rate

(Unit: 100 million yen)

	FY2018 Total (Actual)	FY2019			YoY	
		H1 (Plan)	H2 (Plan)	Total (Plan)	Diff	%
Sales	938	485	495	980	+42	+4.5%
Gross profit	89.3 9.5%	47.5 9.8%	48.5 9.8%	96.0 9.8%	+6.7	+7.6%
SG&A	76.7	39.0	42.0	81.0	+4.3	+5.6%
Operating income	12.6 1.3%	8.5 1.8%	6.5 1.3%	15.0 1.5%	+2.4	+19.3%
Ordinary income	14.7 1.6%	9.0 1.9%	7.0 1.4%	16.0 1.6%	+1.3	+8.5%
Profit attributable to owners of parent	10.2 1.1%	6.4 1.3%	5.0 1.0%	11.4 1.2%	+1.2	+11.7%

(Unit: 100 million yen)

		FY2018 Actual	FY2019 Plan	YoY		Comments
				Diff	%	
Sales		938	980	+42	+4.5%	
Semiconductors/Devices		499	525	+26	+5.2%	
By application	Communications	68	65	(3)	(4.1%)	No significant change, with increasing demand from infrastructure to be compensated with a decrease in communications
	Digital consumer electronics	47	65	+18	+39.5%	Increasing orders for semiconductors for TVs
	Vehicle installation	29	30	+1	+2.5%	No significant change from the previous year
	PC and peripherals	195	195	(0)	(0.2%)	No significant change on a whole year basis, despite possible effects of shortage of products currently concerned
	Industrials and others	160	170	+10	+6.3%	Increasing order mainly from heavy electric industries (e.g. railway and solar power)
ICT/Solution		439	455	+16	+3.7%	
By product	PC/Server/Network	98	98	(0)	(0.1%)	Given shrinking investments in on-premises IT infrastructure, shifting to cloud-based solution business
	I/P equipment	78	79	+1	+1.6%	Decreasing sales of printers to be compensated by higher sales of monitors
	Software	150	155	+5	+3.2%	Given customers are increasing the number of PCs, stable orders expected
	Embedded devices and others	113	123	+10	+9.1%	Continued high demand for AI and DeepLearning products

➤ Principle of return to shareholders

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.

➤ Revised the dividend policy for enhanced return to shareholders

Until FY2018 : Stable dividend and 100% payout ratio



FY2019 onwards : **Stable dividend, targeting the 3% devedend-equity ratio (DOE)**

		Dividend per share			Payout ratio	DOE
		Interim (Q2)	Year-end	Total		
FY2019	(Plan)	40 yen	40 yen	80 yen	172.1%	3.2%
FY2018	(Plan)	—	30 yen	60 yen	144.2%	2.3%
	(Actual)	30 yen	—	—	—	—
FY2017	(Actual)	30 yen	30 yen	60 yen	691.0%	2.3%

<FY2018 Business results>

- Exceeded the previous year's sales and profit for the first time in four years, as well as the plan (announced in August)
- Higher sales than the previous year, with the negative impact of transfer of distributorship compensated
- Gross margin (9.5%) reached the highest level in the past 21 period, despite increasing SG&A

<FY2019 Business plan>

- Expecting higher sales than the previous year in both semiconductors/devices and ICT/solution
- Targeting higher operating income by compensating increased 'aggressive' expenses with the increasing gross margin rate
- The new dividend policy "DOE: 3%" set to better return to shareholders

<Next 3-years plan>

- Started the business plan consisting of "Restructure the trading functions", "Challenge to 'Only RYOYO'" and "Enhance the management infrastructure"
- Targets in the final year (FY2021): Sales – 110,000 million yen, Operating income – 3,000 million yen

Official sponsor of the Japan's professional table tennis league (T.League)



★ T.League:
Japan's professional table tennis league that started the first season in 2018. World-class players registered from both Japan and foreign countries. In the 2018/2019 season, four teams of male and female each have joined.

- [Objectives of sponsorship]
 - Enhance the brand recognition toward the coming Tokyo Olympics in 2020
 - Demonstrate our corporate mission and philosophy through fostering players and supporting the league
- [Why table tennis?]
 - Both male and female world-class players have joined T.League. In line with our policy to empower female employees

RYOYO Group seeks further social contributions through
the sponsorship to T.League

- **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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