

Results Briefing for Fiscal Year Ended January 31, 2020

March 11, 2020

Ryoyo Electro Corporation

First Section, Tokyo Stock Exchange (Ticker Code: 8068)

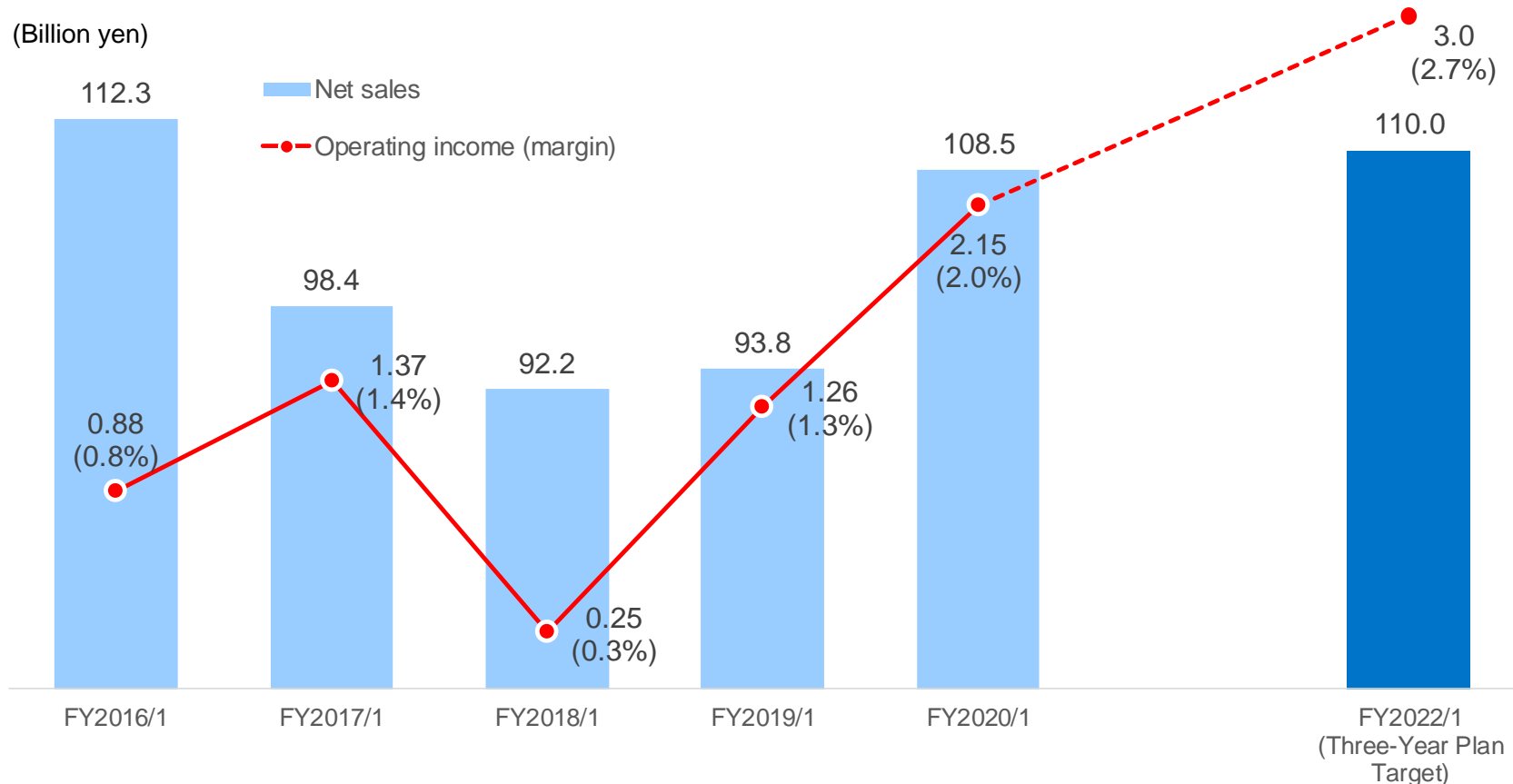
<https://www.ryoyo.co.jp/en/>

Overview of Fiscal Year Ended January 31, 2020

Achieved V-shaped recovery, smooth start on three-year business plan

➤ Revenue and income both up for two straight years

- Net sales: Recovered to **exceed ¥100 billion for the first time in four years**
- Operating income: **Operating margin reached 2.0% for the first time in 15 years**



Profit/Loss: Full-year performance exceeded both previous year and forecast

- **Net sales:** Semiconductors & devices and ICT & solutions both grew, and net sales recovered to exceed ¥100 billion for the first time in four years
- **Gross profit:** Profit margin is flat, but profit increased significantly year on year
- **Operating income:** Operating income exceeded ¥2 billion for the first time in five years, and operating margin reached 2% for the first time in 15 years

(Billion yen)	FY2019/1	FY2020/1					Full Year	YoY Change		Full-Year Forecasts	
		Q1	Q2	Q3	Q4	%		Initial	Revised*		
Net sales	93.8	27.6	26.7	27.1	27.2	108.5	+14.7	+15.7%	98.0	105.0	
Semiconductors & devices	49.9	12.9	14.7	13.8	13.0	54.3	+4.4	+8.9%	52.5	53.9	
ICT & solutions	43.9	14.7	12.0	13.3	14.3	54.2	+10.3	+23.5%	45.5	51.1	
Gross profit	8.93	2.55	2.48	2.57	2.76	10.36	+1.44	+16.1%	9.6	10.0	
(%)	9.5%	9.3%	9.3%	9.5%	10.1%	9.5%			9.8%	9.5%	
Selling, general and administrative expenses	7.67	1.93	2.03	1.99	2.25	8.21	+0.54	+7.0%	8.1	8.1	
Operating income	1.26	0.62	0.44	0.59	0.51	2.15	+0.9	+71.3%	1.5	1.9	
(%)	1.3%	2.2%	1.7%	2.2%	1.9%	2.0%			1.5%	1.8%	
Ordinary income	1.47	0.63	0.51	0.52	0.52	2.19	+0.71	+48.3%	1.6	1.9	
(%)	1.6%	2.3%	1.9%	1.9%	1.9%	2.0%			1.6%	1.8%	
Profit attributable to owners of parent	1.02	0.43	0.36	0.29	0.22	1.3	+0.28	+27.7%	1.14	1.2	
(%)	1.1%	1.6%	1.4%	1.1%	0.8%	1.2%			1.2%	1.1%	

*Revised forecasts released in November 2019

Semiconductors & devices: Growth in logic semiconductors for TVs drove sales

- **Analog & power semiconductors:** Expansion of commercial rights contributed to analog semiconductor sales, while power semiconductor sales grew in the infrastructure segment (solar power, railways, etc.)
- **Logic semiconductors:** Some businesses for PCs ended during the year, but this negative factor was offset by sales for TVs, which grew significantly throughout the year
- **Memory semiconductors:** HDD, printer, and other PC peripheral sales declined

Net Sales by Product

(Billion yen)

	Analog & power semiconductors	Logic semiconductors	Memory semiconductors	RF & optical ↓ LCDs	Other electronic devices	
FY2020/1	12.2	21.9	5.5	2.4	4.8	54.3
	+28.6%	+20.1%	-27.3%	+15.1%	-10.2%	+5.0%
FY2019/1	9.5	18.2	7.6	5.3	7.3	49.9

Net Sales by Application

	Communication	Digital consumer electronics	Vehicle installation	PCs & peripherals	Industrials & others	
FY2020/1	7.1	10.2	3.1	16.7	17.2	54.3
	+4.7%	+119.7%	+6.3%	-14.6%	+7.5%	
FY2019/1	6.8	4.7	2.9	19.5	16.0	49.9

- **PC/Server/Network:** Large-scale deals on servers and other products contributed to increased sales
- **I/O equipment:** Sales of displays, projectors and other video-related products grew, but did not offset decline in printer-related product sales
- **Software:** Replacement demand for PCs due to the end of Windows 7 support exceeded initial estimates
- **Embedded devices & others:** AI & Deep Learning sales increased, even without large-scale deals

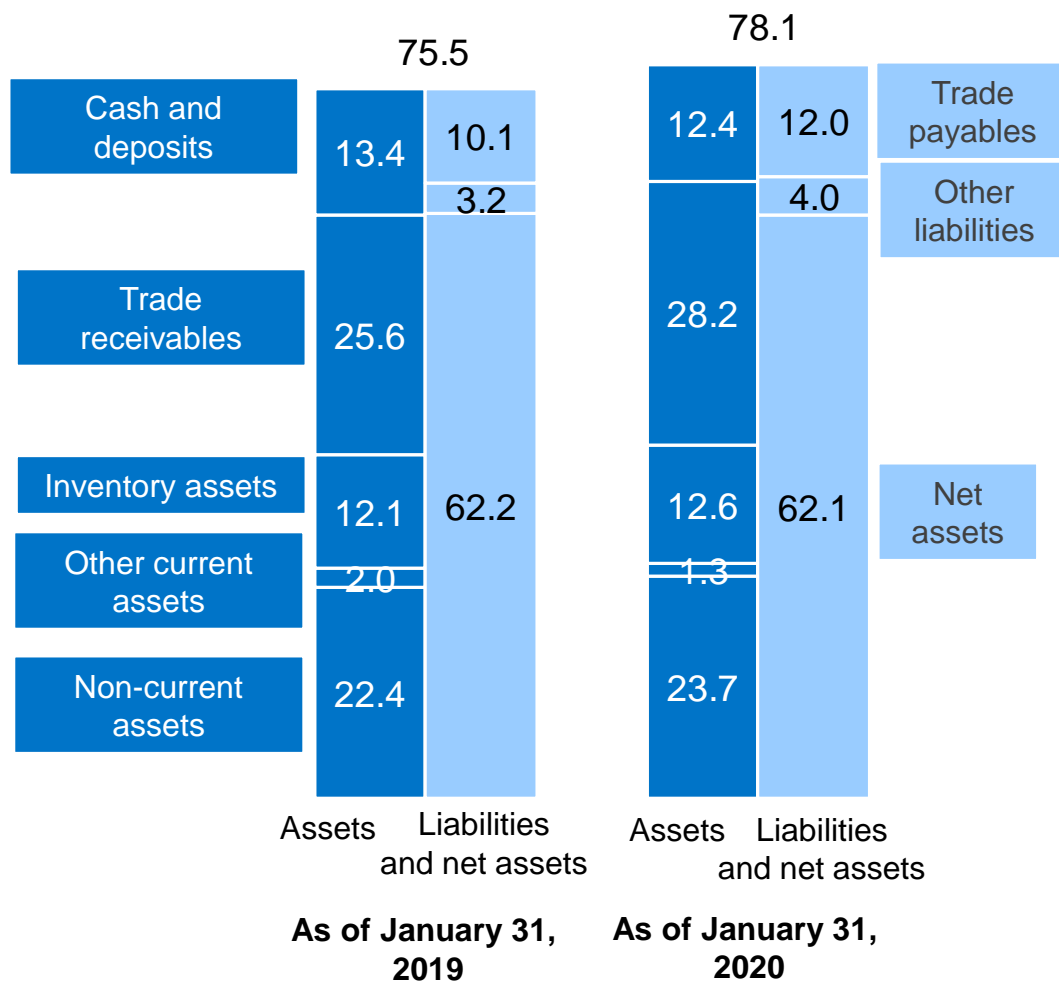
Net Sales by Product

(Billion yen)

	PC/Server/Network	I/O equipment	Software	Embedded devices & others	
FY2020/1	11.7	7.1	23.7	11.7	54.2
	+19.5%	-8.4%	+57.7%	+3.4%	
FY2019/1	9.8	7.8	15.0	11.3	43.9

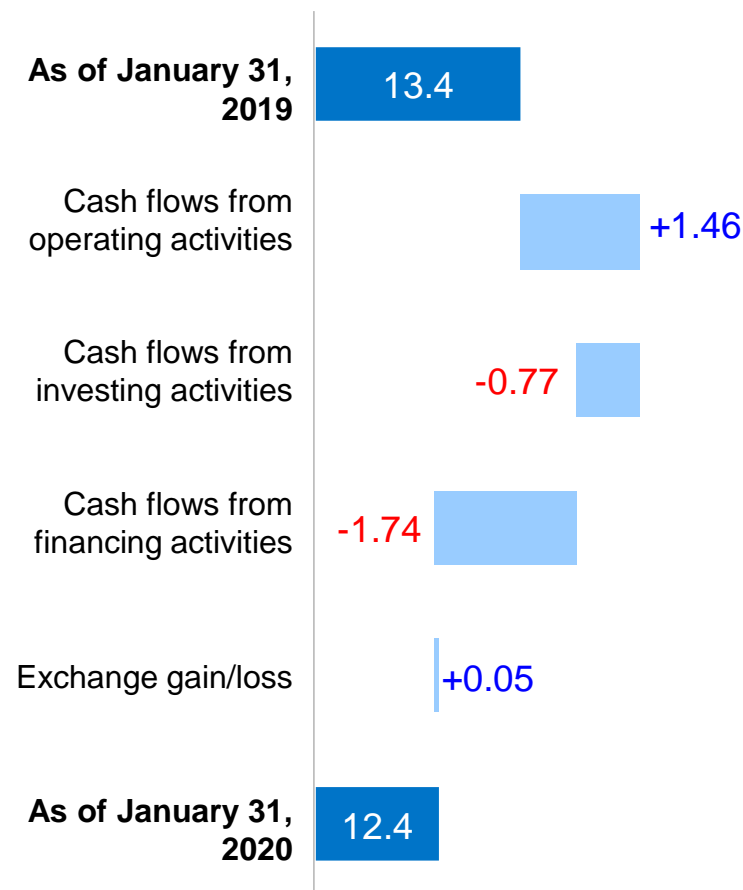
Balance Sheets

(Billion yen)



Cash Flows

(Billion yen)



**Business Plan for Fiscal Year
Ending January 31, 2021**

Although there are positive indications such as receding U.S.-China trade friction concerns and the commercialization of 5G, the impact of the spread of the novel coronavirus will be of great concern

➤ **Potential impacts of the spread of novel coronavirus infections**

Stagnation or slowdown of economy in Japan and around the world

Impact on supply chains

Direct impact

Suspension or significant reduction in manufacturing parts and/or assembled products at factories in China, affecting procurement and delivery of parts to Ryoyo

Indirect impact

Suspension in manufacturing finished products by Ryoyo's customers due to inability to procure parts from suppliers other than Ryoyo, causing impact on Ryoyo's businesses

Profit/Loss: Accelerate shift to high value-added businesses to increase profit for three consecutive years

- **Net sales:** Net sales forecast to decrease year on year but stay above ¥100 billion
- **Gross profit:** Improve profitability by changing composition of sales and growing high value-added businesses
- **Operating income:** Expected to absorb rise in selling, general and administrative expenses and record an increase for the third consecutive year

Note: Earnings forecasts do not take into account the impact of the spread of the novel coronavirus. No significant negative impacts have appeared at this stage. The company intends to disclose updates as necessary when impacts become clear.

(Billion yen)	FY2020/1 Result	FY2021/1 Target	YoY Change	
				%
Net sales	108.5	105.0	-3.5	-3.3%
Semiconductors & devices	54.3	53.0	-1.3	-2.5%
ICT & solutions	54.2	52.0	-2.2	-4.1%
Gross profit	10.36	10.7	+0.34	+3.3%
(%)	9.5%	10.2%		
Selling, general and administrative expenses	8.21	8.5	+0.29	+3.6%
Operating income	2.15	2.2	+0.05	+2.1%
(%)	+2.0%	2.1%		
Ordinary income	2.19	2.2	+0.01	+0.6%
(%)	2.0%	2.1%		
Profit attributable to owners of parent	1.3	1.53	+0.23	+17.4%
(%)	1.2%	1.5%		

Semiconductors & devices: Sales expected to decrease but several new products will be launched

- **Analog & power semiconductors:** Power semiconductor sales will remain unchanged in general, but analog semiconductor sales are expected to decline due to loss of commercial rights
- **Logic semiconductors:** While further growth of sales for TVs is expected, the impact of businesses that ended in the first half of the previous fiscal year will remain
- **RF & optical semiconductors:** Sales are expected to grow in both RF and optical semiconductors, boosted by new businesses using newly acquired agency rights

Net Sales by Product

	Analog & power semiconductors	Logic semiconductors	Memory semiconductors	RF & optical ↓ LCDs	Other electronic devices	(Billion yen)	
FY2021/1 Target	10.9	19.3	5.8	3.8	4.6	8.6	53.0
	-10.4%	-11.9%	+5.3%	+60.5%	-3.2%	+12.5%	
FY2020/1 Result	12.2	21.9	5.5	2.4	4.8	7.6	54.3

Net Sales by Application

	Communication	Digital consumer electronics	Vehicle installation	PCs & peripherals	Industrials & others	
FY2021/1 Target	7.0	12.3	2.7	14.5	16.5	53.0
	-1.4%	+20.1%	-13.3%	-13.2%	-4.0%	
FY2020/1 Result	7.1	10.2	3.1	16.7	17.2	54.3

- **PC/Server/Network:** Capture continued strong demand for corporate IT investment
- **I/O equipment:** Although video-related product sales growth is expected to continue, it will not offset the decline in printer sales
- **Software:** Anticipate a relative decline from the strong demand of the previous year
- **Embedded devices & others:** Aim for further expansion of sales in core AI and Deep Learning related businesses and by preparing for new solutions businesses

Net Sales by Product

(Billion yen)

	PC/Server/Network	I/O equipment	Software	Embedded devices & others	
FY2021/1 Target	12.1	6.7	20.8	12.4	52.0
	+3.2%	-6.0%	-12.2%	+6.3%	
FY2020/1 Result	11.7	7.1	23.7	11.7	54.2

Three-Year Business Plan

February 2019 – January 2022

Reform Phase 2: Becoming a company that can deliver self-sustained growth

Fiscal Year	FY2018/1	FY2019/1	FY2020/1	FY2021/1	FY2022/1	FY2023/1
Reform Phase	Preparatory Stage	Reform Phase 1		Reform Phase 2		
	Management Reform Project	Net sales: Return to ¥100 billion Operating margin: over 2%		Become a company that can deliver self-sustained growth		
	Companywide: Identify root issues	Each division: Identify root issues				
	<ul style="list-style-type: none"> • Face reality • Analyze & hypothesize • Expedite business cycles 	<ul style="list-style-type: none"> • Change management structure • Reform company organization (introduce business unit system) • Reform corporate culture 	<ul style="list-style-type: none"> • Shift to two business divisions • Reform HR systems • Productivity improvement project • First patent acquisition • Enhance governance structure 			

Strengthen structure and functions for expanding solutions business (from edge devices to cloud services) for resolving customer and market issues, instead of mere pursuit of scale



Semiconductors & devices business

Shift to solutions business with devices as starting point, and provide value unique to Ryoyo with an awareness of end-user needs

Solutions business

Invest management resources in solutions business that starts with ICT system and cloud to provide value that exceeds customer expectations

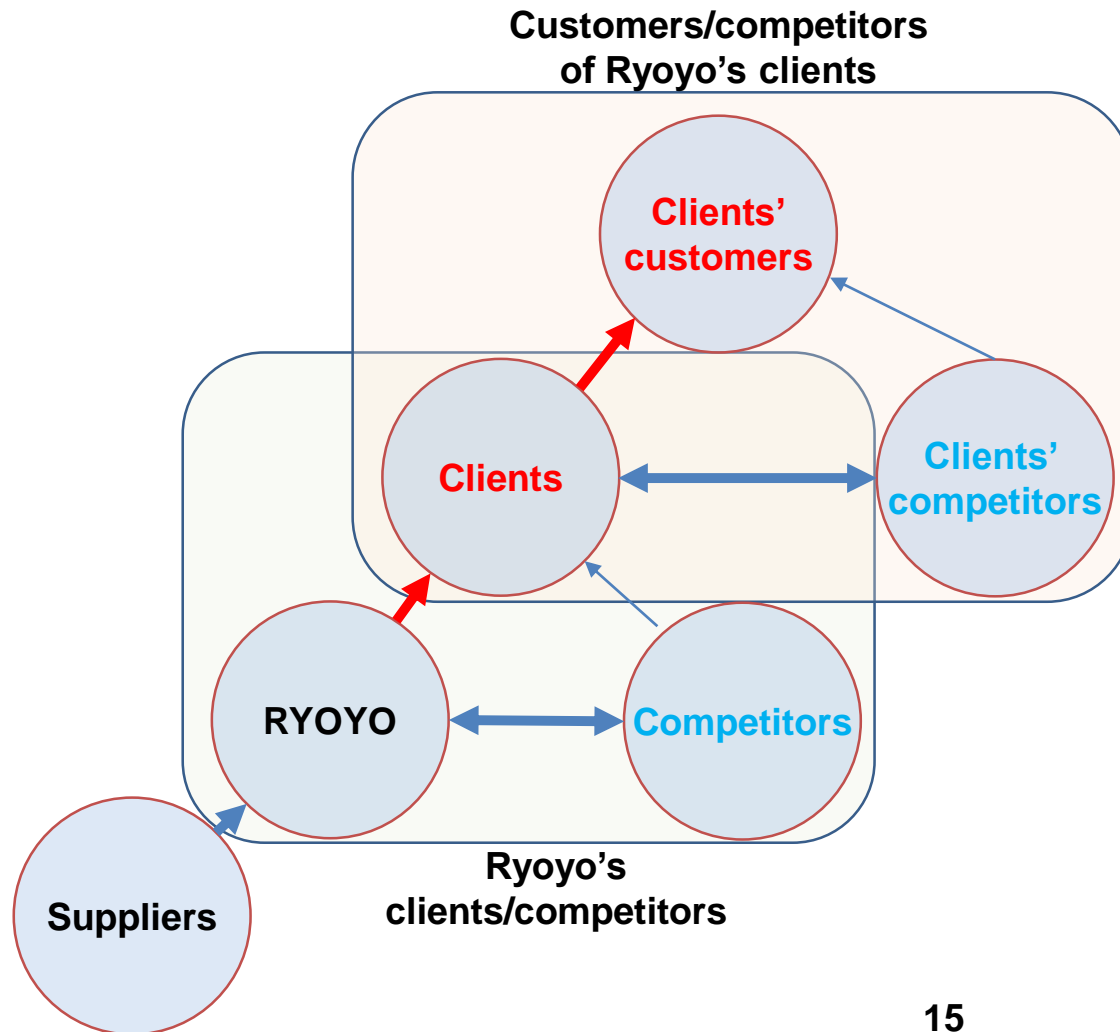


Connect via technology and information

Strategic Technology Development Division and
Strategic Sales & Marketing Division

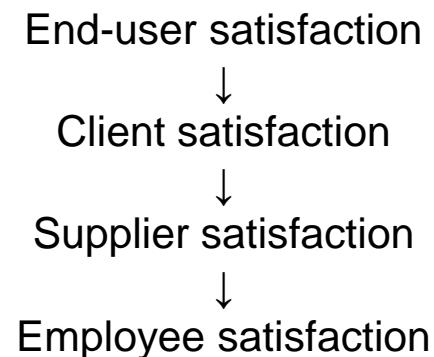
Consider alliances that share vision, pride, and values
(Cloud-based software development, R&D and manufacturing functions, etc.)

Ryoyo's Added Value: Providing thorough problem resolution that considers end-users (customers of Ryoyo's clients)



Proposals with awareness of end-users

- Proposals with awareness of end-users
- Proposals with awareness of clients' competitors

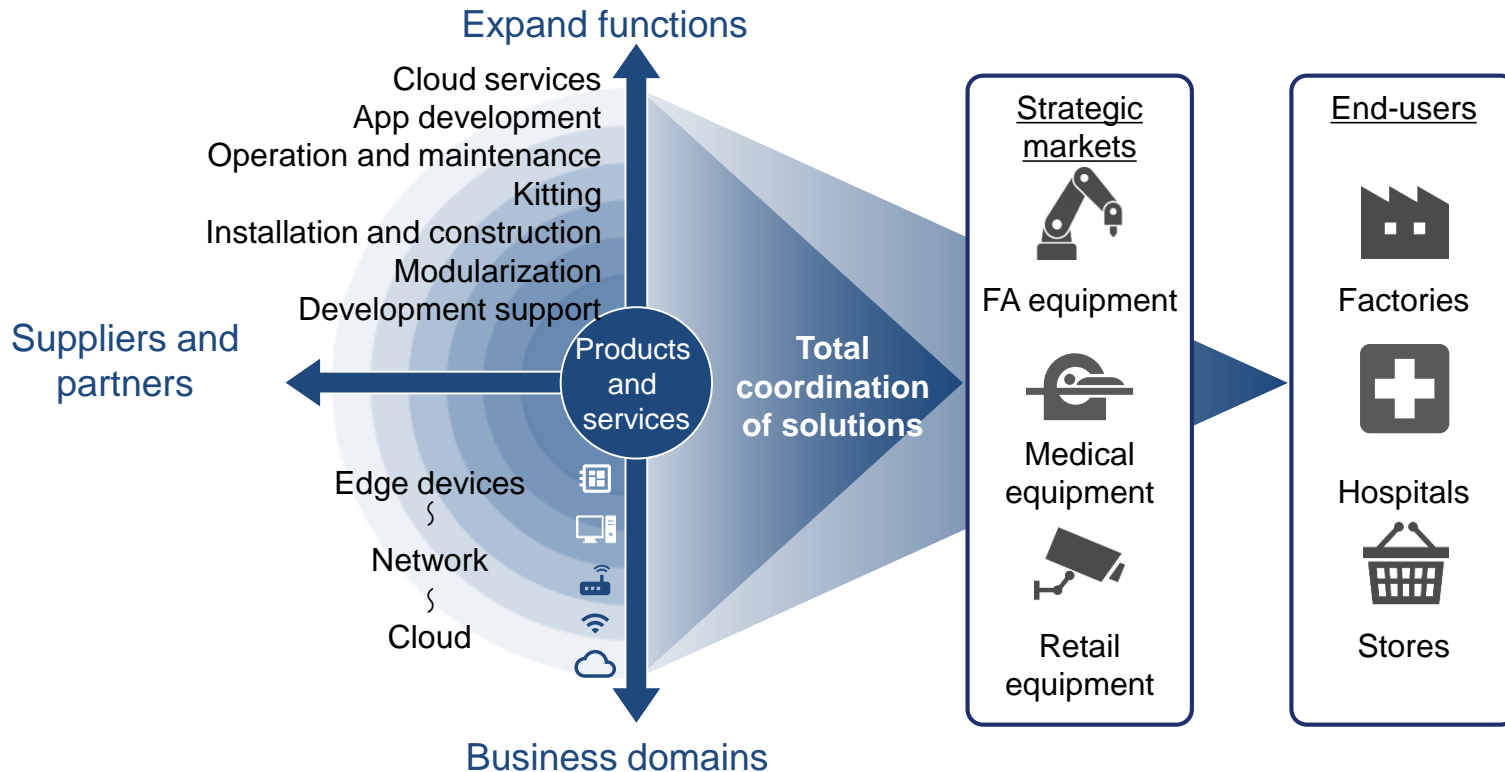


Support customer's *monozukuri* (manufacturing) and *kotozukuri* (value/story creation) in factory automation (FA), medical, and retail markets

Provide value with diverse products, from edge devices to cloud services

Become a trading company that can show strength in the FA, medical, and retail markets

Develop and provide new, high-quality on-site communication solutions



“Overcome competition by exceeding customer expectations”

Three strategic frameworks of the business plan

Restructure trading functions

Embrace the “Only Ryoyo” Challenge

Enhance management infrastructure

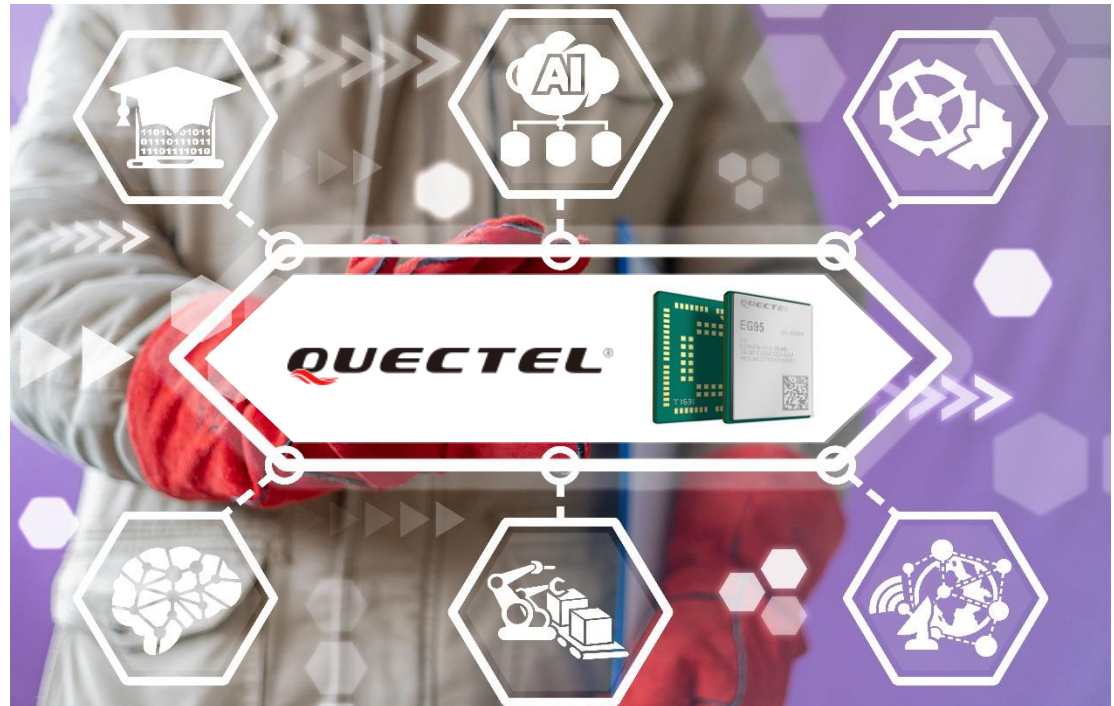
Restructuring our basic roles as an electronics trading company and moving forward with new initiatives for a changing world.

■ **Quectel** (agency agreement entered in August 2019): **Develop market needs towards local 5G**

Quectel meets customer needs by working with Ryoyo to promptly release products for the Japanese market

Examples of main sales leads

- Telematics control unit (TCU)
- Programmable logic controller (PLC)
- Smart meter
- VPN router

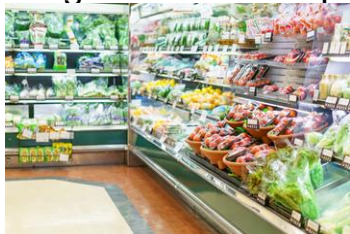


■ Supporting HACCP* by using KiWi products — Leveraging IoT for food temperature control

*Hazard Analysis and Critical Control Point (HACCP):

Due to the revision of Japan's Food Sanitation Act, businesses that handle food are required to establish methods for refrigerator and freezer temperature and time control, record keeping, and storage by June 2020 in principle, and there is a pressing need for refrigerator and freezer IoT implementation at all stores.

Temperature control of refrigerators at a supermarket



Temperature control of multiple units in the kitchen



Visualization and record keeping



Internet



Cloud

Resolving on-site issues by providing sensor-equipped LPWA products and gateways



Internet

Sensor-equipped LPWA product



Gateway

On-site issues for administrative recordkeeping

- ✓ Steep rise in labor costs
- ✓ Shortage of personnel

Measure taken



■ Partnership with AI Medical Service (AIMS)* (September 2019): Further strengthens Ryoyo Group activities in the field of medicine

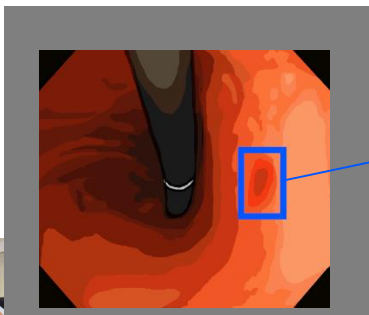
Accelerate collaboration focused on providing products that are used in AI development



Support the realization of AIMS's corporate philosophy, "Helping to save lives around the globe: Endoscopy AI that supports doctors and protects patients by dramatically reducing missed diagnoses"

Real-time detection and diagnostic support system for stomach cancer (usage example)

Note: This technology and system have not yet been approved under Japan's Act on Securing Quality, Efficacy and Safety of Products Including Pharmaceuticals and Medical Devices.



Carry out the following using AI image recognition:

- ◆ Detection of lesions
- ◆ Segmentation of lesion sites in pixels
- ◆ Classification of the detailed conditions

* AI Medical Service Inc. (established in 2017)

The company develops endoscopy AI that supports the detection of cancers and aims to obtain regulatory approval and bring it to market as a system that supports doctor's diagnosis.

Four patents obtained from R&D activities in 2019

Patent #1

High-Quality Voice Recognition System and Equipment



Patent #2

Friendly Information Sharing Method and System
Utilizing BOT

Patent #3 (Transportation industry)

Patent #4 (Work-site operations, regardless of industry)

*Version of Patent #3 with expansion of application to other industries

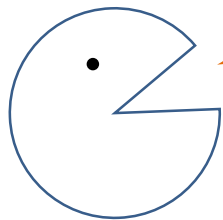
Automatic Groups Management Method, Equipment and System
for Group Chat Communication.

Licensing
case

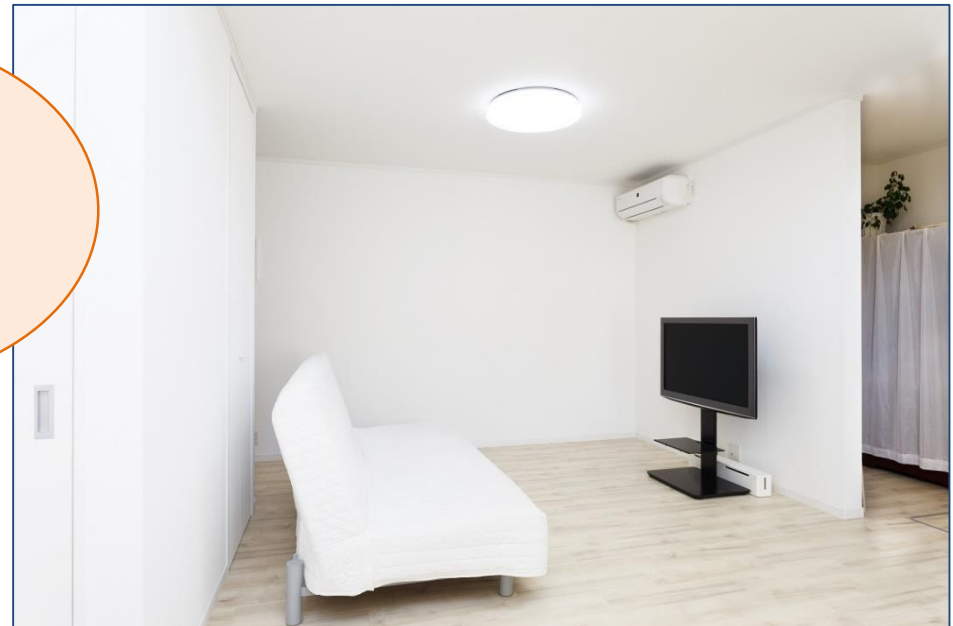
The technology developed in this project was adopted for a Japanese manufacturer's home appliance (LED light)



The technology will be employed in other electrical appliances



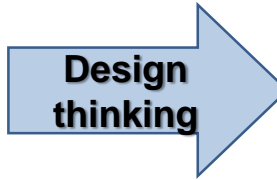
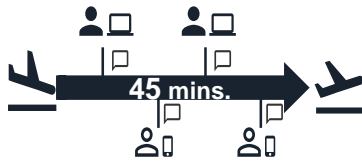
Turn on the
light!



No Internet environment, smart speaker,
or special application necessary

On-site (airport) issues

- Information shared via transceiver
- Transceiver use means history will not be kept
- Communication takes too long
- User: Airport ground staff



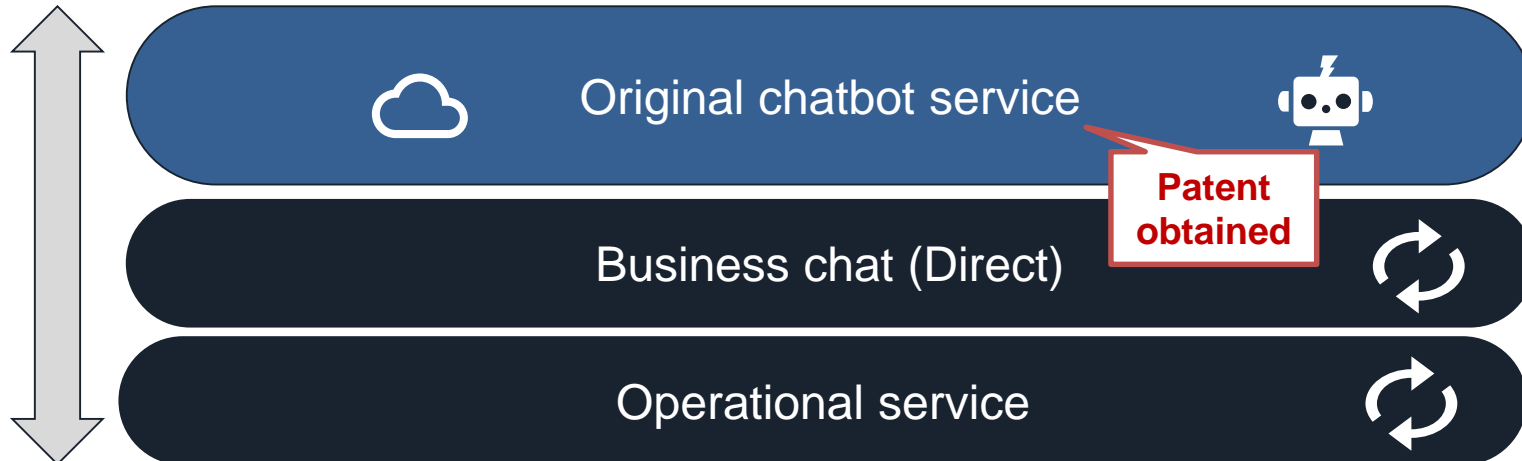
Common denominators for improvement

- Preventing repeat inquiries, reducing task interruptions
- Maintaining reliability of information exchanges



Ryoyo developed an original chatbot that can be used on site

Business
scope



System and IT- infrastructure development

- Reform of HR evaluation system and enhancement of employee benefits and terms
- Full-fledged adoption of HR training program
- Adoption and reform of internal systems
 - ✓ Attendance management system
 - ✓ Internal communication tool
 - ✓ Customer information management tool, etc.
- Implementation of productivity improvement projects
 - ✓ Standardization of sales activities
 - ✓ Operational reforms
 - ✓ Enhancement of IT tools, etc.

Proactive investment in business resources

- Expansion of technology resources
- Enhancement of R&D investment
- Expansion of training expenses (HR training)
- Expansion of floor space at head office (improve work environment)
- Augmented participation in exhibitions, enhancement of exhibition contents, etc.

■ Enhance governance system with the purpose of further improving management effectiveness and transparency

Outside Director chairs the Board of Directors

Balance of inside/outside officers

Inside board members: 7
Outside board members: 7

2 female directors

Outside Director: 1
Audit & Supervisory Board Member: 1

Current structure

New structure



* The new structure is to be officially determined via election at the General Meeting of Shareholders on April 28.

Shareholder Returns

➤ Change in Shareholder Return Policy

- ◆ ROE in FY2022/1: 3.5%
- ◆ ROE level that exceeds capital cost recognized by Ryoyo

Aim to achieve the above two goals, **and raise dividend on equity target to 5.0%**

Fiscal Year	Return Policy		Annual Dividend per Share
Up to FY2019/1	Total return ratio	100% →	60 yen
FY2020/1	Dividend on equity (DOE)	3.0% →	80 yen
FY2020/1 and beyond	Dividend on equity (DOE)	5.0% →	120 yen (+ commemorative dividend: 60 yen)

Note: For FY2021/1, a 60th anniversary commemorative dividend will be added to raise ordinary dividends, resulting in a dividend of **180 yen per share**.

		Dividend per Share (Yen)			Payout Ratio	DOE
		Interim	Year-End	Full Year		
FY2021/1	Forecast	60	120	180	289.1%	7.3%
FY2020/1	Forecast	—	40	80	150.8%	3.2%
	Result	40	—	—	—	—
FY2019/1	Result	30	30	60	144.2%	2.3%

Overview of fiscal year ended January 31, 2020

- Revenue and profit both up for two consecutive years
 - Net sales: Recovered to exceed ¥100 billion for the first time in four years
 - Operating income: Operating margin reached 2.0% for the first time in 15 years

Business plan for fiscal year ending January 31, 2021

- Accelerate shift to high value-added businesses to increase profit for three consecutive years

Three-Year Business Plan

- Transition to Ryoyo Group Management Reform Phase 2
- Strengthen structure and functions for expanding solutions business (from edge devices to cloud services), including alliances with other companies

Shareholder returns

- FY2020/1: Annual dividends of ¥80 per share with a target of 3% DOE
- FY2021/1: Raise DOE target to 5.0%

→ Annual dividends: Ordinary dividend (¥120) + commemorative dividend (¥60) = ¥180 per share

New employees participated, as part of their follow-up training, in the preservation activity “Michi Bushin Walk” for the World Heritage “Sacred Sites and Pilgrimage Routes in the Kii Mountain Range.”



Ryoyo offers employee outreach programs to promote the sustainability of local communities

Note

The business results and forecasts for the future contained in this presentation are based on certain assumptions deemed reasonable at the time of release. Actual results may differ from the original forecasts due to economic conditions and various other factors.

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