

# Results Briefing for the First Half (Feb.–Jul.) of the Fiscal Year Ending January 31, 2021

September 1, 2020

## **Ryoyo Electro Corporation**

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

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

**Tender Offer to Repurchase  
Treasury Stock**

**Overview of the First Half of the  
Fiscal Year Ending January 2021**

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

**Forging an Image of  
a New Trading Company**

**Examples of Only RYOYO Initiatives**

# Tender Offer to Repurchase Treasury Stock

Equity ratio: Over 80%

Low capital efficiency

Gradual expansion of shareholder returns

ROE\*1

FY2020/1 Result: 2.1%

EPS\*2

FY2020/1 Result: ¥53.06

Total capital turnover

FY2020/1 Result: 1.39x

Fiscal Year	Shareholder Return Policy	Annual Dividend per Share	Total Payout Amount	Payout Ratio
FY2021/1*3	DOE:*4 5.0%	¥180	¥4.41 billion	289.1%
FY2020/1	DOE: 3.0%	¥80	¥1.97 billion	150.8%
FY2019/1	Total return ratio 100%	¥60	¥1.47 billion	144.2%
FY2018/1		¥60	¥1.47 billion	691.0%
FY2017/1		¥40	¥0.98 billion	119.2%
FY2016/1		¥30	¥0.74 billion	100.0%

Although recently price-to-book ratio (PBR) has been above 1x, stock value has been sluggish over the long term.

Payout ratio of over 100% levels continues, and payout ratio in the current period is expected to be close to 400%.

\*1. Return on equity  
\*2. Earnings per share

\*3. Total payout and payout ratio for FY2020/1 are forecasts as of the beginning of the period  
\*4. Dividend on equity

**Fundamentally review capital policy**

Ryoyo **resolved to implement repurchase of treasury stock** based on fundamental review of capital policy toward improving capital efficiency.

- ✓ Number of shares to be repurchased: 7,357,800  
(Percentage of total number of issued shares: 27.45%)
- ✓ Unit purchase price: ¥2,990
- ✓ Total repurchase amount: ¥22 billion
- ✓ Repurchase period: From September 1, 2020 to October 14, 2020  
(30 business days)
- ✓ Settlement commencement date: November 6, 2020

## Indicators in Final Year of Current Three-Year Plan

If capital policy continues as is

ROE FY2022/1 forecast: 3.6%

EPS FY2022/1 forecast: ¥86.70

Total capital turnover FY2022/1 forecast: 1.50x

If treasury stocks are repurchased

ROE FY2022/1 forecast: 5.7%

EPS FY2022/1 forecast: ¥123.53

Total capital turnover FY2022/1 forecast: 1.77x

- Amid forecasts for improvement in each indicator, **get ROE to a level that exceeds cost of capital stock recognized by Ryoyo.**

Note: Cost of capital stock calculated by Ryoyo is approximately over 5% (Calculated as 5.17% as of FY2020/1)

# Annual dividends in current period: No change from ¥180 per share

- Scheduled dividend for the current fiscal year remains unchanged; year-end dividend: ¥120 per share (annual dividend: ¥180 per share).
- Regarding the dividend plan for next fiscal year (FY2022/1), which will be the final year of the three-year plan, we plan to maintain dividends, aiming at the current return policy of “DOE: 5.0%.”
- Payout ratio in FY2022/1 forecasts to fall under 100%, and we expect to be able to pay dividends within the range of net income.

		Dividend per Share (Yen)			Payout Ratio	DOE
		Interim	Year-End	Full Year		
FY2022/1	Forecast	60	60	120	97.1%	5.5%
FY2021/1	Forecast	–	120 (Ordinary dividend: 60) (Commemorative dividend: 60)	180 (Ordinary dividend: 120) (Commemorative dividend: 60)	396.4%	7.6%
	Result	60 (Ordinary dividend: 60)	–	–	–	–
FY2020/1	Result	40	40	80	150.8%	3.2%

# Overview of the First Half of the Fiscal Year Ending January 2021



## Full-year performance forecast at the beginning of year

- ✓ Sales are expected to decrease year on year due to the impact of business that ended in the previous period.
- ✓ Initial forecasts were disclosed in early March without factoring the impact of COVID-19 which was difficult to predict at that time.

## Q1 (February–April) trends

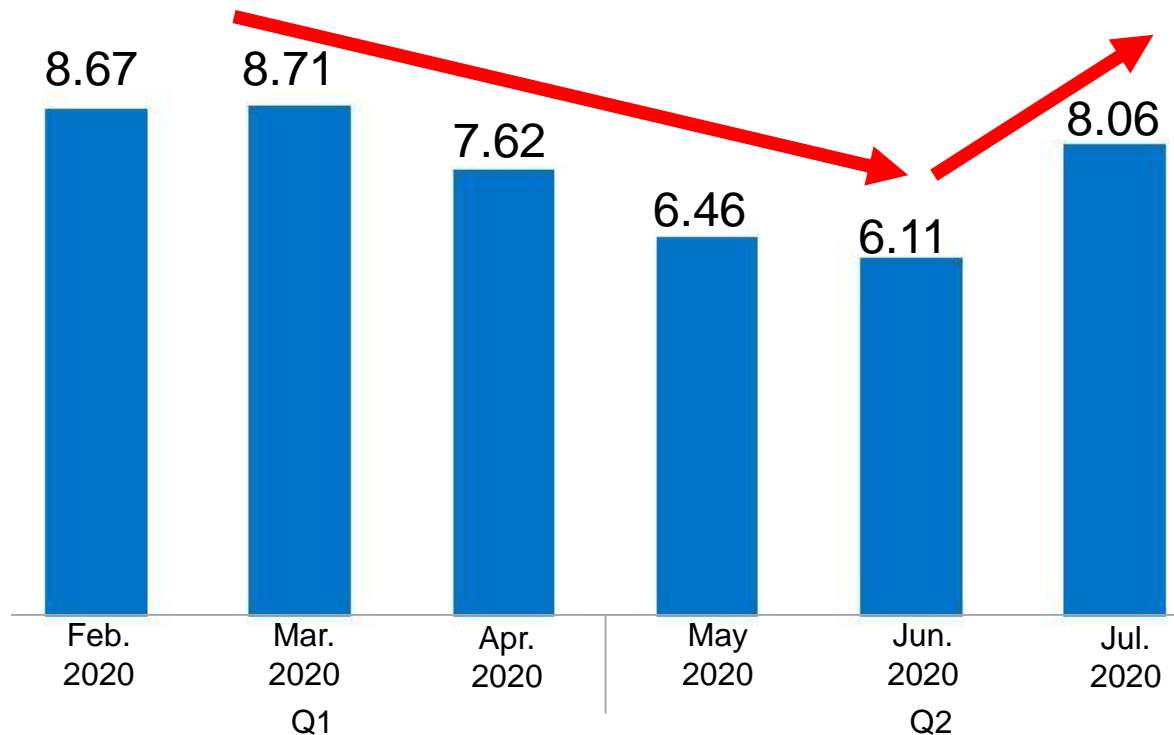
- ✓ Income decreased year on year within the predicted line, as factors for income decline other than the impact of COVID-19 had already been taken into account at the beginning of the fiscal year.
- ✓ Growth in other businesses helped to offset some COVID-19 impacts including decreases in clients' operation rates.

## Q2 (May–July) trends

- ✓ Corporate IT investment plans also saw suspensions and revisions as economic and business activities stagnated after the emergency declaration.
  - The impacts became clear in ICT in addition to semiconductors and devices

- Sales slowed from April, when the emergency declaration was issued. Sales in June fell 31.1% year on year to ¥6.11 billion.
- In July, net sales were up for the first time in four months to over ¥8 billion, which is still a 16.5% decline year on year; market recovery was modest.

(Billion yen)



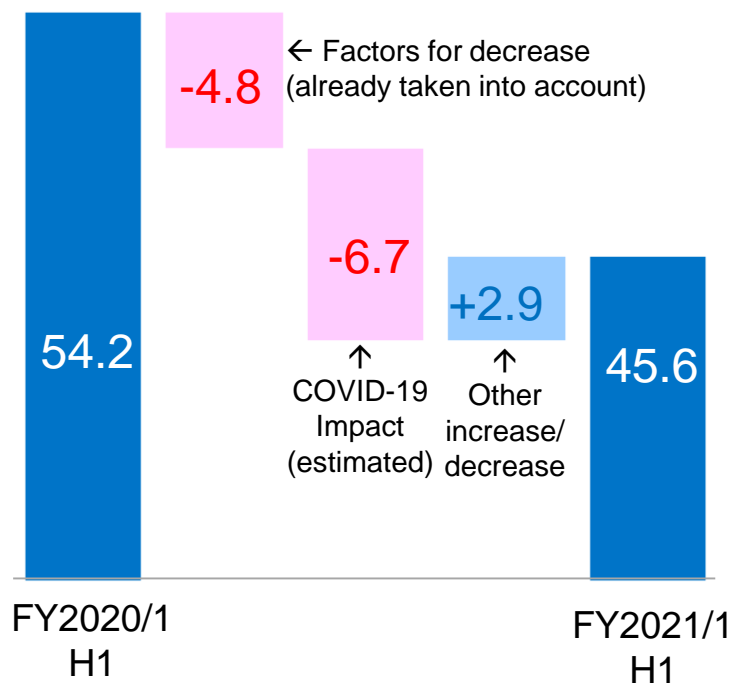
- **Net sales:** Decrease was forecast from the beginning of the year, and scale of decrease was exacerbated due to COVID-19 impacts.
- **Gross profit:** In the first half, profit margin exceeded 10% for the first time in 23 years.
- **Operating income:** Q2 (May–July) recorded operating profit despite the significant impact of COVID-19 due to increase in gross profit margin and decrease in selling, general and administrative expenses.

(Billion yen)	FY2020/ H1	FY2021/1			YoY Change	
		Q1	Q2	H1		%
Net sales	54.2	25.0	20.6	45.6	-8.6	-15.9%
Semiconductors & devices	27.6	11.0	10.4	21.4	-6.2	-22.3%
ICT & solutions	26.7	14.0	10.2	24.2	-2.4	-9.2%
Gross profit	5.03	2.52	2.14	4.66	-0.37	-7.3%
(%)	9.3%	10.1%	10.4%	10.2%		
Selling, general and administrative expenses	3.97	2.01	1.91	3.92	-0.05	-1.2%
Operating income	1.06	0.51	0.23	0.74	-0.32	-30.2%
(%)	2.0%	2.0%	1.1%	1.6%		
Ordinary income	1.14	0.53	0.31	0.84	-0.30	-26.4%
(%)	2.1%	2.1%	1.5%	1.8%		
Profit attributable to owners of parent	0.80	0.37	0.21	0.58	-0.22	-27.1%
(%)	1.5%	1.5%	1.0%	1.3%		

- Some factors for income decline, such as withdrawal from low-profit projects and cancellation of agency contracts, have been taken into account at the beginning of the fiscal year.
- The impact of COVID-19 brought about widespread effects due to shortages of goods, clients' lower operating rates, sluggish final demand, and revisions to IT investment plans.
- The impact of COVID-19 in the first half: net sales were down ¥6.7 billion and operating income was down ¥510 million.

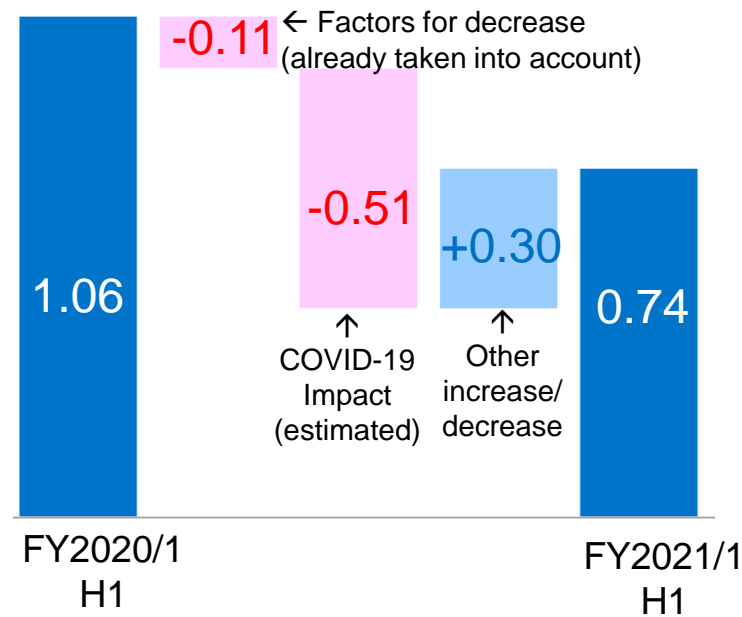
## Net Sales

(Billion yen)



## Operating Income

(Billion yen)



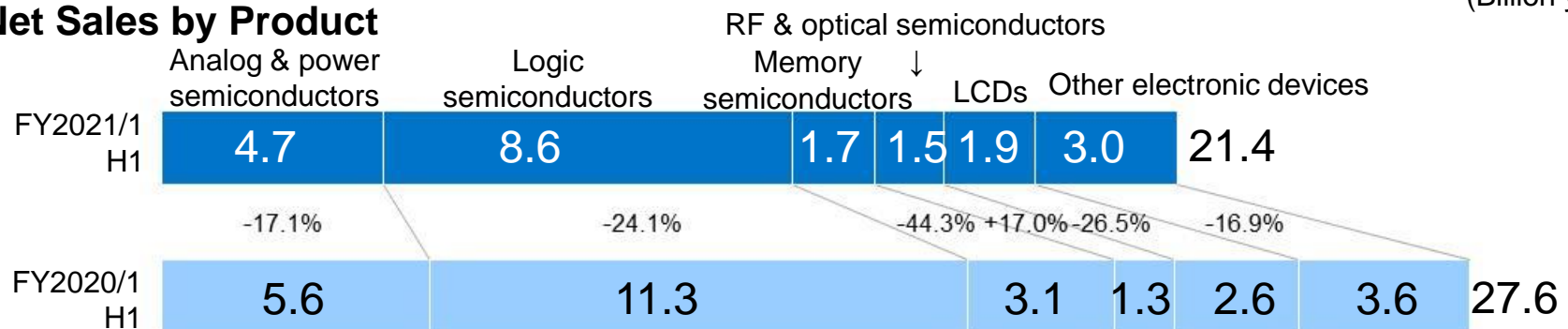
# Semiconductors & devices

## H1 net sales: ¥21.4 billion (-22.3% year on year)

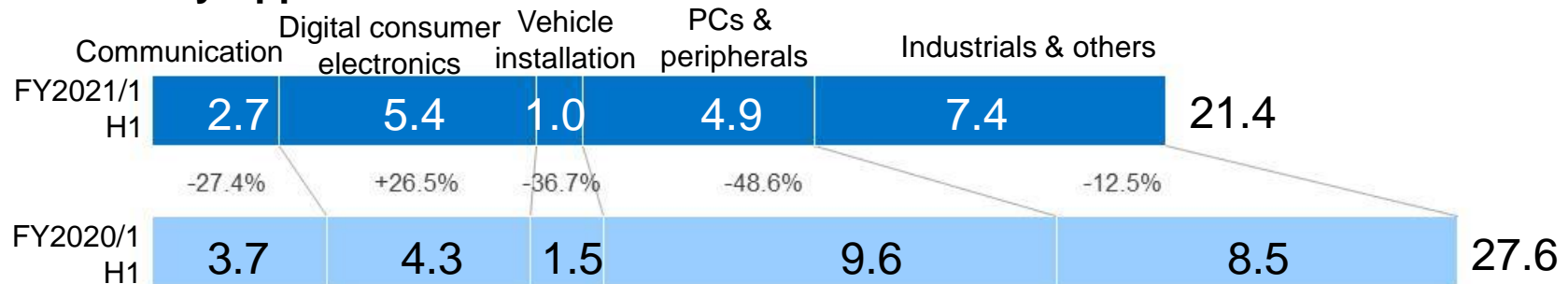
- Along with shortages of goods and clients' lower operating rates due to the impact of COVID-19, business confidence worsened in a wide range of areas including PCs and peripherals and industrials.
- The effects of business that completed in the first half remained, and sales of PCs and peripherals significantly decreased.
- Digital consumer electronics were strong for TVs thanks to clients' market share growth and increase in the number of products used.

### Net Sales by Product

(Billion yen)



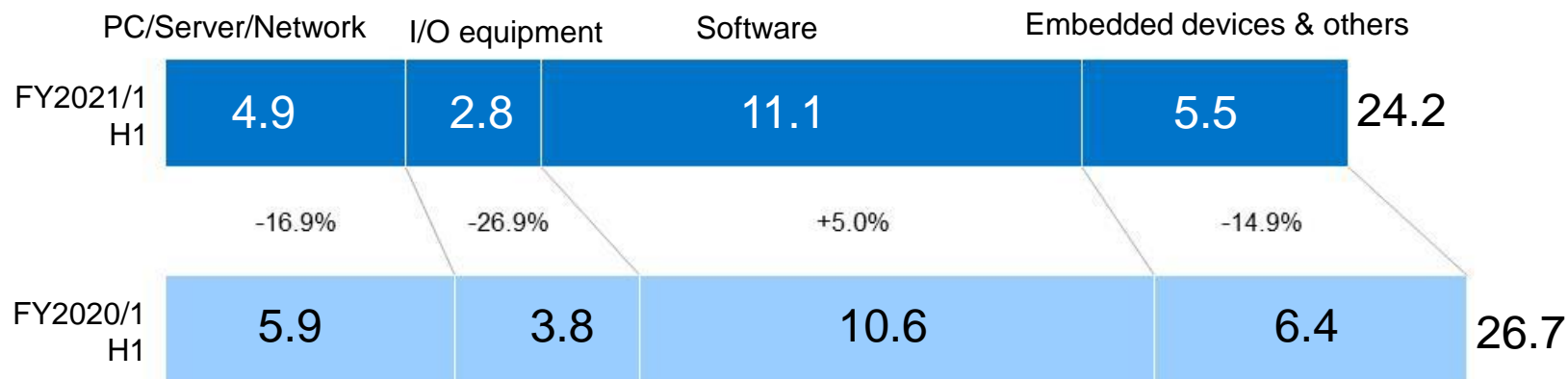
### Net Sales by Application



- Impact of COVID-19 brought about suspension and review of corporate IT investment plans.
- Acquisition of new contracts also decreased due to cancellations of exhibitions, seminars, and other events
- In the software sector, replacement demand due to end of support for Windows 7 continued.
- Most recently, security related sales leads for networks and other applications have increased.

### Net Sales by Product

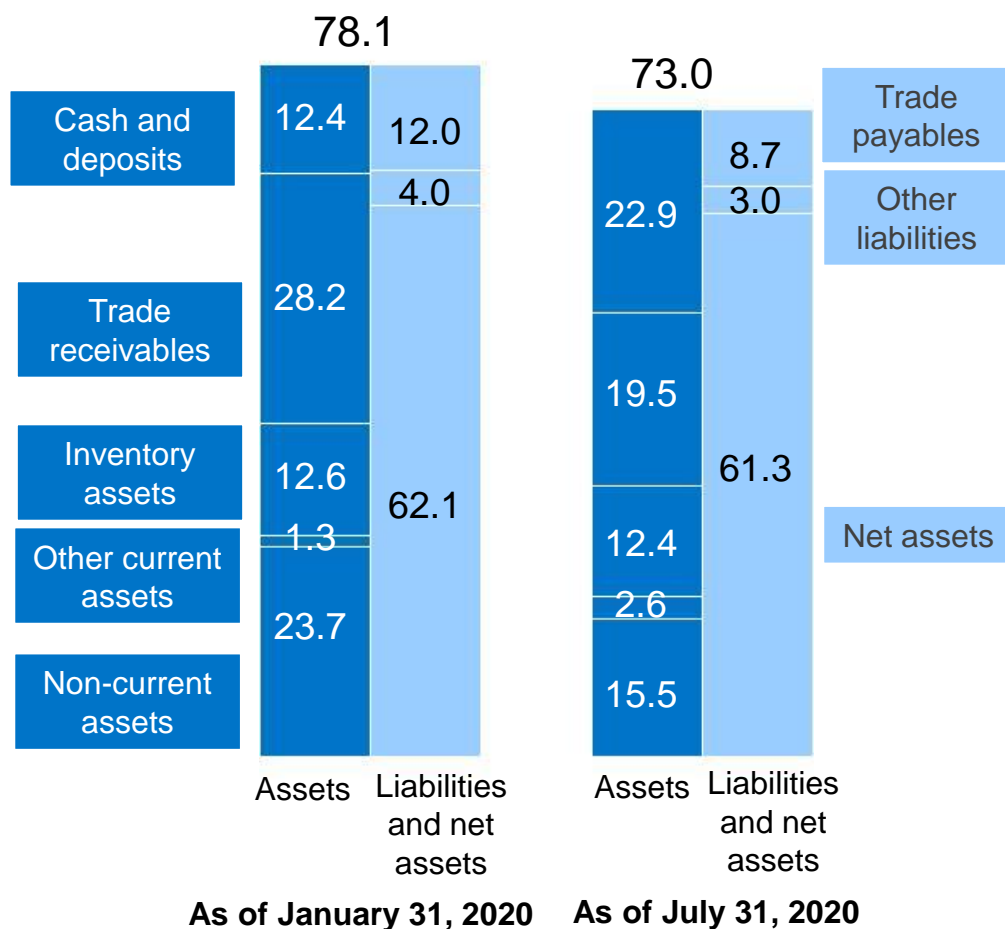
(Billion yen)



# Balance sheets & cash flows: Comparison with previous fiscal year-end (January 31, 2020)

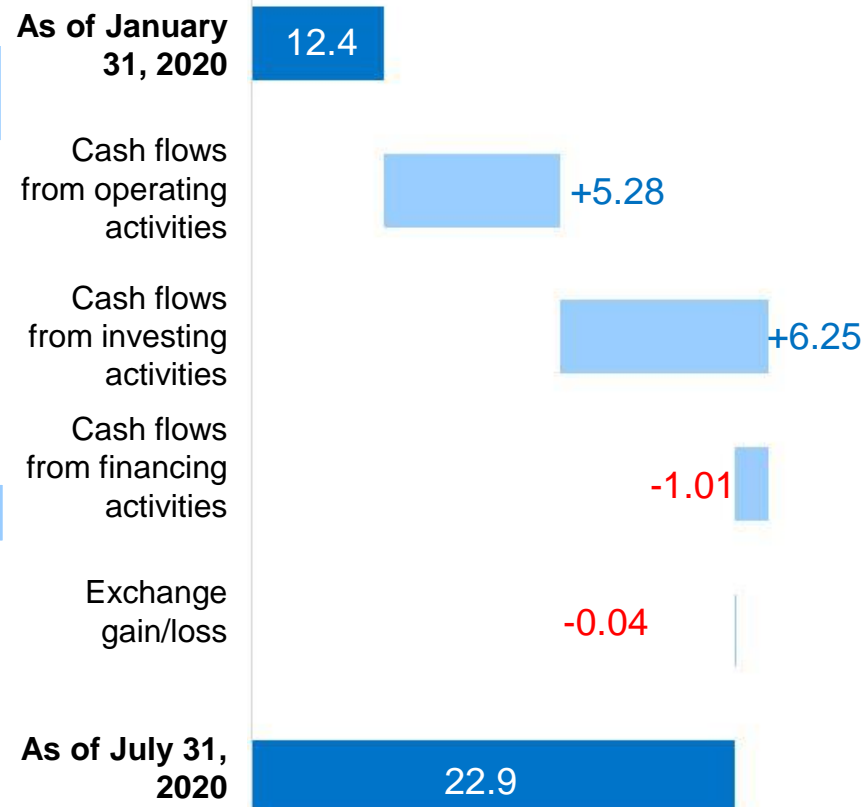
## Balance Sheets

(Billion yen)



## Cash Flows

(Billion yen)



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



# Profit/Loss: Gradual market recovery is expected in the second half

- Revised earnings forecast taking into account the impact of COVID-19 that was not factored in at the start of the year, in addition to the first half results, information on current business trends, and predictions.
- Gradual market recovery is expected in the second half, but sales will not reach previous year's results.
- Maintain gross profit margin above 10% following the first half.
- Incorporate costs for capital policy review, including repurchase of treasury stock, as non-operating expenses.

(Billion yen)	FY2020/1 Full Year (Result)	FY2021/1				YoY Change		Change from initial plan	
		H1 (Result)	H2 (Result)	Full Year (Revised)	Full Year (Initial)		%		%
Net sales	108.5	45.6	49.4	95.0	105.0	-13.5	-12.5%	-10.0	-9.5%
Semiconductors & devices	54.3	21.4	26.1	47.5	53.0	-6.8	-12.6%	-5.5	-10.4%
ICT & solutions	54.2	24.2	23.3	47.5	52.0	-6.7	-12.4%	-4.5	-8.7%
Gross profit	10.36	4.66	5.04	9.70	10.70	-0.66	-6.4%	-1.00	-9.3%
(%)	9.5%	10.2%	10.2%	10.2%	10.2%				
Selling, general and administrative expenses	8.21	3.92	4.08	8.00	8.50	-0.21	-2.5%	-0.50	-5.9%
Operating income	2.15	0.74	0.96	1.70	2.20	-0.45	-21.1%	-0.50	-22.7%
(%)	2.0%	1.6%	1.9%	1.8%	2.1%				
Ordinary income	2.19	0.84	0.56	1.40	2.20	-0.79	-36.0%	-0.80	-36.4%
(%)	2.0%	1.8%	1.1%	1.5%	2.1%				
Profit attributable to owners of parent	1.30	0.58	0.46	1.04	1.53	-0.26	-20.2%	-0.49	-32.0%
(%)	1.2%	1.3%	0.9%	1.1%	1.5%				

- Sales of semiconductors for TVs were strong in the first half and are expected to grow further in the second half.
- Acquisition of re-production projects for products whose production was discontinued (spot projects).
- Recovery of demand for base stations in the communications sector is expected due to spread of 5G, etc.

### Net Sales by Product

		Analog & power semiconductors						Logic semiconductors		RF & optical semiconductors		Memory semiconductors		LCDs		Other electronic devices		(Billion yen)
FY2021/1	Revised plan	8.6						21.4		3.6		3.4		4.0		6.5		47.5
	Initial plan	10.9						19.3		5.8		3.8		4.6		8.6		53.0
FY2020/1	Results	12.2						21.9		5.5		2.4		4.8		7.6		54.3

### Net Sales by Application

		Digital consumer		Vehicle installation		PCs & peripherals		Industrials & others				
		Communication electronics										
FY2021/1	Revised plan	6.0		14.5		2.0		10.8		14.2		47.5
	Initial plan	7.0		12.3		2.7		14.5		16.5		53.0
FY2020/1	Results	7.1		10.2		3.1		16.7		17.2		54.3


- Contracts for server products and other products that were postponed from the first half are expected to contribute.
- Sluggish demand for office-use printers.
- Software sales will gradually decrease due to special demand reaction.
- Decrease in acquisition of new contracts due to exhibition, seminar, and other event cancellations.

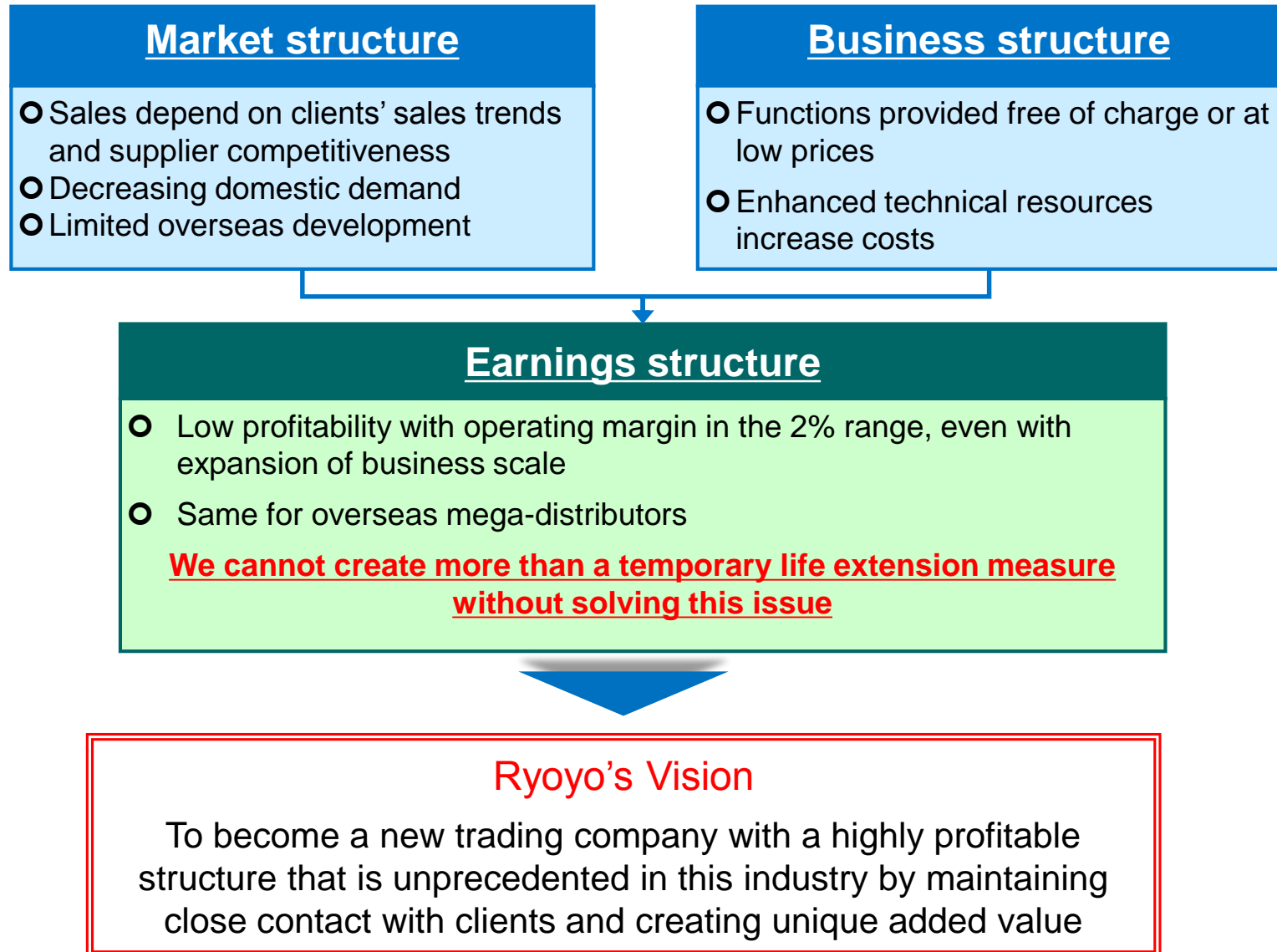
### Net Sales by Product

	PC/Server/Network	I/O equipment	Software	Embedded devices & others	
Revised plan	10.8	5.7	20.0	11.0	47.5
FY2021/1					
Initial plan	12.1	6.7	20.8	12.4	52.0
FY2020/1 Results	11.7	7.1	23.7	11.7	54.2

# Forging an Image of a New Trading Company

# Three-year business plan: The final year targets remain unchanged

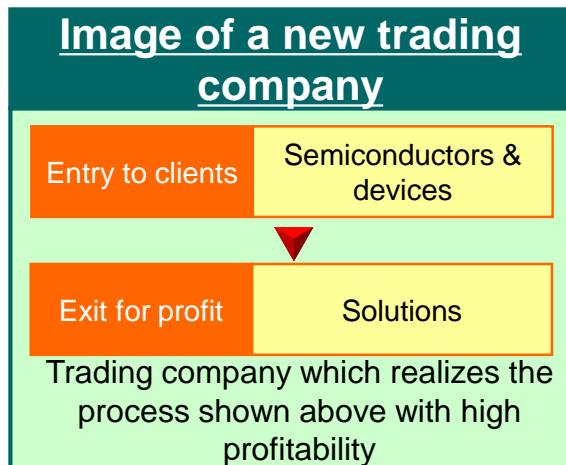
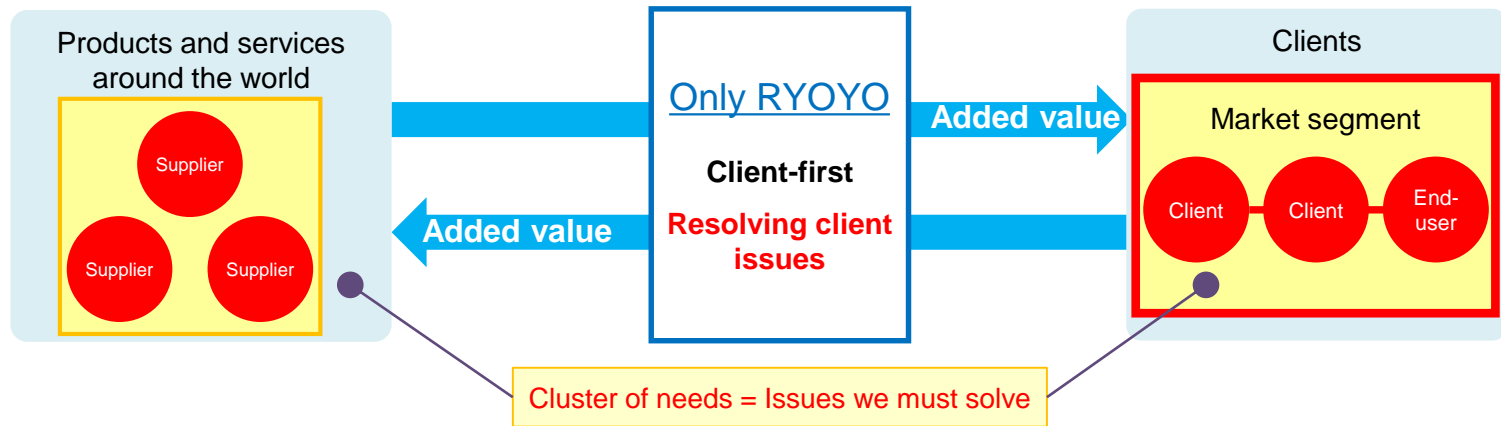
Fiscal Year	FY2018/1	FY2019/1	FY2020/1	FY2021/1	FY2022/1	FY2023/1
Reform Phase	Preparatory Stage	Reform Phase 1		Reform Phase 2		
	Management Reform Project	Net sales: Return to ¥100 billion Operating margin: over 2%		Net sales: <b>¥110 billion</b> Operating income: <b>¥3.0 billion</b>		
	Companywide: Identify root issues	Each division: Identify root issues				
	<ul style="list-style-type: none"> <li>● Face reality</li> <li>● Analyze &amp; hypothesize</li> <li>● Expedite business cycles</li> </ul>	<ul style="list-style-type: none"> <li>● Change management structure</li> <li>● Reform company organization (introduce business unit system)</li> <li>● Reform corporate culture</li> </ul>	<ul style="list-style-type: none"> <li>● Shift to two business divisions</li> <li>● Reform HR systems</li> <li>● Productivity improvement project</li> <li>● First patent acquisition</li> <li>● Enhance governance structure</li> </ul>	<ul style="list-style-type: none"> <li>● Partner with Stylez Corp.</li> <li>● Implement extensive repurchase of treasury stock</li> </ul>	<ul style="list-style-type: none"> <li>● Become a company that can deliver self-sustained growth</li> <li>● Expand solutions and Only Ryoyo businesses</li> </ul>	



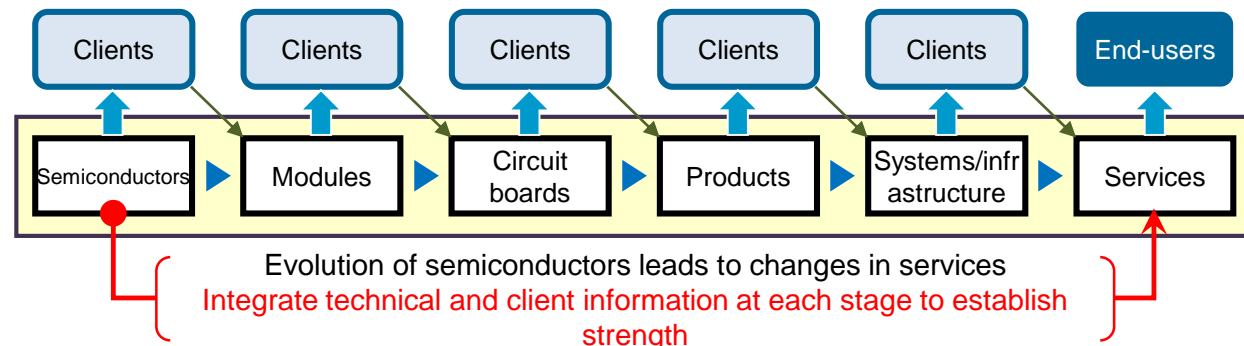
# Become a new trading company through Only RYOYO approach

## Only RYOYO approach

- Resolve client issues by combining various products and services from around the world
- Make proposals with a client-first focus and an eye on the end-users beyond the client
- Refrain from jumping into unknown areas where probability of success is low



### Value chain and Ryoyo's position



A new trading company which is the best in customer satisfaction

- The best in making added-value proposals with unique strengths in ICT and IoT/AI
- Collaboration with partners who share our vision, values, and strategy
- High profitability that is unprecedented in the electronics industry

## Preparatory Stage – Reform Phase 1

- Launch Management Reform Project
- Face reality and identify root issues
  - Reform organization/HR systems, enhance governance structure
  - Net sales: over ¥100 billion; operating margin 2.0%

FY2018/1

FY2020/1

FY2022/1

FY2025/1

## Reform Phase 2

- Become a company that can deliver self-sustained growth
- Strengthen structure and functions to expand solutions business
- FY2022/1 targets Net sales: ¥110 billion; operating income: ¥3 billion



**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

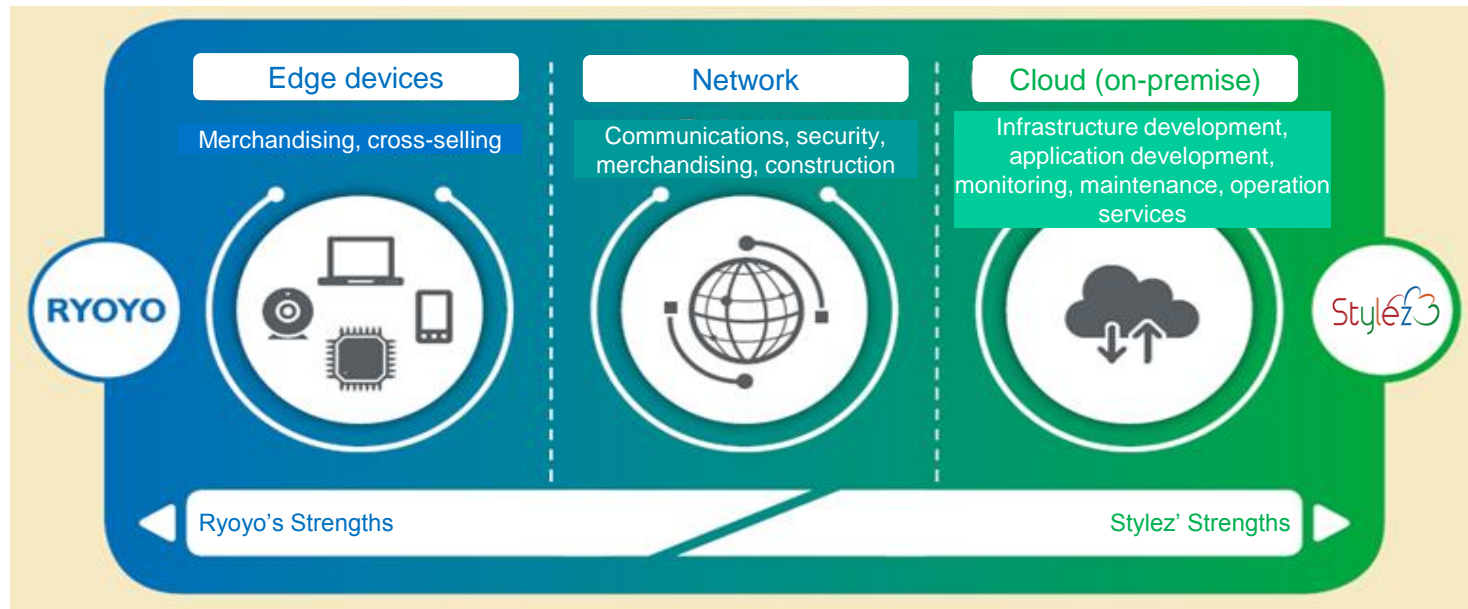
**Consider alliances that share vision, pride, and values**

# Purpose of partnership with Stylez Corp.

- To cover business areas that Ryoyo could not address previously by increasing personnel for system and development.
- To expand our field of business to resolve client issues and simultaneously shift to a highly profitable business model



- ✓ Proportion of technical personnel in the Ryoyo Group: 16% → 25%
- ✓ Accelerate solution development for Ryoyo's three target markets (medical, FA, retail)



## RYOYO

Primary agent for AI/IoT leaders including Intel, MS, NVIDIA, HP, and Quectel

## Stylez

A rich track record of development projects, high-quality products, and R&D expertise accumulated through direct transactions with clients



Servers, network equipment

Intel

Microsoft



Cloud, embedded boards, OS

**RYOYO** × **Stylez**

Departing from a product-oriented business model

Advancing platform & SaaS construction

Hewlett Packard

NVIDIA



PCs, workstations

Quectel



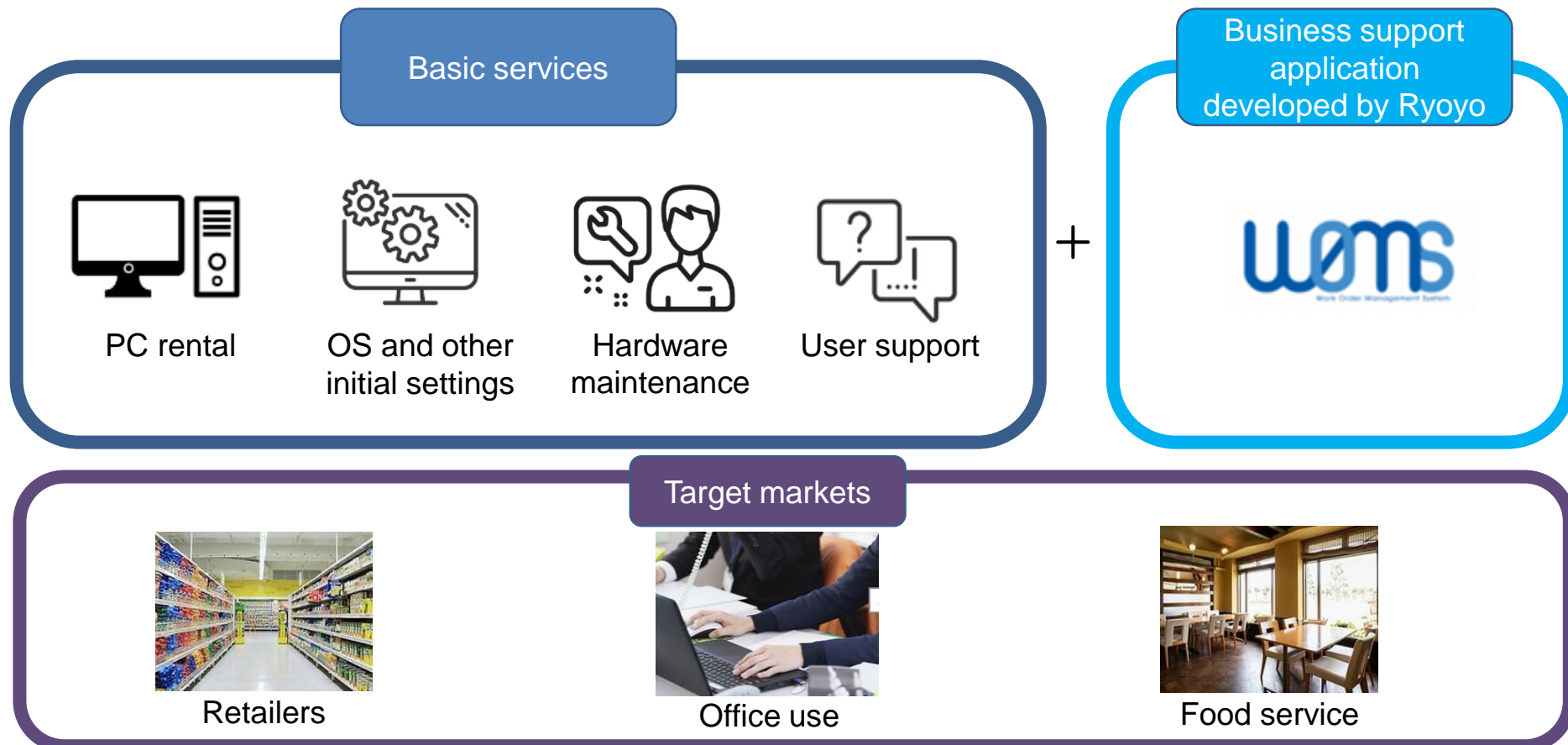
AI, image processing

## Examples of Only RYOYO Initiatives

# Embrace the “Only RYOYO” Challenge: Start of RYOYO DaaS service provision

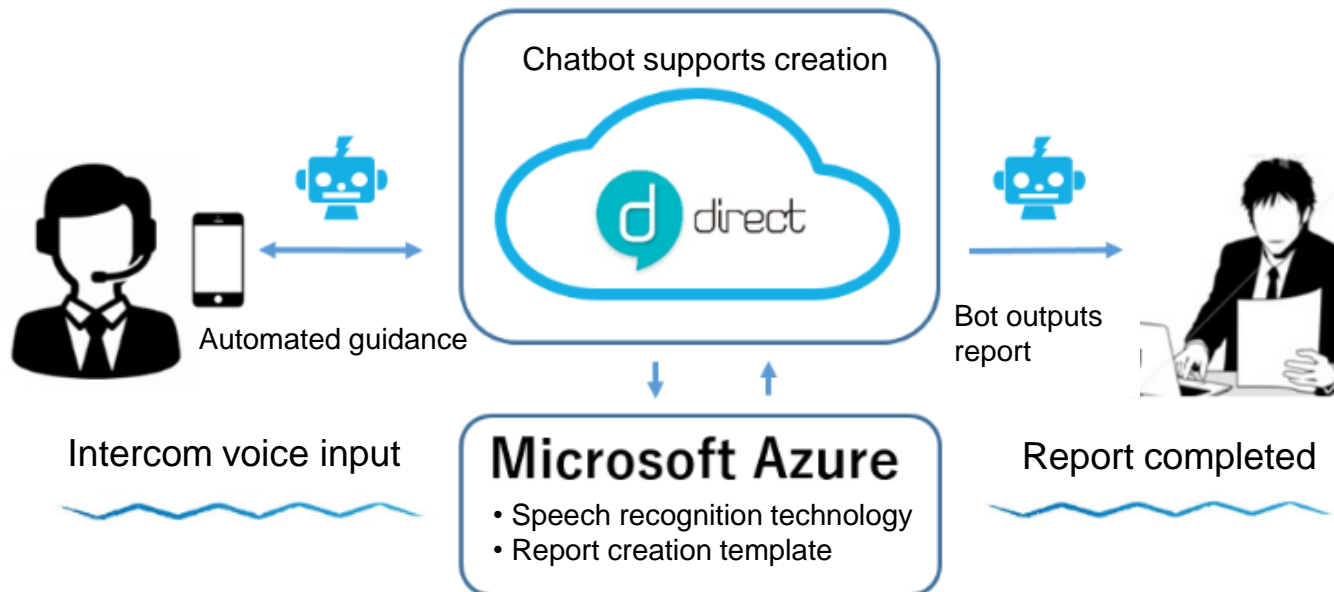
Total support from PC installation to operation and maintenance; transition from “owning” to “using”

- Sustains high performance by enabling use of the latest PCs and software without purchasing them
- Enhanced maintenance and setting services enable reduction of IT department tasks
- Support is also available for Ryoyo’s original business support application

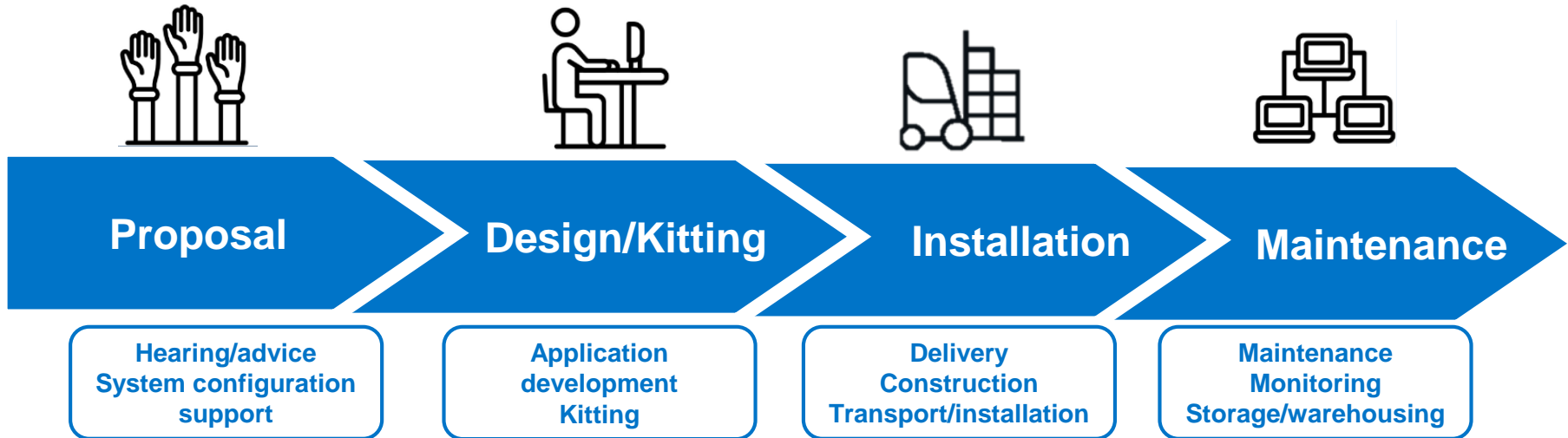


## Automatic report creation combining speech recognition technology and chatbot technology

- Speech only = Automatically create report without using hands (by utilizing Ryoyo’s patented technology)
- Talk (voiced) content is converted to text in real time, and can be shared with the team



# Embrace the “Only RYOYO” Challenge: One-stop, end-to-end support from proposal to maintenance



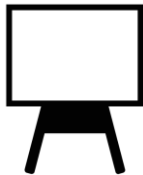
Projector



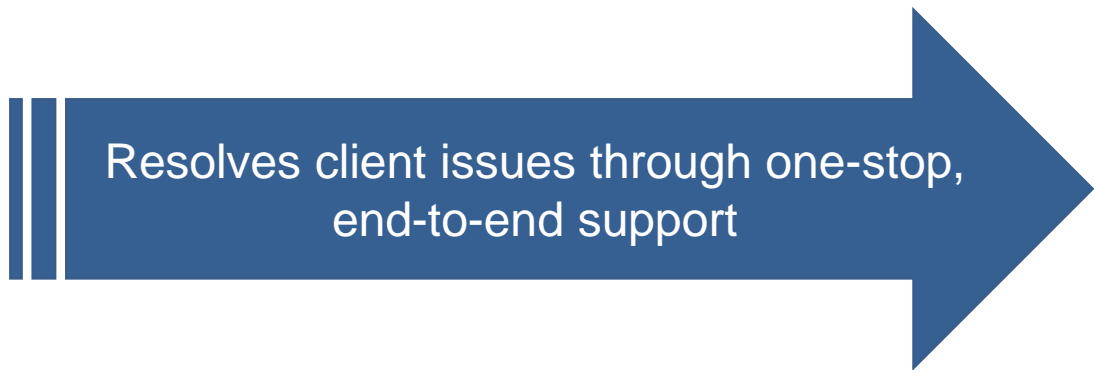
Multi-function printer



Server Workstation



Digital signage



Transport: Registration completed as a First Class Consigned Freight Forwarding Business (July 2020)

- Four patents obtained by end of fiscal 2019 after starting full-fledged efforts in 2018
- Four new patents obtained in the current fiscal year, increasing the number of registrations to eight

**Patent #5** Automatic Report Generating Method, Equipment and System by speech Recognition

**Patent #6** Easy Learning Method of Voice and IR (Infrared) Control Commands

**Patent #7** Double-Strike Prevention System for Injection Molding Machines

**Patent #8** Full Support Method, Program and Equipment for the Facilitator to Control the Meeting Effectively and Efficiently





## ○ Tender Offer to Repurchase Treasury Stock

- Ryoyo resolved to implement tender offer for treasury stock based on fundamental review of capital policy  
(Number of shares to purchase: 7,357,800 Total amount: ¥22 billion)
- ROE is expected to be 5.7% in FY2022/1, which is a level that exceeds the cost of capital stock recognized by the Company

## ○ Current period performance

- In the first half, the impact of COVID-19 became clear in Q2, but profitability improved and operating profit was secured
- We revised annual forecasts that did not factor in COVID-19 impact at the beginning of the year

## ○ Forging an Image of a New Trading Company

- No changes to the main strategy ideas and target indicators of the current three-year business plan
- Become a new trading company with unique strengths in ICT and IoT/AI and a highly profitable structure that is unprecedented in the electronics industry

### 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.

### Contact

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