

ANNUAL REVIEW 2020

Fiscal year ended
January 31, 2020



About the Ryoyo Group

Ryoyo Electro Corporation was founded in 1961 as a semiconductor trading company. Since then, the Company has continued to progress under its management philosophy of “Creating value in tune with the times” while expanding its operations in tandem with the growth of the electronics industry.

Today, as an electronics trading company with both a semiconductor & device business and an ICT & solutions business, the RYOYO Group aims to be a driving force in generating new value and emotion, connecting all of the parties whose support we enjoy.



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Notes on the Scope of This Annual Review

With respect to the contents of this annual review, “the Company” refers to Ryoyo Electro Corporation, while “the Ryoyo Group” refers to Ryoyo Electro Corporation and its consolidated subsidiaries Ryoyo Semicon Corporation, Ryoyo Electro (Shanghai) Co., Ltd., Ryoyo Electro Hong Kong Ltd., Ryoyo Electro Singapore Pte., Ltd., Ryoyo Electro India Pvt. Ltd. and Ryoyo Electro (Malaysia) Sdn. Bhd.

We are proud to have served with more than half a century of brilliant background amid the structural change in manufacturing. We make full use of our technological capabilities, informational power and global network proven by such background to develop cutting-edge technologies and provide support for designing and development as well as modules. Thus, we provide solutions to clients' problems.



By combining a variety of options such as AI, cloud and exclusively designed appliances, we are committed to providing optimal infrastructure services with the aim of utilizing IT tools that can bond management and field sites.

Drawing on the knowledge accumulated in our semiconductors & devices business and ICT & solutions business, we offer an environment necessary for utilization of data to customers who aim to transform their business through digital transformation.

Consolidated Financial Highlights

Ryoyo Electro Corporation and Consolidated Subsidiaries
For the years ended January 31, 2020, 2019, 2018, 2017, and 2016

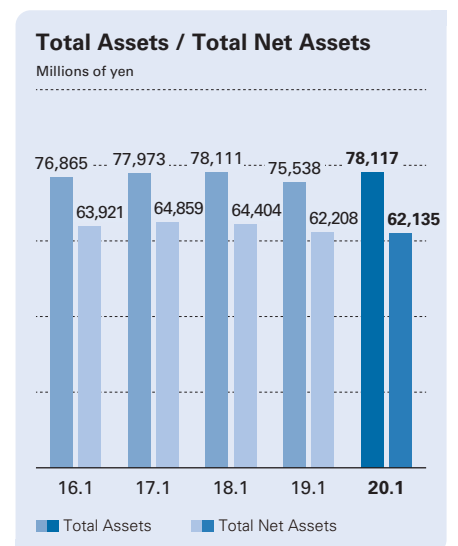
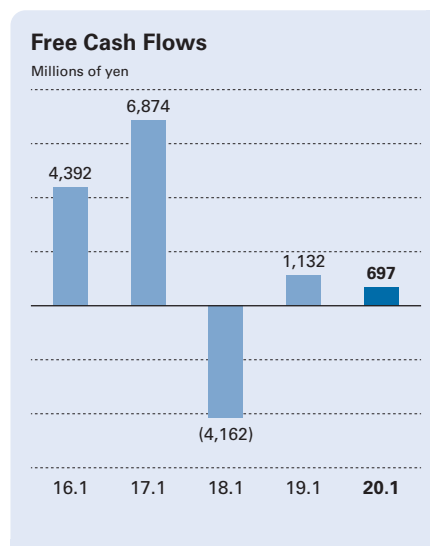
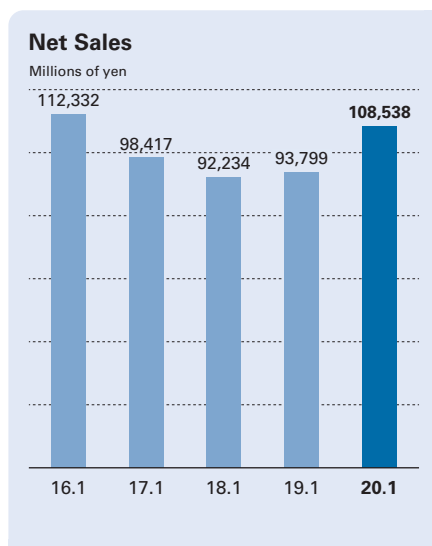
	Millions of yen					Thousands of U.S. dollars*
	2020.1	2019.1	2018.1	2017.1	2016.1	2020.1
For the Year						
Net sales	¥108,538	¥93,799	¥92,234	¥98,417	¥112,332	\$995,220
Gross profit	10,361	8,925	7,591	8,099	7,852	95,006
Selling, general and administrative expenses	8,206	7,667	7,339	6,726	6,976	75,249
Operating profit	2,154	1,257	251	1,373	876	19,756
Profit attributable to owners of parent	1,303	1,020	212	822	743	11,949
Free cash flows	697	1,132	(4,162)	6,874	4,392	6,396
At Year-End						
Total assets	¥78,117	¥75,538	¥78,111	¥77,973	¥76,865	\$716,282
Total net assets	62,135	62,208	64,404	64,859	63,921	569,737
Per Share of Common Stock (Yen / U.S. dollars)						
Net income	¥53.06	¥41.62	¥8.68	¥33.54	¥30.01	\$0.487
Total net assets	2,524.47	2,531.90	2,625.66	2,644.10	2,591.70	23.148
Cash dividends	80.00	60.00	60.00	40.00	30.00	0.734
Ratios (%)						
Gross profit margin	9.5	9.5	8.2	8.2	7.0	
Operating margin	2.0	1.3	0.3	1.4	0.8	
Net income margin	1.2	1.1	0.2	0.8	0.7	
Equity ratio	79.4	82.2	82.4	83.1	83.1	
Return on equity	2.1	1.6	0.3	1.3	1.1	
Other Information						
Number of shares issued**	24,572,801	24,521,409	24,506,240	24,507,328	24,636,009	
Number of employees	561	526	510	498	501	

* U.S. dollar amounts have been translated from yen, for convenience only, at the rate of ¥109.06 = U.S.\$1.00, the exchange rate prevailing on January 31, 2020.

** Number of shares issued does not include treasury stock.

Notes: 1. The consolidated financial highlights are a translation of the Japanese financial statements. The Japanese version will be used for matters of a legal nature.

2. Unless otherwise noted, figures are rounded down to the nearest million.



To Our Shareholders



Business Performance in the Fiscal Year Ended January 31, 2020, the First Year of the Three-Year Business Plan

The Ryoyo Group has positioned the fiscal year under review, the first year of our three-year business plan, to be an exceptionally important year, and promoted “restructure trading functions,” “embrace the ‘Only RYOYO’ challenge” and “enhance management infrastructure” as specified in the strategic framework. I believe that we have successfully

taken the first step in transforming the Ryoyo Group into a high-value-added business as exemplified in our achievements including increased sales and profits for a second consecutive year and commencement of full-scale management reforms such as a transition to the two-division system and a readjustment to the human resource system.

1. Restructure Trading Functions

In recent years, “how can we demonstrate the value of our existence” has become crucially important in the electronics industry, where we operate. Amid the circumstances, we will be providing value unique to us by accelerating the shift to the solutions business which enables us to further enhance our efforts in the medical field^{*1} and to make proposals conscious of end-user needs.

We included 5G-related devices in our product line in the fiscal year under review, which are expected to be widespread in a larger scale after the commercialization in 2020, and established a system which enables us to make proposals immediately when a user desires to start a new business.

To Our Shareholders

2. Embrace the “Only RYOYO” Challenge

We obtained four patents during the past one year owing to our strengthened research and development activity. In addition to the foregoing, we reaped fruit in a concrete form in said year, winning projects thanks to the technologies accumulated in the course of our efforts to obtain the patents.

It really drove home to me that this was precisely the result of “Only RYOYO” being recognized through the collaboration^{*2} with our clients including provision of our

technologies.

Our policy for research and development is to place a particular focus on measures for the fields such as medical care, FA and retailing and to continue to develop technologies which allow us to demonstrate our unique strengths in these fields.

3. Enhance Management Infrastructure

We commenced full-scale management reforms in the fiscal year under review, and have worked to strengthen the governance system such as having an outside Director assume a position of Chairman of the Board of Directors and increasing the number of outside Directors, and to enhance internal systems, IT infrastructure and other various business

infrastructures such as full introduction of a new human resource system and a human resources cultivation program.

During the fiscal year ending January 31, 2021, we will continue promoting a team-based mentality and aim to foster corporate culture where employees can achieve self-actualization.

Fiscal Year Ending January 31, 2021: Shift to a Solution Partner

Now that hardware and software as tools to solve issues are all ready, we are always focused on the business of our clients and end users beyond them, and are committed to providing value unique to us based on the business strategies established from the users’ point of view and further promoting enhancement of corporate value over the medium to long term.

Although we expect a decrease in sales in the fiscal year ending January 31, 2021 due in part to a decrease in special demand as a fallback after such demand in the fiscal year under review, we will work to ensure an increased in profit for the third consecutive year by further accelerating the shift

to the high-value-added solutions business, and thereby successfully achieving “net sales of ¥110.0 billion” and “operating profit of ¥3.0 billion,” which are the targets in the final year of the three-year business plan.

I hope that all stakeholders accept my sincerest thanks for looking forward to the Ryoyo Group’s further developments into the future and for their ongoing support and patronage.

^{*1} Write about the AI Medical case as a related topic.

^{*2} Write about the IRIS OHYAMA case as a related topic.

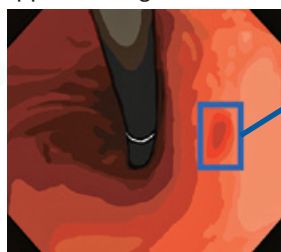
Equity participation in AI Medical Service Inc. with the aim of further strengthening efforts in the medical field

The Ryoyo Group has built up track records in the medical and healthcare fields by, for example, proposing workstations and servers to medical device manufacturers. In February 2019, we established a Solutions Division for the purpose of merging our ICT & IoT businesses, and have been expanding opportunities to win businesses and accelerating the generation of solution businesses. In such ways and others, we are building the foundation for creating new value.

Through our recent equity participation in AI Medical Service Inc. ("AIMS"), we aim to promote the collaboration focusing on the provision of products to be used for development of AI to enable business expansion of the Group. At the same time, we are committed to supporting AIMS in its effort to realize their 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)

Support during examinations



Carry out the following utilizing AI image recognition

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

*** 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.**

* 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.

"Only RYOYO" initiatives enter in a phase of producing results

The Ryoyo Group is focusing on initiatives to generate added value by combining existing products handled as an electronics trading company with our proprietary technologies and solutions as part of our efforts to "embrace the 'Only RYOYO' challenge". In an example related to voice recognition, a patent was granted in January 2019 for this technology, which has been developed in this initiative and was adopted in the "LED ceiling light with voice recognition" product put on the market by IRIS OHYAMA Inc.

The "LED ceiling light with voice recognition" product recently launched by IRIS OHYAMA Inc. is LED lighting for home use which can be operated using voice immediately after the installation, without the necessity of an Internet connection, smart speaker and special application. The lighting apparatus has built-in high-performance voice recognition AI and a microphone, enabling the product to turn the light on in response to a voice command within less than one second, which is shorter than when a smart speaker is used. As such, anyone can operate the lighting easily without feeling any stress.

In addition, with respect to additional technologies which are the source for realizing "Only RYOYO" other than voice recognition, we have obtained three patents in relation to the "New Chat BOT System in the Talk room to manage the suitable group members' chat-communications" which enables operational process reforms and the "Smart Chat BOT System to share the information by transferring from multi-machines to multi-humans 'M2H'." We will continue with development of elemental technologies and work to expand our businesses that could serve as a pillar for increased profitability.

"LED ceiling light with voice recognition"
- "plain type"



Human Resource

Realizing Employees' Potential

The Group believes that, to advance the three-year business plan and, beyond that, achieve sustainable growth, human resources are an important foundation and source for increasing corporate value.

In the fiscal year ended January 31, 2020, the first year of our three-year business plan, we introduced a new human resource system. The evaluation system is created to cultivate human resources who meet the requirements for capabilities and roles and allows each and every employee to improve their skills and advance their careers, with a healthy, competitive spirit. In conjunction with this, we have started a restructuring of training curriculums and are working to provide new level-specific training and training for new employees linked with our social contribution activities.

We made the cultivation of human resources one of the main themes of the three-year business plan. While respecting each employee's strengths and individuality in their roles, we are committed to the further restructuring and enhancement of our education and training programs with the aim of creating a cycle in which everyone learns, grows and thrives.



Diversifying Human Resources

We are proactively hiring diverse human resources, by which we aim to build an organization that incorporates a variety of perspectives and is capable of generating innovations.

In the recent context of an emphasis on comprehensive human resource strategies including recruitment of employees, we have adopted a five-day technical internship as a new option with the aim of hiring human resources with diverse values and individualities, and creating an environment in which they can play active roles. In addition, we constantly hire international students, and are committed to working together with new employees with diverse perspectives to improve corporate value of the Company.

As the declining birth rate and aging population greatly transform the labor market in Japan, the active promotion of women is essential to sustain healthy growth. Currently, women account for around 10% of the total number of the Company's employees; however, we are making efforts to increase the number of women in management positions and to promote the career development of women.

Item (Non-consolidated)	January 31, 2019	January 31, 2020
Number of employees	478	504
Number of female employees	106	121
Ratio of female employees to total employees	22.2%	24.0%
Average length of service by female employees	9.8 years	9.7 years
Ratio of women hired (average for previous 3 years)	27.8%	
Ratio of female employees taking childcare leave (average for previous 3 years)	100%	

CSR Initiatives

Participation in the preservation activity “Michi Bushin Walk” for the World Heritage “Sacred Sites and Pilgrimage Routes in the Kii Mountain Range”

As part of its social contribution activities, the Ryoyo Group participated in the preservation activity “Michi Bushin Walk” for the World Heritage “Sacred Sites and Pilgrimage Routes in the Kii Mountain Range.”

This volunteer activity sponsored by Wakayama Prefecture allows us to carry out maintenance, repair and other preservation activities for the world heritage that includes the Kumano Kodo pilgrimage routes and the Koya Sankei-michi pilgrimage routes ourselves, representing a sole program of this kind in Japan.

We have already been engaged in the support activities through a matching gift program and a certified NPO, PH-Japan (People’s Hope Japan). Along with the three-year business plan starting from this fiscal year, we decided to take a step forward and take up an initiative which allows employees’ participation, which took a form of implementing this Michi Bushin (road repair) for the Kumano Kodo pilgrimage routes as follow-up training for new employees.

On the day of the preserving work, the weather was nice, and the participating new employees received instructions from the Wakayama World Heritage Center and engaged in activities to repair the pilgrimage routes such as carrying two tons of soil split into smaller lots to a place to store them and taming and solidifying the soil. On the following day, they participated in the trekking in the Kumano Kodo pilgrimage routes and learned about the history of the routes spanning the ancient times to the modern age. They spent fulfilling two days in majestic nature.

We will continue with participation in these and other initiatives, through which we aim to realize a sustainable local communities.



- Carrying soil split into smaller lots



- Taming and solidifying the soil using a tool called “tako” (rammer)



- Trekking guided by a storyteller serving also as a venue for education of the natural environment

* World Heritage “Sacred Sites and Pilgrimage Routes in the Kii Mountain Range”

The three sacred sites “Kumano,” “Koyasan” and “Yoshino and Omine” spanning three prefectures of Mie, Nara and Wakayama and the pilgrimage routes to these sites were registered as a World Cultural Heritage in 2004.

Dense forests are nurtured by abundant rainwater in the mountain range. As there is much rain throughout the year and the soil of pilgrimage routes frequently flows out, continuous preservation activities are needed.

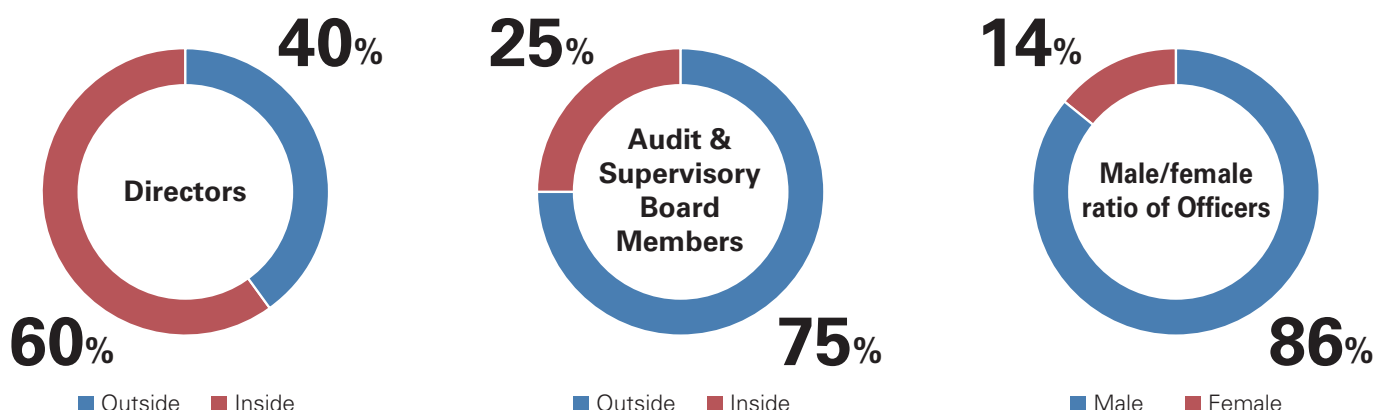


Corporate Governance

The Ryoyo Group has been working to enhance corporate governance in order to achieve its sustainable growth and create medium- to long-term corporate value.

At the Company, we recognize enhancing corporate governance as an important task for management. Therefore, in order to continue to guarantee the soundness, transparency, and effectiveness of management, as well as increase corporate value and fulfill our responsibilities to society, we are striving to develop internal systems that ensure the functionality of corporate governance.

Corporate Governance Highlights

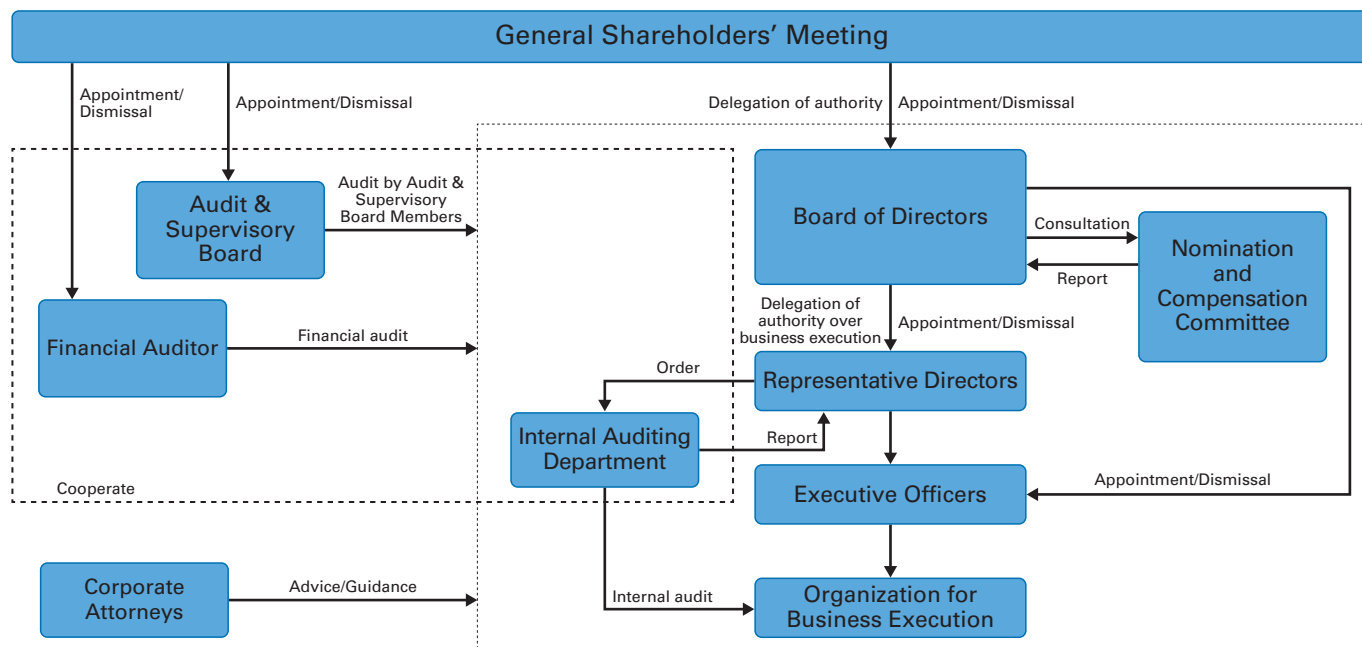


Organizational structure of the Company	Company with Audit & Supervisory Board
Chairman of the Board of Directors	Outside Director
Directors	10 (including 4 outside Directors)
Audit & Supervisory Board Members	4 (including 3 outside Audit & Supervisory Board Members)
Independent officers	4 outside Directors and 3 outside Audit & Supervisory Board Members
Voluntarily established advisory committees for the Board of Directors	Nomination and Compensation Committee
Structure of compensation for Directors	Fixed compensation (basic compensation) Medium- to long-term performance-based compensation (restricted stock compensation)

History of Governance Improvements and Future Issues

Fiscal Year	Total number of Directors	Inside	Outside	(of which, female Directors)	Topics
2020	10	6	4	(1)	Change to percentage of outside Directors of 40%
2019	9	7	2	(1)	An outside Director assumed the position of Chairman of the Board of Directors Stipulated the upper limit of the term of office for Directors and executive officers
2018	8	6	2	(1)	Established a voluntary Nomination and Compensation Committee
2017	8	6	2	(1)	
2016	8	6	2	(1)	
2015	8	6	2	(1)	Appointed a female outside Director
2014	6	5	1		Established independence criteria for outside officers
2013	6	5	1		Appointed an outside Director
2012	5	5			
2011	6	6			
2010	6	6			
2009	7	7			
2008	11	11			
Up to 2007					Introduced the executive officer system (2002)

Corporate Governance System



Board of Directors

The Board of Directors, which consists of ten Directors, of whom four are outside Directors, is responsible for making decisions as stipulated in laws, regulations, and the articles of incorporation; making important decisions; and the Directors mutually oversee their execution of operations.

In principle, the Board of Directors meets once a month and met a total of 14 times during the fiscal year under review.

Audit & Supervisory Board

The Company is a Company with an Audit & Supervisory Board as defined by the Companies Act of Japan, whereby Audit & Supervisory Board Members act independently of Directors and oversee Directors' execution of operations. The Audit & Supervisory Board consists of four Audit & Supervisory Board Members, of whom three are outside Audit & Supervisory Board Members.

In principle, the Audit & Supervisory Board meets once a month and met a total of 12 times during the fiscal year under review.

Nomination and Compensation Committee

As an advisory body to the Board of Directors, there is a requirement for the Nomination and Compensation Committee to consist of three or more Directors, half or more of whom are outside Directors. The Committee consists of six Directors, of whom four are outside Directors. One of the outside Directors serves as the Committee chairman.

The Nomination and Compensation Committee met a total of eight times during the fiscal year under review, and deliberates on the basic policies and proposals for the appointment and dismissal of Directors and executive officers, as well as on the compensation amounts and basic policies related to decisions on compensation, and reports the results to the Board of Directors.

Corporate Governance

List of Officers (As of April 28, 2020)

Board of Directors

■ Directors

**Moritaka Nakamura**

Representative Director & President
*14/14

Nomination and Compensation
Committee Member

**Kiyoshi Waki**

Representative Director & Senior
Managing Executive Officer
*14/14

In charge of Corporate Strategy Division
In charge of Corporate Administration
Division
Nomination and Compensation
Committee Member

**Masaaki Tanabe**

Director & Senior Executive Officer
*14/14

In charge of Eastern Region
In charge of Western Region

**Yoshitsugu Tamakoshi**

Director & Senior Executive Officer
*14/14

In charge of Overseas Strategy
Headquarters

**Yasushi Okazaki**

Director & Senior Executive Officer
*11/12

In charge of Semiconductor & Device
Division

**Seiju Yasuda**

Director & Senior Executive Officer
*12/12

In charge of Solutions Division

■ Outside Directors

**Yoshiharu Hayakawa**

Independent Officer
*14/14

Chairman of the Board of Directors
Nomination and Compensation
Committee Member

**Masumi Shiraishi**

Independent Officer
*12/12

Nomination and Compensation
Committee Member

**Shinya Takada**

Independent Officer

Nomination and Compensation
Committee Member

**Masashi Oba**

Independent Officer

Nomination and Compensation
Committee Member

Audit & Supervisory Board

Audit & Supervisory Board Member



Hiroyuki Kanno

Outside Audit & Supervisory Board Members



Ryoji Kimura
Independent Officer

*13/14
**12/12



Kazumi Akiyama
Independent Officer

*14/14
**12/12



Motomi Oi
Independent Officer

*Attendance at meetings of the Board of Directors

**Attendance at meetings of the Board of Audit & Supervisory Board Members

Criteria for the Selection of Outside Officers

In order to ensure the independence of the candidates it recommends for outside officer (outside Director and outside Audit & Supervisory Board Member), the Company has formulated criteria for the selection of outside officers.

Please see the following website for more details: <https://www.ryoyo.co.jp/en/csr>

Compensation for Directors and Audit & Supervisory Board Members

(i) Matters Related to Policies for Decisions of Compensation Amounts for Directors and Audit & Supervisory Board Members and Its Calculation Methods

1) Organization to deliberate and decide on compensation for Directors

The Company established a Nomination and Compensation Committee in November 2018 as a voluntary advisory body to the Board of Directors to further enhance corporate governance by strengthening the independence, objectivity, and accountability of the Board of Directors' functions related to the compensation. The Committee consists of four outside Directors, one of whom serves as the Committee chairman, and two Representative Directors, totaling six members. Decisions on compensation for Directors and Audit & Supervisory Board Members are made upon deliberation by the Committee and subsequent report on the total amount to the Board of Directors.

Corporate Governance

2) Structure and determining method of compensation for directors

The structure of compensation for Directors and deliberation process to decide on the compensation amounts are as follows.

■ Fixed compensation

Compensation plans for Directors concurrently serving as executive officers are deliberated by the Nomination and Compensation Committee based on the compensation table for each rank established by the Committee, taking into consideration the performance and the degree of contribution of each Director achieved in the previous year. In addition, compensation plans for Directors not concurrently serving as executive officers are deliberated by the Committee taking into consideration the performance of the Company and other matters in a comprehensive manner.

■ Restricted stock compensation

Distribution plans are deliberated by the Committee based on the total amount to be paid and the table for each rank, taking into consideration the performance of the previous year.

Compensation amounts for Audit & Supervisory Board Members are decided through consultation between Audit & Supervisory Board Members.

(ii) Total compensation by class of Directors and Audit & Supervisory Board Members, total compensation by type, and the number of applicable individuals

Class of Directors and Audit & Supervisory Board Members	Total compensation (millions of yen)	Compensation by type (millions of yen)		Number of applicable individuals
		Fixed compensation	Restricted stock compensation	
Directors	178	155	23	11
Of which, outside Directors	19	19	0	3
Audit & Supervisory Board Members	33	33	0	4
Of which, outside Audit & Supervisory Board Members	18	18	0	3
Total	212	188	23	15
Of which, outside Directors and outside Audit & Supervisory Board Members	37	37	0	6

(iii) Total compensation for individuals whose total amount of compensation is ¥100 million or more

The statement is omitted, since there is no individual whose total amount of consolidated compensation is ¥100 million or more.

Analysis of Board of Directors' Effectiveness and Results of Evaluation

The Company implements self-surveys to analyze the overall effectiveness of the Board of Directors.

The most recent survey evaluated the structure of the Board of Directors, how it is operated, how outside officers are treated, and other matters. Through this survey, the Company confirmed that the Board of Directors was generally functioning appropriately and that it was indeed effective. Furthermore, the survey indicated that there had been improvements on documents such as the timing of provision of materials pertaining to Board of Directors' meetings, as well as Directors' expertise and other topics. Meanwhile, Directors provided various suggestions on matters such as considering shifting to paperless documents, training opportunities for directors to enable them to fulfil their responsibilities, as well as the cultivation of mutual understanding between outside officers and managers etc.

The Board of Directors will discuss these suggestions going forward and continue to improve its effectiveness with the aim of creating an ideal corporate governance system.

Internal Control Systems

The following are our basic principles for establishing internal control systems. These principles help us maintain systems for sound internal control.

<Content of Policy>

1. System for ensuring that the execution of duties by Group Directors and employees is in compliance with all laws, regulations, and the articles of incorporation
2. System for the storage and management of information related to the execution of duties by Directors
3. Rules and other systems for containing the risk of damages to the Group
4. System for ensuring the efficient execution of duties by Group Directors
5. System for ensuring the appropriateness of operations undertaken by the corporate group consisting of Ryoyo Electro and its subsidiaries and for facilitating reporting to the Company with regard to the execution of duties by directors and other individuals at subsidiaries
6. Items concerning employees requested by the Audit & Supervisory Board Members to serve as assistants, the independence of these employees from Directors, and ensuring the effectiveness of the orders issued to such employees by Audit & Supervisory Board Members
7. System concerning reports submitted by Directors and employees of the Company and by Directors, Audit & Supervisory Board Members, and employees of subsidiaries to the Audit & Supervisory Board Members of the Company; other systems concerning reports submitted to the Audit & Supervisory Board Members; and systems for ensuring that individuals issuing such reports do not suffer disadvantageous treatment due to reporting
8. Items related to policies concerning the procedures through which Audit & Supervisory Board Members may receive reimbursement, prior to or after the fact, for expenses incurred during the execution of their duties as well as the treatment of other expenses and liabilities incurred as part of the execution of duties
9. Other systems for ensuring effective auditing by the Audit & Supervisory Board Members

Risk Management Systems

Risks that may affect our operations include those related to compliance, the environment, disasters, information security, product quality, foreign exchange rates, and financial reporting. Each department maintains effective risk management systems managed by employees that are responsible for risk management. In the event that any risk occurs, these employees will guide their department in responding quickly and effectively to those risks in order to minimize damages.

For more information on business risks, please refer to the following section of the Company's corporate website.
<https://www.ryoyo.co.jp/en/ir-library/business-risk>

Policy for Proactive Communication with Shareholders

The Company endeavors to ensure that disclosure of management information is conducted accurately, impartially, and promptly. In addition, we recognize that facilitating mutual understanding through proactive communication with shareholders and incorporating feedback from shareholders into management decision-making are crucial to the Company's ongoing growth and to the medium- to long-term improvement of corporate value. Accordingly, the following provisions have been put in place to support proactive communications activities.

- (1) The Director in charge of the Corporate Strategy Division oversees shareholder communications activities, receiving assistance from the general manager of the Corporate Strategy Division.
- (2) The Corporate Planning Department functions as a venue for communication with shareholders while preparations for communications activities are advanced through coordination between the Corporate Planning, General Affairs, and Accounting departments.
- (3) Explanatory forums are held for institutional investors and analysts at which we report on and explain current business conditions and the future direction of the Company.
- (4) Systems are in place to ensure that feedback received through shareholder communications activities is shared with management in a timely manner.
- (5) In-house workshops regarding insider information are held and other steps are taken to ensure the appropriate management of insider information.

Note: The Company strives to ensure timely and appropriate disclosure of management information through its corporate website and other venues.
<https://www.ryoyo.co.jp/en>

Consolidated Financial Review

● Operating Environment

During the fiscal year under review, the fiscal year ended January 31, 2020, the domestic economy saw a continued decline in export affected by such factors as economic trends outside Japan and geopolitical risks including a slowdown in the Chinese economy caused by the trade friction between the United States and China and concerns over the situation in the Middle East, and the market conditions were not gathering momentum particularly in the manufacturing industry as evident by production adjustments and signs of curtailment of capital investment.

In the electronics industry, where the Ryoyo Group operates, sales performance was weak particularly in the communications and industrial equipment sectors due to a slump in capital investment in the Chinese market. However, in the ICT sector, the industry saw an increase in IT-related investment aimed at social issues such as decreasing labor force and work style reforms, and demand related to cloud and security remained robust.

● Results for the Fiscal Year Ended January 31, 2020

In this environment, we have achieved a significant increase in sales thanks in part to increased PC replacement demand following the termination of support for Windows 7 and all-year contributions from projects for television applications started in the latter half of the previous fiscal year. In addition, our voice recognition-related initiatives, undertaken as part of the measures under the “embrace the ‘Only RYOYO’ challenge” which aims to create value unique to us, have showed a steady progress toward the transformation into a high-value-added business as exemplified by a selection for a home appliance product of a domestic manufacturer.

As a result, consolidated net sales for the fiscal year under review increased 15.7% year on year, to ¥108,538 million; operating profit increased 71.3%, to ¥2,154 million; ordinary profit increased 48.3%, to ¥2,187 million; and profit attributable to owners of parent increased 27.7%, to ¥1,303 million.

Sales by Products

Semiconductors & Devices

Net sales of semiconductors & devices increased ¥4,432 million year on year, or 8.9%, to ¥54,338 million.

Major sales by segment are as follows:

- Analog and power semiconductors

Sales of analog semiconductors enjoyed contributions from the expansion of the commercial right, and in addition, sales of power semiconductors increased in the infrastructure sector (such as solar power and railway applications).

- Logic semiconductors

Part of the business for PCs was terminated during the fiscal year resulting in a decrease in sales, which was offset by a significant increase in sales for television applications which created all-year contributions.

- Memory semiconductors

Sales of products for PC peripherals such as HDD and printers decreased.

ICT & Solutions

Net sales of ICT & solutions increased ¥10,306 million year on year, or 23.5%, to ¥54,199 million.

Major sales by segment are as follows:

- PC/Server/Network

Sales increased thanks to contributions from large-scale projects centered around server products.

- I/O equipment

Sales from video-related products such as displays and projectors increased, but were affected by decreased sales related to printers.

- Software

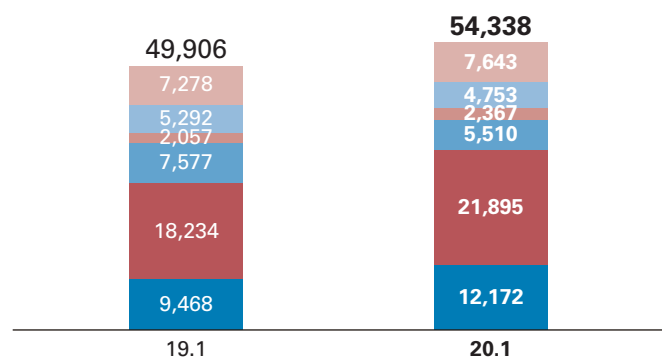
PC replacement demand following the termination of support for Windows 7 was higher than initially expected, resulting in a significant increase in sales.

- Embedded devices/other products

AI- and deep learning-related businesses secured an increase in sales although there was no large-scale project.

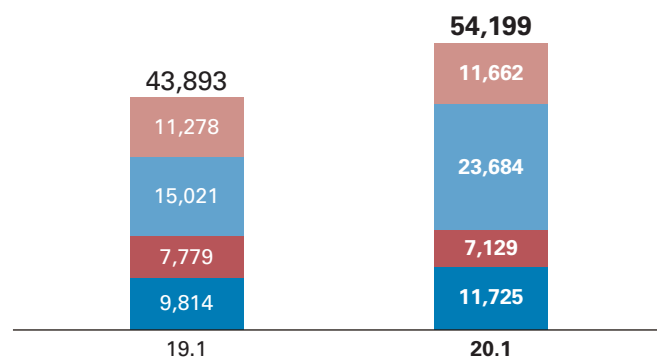
million yen

■ Analog & power ■ Logic ■ Memory
■ RF & optical ■ LCDs ■ Other electronic devices



million yen

■ PC/Server/Network ■ I/O equipment
■ Software ■ Embedded devices & others



Sales by Region

Japan

In the fiscal year under review, sales to external customers in Japan increased ¥9,302 million year on year, or 11.9%, to ¥87,593 million, following an increase in sales of software for PCs, and operating profit in this regional segment was up ¥761 million, or 67.2%, to ¥1,894 million.

Asia

Sales to external customers in Asia increased ¥5,436 million year on year, or 35.1%, to ¥20,945 million, following an increase in sales of semiconductors for digital consumer electronics, and operating profit in this regional segment was up ¥62 million, or 43.8%, to ¥203 million.

The figure for operating profit presented in the consolidated statements of profit includes operating profit from each segment as well as from intersegment transactions.

● Financial Position

Total assets at the end of the fiscal year under review amounted to ¥78,117 million, ¥2,578 million higher than at the previous fiscal year-end. This was mainly due to an increase in notes and accounts receivable-trade.

Total liabilities were up ¥2,652 million, to ¥15,982 million, mainly due to an increase in notes and accounts payable-trade.

Total net assets decreased ¥73 million, to ¥62,135 million. This was largely due to a decrease in retained earnings due to cash dividends paid.

● Cash Flows

Cash and cash equivalents totaled ¥12,417 million at the fiscal year-end, a ¥999 million year-on-year decrease. Major factors included cash dividends paid.

Net cash provided by operating activities was ¥1,463 million. This outcome was primarily the result of income before income taxes of ¥2,219 million being recorded despite an increase of accounts receivable of ¥2,630 million following an increase in net sales.

Net cash used in investing activities amounted to ¥766 million. This outflow was primarily the result of purchase of investment securities of ¥7,168 million being recorded despite proceeds from sales of investment securities of ¥5,740 million.

Net cash used in financing activities amounted to ¥1,743 million. Major outflows included cash dividends paid.

● Returning Profits to Shareholders

Basic policy Regarding the Distribution of profit

The Company views returning profits generated from operating activities to its shareholders as one of its most important management tasks. Accordingly, we return profits to shareholders while considering the Company's financial position and the operating environment, while maintaining a stable operating foundation and pursue future business expansion.

For the fiscal year under review, our basic policy is to pay stable dividends targeting "a dividend on equity ratio (DOE) of 3%" as our basic policy, we plan to pay ¥40 per share of common stock for the year-end cash dividend, making for an annual cash dividend of ¥80 per share of common stock when combined with the interim dividend.

We decided to increase the targeted DOE to 5% for the shareholder returns for the fiscal year ending January 31, 2021.

Based on the new policy, for the fiscal year ending January 31, 2021, we plan to pay an interim dividend of ¥60 and a year-end dividend of ¥60 each, as ordinary dividends, and, add a commemorative dividend of ¥60 to the year-end dividend, as February 2021 marks our 60th anniversary since the foundation of the Company. (Accordingly, we plan to increase the annual cash dividend by ¥100 from the fiscal year under review, to ¥180 per share of common stock).

● Business Risks

Risks that may affect the business performance, stock price, and financial condition of the Company include, but are not limited to, the following.

- (1) Abrupt changes in economic conditions
- (2) Fall in the price of products
- (3) Contracts with suppliers
- (4) Fluctuation in foreign exchange rates
- (5) Customers moving operations overseas
- (6) Country-based risks
- (7) Product defects, service problems, and delivery and intellectual property rights issues
- (8) Natural disasters and other acts of God
- (9) Collection of accounts receivable
- (10) Disposal and write-down of inventories
- (11) Impairment losses on write-down of investment securities
- (12) Retirement benefit obligations

For more information, please refer to the Company's corporate website.

▶ <https://www.ryoyo.co.jp/en/ir-library/business-risk/>

Consolidated Balance Sheets

Ryoyo Electro Corporation and Consolidated Subsidiaries
At January 31, 2020 and 2019

	Millions of yen		Thousands of U.S. dollars
	As of January 31, 2020	As of January 31, 2019	As of January 31, 2020
Assets			
Current assets			
Cash and deposits	¥12,417	¥13,416	\$113,855
Notes and accounts receivable-trade	28,152	25,585	258,135
Securities	—	544	—
Merchandise and finished goods	12,598	12,124	115,518
Other	1,288	1,444	11,812
Allowance for doubtful accounts	(2)	(2)	(21)
Current assets	54,453	53,113	499,300
Non-current assets			
Property, plant and equipment			
Tools, furniture and fixtures	394	363	3,614
Accumulated depreciation-tools, furniture and fixtures	(297)	(272)	(2,725)
Tools, furniture and fixtures, net	96	91	889
Land	5	5	52
Other	435	392	3,994
Accumulated depreciation	(308)	(300)	(2,830)
Other, net	126	91	1,164
Property, plant and equipment	229	188	2,105
Intangible assets	311	404	2,859
Investments and other assets			
Investment securities	20,334	19,439	186,453
Retirement benefit asset	1,627	1,431	14,919
Other	1,481	1,305	13,581
Allowance for doubtful accounts	(320)	(344)	(2,935)
Investments and other assets	23,122	21,832	212,017
Non-current assets	23,664	22,425	216,982
Assets	¥78,117	¥75,538	\$716,282

	Millions of yen		Thousands of U.S. dollars
	As of January 31, 2020	As of January 31, 2019	As of January 31, 2020
Liabilities			
Current liabilities			
Notes and accounts payable-trade	¥12,006	¥10,092	\$110,092
Income taxes payable	730	126	6,694
Accrued consumption taxes	226	248	2,081
Provision for bonuses	467	241	4,291
Other	1,123	815	10,299
Current liabilities	14,554	11,523	133,457
Non-current liabilities			
Retirement benefit liability	182	802	1,670
Deferred tax liabilities	827	466	7,584
Other-NCL	418	537	3,834
Non-current liabilities	1,427	1,806	13,089
Liabilities	15,982	13,329	146,545
Net assets			
Shareholders' equity			
Capital stock	13,672	13,672	125,362
Capital surplus	13,336	13,336	122,286
Retained earnings	35,337	35,827	324,018
Treasury shares	(2,630)	(2,690)	(24,115)
Shareholders' equity	59,715	60,145	547,550
Valuation and translation adjustments			
Valuation difference on available-for-sale securities	2,141	1,569	19,631
Deferred gains or losses on hedges	(0)	(0)	(2)
Foreign currency translation adjustment	79	189	725
Remeasurements of defined benefit plans	97	182	896
Valuation and translation adjustments	2,317	1,940	21,250
Share acquisition rights	102	123	936
Net assets	62,135	62,208	569,737
Liabilities and net assets	¥78,117	¥75,538	\$716,282

Consolidated Statements of Income and Consolidated Comprehensive Statements of Income

Ryoyo Electro Corporation and Consolidated Subsidiaries
For the years ended January 31, 2020 and 2019

	Millions of yen		Thousands of U.S. dollars
	Fiscal year ended January 31, 2020	Fiscal year ended January 31, 2019	Fiscal year ended January 31, 2020
Consolidated Statement of Income			
Net sales	¥108,538	¥93,799	\$995,220
Cost of sales	98,177	84,874	900,215
Gross profit	10,361	8,925	95,006
Selling, general and administrative expenses			
Provision of allowance for doubtful accounts	(0)	77	(9)
Salaries and bonuses	3,191	3,027	29,266
Provision for bonuses	434	240	3,982
Retirement benefit expenses	57	93	531
Rent expenses	362	362	3,325
Depreciation	264	217	2,421
Other	3,896	3,650	35,732
Total selling, general and administrative expenses	8,206	7,667	75,249
Operating profit	2,154	1,257	19,756
Non-operating income			
Interest income	62	110	576
Dividend income	167	123	1,532
Purchase discounts	7	6	67
Gain on investments in partnership	18	60	169
Other	16	24	152
Total non-operating income	272	325	2,496
Non-operating expenses			
Sales discounts	5	12	55
Foreign exchange losses	181	75	1,666
Commission expenses	20	18	186
Loss on abandonment of non-current assets	4	1	45
Other	26	1	247
Total non-operating expenses	239	108	2,199
Ordinary profit	2,187	1,474	20,053
Extraordinary income			
Gain on contribution of securities to retirement benefit trust	700	–	6,421
Gain on sales of investment securities	430	145	3,947
Gain on liquidation of subsidiaries and associates	9	16	90
Total extraordinary income	1,140	162	10,458
Extraordinary losses			
Loss on valuation of investment securities	1,107	104	10,158
Total extraordinary losses	1,107	104	10,158
Profit before income taxes	2,219	1,532	20,353
Income taxes - current	771	282	7,070
Income taxes - deferred	145	229	1,333
Total income taxes	916	512	8,403
Profit	1,303	1,020	11,949
Profit attributable to owners of parent	¥1,303	¥1,020	\$11,949
Consolidated Comprehensive Statement of Income			
Profit	1,303	1,020	11,949
Other comprehensive income			
Valuation difference on available-for-sale securities	571	(1,444)	5,242
Deferred gains or losses on hedges	0	0	2
Foreign currency translation adjustment	(110)	(240)	(1,011)
Remeasurements of defined benefit plans, net of tax	(84)	(131)	(774)
Total other comprehensive income	377	(1,816)	3,460
Comprehensive income	1,680	(796)	15,409
Comprehensive income attributable to			
Comprehensive income attributable to owners of parent	1,680	(796)	15,409
Comprehensive income attributable to non-controlling interests	–	–	–

Consolidated Statements of Changes in Net Assets

Ryoyo Electro Corporation and Consolidated Subsidiaries
For the years ended January 31, 2020 and 2019

Millions of yen

	Shareholders' equity					Accumulated other comprehensive income				Share acquisition rights	Total net assets
	Capital stock	Capital surplus	Retained earnings	Treasury shares	Total shareholders' equity	Valuation difference on available-for-sale securities	Deferred gains or losses on hedges	Foreign currency translation adjustment	Remeasurements of defined benefit plans		
From February 1, 2019 to January 31, 2020											
Balance at beginning of current period	¥13,672	¥13,336	¥35,827	¥(2,690)	¥60,145	¥1,569	¥(0)	¥189	¥182	¥123	¥62,208
Changes of items during period											
Dividends of surplus			(1,718)		(1,718)						(1,718)
Profit attributable to owners of parent			1,303		1,303						1,303
Purchase of treasury shares				(1)	(1)						(1)
Exercise of share acquisition rights		(15)		36	20						20
Restricted stock payment		10		24	35						35
Increasing and decreasing by consolidated subsidiaries merging with unconsolidated subsidiaries			(69)		(69)						(69)
Transfer to capital surplus from retained earnings		4	(4)		–						–
Net changes of items other than shareholders' equity					–	571	0	(110)	(84)	(20)	356
Total changes of items during period	–	–	(490)	60	(429)	571	0	(110)	(84)	(20)	(73)
Balance at end of current period	¥13,672	¥13,336	¥35,337	¥(2,630)	¥59,715	¥2,141	¥(0)	¥79	¥97	¥102	¥62,135

Millions of yen

	Shareholders' equity					Accumulated other comprehensive income				Share acquisition rights	Total net assets
	Capital stock	Capital surplus	Retained earnings	Treasury shares	Total shareholders' equity	Valuation difference on available-for-sale securities	Deferred gains or losses on hedges	Foreign currency translation adjustment	Remeasurements of defined benefit plans		
From February 1, 2018 to January 31, 2019											
Balance at beginning of current period	¥13,672	¥13,336	¥36,287	¥(2,707)	¥60,588	¥3,013	¥(0)	¥430	¥313	¥59	¥64,404
Changes of items during period											
Dividends of surplus			(1,470)		(1,470)						(1,470)
Profit attributable to owners of parent			1,020		1,020						1,020
Purchase of treasury shares				(1)	(1)						(1)
Disposal of treasury shares			0	0	0						0
Exercise of share acquisition rights			(9)	18	9						9
Net changes of items other than shareholders' equity					–	(1,444)	0	(240)	(131)	63	(1,753)
Total changes of items during period	–	–	(460)	17	(442)	(1,444)	0	(240)	(131)	63	(2,195)
Balance at end of current period	¥13,672	¥13,336	¥35,827	¥(2,690)	¥60,145	¥1,569	¥(0)	¥189	¥182	¥123	¥62,208

Thousands of U.S. Dollars

	Shareholders' equity					Accumulated other comprehensive income				Share acquisition rights	Total net assets
	Capital stock	Capital surplus	Retained earnings	Treasury shares	Total shareholders' equity	Valuation difference on available-for-sale securities	Deferred gains or losses on hedges	Foreign currency translation adjustment	Remeasurements of defined benefit plans		
From February 1, 2019 to January 31, 2020											
Balance at beginning of current period	\$125,362	\$122,286	\$328,511	\$(24,669)	\$551,491	\$14,389	\$(4)	\$1,736	\$1,669	\$1,128	\$570,410
Changes of items during period											
Dividends of surplus			(15,758)		(15,758)						(15,758)
Profit attributable to owners of parent			11,949		11,949						11,949
Purchase of treasury shares				(10)	(10)						(10)
Exercise of share acquisition rights		(143)		336	193						193
Restricted stock payment		99		227	327						327
Increasing and decreasing by consolidated subsidiaries merging with unconsolidated subsidiaries			(641)		(641)						(641)
Transfer to capital surplus from retained earnings		44	(44)		–						–
Net changes of items other than shareholders' equity					–	5,242	2	(1,011)	(774)	(192)	3,268
Total changes of items during period	–	–	(4,494)	553	(3,941)	5,242	2	(1,011)	(774)	(192)	(673)
Balance at end of current period	\$125,362	\$122,286	\$324,018	\$(24,115)	\$547,550	\$19,631	\$(2)	\$725	\$896	\$936	\$569,737

Consolidated Statements of Cash Flows

Ryoyo Electro Corporation and Consolidated Subsidiaries
For the years ended January 31, 2020 and 2019

	Millions of yen		Thousands of U.S. dollars
	Fiscal year ended January 31, 2020	Fiscal year ended January 31, 2019	Fiscal year ended January 31, 2020
Cash flows from operating activities			
Profit (loss) before income taxes	¥2,219	¥1,532	\$20,353
Depreciation	275	217	2,529
Loss (gain) on sales and retirement of non-current assets	6	0	57
Share-based compensation expenses	27	72	255
Loss (gain) on investments in partnership	(18)	(60)	(169)
Foreign exchange losses (gains)	0	(3)	8
Increase (decrease) in provision	203	1	1,865
Increase (decrease) in retirement benefit liability	(742)	3	(6,813)
Interest and dividend income	(229)	(234)	(2,108)
Loss (gain) on sales of investment securities	(429)	(145)	(3,935)
Loss (gain) on valuation of investment securities	1,107	104	10,158
Decrease (increase) in notes and accounts receivable-trade	(2,630)	196	(24,120)
Decrease (increase) in inventories	(506)	(1,310)	(4,644)
Increase (decrease) in notes and accounts payable-trade	1,949	518	17,878
Increase (decrease) in accrued consumption taxes	(20)	160	(192)
Other, net	231	(168)	2,120
Subtotal	1,444	886	13,242
Interest and dividend income received	230	212	2,114
Interest expenses paid	(1)	—	(17)
Income taxes (paid) refund	(208)	(509)	(1,914)
Net cash provided by (used in) operating activities	1,463	588	13,424
Cash flows from investing activities			
Payments into time deposits	(100)	(1,049)	(919)
Proceeds from withdrawal of time deposits	100	1,192	921
Proceeds from sales of securities	500	—	4,587
Proceeds from redemption of securities	—	100	—
Purchase of property, plant and equipment and intangible assets	(164)	(165)	(1,504)
Proceeds from sales of property, plant and equipment and intangible assets	1	5	11
Purchase of investment securities	(7,168)	(8)	(65,732)
Proceeds from sales of investment securities	5,740	220	52,640
Proceeds from redemption of investment securities	500	—	4,585
Purchase of shares of subsidiaries and associates	(59)	(3)	(545)
Proceeds from liquidation of affiliates	66	—	610
Payments of loans receivable from subsidiaries and associates	(220)	(99)	(2,017)
Collection of loans receivable from subsidiaries and affiliates	—	99	—
Proceeds from distribution of investment in partnerships	23	183	217
Purchase of insurance funds	(60)	(50)	(557)
Other, net	73	118	676
Net cash provided by (used in) investing activities	(766)	543	(7,028)
Cash flows from financing activities			
Cash dividends paid	(1,716)	(1,467)	(15,735)
Purchase of treasury shares	(1)	(1)	(10)
Proceeds from sales of treasury shares	—	0	—
Repayments of lease obligations	(26)	—	(246)
Net cash provided by (used in) financing activities	(1,743)	(1,468)	(15,990)
Effect of exchange rate change on cash and cash equivalents	(47)	(140)	(436)
Net increase (decrease) in cash and cash equivalents	(1,093)	(476)	(10,030)
Cash and cash equivalents	13,416	13,893	123,022
Increase in cash and cash equivalents resulting from merger with unconsolidated subsidiaries	94	—	863
Cash and cash equivalents	¥12,417	¥13,416	\$113,855

Corporate Data / Investor Information

As of January 31, 2020

Company Name

Ryoyo Electro Corporation

Head Office

1-12-22 Tsukiji, Chuo-ku,
Tokyo 104-8408, Japan

Telephone

+81-3-3543-7711

FAX

+81-3-3545-3507

Website

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

Establishment

February 27, 1961

Capital

¥13,672 million

Authorized Shares

119,628,800

Shares Issued

26,800,000

Shareholders

8,417

Stock Trading Unit

100 shares

Stock Listing

Tokyo Stock Exchange,
First Section

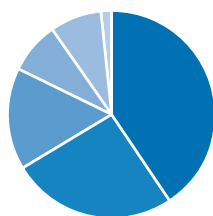
Ticker Code

8068

Transfer Agent

Mitsubishi UFJ Trust and
Banking Corporation

Composition of Shareholders



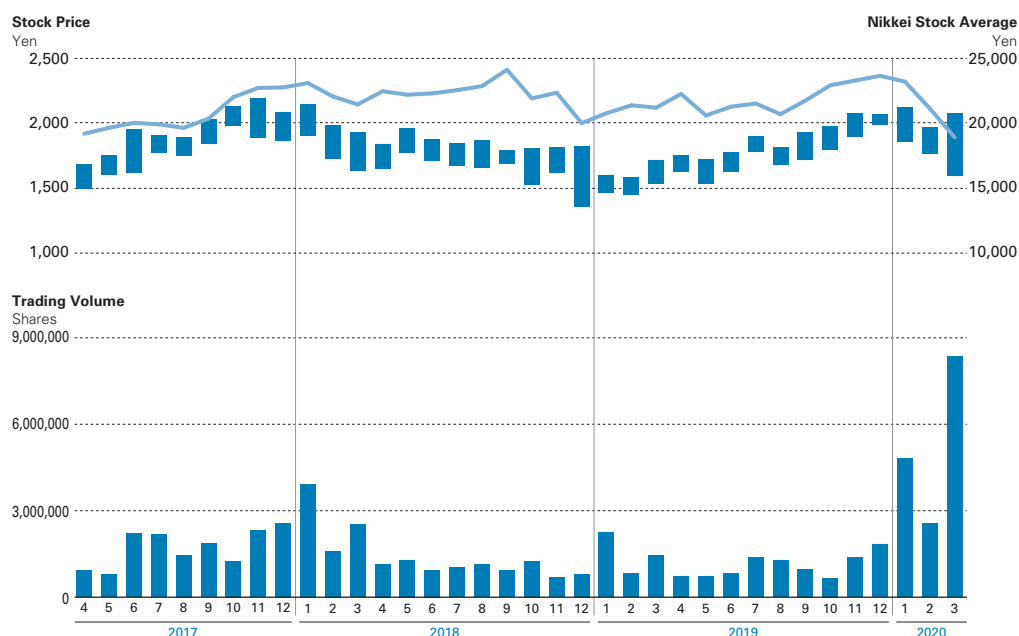
Other corporations	41.2%
Individuals and other	26.0%
Financial institutions	15.9%
Treasury stock	8.3%
Foreign corporations and other foreign investors	8.0%
Securities companies	0.6%

Major Shareholders

	Thousands of shares	%
Restar Holdings Corporation	5,627	22.90
Mitsubishi Electric Corporation	2,246	9.14
SHC Corporation	2,118	8.62
The Master Trust Bank of Japan (Trust account)	1,121	4.56
Sheep Shokai Co.	523	2.13
Japan Trustee Services Bank, Ltd. (Trust account 9)	471	1.92
Nippon Life Insurance Company	409	1.67
Japan Trustee Services Bank, Ltd. (Trust account 5)	403	1.64
Japan Trustee Services Bank, Ltd. (Trust account)	325	1.32
The Master Trust Bank of Japan (Retail trust account 620090806)	276	1.12

Note: Calculations for the ownership percentages above do not account for the 2,227,199 shares of treasury stock.

Stock Price Chart



Caution on Forward-Looking Statements

The contents of this annual review that are not historical fact represent projections based on expectations and plans for the future. These projections contain elements of risk and uncertainty. As a result, forward-looking statements made in this annual review may differ from actual results and performance.

Notes on Performance Figures in This Annual Review

The performance figures used in this annual review, including those from previous fiscal years, are based on Ryoyo Electro Corporation's audited Japanese financial reviews.



In consideration for the environment, this annual review uses paper that has been approved by the Forest Stewardship Council (FSC). Additionally, this annual review is printed using highly biodegradable vegetable oil ink.