

# **Ryosan Company, Limited**

## **FY2016 First Half Results Meeting**

**Results for the six months ended September 30, 2016**

**FY2016 : Year ending March 31, 2017**

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November 16, 2016

Naoto Mimatsu

President and Representative Director

## Results for FY2016 First Half

## Business Plan for Full Year FY2016

## Implementation Status and Forecast of the 9th Medium-Term Business Plan

### Notice

Business forecasts and all statement related to the future contained in this presentation are based on information currently possessed by the Company and on certain assumptions which we judge to be rational. Actual business performance may differ greatly depending on a variety of factors. The following is a list of major factors:

- Economic conditions in key markets (Japan and the rest of Asia), rapid changes in consumption trends and supply-demand balance for products
- Sharp fluctuations in the dollar-yen exchange rate
- Substantial fluctuation in prices in capital markets

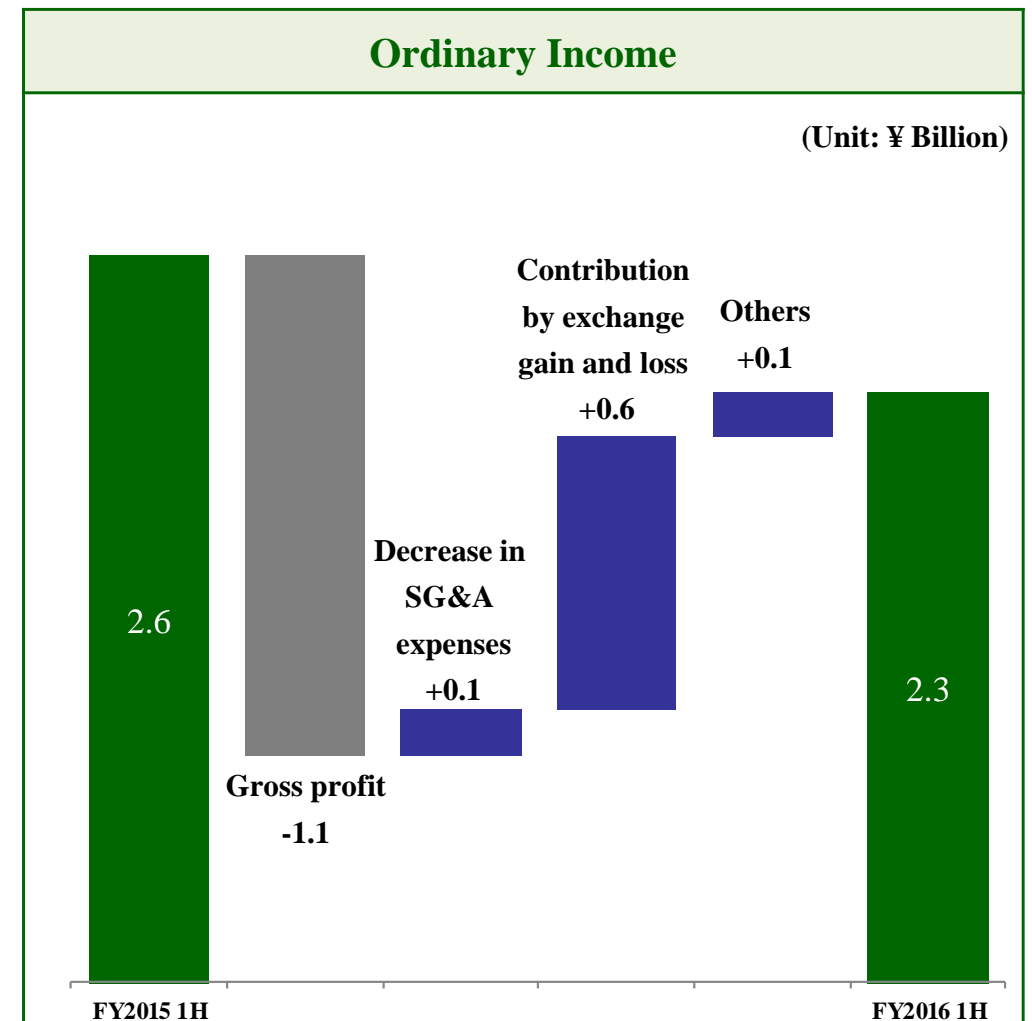
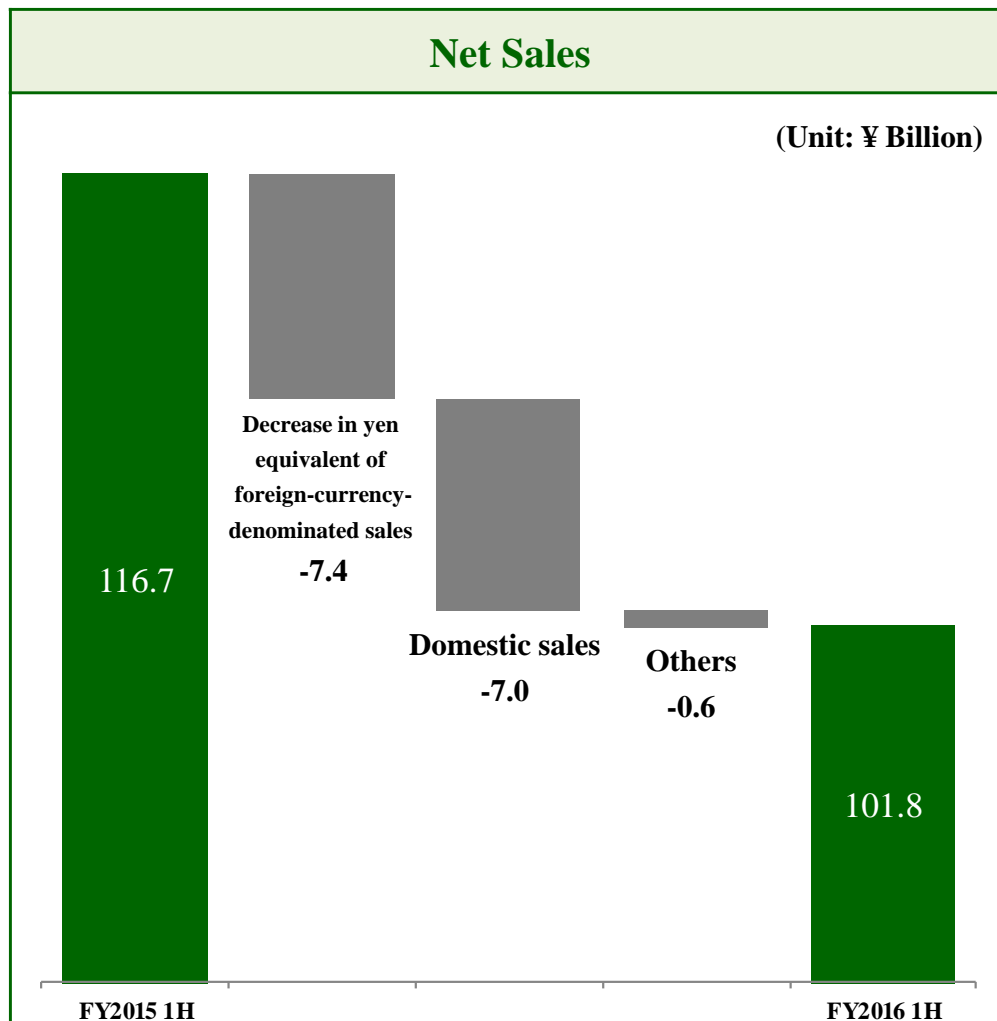
- In the first half of FY2016, both net sales and operating income decreased in comparison with the same period of the previous year, due to the appreciation of yen, conclusion of a large-scale project started in FY2015, and the imbalance between supply and demand. On the other hand, profit exceeded the plan announced at the beginning of the current term.

	FY2015 1H		FY2016 1H			(Unit: ¥ Billion)
	Amount	%	Amount	%	Change	Plan
<b>Net Sales</b>	116.7		<b>101.8</b>		-12.7%	110.0
<b>Gross Profit</b>	9.7	8.3%	<b>8.5</b>	8.4%	-11.6%	9.4
<b>SG&amp;A Expenses</b>	6.8	5.9%	<b>6.7</b>	6.6%	-2.4%	7.1
<b>Operating Income</b>	2.8	2.4%	<b>1.8</b>	1.8%	-34.0%	2.3
<b>Ordinary Income</b>	2.6	2.3%	<b>2.3</b>	2.3%	-11.8%	2.3
<b>Profit</b>	1.8	1.6%	<b>1.7</b>	1.7%	-7.4%	1.5
<b>Basic Earnings per Share (¥)</b>	59.30		<b>58.13</b>		-2.0%	50.91
<b>Domestic Sales</b>	68.3	58.5%	<b>61.3</b>	60.2%	-10.3%	
<b>Overseas Sales</b>	48.4	41.5%	<b>40.5</b>	39.8%	-16.2%	

# Factors for Increase and Decrease in Net Sales and Ordinary Income (Year-to-Year Comparison)

Results for FY2016  
First Half

- Net Sales decreased for the reason of a fall in yen equivalent of foreign-currency-denominated sales, as well as a decline in domestic sales due to conclusion of a large-scale system equipment project for MFP started in 2015.
- Ordinary income also decreased, in spite of contribution by exchange gain following the revaluation of foreign-currency-denominated liabilities. As the result, income decreased from the same period of the previous year.

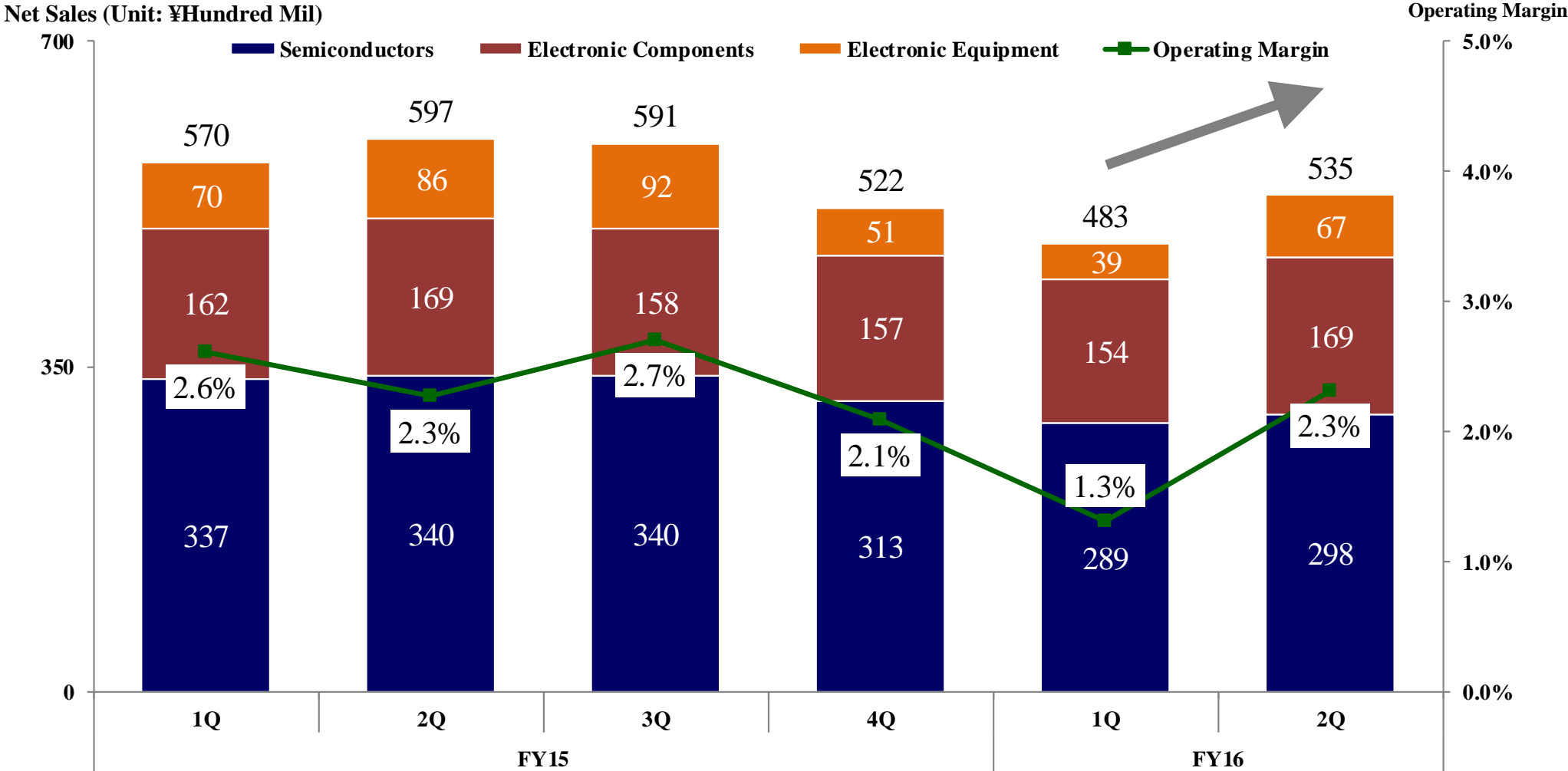


- Both net sales and operating income in the Semiconductors business segment decreased, due to the impact by the appreciation of yen, conclusion of the project for information and communication equipment, and sluggish sales of car navigation systems, car audios and digital cameras.
- Electronic Components business segment was also affected by the appreciation of yen, but sales of in-vehicle electrical equipment remained stable.
- Sluggish growth in the Electronic Equipment business segment resulted from conclusion of the MFP business.

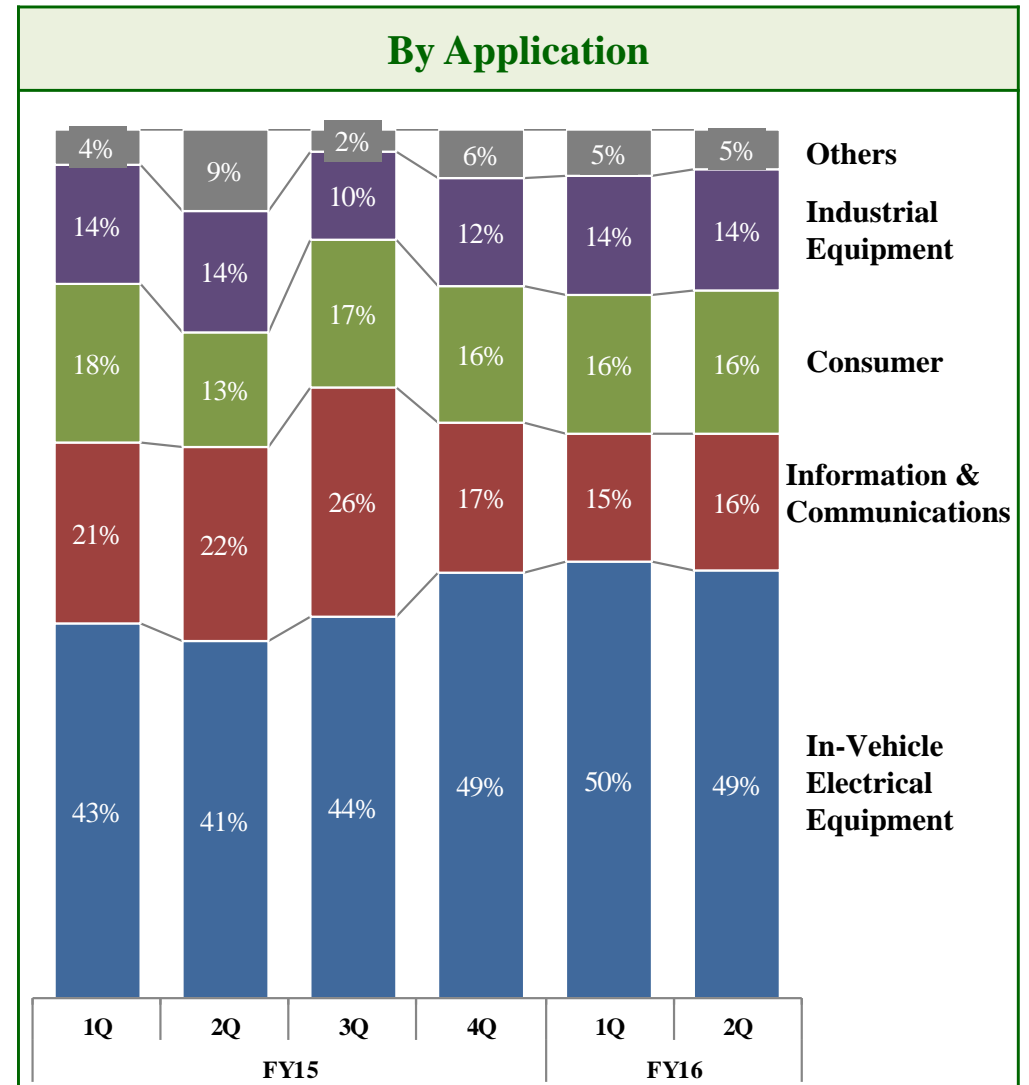
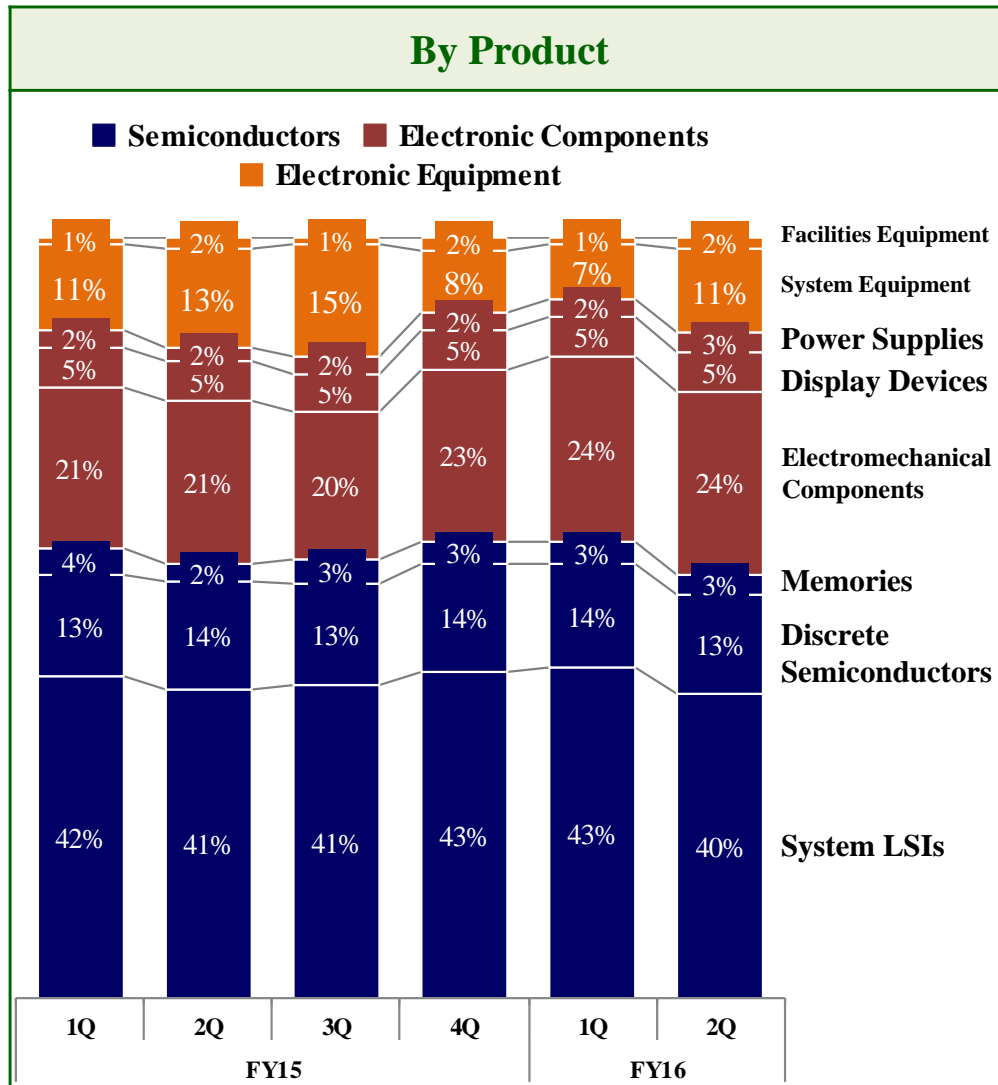
		FY2015 1H		FY2016 1H		(Unit: ¥ Billion)
		Actual	%	Actual	%	Change
Semiconductors	Net Sales	67.7		<b>58.8</b>		-13.2%
	Operating Income	1.4	2.1%	<b>1.1</b>	1.8%	-23.8%
Electronic Components	Net Sales	33.2		<b>32.3</b>		-2.8%
	Operating Income	0.9	2.7%	<b>0.8</b>	2.5%	-9.2%
Electronic Equipment	Net Sales	15.6		<b>10.6</b>		-31.9%
	Operating Income	0.7	4.7%	<b>0.3</b>	3.0%	-57.0%
Adjustment		-0.2		<b>-0.3</b>		
Total	Net Sales	116.7		<b>101.8</b>		-12.7%
	Operating Income	2.8	2.4%	<b>1.8</b>	1.8%	-34.0%

# Trend in Net Sales and Operating Margins by Quarter

- Net sales had continued to fall from its peak in the 2Q of FY2015, because the Semiconductors business segment had been in the wane due to deterioration in the market conditions of the emerging countries, as well as sluggish growth of the Electronic Equipment business segment after conclusion of the MFP business.
- Net sales bottomed out in the 1Q of FY2016, because the Electronic Components business segment remained stable, thanks to steady performance of the in-vehicle electrical equipment business, and the Electronic Equipment business segment won contracts for projects to supply in-vehicle electrical equipment. As the result, overall operating margin also bottomed out, because net sales grew as a whole.



■ There was no significant change in the distribution ratio by product. In terms of application, the distribution ratio of sales of information & communications equipment reduced, while the ratio of the sales of in-vehicle electrical equipment expanded.



- Cash and deposits, and securities decreased by 4 billion yen and net assets reduced, due to 2.7 billion yen in cash dividends paid and 1.9 billion yen in purchase of treasury shares.
- An increase in cash flows from operating activities resulted from an increase in notes and accounts payable-trade.

(Unit: ¥ Billion)

■ Consolidated Balance Sheet	End of Mar. 2016	End of Sep. 2016	Increase and Decrease
<b>Total Assets</b>	157.0	<b>152.9</b>	-4.0
<b>Current Assets</b>	139.1	<b>135.5</b>	-3.6
<b>Non-Current Assets</b>	17.8	<b>17.4</b>	-0.3
<b>Liabilities</b>	41.6	<b>43.0</b>	+1.3
<b>Net Assets</b>	115.3	<b>109.9</b>	-5.4
<b>Net Assets to Total Assets (%)</b>	73.5%	<b>71.9%</b>	-1.6

(Unit: ¥ Billion)

■ Consolidated Statements of Cash Flows	FY2015 1H	FY2016 1H	Increase and Decrease
<b>Cash Flows from Operating Activities</b>	-0.2	<b>2.4</b>	+2.6
<b>Cash Flows from Investing Activities</b>	-0.1	<b>0.0</b>	+0.2
<b>Cash Flows from Financing Activities</b>	-2.1	<b>-5.4</b>	-3.3
<b>Cash and Cash Equivalents at the End of the Period</b>	52.9	<b>46.6</b>	-6.2



Results for FY2016 First Half

Business Plan for Full Year FY2016

Implementation Status and Forecast of the 9th Medium-Term Business Plan

- It is expected that sales orders will increase in each segment toward the second half and that both net sales and operating income will increase in comparison with the first half.
- The full-year forecast is revised mainly because the assumed exchange rate is amended from USD 1 = 121 yen to 105 yen.

	FY2015		FY2016					(Unit: ¥ Billion)
	Full Year	%	1st Half	2nd Half Plan	Full-Year Plan	%	Change	Initial Plan
<b>Net Sales</b>	228.1		101.8	113.1	<b>215.0</b>		-5.8%	230.0
<b>Gross Profit</b>	19.3	8.5%	8.5	9.3	<b>17.9</b>	8.3%	-7.3%	19.6
<b>SG&amp;A Expenses</b>	13.7	6.0%	6.7	6.7	<b>13.5</b>	6.3%	-2.0%	14.0
<b>Operating Income</b>	5.5	2.4%	1.8	2.5	<b>4.4</b>	2.0%	-20.6%	5.6
<b>Ordinary Income</b>	5.5	2.5%	2.3	2.5	<b>4.9</b>	2.3%	-12.4%	5.6
<b>Profit</b>	3.6	1.6%	1.7	1.8	<b>3.6</b>	1.7%	-1.9%	3.7
<b>Basic Earnings per Share (¥)</b>	119.77		58.13	65.65	<b>123.78</b>		+3.3%	125.57
<b>Domestic Sales</b>	133.4	58.5%	61.3	66.6	<b>128.0</b>	59.5%	-4.1%	130.0
<b>Overseas Sales</b>	94.7	41.5%	40.5	46.4	<b>87.0</b>	40.5%	-8.2%	100.0

# Overview of Business Plan by Business Segment

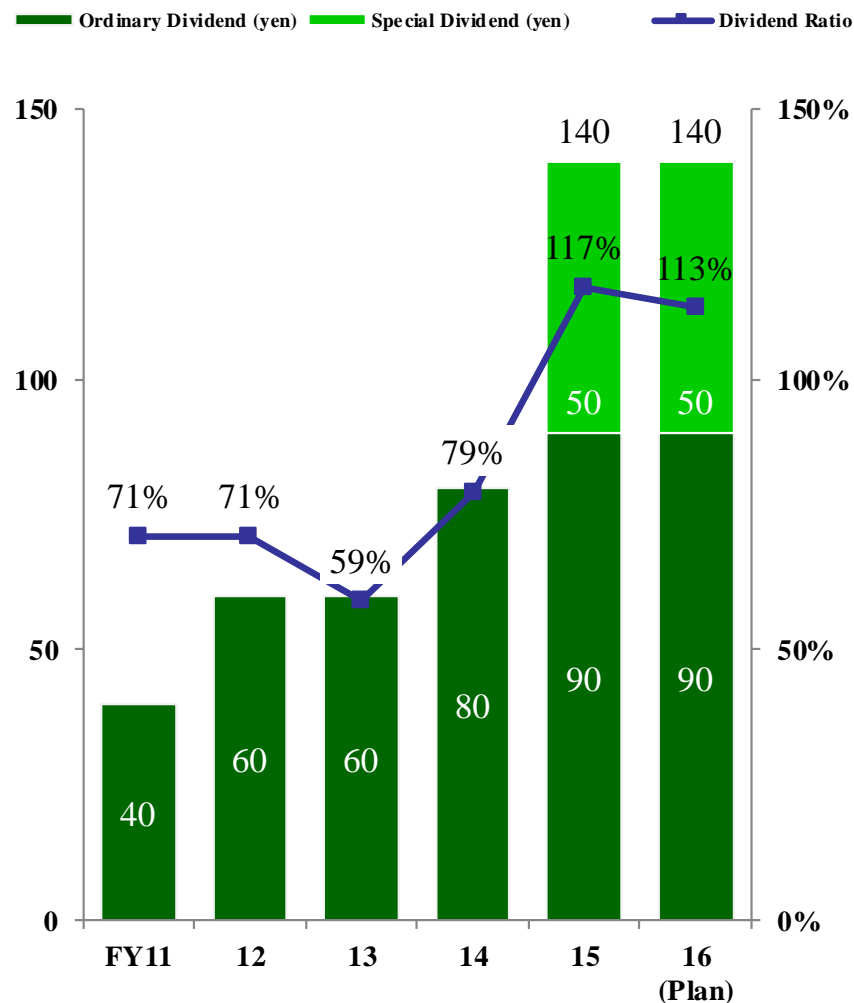
Business Plan for Full  
Year FY2016

- It is expected that both net sales and operating income will grow in the second half compared with the first half.
- In terms of the full-year forecast, business performance in the Semiconductors and Electronic Equipment business segments is forecasted not to reach the level of the first half, respectively due to great impact of the yen appreciation and conclusion of the MFP business. On the other hand, it is expected that in Electronic Components business segment, business of in-vehicle electrical equipment will remain stable and sales of electromechanical components for consumers will expand, and as the result, both net sales and operating income in this segment will increase.

		FY2015		FY2016				(Unit: ¥ Billion)	
		Full Year	%	1st Half	2nd Half Plan	Full-Year Plan	%	Change	Initial Plan
Semiconductors	Net Sales	133.1		58.8	65.6	<b>124.5</b>		-6.5%	136.0
	Operating Income	2.9	2.2%	1.0	1.4	<b>2.5</b>	2.0%	-15.4%	3.4
Electronic Components	Net Sales	64.9		32.3	35.6	<b>68.0</b>		+4.7%	68.5
	Operating Income	1.5	2.4%	0.8	1.0	<b>1.9</b>	2.8%	+23.4%	1.9
Electronic Equipment	Net Sales	30.1		10.6	11.8	<b>22.5</b>		-25.3%	25.5
	Operating Income	1.5	5.0%	0.3	0.3	<b>0.7</b>	3.1%	-53.6%	0.7
Adjustment		-0.4		-0.3	-0.3	<b>-0.7</b>			-0.5
Total	Net Sales	228.1		101.8	113.1	<b>215.0</b>		-5.8%	230.0
	Operating Income	5.5	2.4%	1.8	2.5	<b>4.4</b>	2.0%	-20.6%	5.6

- Dividend policy has not been changed. The company plans to pay 90 yen or more as ordinary dividends and 50 yen or more as special dividends.
- The company is in the process of acquiring maximum 3 million treasury shares in the period from July 2016 to the end of March 2017.

## Dividend per Share



## Acquisition of Treasury Shares

Period	No. of Acquired Shares (10 thousand)	Amount (100 million yen)
Aug. thru. Nov. 2011	100	17
Feb. 2013	100	19
May thru. June 2013	100	18
Feb. thru. Mar. 2015	45	13
Oct. 2015	23	6
Nov. 2015 thru. Feb. 2016	132	40
July to end of Oct. 2016 (current)	86	26

Results for FY2016 First Half

Business Plan for Full Year FY2016

Implementation Status and Forecast of the 9th Medium-Term Business Plan

## Basic Stance

“Innovation” & “Growth”

Pursuing a “business model shift” which responds to changes in our business structure and a sustainable “independent growth”

## Description of Initiatives

**Reestablish Growth Path**



Create New Business Models

(Strengthen system solution capability)

Promote Multi-Vendor Support

(Expand new suppliers and products in current business)

Strengthen Global Support to Expand Global Business

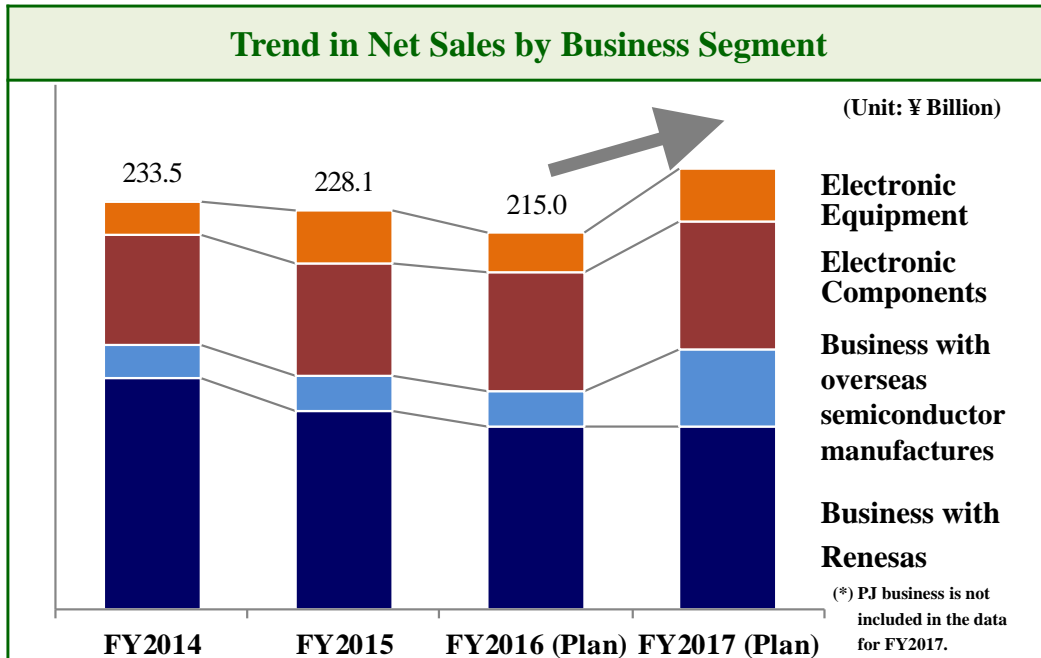
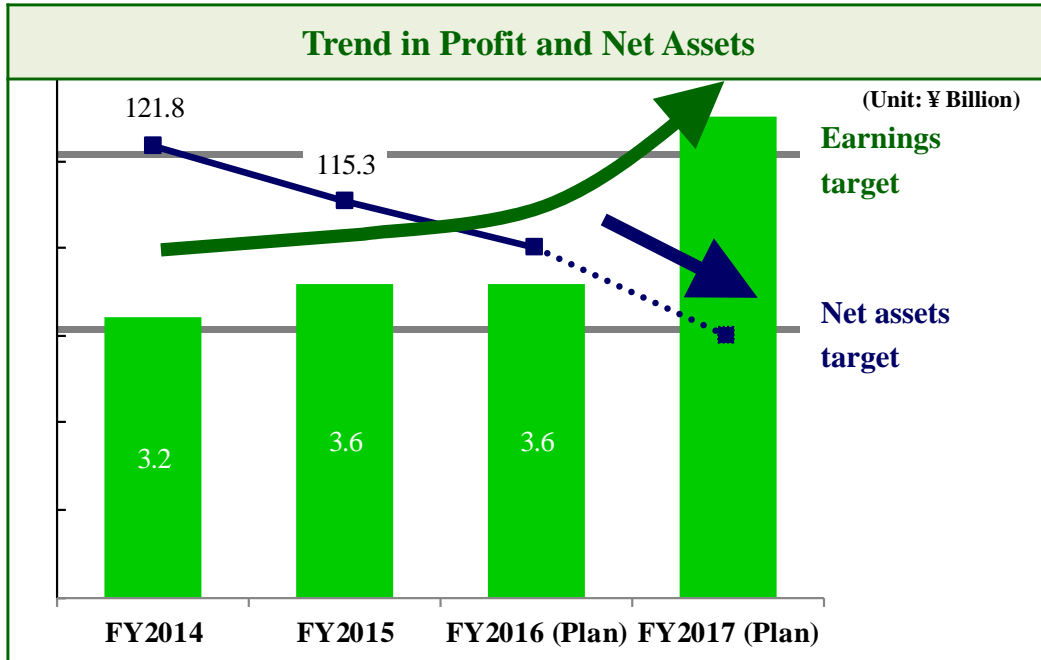
(Aim at being a global distributor)

**Improve Capital Efficiency**



Proactive Investment Toward Growth

Acquire Treasury Shares



<b>ROE 5%</b>	<b>Overall Strategies</b>
<b>Profit margin on sales</b>	<ul style="list-style-type: none"> <li>Establish the second and third pillars of the Semiconductors business segment</li> <li>Acquire new suppliers and expand business operation</li> <li>Increase local business with non-Japanese customers</li> <li>Strengthen resources for in-vehicle electrical equipment business</li> </ul>
×	
<b>Total asset turnover ratio</b>	<ul style="list-style-type: none"> <li>Review strategic shareholdings</li> <li>Improve efficiency of assets utilization</li> </ul>
×	
<b>Financial leverage</b>	<ul style="list-style-type: none"> <li>Acquire treasury shares</li> <li>Special dividends</li> </ul>

## Risk Factors

- Drastic change in economic circumstances
- Reorganization of suppliers
- Fluctuation in exchange rates
- Natural disaster

# Main Attainment in the 2Q of FY2016 and Next Actions (1)

Core Policy	Attainment	Next Actions
<p><b>Create New Business Models</b></p>	<ul style="list-style-type: none"> <li>■ Establish Solution Business HQ Assign Executive Officer</li> <li>■ Promote new business models such as nursing care, city and road analysis, and protection from wild animals</li> <li>■ Participate in the 19th EMBEDDED SYSTEMS EXPO (ESEC 2016) Tokyo</li> </ul>	<ul style="list-style-type: none"> <li>■ Implement developed business model</li> </ul>
<p><b>Promote Multi-Vendor Support</b></p>	<ul style="list-style-type: none"> <li>■ Introduce new supplier products                             <ul style="list-style-type: none"> <li>- Overseas semiconductor manufacturers:                                     <ul style="list-style-type: none"> <li>▪ ON Semiconductor</li> <li>▪ Microchip Technology, etc.</li> </ul> </li> <li>- Solution business:                                     <ul style="list-style-type: none"> <li>▪ VIA Technologies</li> <li>▪ Fujipream, etc.</li> </ul> </li> </ul> </li> <li>■ Reorganize market promotion HQ</li> </ul>	<ul style="list-style-type: none"> <li>■ Expand market share and business operation after reorganization of semiconductor manufacturers</li> <li>■ Expand market share through M&amp;A</li> <li>■ Facilitate organized sales promotional activities targeting strategic products</li> </ul>
<p><b>Strengthen Global Support to Expand Global Business</b></p>	<ul style="list-style-type: none"> <li>■ Set up regional HQ in China and ASEAN Assign Executive Officers to each HQ</li> <li>■ Open a new business office targeting research and development centers of Japanese manufacturers operating in Germany</li> </ul>	<ul style="list-style-type: none"> <li>■ Plan the strategic investment in the South China region</li> </ul>



