

Ryosan Company, Limited

FY2017 First Half Results Meeting

Results for the six months ended September 30, 2017
FY2017 : Year ending March 31, 2018

November 14, 2017

Naoto Mimatsu

Representative Director, Executive Chairman

Results for FY2017 First Half

Business Plan for FY2017 Full Year

Implementation Status of the 9th Medium-Term Business Plan

Notice

Business forecasts and all statements related to the future contained in this presentation are based on information currently possessed by the Company and on certain assumptions which are judged 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

Consolidated Statements of Operation

Results for FY2017
First Half

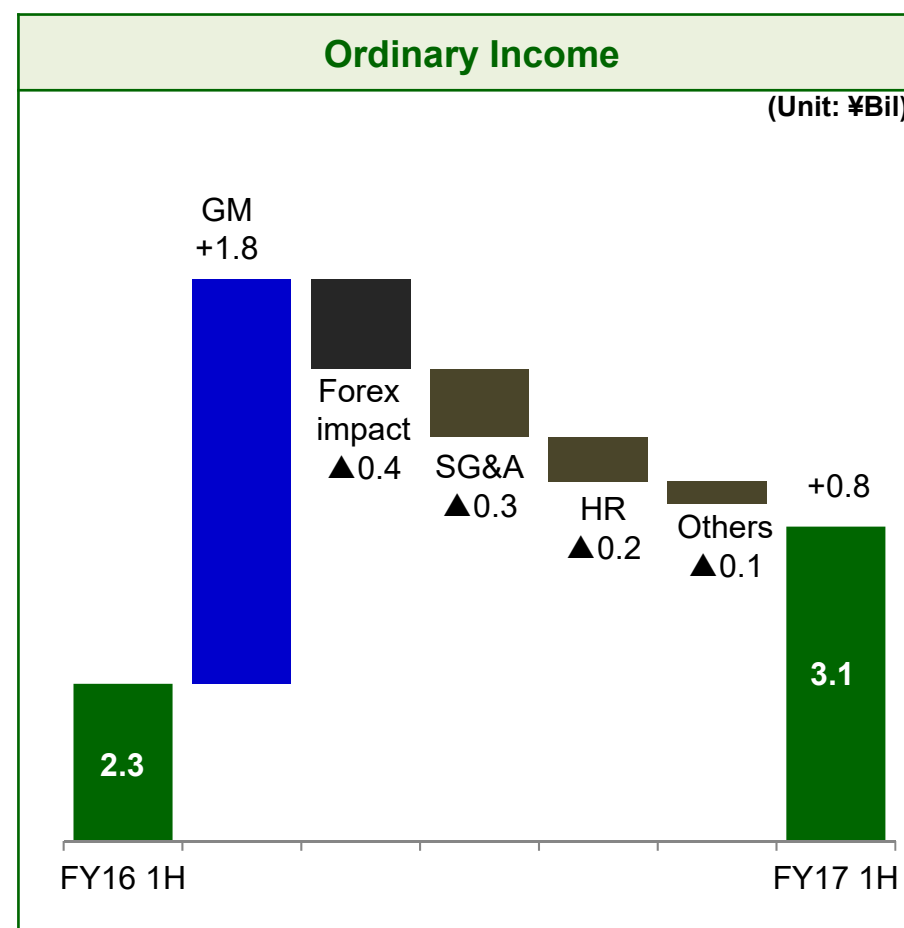
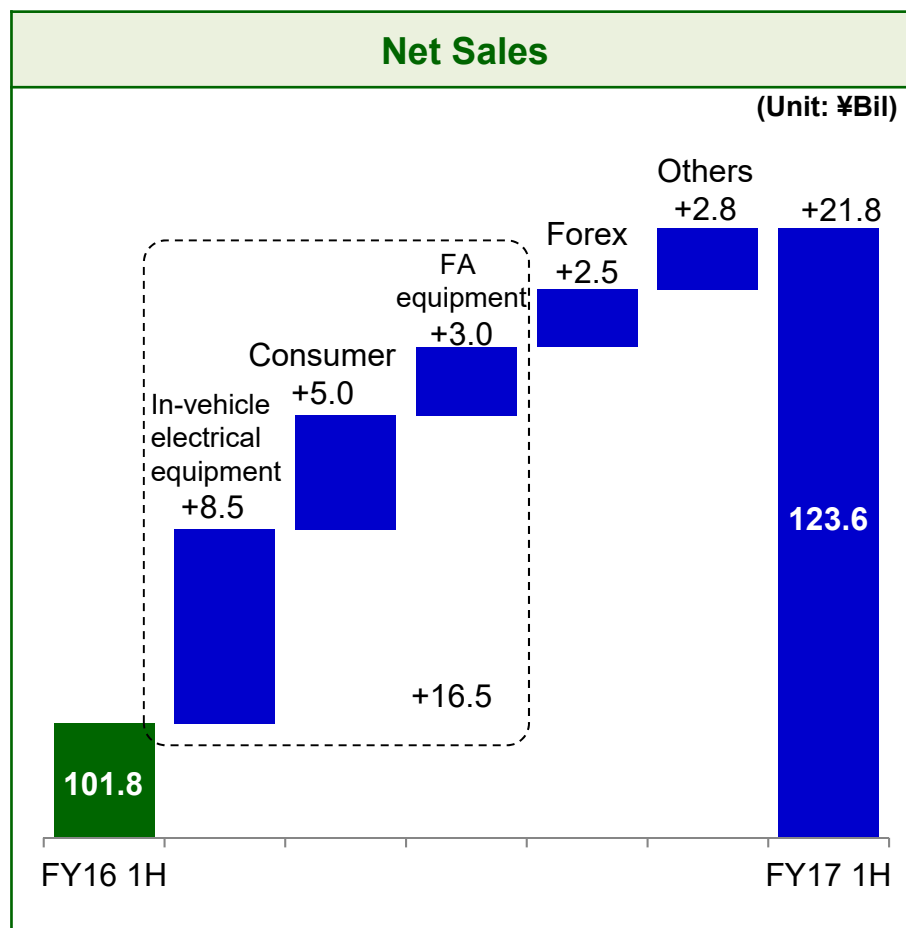
- In the first half of FY2017, in addition to the continued favorable performance of in-vehicle electrical equipment, consumer, and FA equipment segments, Ryosan recorded stronger sales of consumer and FA equipment products than initially expected, resulting in the performance of these products exceeding the figures in the initial plan.
- Profit growth rate improved as a result of this sales increase.

	FY2016 1H		FY2017 1H				(Unit: ¥Bil)
	Amount	%	Amount	%	Change	Initial Plan	Comparison with Initial Plan
Net Sales	101.8		123.6		+21.3%	112.0	+10.4%
Gross Profit	8.5	8.4%	10.4	8.5%	+22.0%	9.4	+11.6%
SG&A Expenses	6.7	6.6%	7.2	5.9%	+8.1%	6.9	+5.2%
Operating Income	1.8	1.8%	3.2	2.6%	+71.8%	2.5	+29.0%
Ordinary Income	2.3	2.3%	3.1	2.6%	+36.0%	2.5	+27.6%
Net Profit	1.7	1.7%	2.2	1.8%	+30.7%	1.8	+23.7%
EPS (¥)	58.13		82.66		+42.2%	64.06	+29.0%
Domestic Sales	61.3	60.2%	70.9	57.4%	+15.8%		
Overseas Sales	40.5	39.8%	52.6	42.6%	+29.7%		

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

Results for FY2017
First Half

- With the in-vehicle electrical equipment, consumer, and FA equipment businesses serving as the main business drivers, net sales increased by ¥21.8 bil compared with the corresponding period of last year.
- As a result of Ryosan's increase in profits on a gross profit basis, ordinary income also increased by ¥0.8 bil compared with the corresponding period of last year, although there was a drop in the foreign exchange gains and an increase in the SG&A expenses, etc.



Segment Information

Results for FY2017
First Half

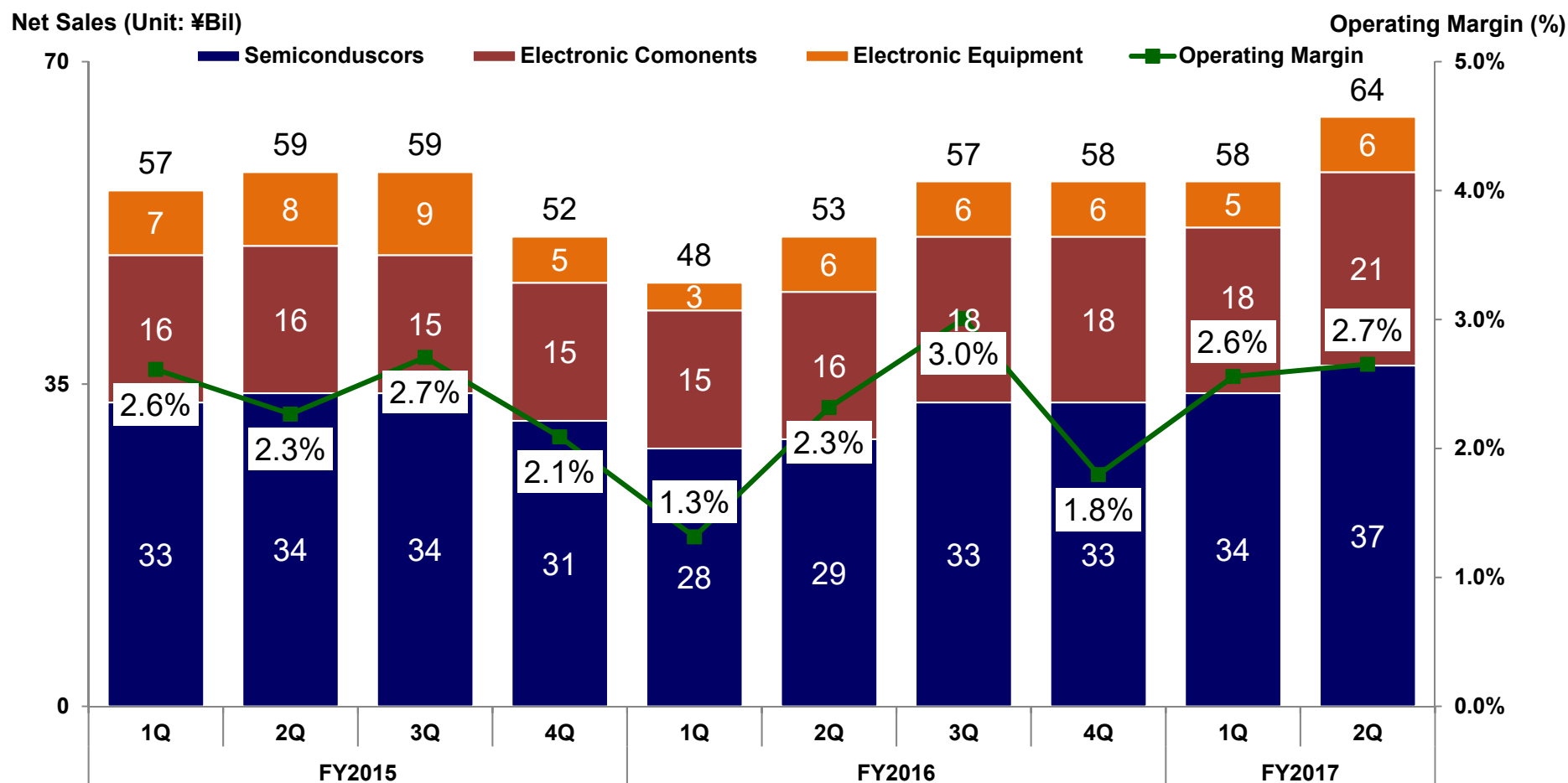
- The semiconductors business showed improved performance due to the sales expansion of overseas semiconductors as well as FA equipment business. The electronic components business also showed improved performance coming from sales of the in-vehicle electrical equipment business and FA equipment business, as well as stronger sales in the consumer business. In both businesses, net sales and operating income exceeded the initial plan and the results for the corresponding period of last year.
- In the electronic equipment business, net sales were less than the initial plan mainly because large in-vehicle electrical equipment transactions did not reach the original target (however, the net sales exceeded the result for the corresponding period of last year). Profit decreased due to the termination of high-profit business recorded during the corresponding period of last year.

		FY2016 1H		FY2017 1H				
		Amount	%	Amount	%	Change	Initial Plan	Comparison with Initial Plan
Semiconductors	Net Sales	58.8		72.0		+22.5%	64.5	+11.7%
	Operating Income	1.0	1.8%	1.8	2.5%	+68.6%	1.5	+21.9%
Electronic Components	Net Sales	32.3		39.5		+22.2%	34.0	+16.3%
	Operating Income	0.8	2.5%	1.3	3.3%	+61.5%	0.9	+39.2%
Electronic Equipment	Net Sales	10.6		12.0		+12.6%	13.5	△10.8%
	Operating Income	0.3	3.0%	0.2	2.3%	△13.8%	0.3	△9.3%
Adjustment		△0.3		△0.1			△0.2	
Total	Net Sales	101.8		123.6		+21.3%	112.0	+10.4%
	Operating Income	1.8	1.8%	3.2	2.6%	+71.8%	2.5	+29.0%

Trend in Net Sales and Operating Margins by Quarter

Results for FY2017
First Half

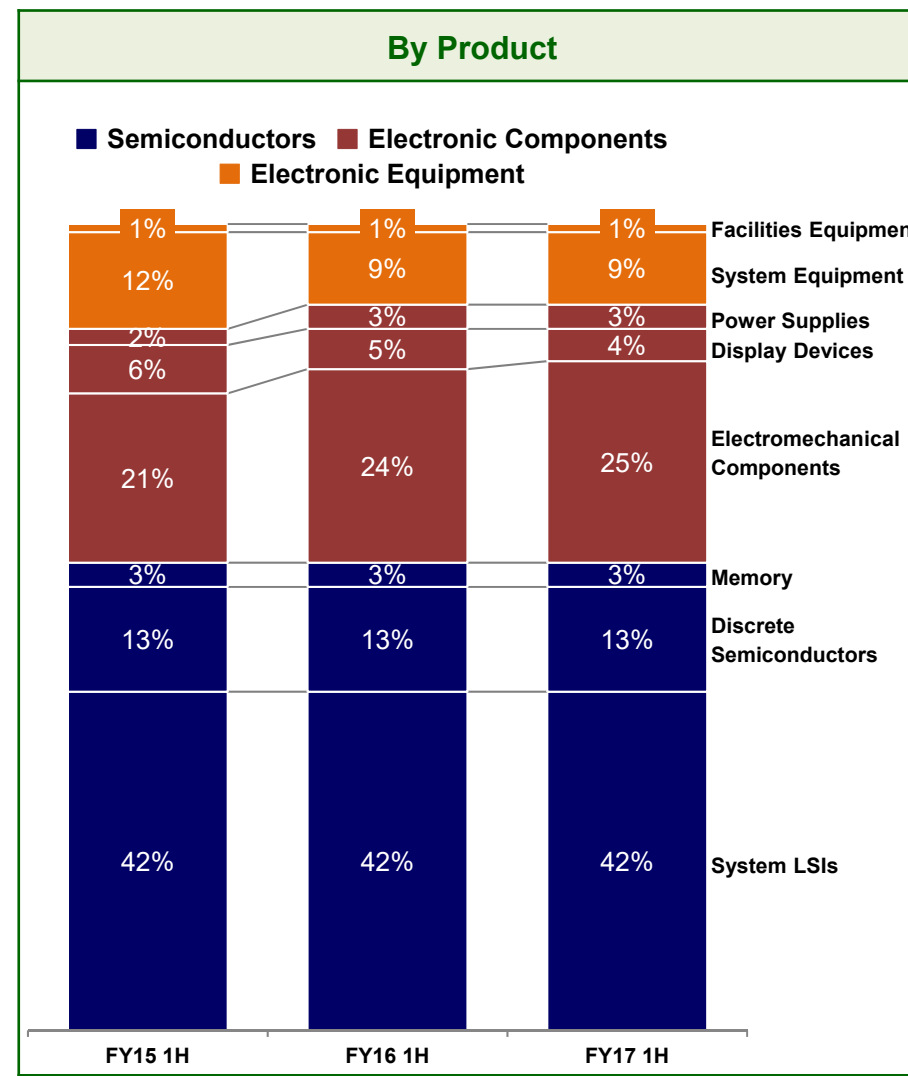
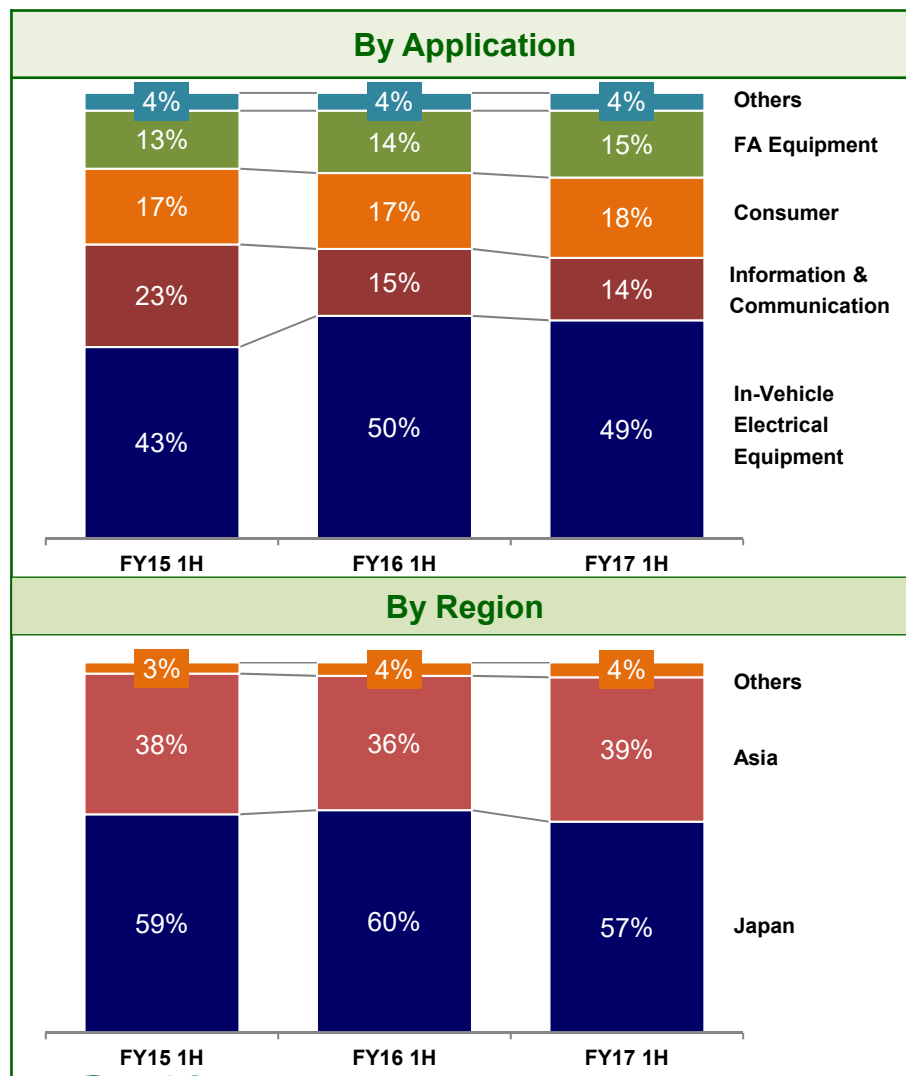
- Net sales firmly maintained the upward trend that started in the first quarter of FY2016, thus marking the fifth consecutive quarter of increasing sales. In the second quarter of FY2017, the Semiconductors business and the Electronic Equipment business were mainly driven by in-vehicle electrical equipment business, while the Electronic Components business was driven by consumer business.
- Operating margin has been improving and stayed at the 2.5-3% range during the first half of FY2017.



Segment Trend Information

Results for FY2017
First Half

- In terms of breakdown by application, the company's shares of consumer and FA equipment increased. In breakdown by region, share of Asia expanded in connection with an increase in consumer and in-vehicle electrical equipment businesses.



- Net assets decreased to ¥95.8 bil, due mainly to purchase of treasury shares (¥14.5 bil) and cash dividends paid (¥1.9 bil). The ratio of net assets to total assets was 59.3%.
- The operating cash flows were in the negatives because more operating capital was used for the expansion of the overseas semiconductor business.

(Unit: ¥Bil)

■ Consolidated Balance Sheet	End of Mar. 2017	End of Sep. 2017	Increase and Decrease
Total Assets	161.6	161.7	+0.1
Current Assets	142.8	142.9	+0.1
Non-Current Assets	18.7	18.7	0.0
Liabilities	52.1	65.8	+13.7
Net Assets	109.5	95.8	△13.7
Net Assets to Total Assets (%)	67.8%	59.3%	△8.5%

(Unit: ¥Bil)

■ Consolidated Statements of Cash Flows	FY2016 H	FY2017 1H	Increase and Decrease
Cash Flows from Operating Activities	2.4	△ 15.8	△18.2
Cash Flows from Investing Activities	0.0	0.6	+0.6
Cash Flows from Financing Activities	△5.4	△ 8.0	△2.6
Cash and Cash Equivalents at the End of the Period	46.6	15.4	△31.2

Results for FY2017 First Half

Business Plan for FY2017 Full Year

Implementation Status of the 9th Medium-Term
Business Plan

Business Objectives

Business Plan for
Full Year FY2017

- In the second half of FY2017, Ryosan expects net sales of ¥116.4 bil and operating income of ¥1.9 bil., figures which go beyond those initially planned, while not reaching the strength of the preceding term.
- Since the stable market circumstances will remain for the full fiscal year, Ryosan expects net sales of ¥240 bil (+4.3% from the initial plan (+10.1% compared with the preceding term)) and operating income of ¥5.8 bil (+3.6% from the initial plan (+24.5% compared with the preceding term)). As a result of the share buybacks for this term, EPS is expected to improve to ¥158.

	FY2016		FY2017					(Unit: ¥Bil)	
	Full Year	%	1st Half	2nd Half Plan	Full-Year Plan	%	Change (FY17-16)	Initial Plan	Medium-Term Target
Net Sales	218.0		123.6	116.4	240.0		+10.1%	230.0	270.0
Gross Profit	18.3	8.4%	10.4	9.6	20.1	8.4%	+9.7%	19.2	23.5
SG&A Expenses	13.6	6.3%	7.2	7.1	14.3	6.0%	+4.7%	13.6	14.0
Operating Income	4.6	2.1%	3.2	2.6	5.8	2.4%	+24.5%	5.6	9.5
Ordinary Income	4.8	2.2%	3.1	2.6	5.7	2.4%	+17.9%	5.6	-
Net Profit	3.3	1.5%	2.2	1.9	4.1	1.7%	+21.7%	4.0	6.0
EPS (¥)	116.54		82.66	75.89	158.55		+36.0%	142.36	-

Overview of Business Plan by Business Segment

Business Plan for
Full Year FY2017

- Based upon the strong business results posted in the first half of FY2017, both the Semiconductors business and the Electronic Components business are expected to post an increase in both sales and profits compared with the preceding term, while the profit of the Semiconductors business is expected to be less than the initial plan.
- The Electronic Components business is expected to have an increase in large in-vehicle electrical equipment transactions in the second half of the year resulting in an increase in income for the full fiscal year, while the full fiscal year result is expected to show a decrease in profit because of the low profitability of these transactions.

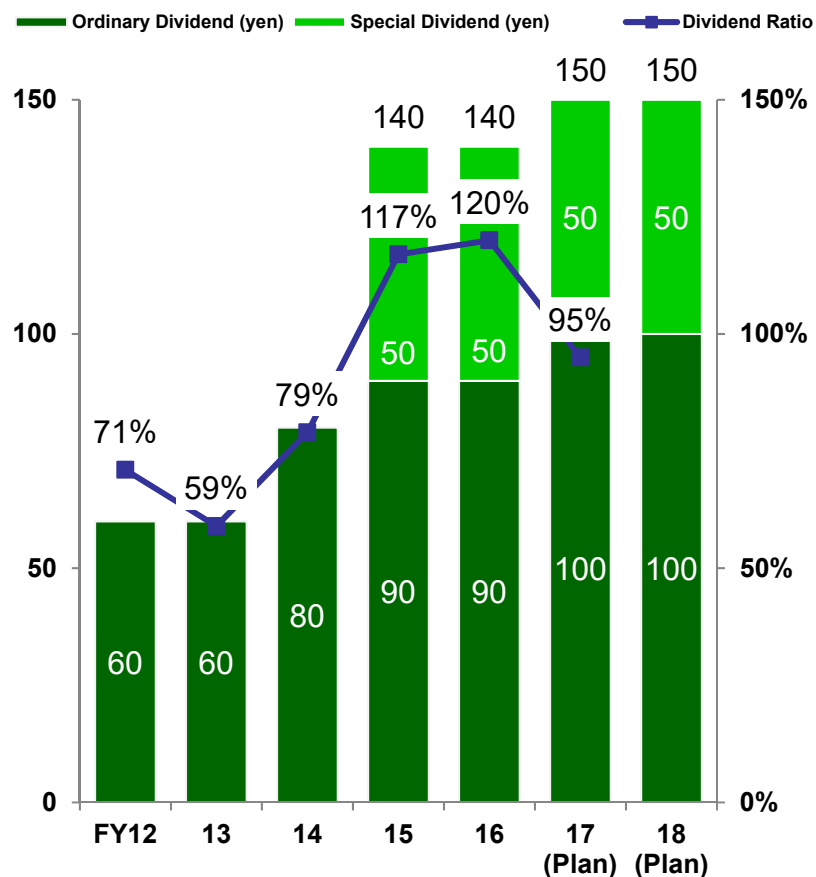
		FY2016		FY2017				(Unit: ¥Bil)		
		Full Year	%	1st Half	2nd Half Plan	Full-Year Plan	%	Change (FY17-16)	Initial Plan	Medium-Term Target
Semiconductors	Net Sales	125.3		72.0	66.0	138.0		+10.1%	131.0	150.0
	Operating Income	2.4	2.0%	1.8	1.4	3.2	2.4%	+30.6%	3.3	5.1
Electronic Components	Net Sales	69.1		39.5	36.5	76.0		+9.9%	69.0	70.0
	Operating Income	1.9	2.8%	1.3	1.1	2.4	3.2%	+25.9%	2.0	2.0
Electronic Equipment	Net Sales	23.5		12.0	14.0	26.0		+10.5%	30.0	30.0
	Operating Income	0.6	3.0%	0.2	0.3	0.6	2.3%	△13.6%	0.7	1.4
Adjustment		△0.4		△0.1	△0.3	△0.5			△0.5	
Total	Net Sales	218.0		123.6	116.4	240.0		+10.1%	230.0	270.0
	Operating Income	4.6	2.1%	3.2	2.5	5.8	2.4%	+24.5%	5.6	9.5

Plan for Return to Shareholders

Business Plan for
Full Year FY2017

- Ryosan follows its plan to issue "annual dividend of ¥150 or more and acquire up to 4,500,000 treasury shares," as stated in the "Second Round of Additional Measures to Improve Capital Efficiency" announced last May. The total number of treasury shares acquired by the end of October is 3,320,000. Ryosan is proceeding with its plan while keeping a close watch on the stock market.

Dividend per Share



Acquisition of Treasury Shares

Period	No. of Acquired Shares (10 thousand)	Amount (¥Bil)
FY12	100	1.9
FY13	100	1.9
FY14	45	1.8
FY15	155	4.6
FY16	137	4.4
FY17(as of Oct. 31)	332	14.5

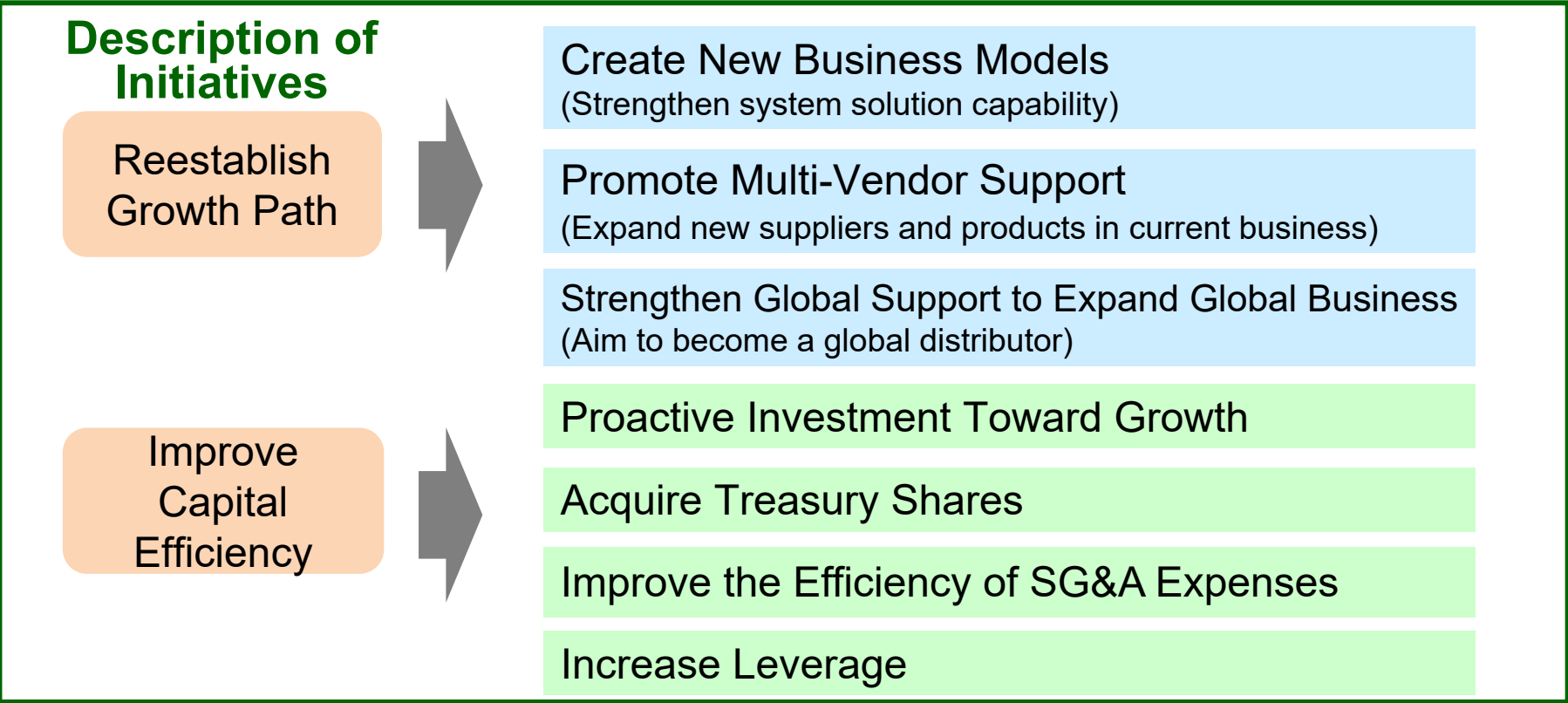
Results for FY2017 First Half

Business Plan for Full Year FY2017

Implementation Status of the 9th Medium-Term
Business Plan

- Ryosan aims to reach its ROE target of 5% in FY2018.
- Ryosan will release the 10th Medium-Term Business Plan as originally expected (3 years from FY2018).

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



Status of Progress Made with Main Measures (1)

Implementation Status
of the 9th Medium-
Term Business Plan

Core Initiatives	Plan	Results So Far
<p>Create New Business Models</p>	<ul style="list-style-type: none"> ■ Make use of budgeted ¥5.0 bil (3 years) for strategic investment ■ Promote alliances with outside partners 	<ul style="list-style-type: none"> ■ Displayed products at the 20th Embedded Systems Expo (ESEC 2017) in Tokyo ■ Conducted demonstration tests for services (citizenship analysis, etc.) utilizing IoT ■ Made capital subscriptions to venture businesses
<p>Promote Multi-Vendor Support</p>	<ul style="list-style-type: none"> ■ Concentrate business resources on promising suppliers ■ Non-organic business expansion ■ Rigid ALM 	<ul style="list-style-type: none"> ■ Increased overseas semiconductor business by 60% compared with the preceding term ■ Launched investments into the system to increase operation efficiency
<p>Strengthen Global Support to Expand Global Business</p>	<ul style="list-style-type: none"> ■ Realize business synergies with Edal, HK. ■ Expand business in Europe & the U.S. ■ Strengthen business linkage with local partners in China 	<ul style="list-style-type: none"> ■ Currently promoting mutual use of lineups with Edal ■ Conducted further exploration of local business in cooperation with the design house in China ■ Continued reviewing possibilities for commercial rights in Europe & the U.S.

Status of Progress Made with Main Measures (2)

Implementation Status
of the 9th Medium-
Term Business Plan

Core Initiatives	Plan	Results So Far
Proactive Investment Toward Growth	<ul style="list-style-type: none"> ■ Continue anticipatory HR investment ■ Make use of budgeted ¥5.0 bil (3 years) for strategic investment 	<ul style="list-style-type: none"> ■ Continued prior investment to Solution business, Overseas semiconductor business ■ Closed several investments to ventures
Improve Capital Efficiency	<ul style="list-style-type: none"> ■ Extend 1 year (Till FY18) ■ Increase shares (4.5 mil) ■ Gross dividend of ¥150/share or more ■ Cancel treasury shares (3 mil) ■ Continue reduction of strategic shareholdings 	<ul style="list-style-type: none"> ■ Acquired 3,320,000 treasury shares (as of the end of October) ■ Issued interim dividend of ¥75/share in FY2017 ■ Canceled 3 million treasury shares as of the end of May ■ Reviewed shares for reduction of strategic shareholdings
Improve the Efficiency of SG&A Expenses	<ul style="list-style-type: none"> ■ Further reduce SG&A expenses 	<ul style="list-style-type: none"> ■ Reduced additional costs incurred due to increased sales
Increase Leverage	<ul style="list-style-type: none"> ■ Acquire treasury shares using debt ■ Improve asset efficiency through factoring, etc. 	<ul style="list-style-type: none"> ■ Acquired treasury shares predominantly through cash and deposits ■ Currently examining concrete measures for factoring
Qualitative Strengthening of Management	<ul style="list-style-type: none"> ■ Shift to Chairman/President structure ■ CI review 	<ul style="list-style-type: none"> ■ Continuing CI review

Initiatives and Key Milestones

Implementation Status
of the 9th Medium-
Term Business Plan

Initiatives	Actions	Highlights
New business model	Alliance with partner companies	Invested capital in venture businesses.
Multi-vendor support	Overseas semiconductors and new suppliers	Posted additional ¥6 bil in net sales in the first half of FY2017 compared with the corresponding period of last year, as a result of expansion in commercial rights and prior investments
Global business	China local business. Synergy with Edal	Promoted business cooperation with the design house in China.
Improve the efficiency of SG&A expenses	Increase in efficiency of SG&A expenses	Reduced additional costs incurred due to increased sales.
Proactive investment	Budgeted ¥5.0 bil for 3 years	Currently conducting measures for capital investment to venture businesses (above).
Acquire treasury shares	Acquisition of 4.5 mil shares. Annual total dividend of ¥150 (2 years). Cancellation of treasury shares (3 mil).	3,320,000 shares (as of the end of October). Interim dividend of ¥75/share in FY2017. Cancellation of 3 million treasury shares (end of May).
Increase leverage	Introduce securitization or bank loan facilities	The ratio of net assets to total assets was reduced to 59% (end of September).

	FY2016 Results		FY2016 Results	FY2017 Initial Plan	FY2017 1H Results	Comments
Net profit margin	1.5%	Operating margin	2.1%	2.4%	2.6%	Exceeded the initial plan by increasing profits on a gross profit basis and reducing additional costs.
		SG&A ratio	6.3%	5.9%	5.9%	
Total asset turnover ratio	1.4 times	Cash and deposits/Total assets	24.0%	18.0%	8.4%	Increased the operating capital accompanying increased sales and decreased cash through acquisition of treasury shares. Continuing to prepare factoring, etc.
		Accounts receivable turnover period	3.8	3.6	3.8	
Financial leverage	1.4 times	Net assets to total assets	67.8%	65.0%	59.3%	Decreased net assets to ¥95.8 bil through purchase of treasury shares of ¥14.5 bil and payment of ¥1.9 bil cash dividends.
		Total return ratio	248.3%	280.0%	-	

Status of Progress Made with Measures to Improve Capital Efficiency

Implementation Status
of the 9th Medium-
Term Business Plan

- The table below highlights the trends of net profit and net assets toward the ROE target of 5% in FY2018.
- Net assets decreased to ¥95.8 bil as a result of measures to improve capital efficiency (2nd round) as of the end of September 2017. In FY2017, Ryosan plans to achieve net profit of ¥4.1 bil and to improve ROE.

