



Ryosan Company, Limited

# Supplementary Materials for FY2019 Financial Results

Fiscal year ended March 31, 2020

May 14, 2020

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# Financial Results for FY2019

## Counter Measures for Profitability Enhancement

## Plan for Full Year FY2020

### Notice

Business forecasts and all statements related to the future contained in this document are based on information currently possessed by Ryosan Company, Limited (Ryosan) 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

Financial Results  
for FY2019

- Both net sales and operating income decreased compared with the previous fiscal year (YoY), impacted by sluggish demand and inventory scrapping.
- The decline in ordinary income eased due to foreign exchange gains from revaluations in previous term. Net profit declined 19.3% YoY because of impairment losses from domestic branch restructuring and voluntary retirement, carried out as part of counter measures for profitability enhancement.

(Unit: ¥Bil)	FY18	FY19 (Act)		FY18 (Plan)(*)	
	Amount	Amount	Change	Amount	Gap
<b>Net Sales</b>	249.6	227.2	-9.0%	235.0	-3.3%
<b>Gross Profit</b>	20.6	17.7	-14.0%	19.3	-8.0%
<b>(% of Net Sales)</b>	(8.3%)	(7.8%)	(-0.5pt)	(8.2%)	(-0.4pt)
<b>Operating Income</b>	5.2	3.1	-40.6%	4.2	-26.0%
<b>(% of Net Sales)</b>	(2.1%)	(1.4%)	(-0.7pt)	(1.8%)	(-0.4pt)
<b>Ordinary Income</b>	3.9	2.9	-26.6%	3.6	-19.0%
<b>(% of Net Sales)</b>	(1.6%)	(1.3%)	(-0.3pt)	(1.5%)	(-0.2pt)
<b>Net Profit</b>	1.4	1.1	-19.3%	1.9	-37.2%
<b>(% of Net Sales)</b>	(0.6%)	(0.5%)	(-0.1pt)	(0.8%)	(-0.3pt)
<b>EPS (¥)</b>	62.07	50.96	-17.9%	81.09	-37.2%
<b>US Dollar Average Rate (¥)</b>	110.91	108.74	-2.0%	108.00	+0.7%

(\*)Announced May 14, 2019

Electronics Systems Coordinator

RYOSAN CO., LTD.

# Segment Information

Financial Results  
for FY2019

- Sales of Semiconductors for industrial equipment and in-vehicle electrical equipment declined amid faltering demand. Operating income fell due to a decline in gross profit, prompted by disposition of immobile stock as the result of the counter measures for profitability enhancement.
- In Electronic Components, sales and income shrank due to slow sales of high-value-added products for industrial equipment.
- In the Electronic Equipment segment, sales decreased amid a decline in sales to major producers of in-vehicle electrical equipment, while operating income was largely unchanged YoY, supported by stable sales of high-value-added products.

(Unit: ¥Bil)		FY18	FY19 (Act)		FY18 (Plan)(*)	
		Amount	Amount	Change	Amount	Gap
Semiconductors	Net Sales	150.1	136.1	-9.3%	141.5	-3.8%
	Operating Income	2.4	1.1	-52.9%	2.1	-46.0%
	(% of Net Sales)	(1.6%)	(0.9%)	(-0.7pt)	(1.5%)	(-0.6pt)
Electronic Components	Net Sales	77.4	74.2	-4.2%	74.5	-0.4%
	Operating Income	2.6	2.1	-19.2%	2.2	-4.8%
	(% of Net Sales)	(3.4%)	(2.9%)	(-0.5pt)	(3.0%)	(-0.1pt)
Electronic Equipment	Net Sales	22.1	16.9	-23.5%	19.0	-10.9%
	Operating Income	0.3	0.3	+0.2%	0.4	-4.3%
	(% of Net Sales)	(1.7%)	(2.3%)	(+0.6pt)	(2.1%)	(+0.2pt)
Total	Net Sales	249.6	227.2	-9.0%	235.0	-3.3%
	Operating Income	5.2	3.1	-40.6%	4.2	-26.0%
	(% of Net Sales)	(2.1%)	(1.4%)	(-0.7pt)	(1.8%)	(-0.4pt)

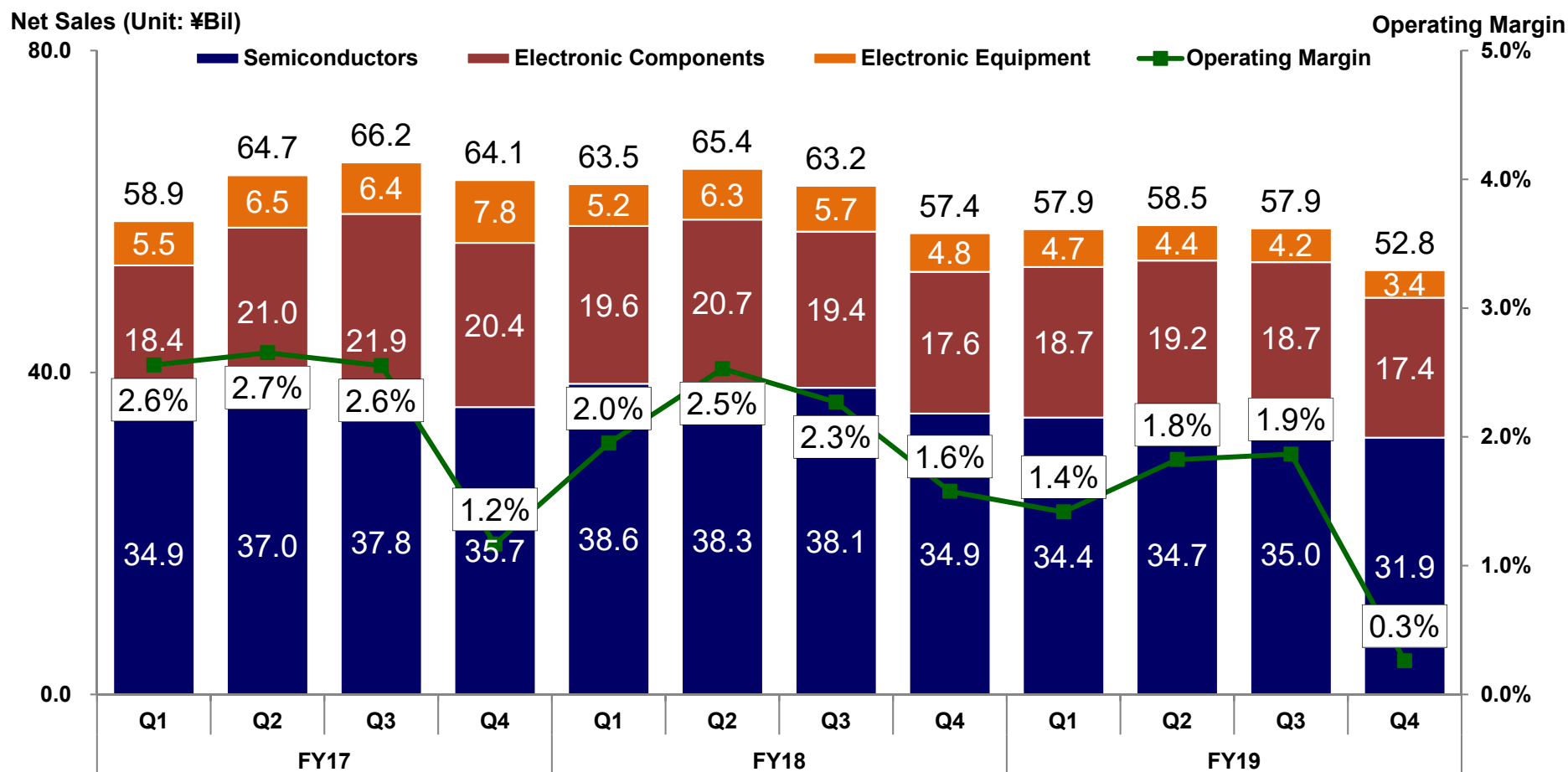
(\*)Revised October 31, 2019

Electronics Systems Coordinator

RYOSAN CO., LTD.

# Trend in Net Sales and Operating Margins by Quarter

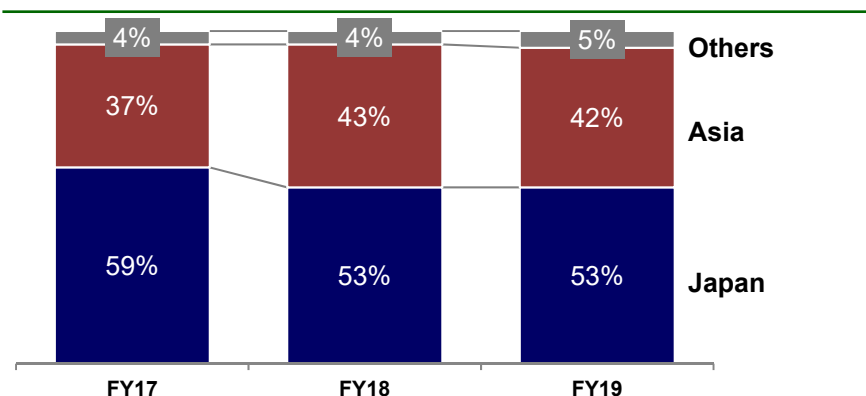
- Net sales have trended below ¥60 bil from Q4 2018 onward. Sales as a whole were subdued, affected by declining demand in the industrial equipment and other markets.
- Operating margin recovered to 1.9% in Q3 FY2019, buoyed by a decrease in selling, general and administrative expenses. However, this figure decreased in Q4 due to inventory scrappage, etc.



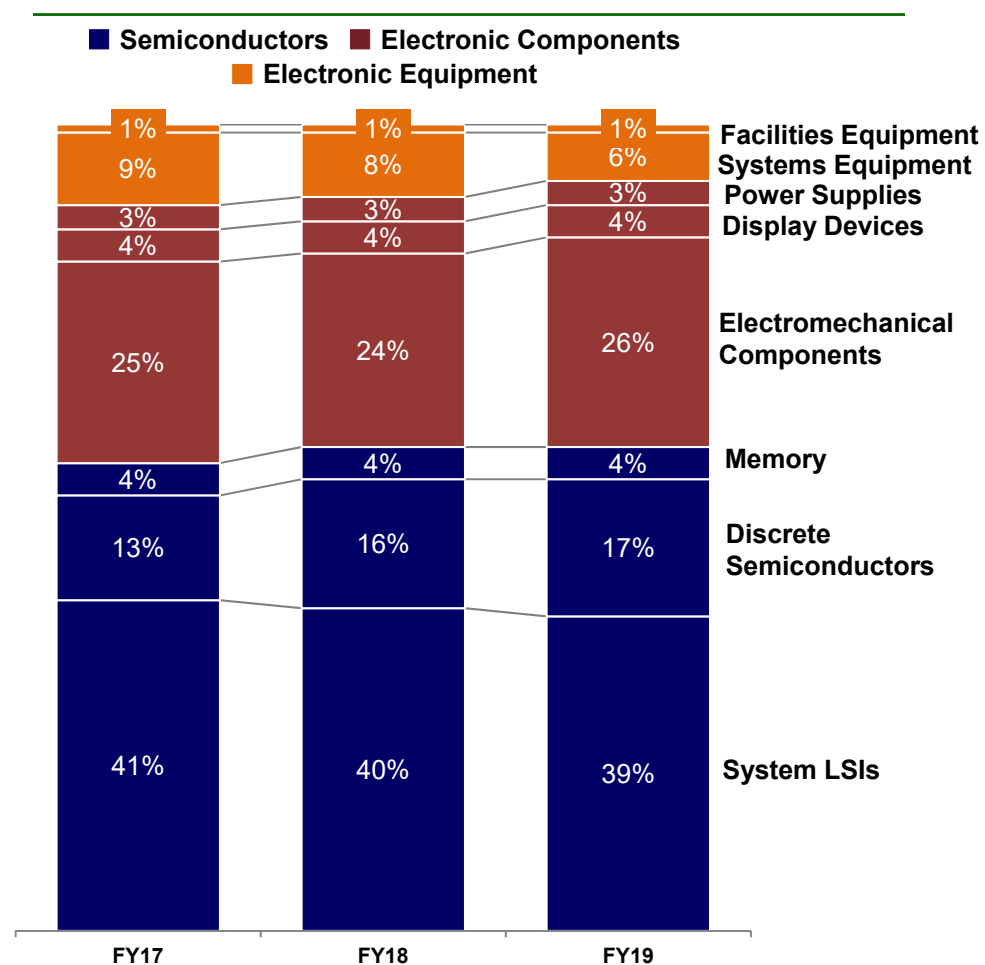
# Segment Trend Information

■ Net sales by region were relatively unchanged YoY. By application, the rate of decrease was relatively small for in-vehicle electrical equipment, so this segment's share of total increased. By product, electromechanical components expanded its share, amid solid demand for in-vehicle electrical equipment for these components.

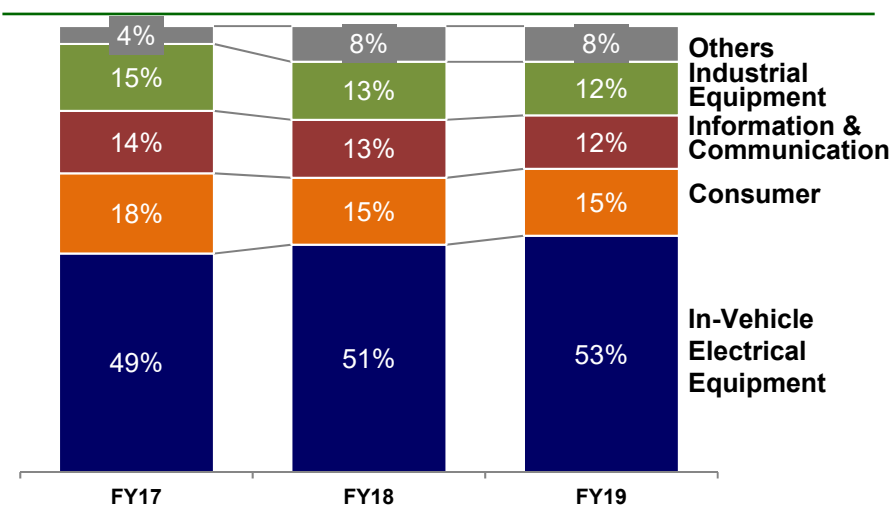
### By Region



### By Product



### By Application



## Consolidated Balance Sheet / Consolidated Statements of Cash Flow

Financial Results  
for FY2019

- Net assets fell ¥2.7 bil YoY to ¥84.9 bil, affected by items such as dividend payments of ¥2.9 bil. The ratio of net assets to total assets was 61.7%.
- Factors such as reduction in notes and accounts receivable - trade of ¥7.8 bil and contraction of inventories of ¥6.7 bil contributed to positive cash flow from operating activities of ¥17.9 bil. Cash and cash equivalents at the end of the period increased to ¥24.5 bil.

(Unit: ¥Bil)	End of Mar. 18	End of Mar. 19	End of Mar. 20	Gap (20-19)
<b>Total Assets</b>	162.2	146.5	137.7	-8.8
<b>Current Assets</b>	143.5	129.3	121.7	-7.6
<b>Non-Current Assets</b>	18.7	17.2	15.9	-1.3
<b>Liabilities</b>	67.9	58.7	52.8	-5.9
<b>Net Assets</b>	94.3	87.8	84.9	-2.7
<b>Net Assets to Total Assets (%)</b>	58.1%	59.9%	61.7%	+1.8pt

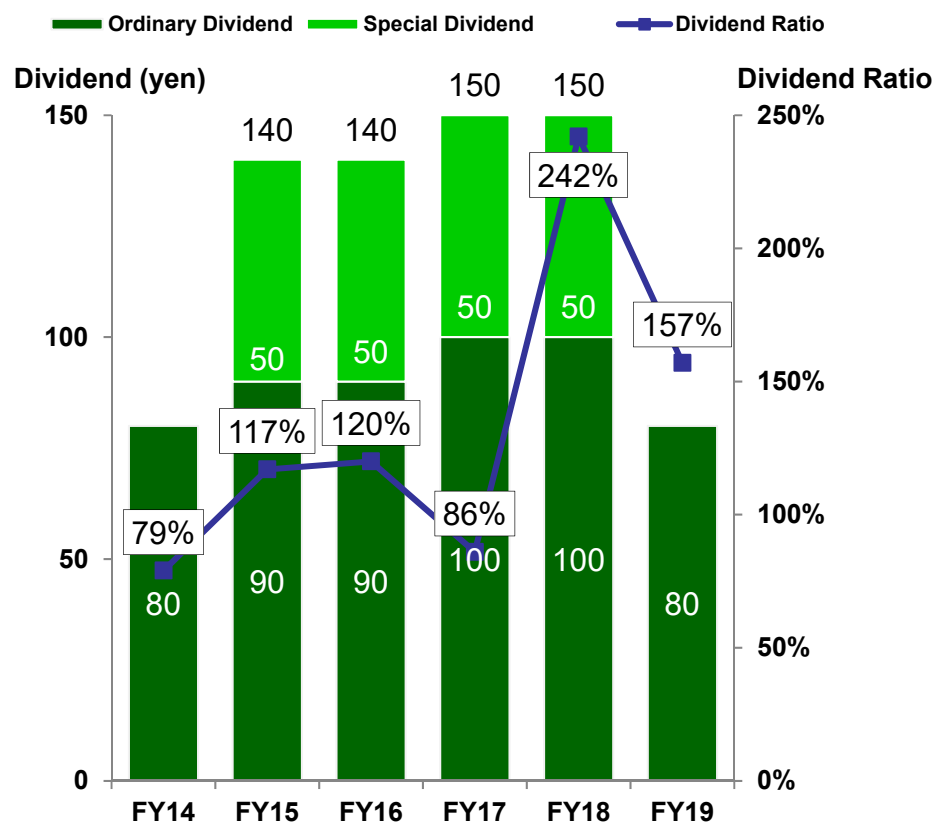
(Unit: ¥Bil)	FY17	FY18	FY19	Gap (FY19-18)
<b>Cash Flow from Operating Activities</b>	-19.2	13.0	17.9	+4.9
<b>Cash Flow from Investing Activities</b>	0.6	-0.4	-0.3	+0.1
<b>Cash Flow from Financing Activities</b>	-6.5	-11.5	-7.4	+4.1
<b>Cash and Cash Equivalents at the End of the Period</b>	13.4	14.5	24.5	+10.0



- In view of the business results for FY2019 and in anticipation of full-fledged impact from the COVID-19 pandemic in FY2020, the FY2019 year-end dividend is reduced from ¥50 to ¥30, resulting in a full-year ordinary dividend of ¥80.
- Ryosan plans to accumulate internal reserves with a view to ensuring sustainable growth.

### Dividend per Share

### Acquisition of Treasury Shares



Year	No. of Acquired Shares (Thousand)	Amount (¥Bil)
FY14	450	1.8
FY15	1,550	4.6
FY16	1,370	4.4
FY17	3,610	15.9
FY18	1,050	4.2
FY19	0	0

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Financial Results for FY2019

Counter Measures for Profitability Enhancement

Plan for Full Year FY2020

# Counter Measures for Profitability Enhancement

## Counter Measures for Profitability Enhancement

- A series of measures to enhance profitability resulted in a 45% increase in one-time costs in FY2019, compared with the original plan, to ¥1.3 bil. Some measures are expected to continue into FY2020.

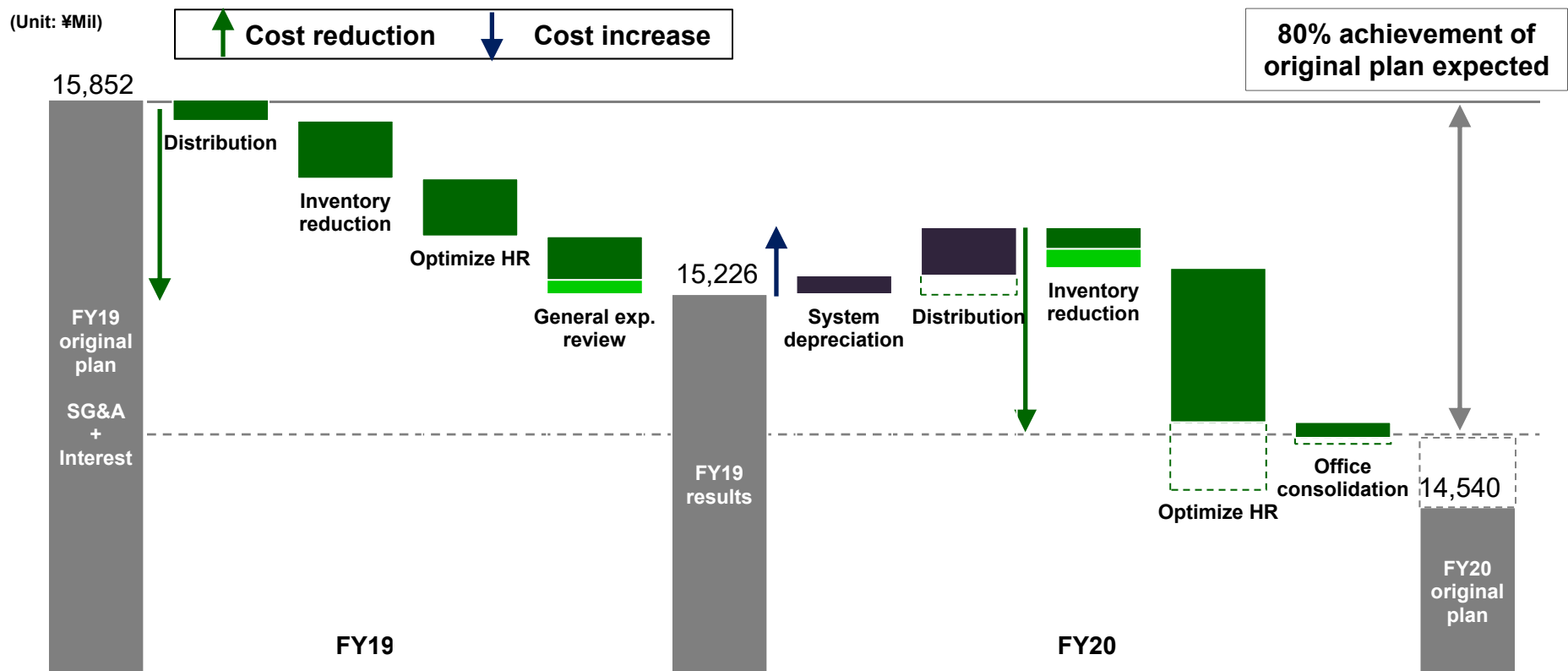
Project Name		Measures Implemented	FY2019 Results (compared with FY2018)
Reorganization	I Withdraw from non-profitable businesses	Reduction in transaction volume, reduction in personnel	Assigned personnel reduced by 10 people
	II Optimize organizations	Merger and/or elimination of rented buildings, branch offices, etc.	Branches: Reduced from 21 to 20 (-1) Logistics bases: Reduced from 4 to 2 (-2)
	III Evaluate and concentrate on key projects for Solution Business initiatives	Streamlining of projects and reduction of related personnel	Number of projects: Reduced from 24 to 18 (-6) Assigned personnel: Reduced from 34 to 28 (-6)
	IV Streamline control function	Slimming of head-office functions	Integration of HQs in FY2020: -2 Integration of divisions: -2 (June 2020)
	V Optimize headcounts	Canvassing for voluntary early retirees	62 early retirees
	VI Expand Renesas business through non-organic approach	Taking area for commercial rights	Under current consideration
	VII Introduce business model to change the engineering function to the profit center	Under reorganization	Technologies are being sorted and organizational structures put in place for practical implementation
Financial reform	VIII Reduce inventory volume and minimize US\$ borrowing	Downsizing of unprofitable businesses, strengthening of management	Interest expenses: Reduced by ¥140 mil
	IX Maximize head office space usage	Termination of agreements on some rental properties around head office and bringing those functions into the head office building	Number of rental properties: Reduced from 5 to 4 (-1) (October 2020)
	X Dispose of non-working assets including investment securities	Sale and disposition of real estate and investment securities	Impairment accounting applied to 2 offices and 2 logistics bases Sale of investment securities (April 2020)

# Expected Quantitative Effects

## Counter Measures for Profitability Enhancement

- Several counter measures have been accomplished ahead of schedule and are taking effect. As a result, Ryosan has achieved some of its original plan of reducing expenses by over ¥600 mil in FY2019.
- In FY2020, further inventory reductions and canvassing of voluntary retirees will be implemented. Ryosan expects these measures to result in a total reduction in expenses for FY2019 and FY2020 of ¥1 bil (80% of plan).

### Cost Reduction Forecast



Financial Results for FY2019

Counter Measures for Profitability Enhancement

Plan for Full Year FY2020

# Impact of COVID-19 and Counter Measures

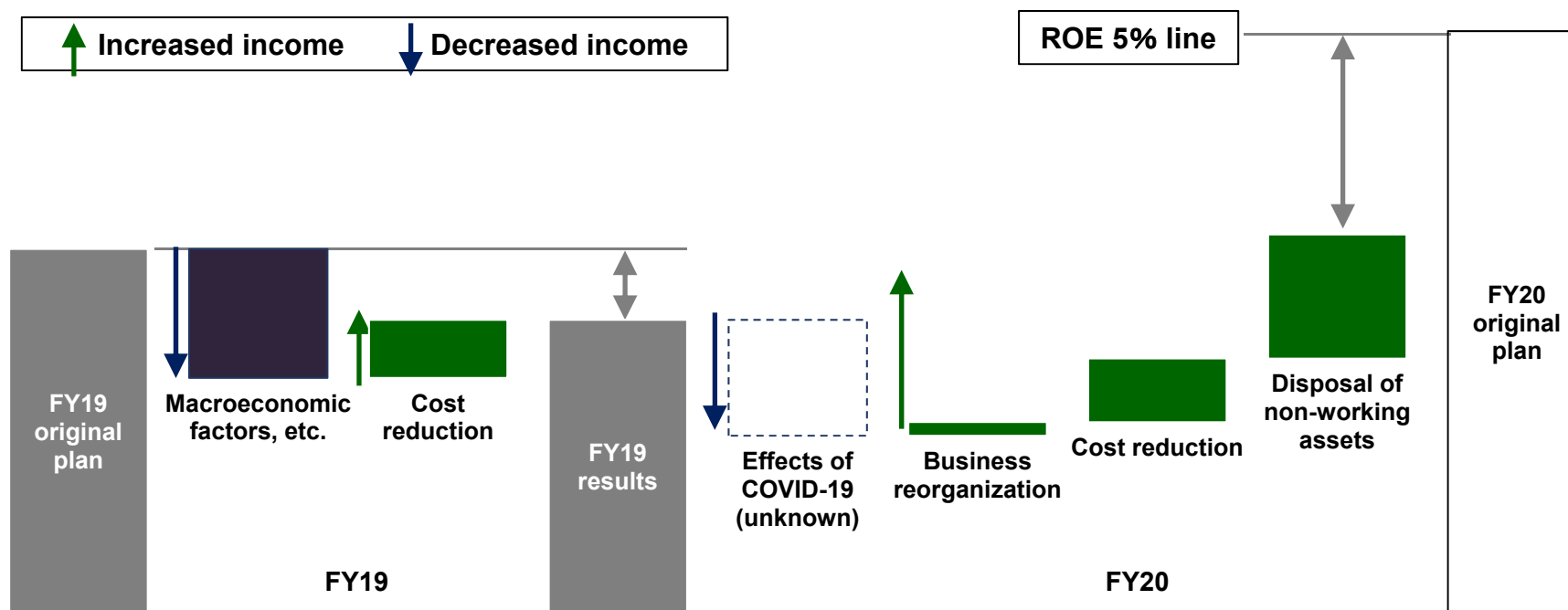
Plan for Full Year  
FY2020

- While short-term effects are limited, the aftereffects of the COVID-19 pandemic are expected to be significant.
- In the short term, the Company will strengthen counter measures focusing on business risk and market risk. Under the assumption that medium-term counter measures will be unavoidable, Ryosan will focus on crisis management in this term.

Category		Risk	Status of response	Forecast
Management	Business risk	Sudden decrease in orders received and sales	Increased frequency of monitoring of status of customer order placement	Enhanced going forward
		Sudden decrease in supplies	Monitoring and sharing of information on supplier production trends	Confirmation of risk
		Steep rise in operating expenses	Focus on current situation and future prospects	Shipping expenses, etc. becoming apparent
	Management risk	Inability to obtain management information	Refinement of management information and securing of reporting routes	No impact
	Strategic risk	Major changes in business plan preconditions	Strengthened monitoring of domestic and overseas market trends	Difficult to forecast in the short term
	Reputation risk	Insufficient corporate counter measures for major outbreaks	Thorough diversification risk through working at home, staggered work hours, etc.	No current impact
Disaster	Infectious disease	Outbreak among key persons	As above. Thorough confirmation of business backup systems	No current impact
Business	Business risk	Outbreak among employees, suspension of operations at affected locations	As above	No current impact
		Delay of receipt and placement of work orders	As above	No current impact
		Reduction of effectiveness of business activities from working from home	Thorough calls to attention to key points on working from home	Will partially become apparent
Finance	Market risk	Sudden changes in exchange and interest rates	Reduction of exposed assets	No current impact
		Decrease in value of assets held	Monitoring of market trends	Confirmation of risk
	Credit risk	Customer bankruptcy	Review of customers' management of operation of risk assets and strengthening of monitoring	Confirmation of risk

- While it remains unclear when and how the current COVID-19 pandemic will be resolved, market conditions for electronic components in China, Europe, North America and elsewhere globally cannot avoid a major slowdown. Ryosan expects this deceleration to worsen in the coming months.
- Ryosan set up an original scenario in which Ryosan attains the target by expanding revenues while cutting costs and disposing of non-working assets, none of which can be realized at this moment. On the contrary, Ryosan must unavoidably conduct defensive business management focusing on crisis management.

## FY2020 Income Plan





## 1. Key Points of Measures

### 1) Crisis Management Response

- Ryosan will thoroughly implement measures against business risk and against market risk. Measures against **business risk** cover all of the circumstances involved in operating its business, including not only cases in which employees are infected but also cases in which customers are infected. Measures against **market risk** from changes in market conditions are also implemented.

### 2) Counter Measure Projects for Profitability Enhancement

- These measures have already borne fruit to a degree in terms of cost reduction, from efforts conducted in FY2019. However, some issues remain in terms of personnel systems and organizational streamlining. Efforts to create a truly robust financial constitution are ongoing.

### 3) Fleshing Out Ryosan's Long-Term Vision

- Ryosan has just prepared **RS Innovation 2030**, Ryosan's long-term vision for the next 10 years (announced May 14, 2020). This plan envisions three pillars for growth: business models, sales channels and products (networks). While keeping a close eye on the status of COVID-19 clusters and the business environment, Ryosan is fleshing out a detailed growth strategy in the 11th Medium-Term Business Plan to achieve the Vision.

## 2. Forecast of Business Results and Shareholder Return Plan

- Ryosan will publish the FY2020 forecast of consolidated business results and shareholder return plan as soon as reasonable calculations become possible.