COMPANY RESEARCH AND ANALYSIS REPORT

Elematec Corporation

2715

Tokyo Stock Exchange Prime Market

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Summary

Currently promoting a medium-term management strategy centered on cultivating and deepening potential fields and expanding and enhancing its management base

Elematec Corporation <2715> (hereafter, also "the Company") is an electronics trading company that specializes in electronic materials. It was formed through the merger of Takachiho Electric Co., Ltd. and Ohnishi Denki Co., Ltd. in 2009 and entered the Toyota Tsusho Corporation <8015> Group in 2012. In recent years, the Company has been focusing on increasing sales of module products and original design manufacturing products (ODM), which entails conducting processes from design to manufacture of other companies' branded products with the Company's involvement from the planning stage, above and beyond limiting itself to sales of parts and components.

1. In FY3/24, operating income fell by 30.1%, partly due to rebound from previous fiscal year

Results for FY3/24 were ¥194,457mn in net sales (down 18.9% year on year [YoY]), operating income of ¥8,429mn (down 30.1%), ordinary income of ¥7,595mn (down 31.8%) and profit attributable to owners of parent of ¥5,367mn (down 30.3%). By market, the Automotive segment saw revenue increase by 21.2% YoY with customers' increased production and adoption of new products. In the Digital Electronics segment, however, revenue declined 30.8% YoY mainly due to weak sales of LCD and other display-related products as well as electrical parts, semiconductors and others. The Broad Market segment also saw revenue decline 21.4% YoY due to weak sales in the aftermarket, including a slump in white goods and industrial machinery. By region, revenue increased in Europe and the Americas, where automotive-related sales were strong, but other regions, including Japan, saw revenue decline. Gross profit margin improved by 1.0ppt YoY due to yen depreciation and changes in product composition, but with lower revenue gross profit declined by 12.0%. Operating income fell significantly as SG&A expenses increased 2.2% YoY. The previous year's results were favorable, so operating income declined significantly YoY, but it is still at a high level compared to the past, and the medium- to long-term trend remains upward. It can be said this result is not cause for pessimism.

2. Operating profit expected to recover in FY3/25 with 10.9% YoY increase

Results for FY3/25* are projected as revenue of ¥216,500mn (up 11.3% YoY), operating profit of ¥9,350mn (up 10.9%), profit before tax of ¥8,650mn (up 13.9%), and profit attributable to owners of parent of ¥6,000mn (up 11.8%), so a recovery is expected. As for sales by market, Digital Electronics is expected to increase 1.5%. Although display related applications are expected to continue to stagnate, a recovery is projected for electrical parts, semiconductors, toys and hobby items. The Automotive segment is expected to continue steadily, with a projected increase of 27.0%. Also, the Broad Market is expecting a decline in revenue from the aftermarket (primarily drive recorders), but medical equipment and housing equipment are expected to rise, so the segment overall is projected to increase 11.4%. The average rate against the dollar is assumed to be ¥145.0 (¥144.59 the previous year).

* The Company plans to adopt accounting standards based on IFRS starting with the securities report for FY3/24. The above consolidated results forecasts are based on IFRS. However, YoY change percentages are straight comparisons with FY3/24 results based on Japanese accounting standards.

3. Promoting the medium-term management strategy "elematec Pro+"

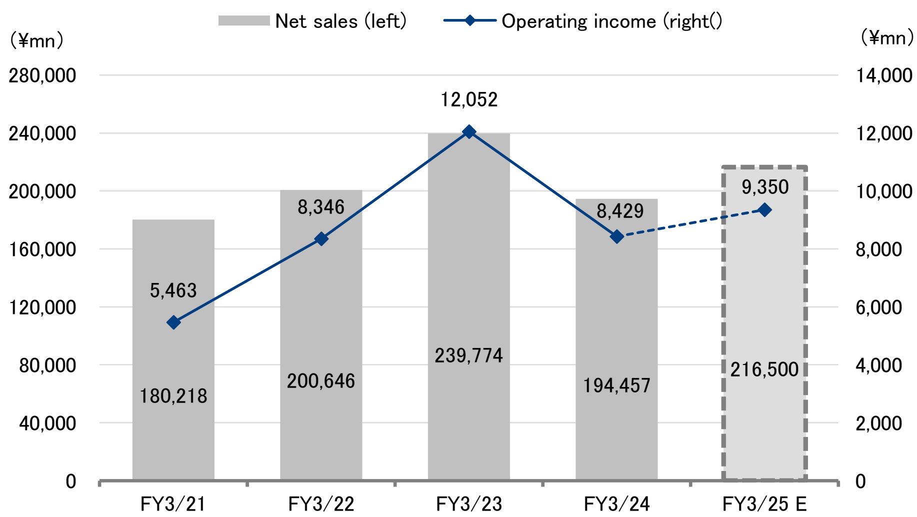
The Company announced its medium-term management strategy, "elematec Pro+" in April 2023. Under this medium-term management strategy, it will continue and further work on expanding high-value-added businesses, acquiring leading overseas customers, and focusing on the automotive business domain, which were main strategies under the previous medium-term plan. At the same time, the Company will additionally work on cultivating potential areas on a full-scale basis, strengthening the functions of the Marketing & Development Division, expanding customer base and business domains through M&A and alliances, and advancing sustainability and human capital efforts as new key measures. It has designated automotive, aftermarket, and medical equipment as key markets. Although the current business performance is stagnant, the Company's policy remains unchanged to proceed steadily with these key measures. It will also further progress management conscious of capital cost in the future.

In addition, instead of the previous dividend payout ratio of 40% or more, the basic dividend policy from FY3/24 has been changed to "the amount calculated using the dividend payout ratio (consolidated) of 50% or the DOE of 3%, whichever is higher as a guideline." This is due to the fact that the Company now has ample cash on hand and an increase in the number of stable revenue sources such as the Automotive segment, and has established a DOE standard that allows it to pay dividends even if profits decline significantly or the Company ends the fiscal year with a loss. In accordance with this standard, originally the annual dividend for FY3/24 would have declined because of the decline in results, but the Company "wanted to reward shareholders even a little," so even through results declined, it raised the dividend to ¥85 (¥76 the previous year). Further, even in FY3/25 in progress, the Company announced a dividend forecast of a dividend increase to ¥90 for the year. This is likely proof that the Company is confident results will recover going forward.

Key Points

- A general electronics trading company that handles a wide range of products, including electronic materials and electrical parts and equipment
- FY3/24 operating income declined 30.1% YoY, but maintained the second-highest level on record
- Announced the medium-term management strategy "elematec Pro+" and aims for a CAGR of 10% or more in profit

Results trends



Note: IFRS applied since FY3/25
Source: Prepared by FISCO from the Company's financial results

Company overview

An electronics trading company specializing in electronic materials with 73 sites in Japan and overseas

1. History and business description

(1) History

The two companies being the Company's predecessors were Takachiho Electric, founded in 1947 in Tokyo, and Ohnishi Denki, founded in 1958 in Kyoto. Both companies began by handling insulation materials, subsequently broadened the scope of their product offerings to electronic materials used in electronics products following technology and development trends, and grew into independent technology trading companies.

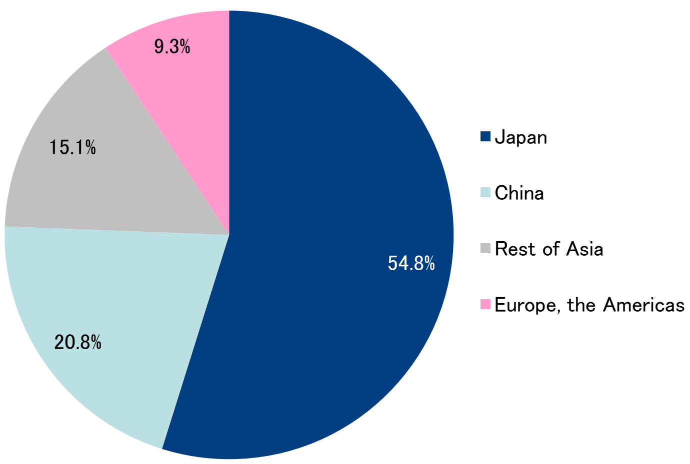
These companies merged in 2009 (with Takachiho Electric as the surviving entity) and changed the company name to Elematec Corporation. The Company has steadily grown since the merger, even though both companies mainly handled electronic materials, thanks to complementary geographical positions in Tokyo and Kyoto. It became a subsidiary of Toyota Tsusho through a TOB transaction in 2012.

(2) Business description

Currently, the Company handles a wide range of products, including electronic materials for electronics products, electrical parts, and equipment. It has 1,225 employees and 25 sites in Japan and 48 sites overseas on a consolidated basis as the business foundation (as of March 31, 2024). The business sites include three operations with processing services (one in Japan and two in China).

While the Company has developed business globally, its main customers are Japanese companies, and its overseas activities are mainly in China and other Asian areas, reflecting the overseas expansion by Japanese companies. The sales breakdown by region in FY3/24 was 54.8% in Japan, 20.8% in China (including Hong Kong), 15.1% in other Asian areas (South Korea, India, Southeast Asia, etc.), and 9.3% in Europe and the Americas (US, Mexico, Czech Republic), according to the Company's financial results.

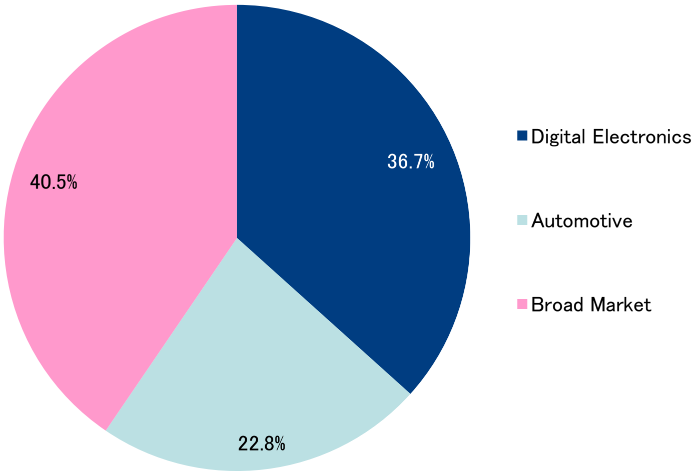
Net sales by region (FY3/24)



Source: Prepared by FISCO from the Company's website

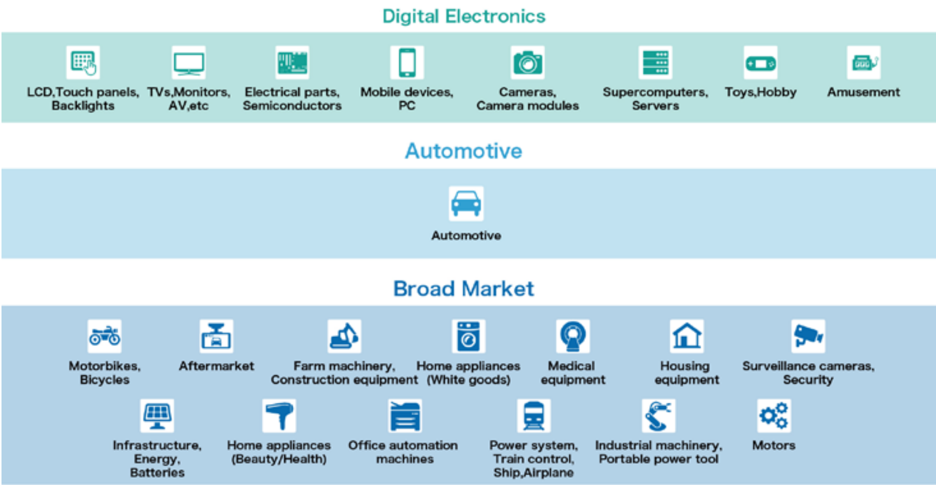
Grouping is important for management purposes because the Company has many customers on procurement and sales sides and handles a wide range of products. Currently, as a market-based classification the Company uses the customer's product item standard (sales destination standard) and divides its internal management and information disclosure into three segments: Digital Electronics, Automotive, and Broad Market. The sales breakdown in FY3/24 was 36.7% in Digital Electronics, 22.8% in Automotive, and 40.5% in Broad Market.

Net sales trends by market (FY3/24)



Source: Prepared by FISCO from the Company's results briefing materials

The Company's focal markets



Source: Reprinted from the Company's website

Realizing stable growth in business performance leveraging numerous products and business partners, and advancing high value-added businesses

2. Features and strengths

(1) Rich product lineup and solid customer base

An important feature of the Company is that it has many different business partners and products. It handles a wide range of products, primarily electronic materials and electrical parts from about 7,000 suppliers (manufacturers) for about 6,000 customers (users). Individual suppliers and customers are not disclosed, but the Company's top 10 main customers account for approximately 40% of net sales (FY3/24). Because of the diversity in suppliers, customers and products handled, the Company's operating performance is not significantly affected by any particular customer or product, enabling continuous and stable growth.

(2) Proposal capabilities and manufacturing capabilities (sites)

The Company has large numbers of customers, and receives many requests from them. On the other hand, having handled many products over a long time, the Company is familiar with the features and characteristics of a large number of products, and responds to customer requests by combining the knowledge of these products and its expertise from the past. The Company's ability to anticipate customers' needs and make proposals on its own, in short not only engaging in passive business development but also active business development, is a strength.

Another strength of the Company is that it has manufacturing divisions (one plant in Japan, two plants overseas and numerous manufacturing outsourcers). This means it does not merely sell parts, but is capable of providing module products, customized products, and half-finished products in response to customer requests. In one sense, some customers may see the Company as "an expedient vendor," and many customers have continued doing business with the Company over a long period of time, which may also be one of its strengths.

(3) Three-dimensional earnings structure

In the case of an ordinary electronics trading company, customers (X-axis) and products (Y-axis) are the important factors for increasing earnings, and the earnings structure can be described as flat. In addition to this, the Company also has a third axis (Z-axis) that includes planning (proposals), manufacturing, and quality control, which means it has a three-dimensional earnings structure.

Especially in recent years, the Company has strengthened its planning and proposal capabilities in addition to its mere trading company functions, and has become higher (thicker) in the Z-axis direction. In the same way that a taller building is stronger and less likely to collapse, the Company's earnings structure is strong and will not collapse easily. This three-dimensional earnings structure is the Company's feature, and a strength.

3. Main services and functions

The Company goes beyond just the basic services and functions of an electronics trading company, which include supply of optimal components, credit provision and financing, and management of delivery timing and inventory. The Company also provides even more sophisticated, high-value-added services and functions, such as planning and development/design and manufacturing. The Company highlights the following five services and functions as features, and it may be because of these functions that the Company is able to link diverse products to its businesses and incorporate them into its performance.

(1) Planning and development/design
Sales Division, Marketing & Development Division and Design Department collaborate on planning and development and design of new parts and units.

(2) Procurement agency service
Procuring components on behalf of customers to best match their requirements in terms of quality, cost, and delivery timing.

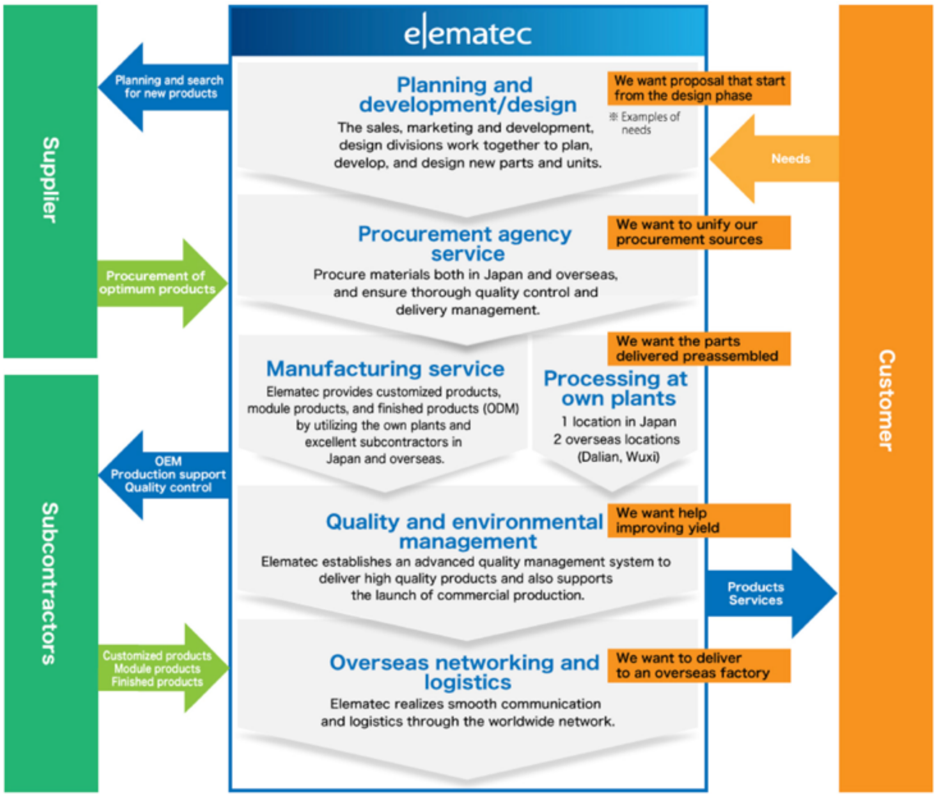
(3) Manufacturing service
Providing customized products, module products and original design manufacturing finished products (ODM) by utilizing its own factories and outstanding outsourcing both in Japan and overseas.

(4) Quality and environmental management
Maintaining a sophisticated quality control system to deliver high quality products.

(5) Overseas networking
Ensuring smooth global logistics utilizing its worldwide network.

The Company maintains a relatively high gross profit margin by adding high-added-value services and functions to basic trading company functions. As the Company continues to make use of its five services and functions, its gross profit margin should improve even more.

Details of the five services and functions



Source: Reprinted from the Company's website

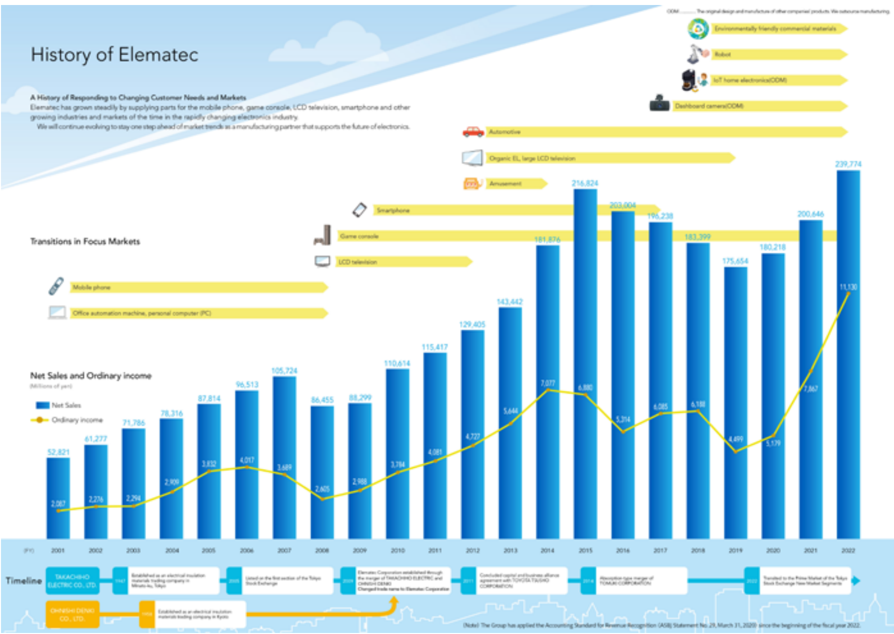
Has maintained earnings growth through a structure that enables it to ride through a growth sector

4. Long-term results trends

Looking back at long-term results, it can be said that the Company has achieved stable growth in the electronics industry, which goes through big ups and downs, by overcoming waves such as economic cycles and product cycles. In the early 2000s, the Company's mobile phone business grew, but its key products were printed circuit board (FPC) materials, substrate mounting and optical films. With these products, net sales exceeded ¥100.0bn for the first time in FY3/08. Later, LCD TV-related products became a major business due to the move to terrestrial digital broadcasting and other factors. From 2010 onward, smartphones and tablets emerged as fast-growing products, and the Company sold various types of film, glass products, and other items to rapidly recover from the global financial crisis and achieve its highest profit in consecutive years, exceeding ¥200.0bn in net sales in FY3/16 for the first time. In recent years results have leveled off as the smartphone market has matured but growth has been maintained by strengthening its planning and proposal capabilities such as selling dashboard cameras as ODM products, enabling it to achieve record high net sales in FY3/23 (¥239.7bn). Furthermore, the Company's next growth markets are shifting to the automotive-related and overseas manufacturers-related businesses. The Company not only has many business partners and products, but also has proposal and manufacturing capabilities, which raise expectations of a further increase in business opportunities.

In this way, the Company has maintained growth by providing appropriate parts and products according to the market and conditions at the time. This can be called a "strategy of being agile in seizing opportunities," but in reality, we at FISCO believe that the Company's strength and characteristic are its ability to "get on the bandwagon." To put it another way, to "get on the bandwagon" means to have a "structure that can ride growth areas" that enable it to sustain growth because it has a broad customer base, a large number of products, and development capabilities that are not possible for any other company.

Long-term results trends



Note: ODM refers to the design and manufacture of other companies' branded products. The Company outsources manufacturing.
Source: Reprinted from the Company's Corporate Profile

Business performance

In FY3/24, revenue and profit declined partly in reaction to the previous year, but operating income is still at its second highest level in the past 10 years

1. Overview of FY3/24 results

In FY3/24, the Company recorded net sales of ¥194,457mn (down 18.9% YoY), operating income of ¥8,429mn (down 30.1%), ordinary income of ¥7,595mn (down 31.8%), and profit attributable to owners of parent of ¥5,367mn (down 30.3%).

By market, the Automotive segment saw revenue increase by 21.1% YoY with customers' increased production and adoption of new materials, among other factors, but in Digital Electronics, revenue declined 30.8% mainly due to weak sales of LCD and other display related products, as well as electrical parts, semiconductors and others. The Broad Market also saw revenue decline, by 21.4%, due to weak sales in the aftermarket, where drive recorders slumped, white goods and industrial machinery. By region, revenue increased in Europe and the Americas, as car-related applications performed well, but revenue declined elsewhere, including Japan.

The gross profit margin improved 1.0ppt to 12.4%. A valuation loss on inventory of ¥130mn was recorded, but the cost ratio improved on yen deprecation, changes in the product mix (increased percentage of Automotive, where profitability is comparatively high). Gross profit declined by 12.0% caused by lower revenue, and SG&A expenses increased 2.2% to ¥15,674mn. As for a breakdown of SG&A expenses, personnel expenses were generally flat. Overseas salaries increased on the impact of exchange rates, but performance-linked bonuses went down. Freightage & packing expenses decreased by ¥221mn on lower revenue, but a loss on doubtful accounts (¥315mn) was recorded, travel and transportation expenses rose, and expenses were incurred related to relocating the head office, so other administrative expenses increased by ¥564mn.

As for exchange rates, the weak yen has a positive impact. According to the Company, a one yen change in the exchange rate has an impact of approximately ¥1,300mn on net sales and ¥70mn on ordinary income. The average rate against the U.S. dollar in FY3/24 was ¥144.59 (¥135.50 the previous year), so this had a positive impact on net sales of approximately ¥6,800mn and ordinary income of around ¥400mn.

Summary of FY3/24 results

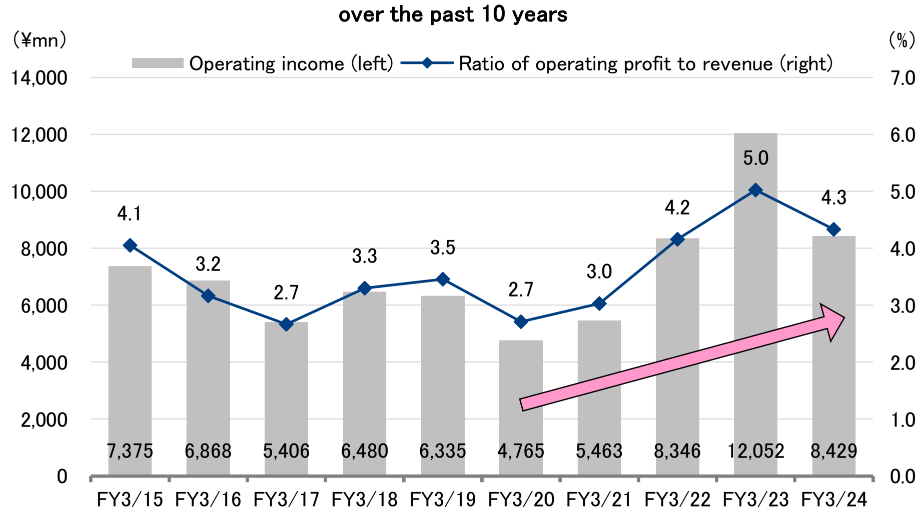
(¥mn)

	FY3/23		FY3/24		YoY	
	Amount	Composition	Amount	Composition	Change	Change (%)
Net sales	239,774	100.0%	194,457	100.0%	-45,317	-18.9%
Gross profit	27,384	11.4%	24,103	12.4%	-3,281	-12.0%
SG&A expenses	15,331	6.4%	15,674	8.1%	343	2.2%
Operating income	12,052	5.0%	8,429	4.3%	-3,623	-30.1%
Ordinary income	11,130	4.6%	7,595	3.9%	-3,535	-31.8%
Profit attributable to owners of parent	7,696	3.2%	5,367	2.8%	-2,329	-30.3%

Source: Prepared by FISCO from the Company's financial results and results briefing materials

Results were strong the previous year, so operating income fell by a large margin YoY, but it was still at its second highest level in the past 10 years, so it is not necessarily cause for pessimism. Exchange rates (the weak yen) did have an impact, but the ratio of operating profit to revenue maintained a high level compared to the past, and seen in the medium to long term, operating income can be said to be maintaining its upward trend.

Change in operating income and ratio of operating profit to revenue over the past 10 years



Source: Prepared by FISCO from the Company's financial results

The Automotive segment continued to grow due to customers' increased production and adoption of new products, but revenue declined in the Digital Electronics and Broad Market segments due to a rebound from the previous fiscal year

2. Net sales by market

In the Digital Electronics segment, net sales were ¥71,294mn (down ¥31,720mn or 30.8% YoY). As for the main breakdown, LCD, touch panels, backlit displays and other display-related applications were impacted by lower production by key customers and fell by ¥16,811mn. Electrical parts and semiconductors were subject to production adjustments by overseas customers and so declined by ¥6,595mn, while toys and hobby items declined ¥6,566mn due to production cuts at major customers.

Net sales in the Automotive segment were solid at ¥44,431mn (an increase of ¥7,778mn or 21.2% YoY), due to an increase in customers' automobile production as well as the adoption of new products and other factors.

In the Broad Market segment, net sales were ¥78,730mn (down ¥21,393mn or 21.4% YoY). Net sales declined by ¥11,801mn in the aftermarket, mainly due to a slowdown in the popularity of dashboard cameras that has run its course, by ¥2,851mn in white goods, centered on air conditioners, and by ¥1,810mn in industrial machinery, including some semiconductor equipment.

Breakdown of net sales trends by market

(¥mn)

	FY3/23		FY3/24			Main target markets	Change
	Amount	Composition	Amount	Composition	Change (%)		
Digital Electronics	102,996	43.0%	71,294	36.7%	-30.8%	LCDs, touch panels, and backlights	-16,811
						Electrical parts, semiconductors	-6,595
						Mobile devices, PCs	-6,566
Automotive	36,653	15.3%	44,431	22.8%	21.2%	Overall automotive	7,778
Broad Market	100,124	41.8%	78,730	40.5%	-21.4%	Aftermarket	-11,801
						White goods	-2,851
						Industrial machinery	-1,810
Total	239,774	100.0%	194,457	100.0%	-18.9%		-45,317

Source: Prepared by FISCO from the Company's results briefing materials

3. Net sales by region

In terms of net sales by region, net sales in Japan were ¥106,628mn (down 20.0% YoY), net sales in China were ¥40,379mn (down 25.3%), net sales in other Asian areas were ¥29,373mn (down 15.3%), and net sales in Europe and the Americas were ¥18,075mn (up 2.2%) according to the Company's financial results. The strong sales in Europe and the Americas were largely attributable to growth in the automotive sector.

By region, segment profit was ¥2,729mn (down 44.3% YoY) in Japan, ¥2,379mn (down 38.5%) in China, ¥1,580mn (down 3.0%) in other Asian areas, and ¥804mn (up 43.9%) in Europe and the Americas.

Sales by region

(¥mn)

	FY3/23		FY3/24		YoY	
	Amount	Composition	Amount	Composition	Change	Change (%)
Net sales	239,774	100.0%	194,457	100.0%	-45,317	-18.9%
Japan	133,354	55.6%	106,628	54.8%	-26,726	-20.0%
China	54,058	22.5%	40,379	20.8%	-13,679	-25.3%
Other Asian areas	34,672	14.5%	29,373	15.1%	-5,299	-15.3%
Europe, Americas	17,689	7.4%	18,075	9.3%	386	2.2%
Operating income	12,052	5.0%	8,429	4.3%	-3,623	-30.1%
Japan	4,900	3.7%	2,729	2.6%	-2,171	-44.3%
China	3,871	7.2%	2,379	5.9%	-1,492	-38.5%
Other Asian areas	1,628	4.7%	1,580	5.4%	-48	-3.0%
Europe, Americas	558	3.2%	804	4.4%	246	43.9%
(Adjustment amount)	1,092	-	935	-	-157	-14.4%

Source: Prepared by FISCO from the Company's financial results

Cash on hand of ¥42.1bn and an equity ratio of over 60% for a stable financial foundation

4. Financial condition

As of the end of FY3/24, current assets totaled ¥108,096mn (up ¥790mn from the end of FY3/23). Key factors were a ¥9,172mn increase in cash and deposits and a ¥9,049mn decrease in notes and accounts receivable-trade accompanying decreased sales, and a ¥547mn increase in inventories. Non-current assets were ¥7,630mn (up ¥1,024mn). This was mainly due to a ¥550mn increase in property, plant and equipment, a ¥40mn decrease in intangible assets, and a ¥514mn increase in investments and other assets. As a result, total assets at the end of FY3/24 were ¥115,727mn (up ¥1,814mn).

Meanwhile, current liabilities were ¥43,884mn (down ¥2,646mn from the end of FY3/23). The main factors were a ¥1,131mn decrease in notes and accounts payable-trade and a ¥797mn decrease in short-term loans payable. Total net assets were ¥69,529mn (up ¥3,951mn) due to factors including a ¥1,723mn increase in retained earnings resulting from the recording of profit attributable to owners of parent and a ¥1,825mn increase in foreign currency translation adjustment. As a result, the equity ratio at the end of FY3/24 was 60.1% (compared to 57.6% at the end of FY3/23).

Consolidated balance sheets

(¥mn)

	End of FY3/23	End of FY3/24	Change
Cash and deposits	32,966	42,139	9,172
Notes and accounts receivable-trade	57,906	48,856	-9,049
Inventories	15,354	15,901	547
Total current assets	107,306	108,096	790
Property, plant and equipment	3,431	3,981	550
Intangible assets	287	247	-40
Investments and other assets	2,887	3,401	514
Total non-current assets	6,606	7,630	1,024
Total assets	113,913	115,727	1,814
Notes and accounts payable-trade	40,311	39,180	-1,131
Short-term loans payable	1,093	296	-797
Total current liabilities	46,530	43,884	-2,646
Total non-current liabilities	1,804	2,314	510
Total liabilities	48,335	46,198	-2,136
Retained earnings	2,999	4,824	1,825
Foreign currency translation adjustment	57,412	59,136	1,723
Total net assets	65,577	69,529	3,951

Source: Prepared by FISCO from the Company's financial results and results briefing materials

5. Status of cash flows

Net cash provided in operating activities in FY3/24 was ¥14,250mn. The main inflows were recording ¥7,515mn in income before income taxes, ¥1,193mn in depreciation and amortization, a decrease of ¥11,226mn in notes and accounts receivable-trade and of ¥2,934mn in bankruptcy reorganization claims, etc., and a decrease of ¥393mn in inventories. Primary outflows included decreases of ¥3,228mn in notes and accounts payable-trade and ¥2,842mn in allowance for doubtful accounts.

Net cash used in investing activities was ¥1,160mn. The main outflows included ¥1,048mn in purchase of property, plant and equipment (mainly molds) and ¥62mn in purchase of intangible assets. Net cash used in financing activities was ¥4,996mn. The main outflows were ¥894mn in decrease in short-term loans payable ¥457mn in repayments of lease liabilities and ¥3,644mn in cash dividends paid. As a result, cash and cash equivalents during FY3/24 increased ¥9,172mn, and the balance at the end of the quarter was ¥42,139mn. The Company still has ample cash on hand and its financial position is stable.

Consolidated statements of cash flows

(¥mn)

	FY3/23	FY3/24
Cash flows from operating activities	4,910	14,250
Income before income taxes	11,086	7,515
Depreciation and amortization	1,133	1,193
Increase (decrease) in allowance for doubtful accounts	260	-2,842
Decrease (increase) in notes and accounts receivable-trade	4,498	11,226
Decrease (increase) in bankruptcy reorganization claims	-276	2,934
Decrease (increase) in inventories	1,052	393
Increase (decrease) in notes and accounts payable-trade	-9,075	-3,228
Cash flows from investing activities	-872	-1,160
Purchase of property, plant and equipment	860	-1,048
Purchase of intangible assets	-58	-62
Cash flows from financing activities	-2,299	-4,996
Net increase (decrease) in short-term borrowings	651	-894
Repayment of lease liabilities	-371	-457
Dividends paid	-2,580	-3,644
Net increase (decrease) in cash and cash equivalents	2,213	9,172
Cash and cash equivalents at the end of the quarter	32,966	42,139

Source: Prepared by FISCO from the Company's financial results

Outlook

Expecting increased revenue in all segments in FY3/25. Operating profit projected to recover and increase by 10.9% YoY

1. Forecasts for FY3/25

For FY3/25 results, revenue is expected to be ¥216,500mn (up 11.3% YoY), operating profit, ¥9,350mn (up 10.9%), profit before tax, ¥8,650mn (up 13.9%), and profit attributable to owners of parent, ¥6,000mn (up 11.8%). By segment, the Company is forecasting increases in all segments.*

* The Company plans to adopt accounting standards based on IFRS starting with the securities report for FY3/24. The above consolidated results forecasts are based on IFRS. However, YoY change percentages are straight comparisons with FY3/24 results based on Japanese accounting standards.

Summary of FY3/25 forecasts

(¥mn)

	FY3/24		FY3/25 (E)		YoY	
	Amount	Composition	Amount	Composition	Change	Change (%)
Revenue	194,457	100.0%	216,500	100.0%	22,043	11.3%
Operating profit	8,429	4.3%	9,350	4.3%	921	10.9%
Profit before tax	7,595	3.9%	8,650	4.0%	1,055	13.9%
Profit attributable to owners of parent	5,367	2.8%	6,000	2.8%	633	11.8%

Note: The Company plans to adopt accounting standards based on IFRS starting with the securities report for FY3/24. The previous year's results are based on Japanese standards and YoY comparisons are straight comparisons.
Source: Prepared by FISCO from the Company's results briefing materials

2. Forecast sales by market

By market, sales in the Digital Electronics segment are forecast to be ¥72,384mn (up ¥1,089mn or 1.5% YoY). Sales of LCDs, touch panels, and backlights are expected to decline by ¥6,270mn due to expected ongoing inventory adjustments at customers. Electrical parts and semiconductors are also expected to increase by ¥4,087mn due to recovery of production at customers. Inventory adjustments completed in toys and hobby items make production recovery highly likely, and a ¥1,278mn increase in revenue is forecast.

In the Automotive segment, sales are forecast to be ¥56,437mn (up ¥12,005mn or 27.0% YoY) due to the acquisition of new projects related to EV (Electric Vehicle) and the expected steady growth in automotive production.

The Broad Market segment is expected to be ¥87,677mn (increase of ¥8,946mn or 11.4% YoY). The aftermarket is expected to be ¥4,324mn, as a large decline in revenue is projected due to the spread of drive recorders having receded somewhat. At the same time, medical equipment, which is a focus, is forecast to increase ¥3,668mn and housing equipment to increase ¥1,001mn.

Forecast sales by market

(¥mn)

	FY3/24		FY3/25			Main target markets	Change
	Amount	Composition	Amount	Composition	Change (%)		
Digital Electronics	71,294	36.7%	72,384	33.4%	1.5%	LCDs, touch panels, and backlights	-6,270
						Electrical parts, semiconductors	4.087
						Toys, hobby items	1,278
Automotive	44,431	22.8%	56,437	26.1%	27.0%	Overall automotive	12,005
Broad Market	78,730	40.5%	87,677	40.5%	11.4%	Aftermarket	-4,324
						Medical equipment	3,668
						Housing equipment	1,001
Total	194,457	100.0%	216,500	100.0%	11.3%		22,043

Source: Prepared by FISCO from the Company's results briefing materials

Medium- to long-term growth strategy

Progressing the medium-term management strategy "elematec Pro+," promoting management conscious of capital cost in addition to deepening key markets

1. Basic policies of the medium-term management strategy "elematec Pro+"

The Company has announced its medium-term management strategy, "elematec Pro+" (FY3/24 to FY3/26) to follow on from "elematec NEXT" which was undertaken through the previous fiscal year. Below is an overview of that strategy.

(1) External environment and challenges

The Company cites geopolitical risks and fluctuations in domestic and foreign markets, advancement/diversification of customer needs, growing interest in sustainability challenges and changing ways of working and increasing diversity as trends in the external environment. In light of this external environment, the following challenges have been set forth.

a) Expand operations outside Japan and China from the perspective of growth and risk diversification

- Invest resources in North America and Europe
- Move away from procurement agency in ASEAN

b) Strengthen the functions of the Marketing & Development Division, strengthen cooperation with each department, and aim to acquire external resources

- Strengthen efforts based on business partners and products
- Continue to follow medium- to long-term trends and expand investments and loans

c) Strengthen efforts to protect the global environment and resolve social issues

- Contribute to solving sustainability issues through its core business
- Support for suppliers based on customer's emphasis on environmental considerations

d) Establish a system in which each individual can be fulfilled and self-actualized

- Promote diversity and inclusion
- Create a structure for education, training and assignment to enhance employee engagement

(2) Key measures and quantitative targets, and key markets

As a basic policy of the medium-term management strategy, the Company states, "We will continue to evolve the previous measures, and in the new medium-term plan, we will expand and strengthen our management base while tackling challenges in potential fields." Based on this policy, it intends to promote the following four key measures.

a) Key measures

(Cultivate and deepen potential fields)

- Cultivate potential areas on a full-scale basis
- Strengthen the functions of the Marketing & Development Division

(Expand and strengthen management base)

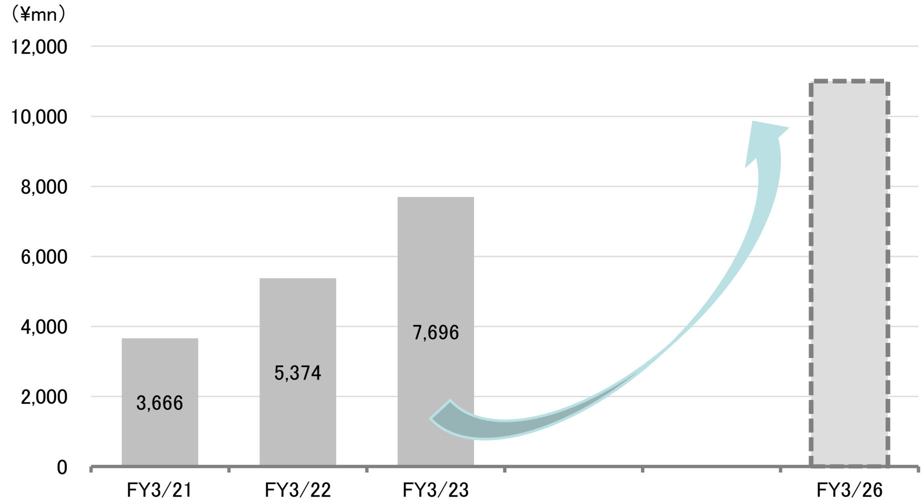
- Expand customer base and business domains through M&A and alliances
- Sustainability and human capital efforts

b) Quantitative targets and key markets

The Company has set achieving a CAGR of 10% or more for profit* from FY3/23 to FY3/26 as a quantitative target and has established that the three key markets for achieving this goal are automotive, aftermarket, and medical equipment.

* Originally ordinary income but changed the target to profit in conjunction with the application of IFRS.

Conceptual image of profit growth



Source: Prepared by FISCO from the Company's results briefing materials

2. Specific measures

(1) Cultivate potential areas on a full-scale basis

(Europe and the Americas)

- Enhance activity to have its products included in product specifications in its global customers
- Consider establishing a manufacturing base

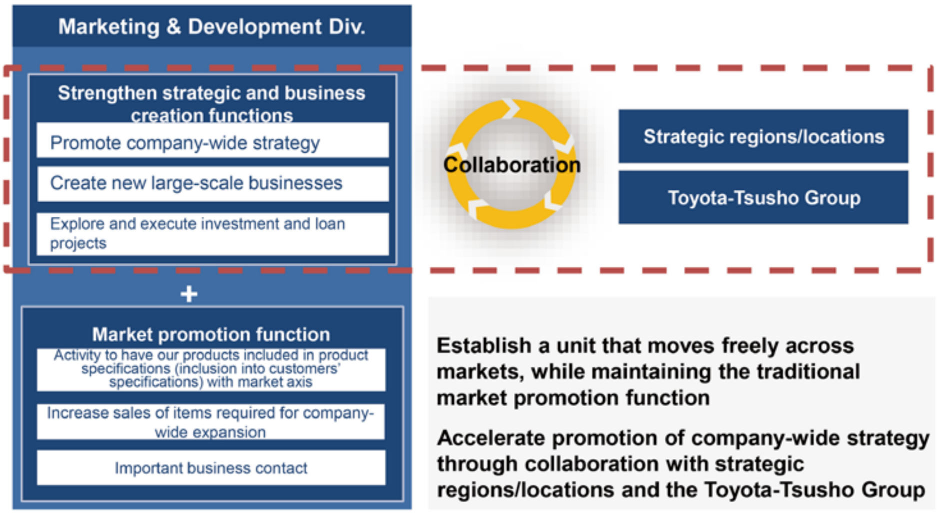
(ASEAN)

- Lateral expansion of successful business (finished products) in China
- Strengthen the development of "spec-in" (to have its products included in product specifications for its customers) and suppliers in the ASEAN region, respond to customers' shift to ASEAN

(2) Strengthen the functions of the Marketing & Development Division

The Company will review the functions of the Marketing & Development Division from the perspective of business creation, and strengthen cooperation with strategic regions/sites and the Toyota Tsusho Group.

Strengthen the functions of the Marketing & Development Division



Source: Reprinted from the Company's results briefing materials

(3) Automotive

For Automotive, it will capture the environmental response and electrification areas, where growth is expected, and untapped overseas OEM (mainly EV-related components) and Tier 1 companies.

In terms of the market environment, it is expected that EVs will grow rapidly, especially in the Chinese market, and that in-vehicle displays will become larger and more complex, transforming the car from a means of transportation to "transportation + information tools + entertainment." In addition, through the promotion of CASE and new participation from other industries, the Company expects to enter into areas where Tier 1 companies have not yet started (e.g., exterior and electrical components), and demand for integrated proposals for electronic circuit boards, design, and mounting is expected to increase.

As specific measures, the Company will expand sales of EV-related components (eAxle components and sensors, heaters, etc.). Also, as a strategy to capture overseas Tier 1 companies, it will strengthen proposals for high-performance Japanese products for HMI, advance integrated proposals for electronic circuit boards, design, and mounting utilizing the Design Department which is capable of electrical and mechanical design, and expand offices into Europe and the Americas, among other things. With regard to office expansion, the Company already opened its Poland Branch in May 2023, but plans to expand further as needed going forward.

(4) Aftermarket

For Aftermarket, the Company aims to expand earnings in the domestic market and enter overseas markets. As for the market environment, it understands that the private brand (PB) market will grow. As overseas and domestic home appliance retailers promote the development and sales of PB products, the sales share of PB products is rapidly expanding, and further expansion is expected in the future.

In line with this, the Company will strengthen the finished goods (ODM) business for major domestic mass retailers. As specific measures, it will strengthen supplier development (lateral deployment of successful cases in China) in the ASEAN region, and expand the range of products handled (finished products). Meanwhile, the Company will leverage the knowledge it has accumulated through business for major domestic mass retailers and carry out lateral expansion for the PB of local ASEAN companies. It will use the ASEAN market as a springboard to develop markets in Europe and the Americas.

(5) Medical equipment

For medical equipment, the Company will respond to the medical equipment connectivity market. As for the market environment, while demand for medical care is expected to increase alongside population aging on a global scale, especially in developed countries, as well as population growth, economic development, and rising incomes in emerging countries, medical equipment is expected to become more electronic.

Amid this environment, the Company plans to strengthen its business to meet diversifying medical needs. Specifically, the Company will expand its business for home health care (blood pressure monitors, body composition monitors, etc.), strengthen its finished products (OEM) business, and reinforce its efforts in the dental equipment field.

Initiatives progressing steadily

3. Progress with individual plans

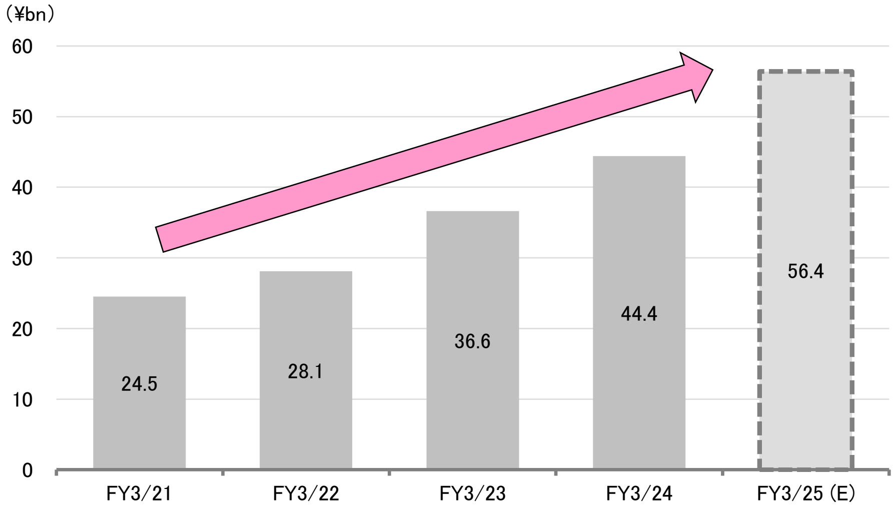
(1) Expand customer base and business domains through M&A and alliances

The Company will expand the customer base and business domains through M&A and alliances by building a system for considering investment and finance projects. It will promote finance and investment centered on the Business Strategy Group, which promotes the embodiment of Company-wide strategy in the medium-term management strategy. At the same time, executive officers and division heads will make a list of target companies for finance and investment in order to expand sales routes and acquire technologies and human capital. Moreover, these members will hold regular review meetings every quarter to share the status of considerations and narrow down target companies.

(2) Focus on the automotive business domain

As technology has advanced, progress continues to be made in vehicle electrification, and with environmental regulations getting tougher worldwide, automakers are expected to accelerate the shift to electric vehicles. In such an environment, the Company has focused on the EV and electrification markets to pursue a further growth stage. Net sales from the Automotive market rose from ¥24.5bn in FY3/21 to a new record high of ¥44.4bn in FY3/24. The average annual growth rate (CAGR) during this period was 22.0%, but the Company is projecting revenue of ¥56.4bn in FY3/25.

Automotive business revenue trends



Source: Prepared by FISCO from the Company's results briefing materials

(3) Strengthen initiatives for the medical equipment market

To strengthen initiatives for the medical equipment market going forward, the Company plans to acquire a license required for the manufacture and storage of medical equipment. Acquiring this license will allow it to handle completed products and strengthen the completed products business in order to accommodate diversifying customer needs.

Up to now, multiple parts would be assembled at the Company's partner factories and semi-finished products would be delivered to the customer (manufacturer). The manufacturer would subsequently perform final assembly, but acquiring the license will allow the Company to assemble the multiple parts into the final product at its partner factories and deliver it to the customer so that the customer only needs to perform inspection.

Sustainability activities to focus on responding to climate change

4. Sustainability efforts

The Company is actively engaged in sustainability as well and is focused in particular on response to climate change (TFCD).

(1) Basic approach to climate change

As the world's manufacturing partner, the Group has declared it will contribute to the realization of a carbon-free society by delivering environmentally conscious parts and materials. In business activities, it has set a fiscal 2030 target of reducing greenhouse gas emissions (Scopes 1 and 2) by 50% compared to fiscal 2021, and, further, it is aiming for carbon neutrality by fiscal 2050.

(2) Disclosures based on Task Force on Climate-Related Financial Disclosures (TCFD) recommendations

Through its Climate Change Working Group under the Sustainability Committee, the Group evaluated the impact of climate change risks and opportunities on business activities and considered responses to them. This information was disclosed in April 2024 based on the TCFD recommendations.

The Company's response to climate change (TCFD)

Category		Climate change factors	Risks	Opportunities	Impact on the Company	Response
Transition risks	Policy/legal regulations	Introduction of a carbon tax	○		Carbon tax burden, increased prices for raw materials, increased logistics costs	Reduce logistics costs through utilizing a worldwide network
		Mandatory disclosure of GHG emissions and other items related to climate change	○		Increased administrative costs associated with meeting mandatory disclosure requirements	Reduce administrative costs by utilizing DX to calculate disclosure data, etc.
	Markets and technology	Increased demand for products and services to adapt to the impact of climate change	○	○	Changes in earnings depending of changes in trends for products handled related to climate change	Expand sales of commercial and environmentally friendly products for environmentally friendly vehicles and clean energy (solar power, offshore wind power, etc.) facilities
Physical risks	Acute	Natural disasters from heavy rain and flooding, abnormal weather becoming more extreme	○	○	Reduced production at plants, plants being shut down, reduced sales opportunities from disrupted logistics networks Opportunity to acquire new business through utilizing worldwide networks	Strengthen global supply chain management utilizing sites inside and outside Japan
	Chronic	Rising average temperatures	○		Impact on business sites and employees from a worsening work environment	Create, operate and manage business continuity plan and maintain work environment through facilities investment

Source: Prepared by FISCO from the Company's results briefing materials

Shareholder return policy

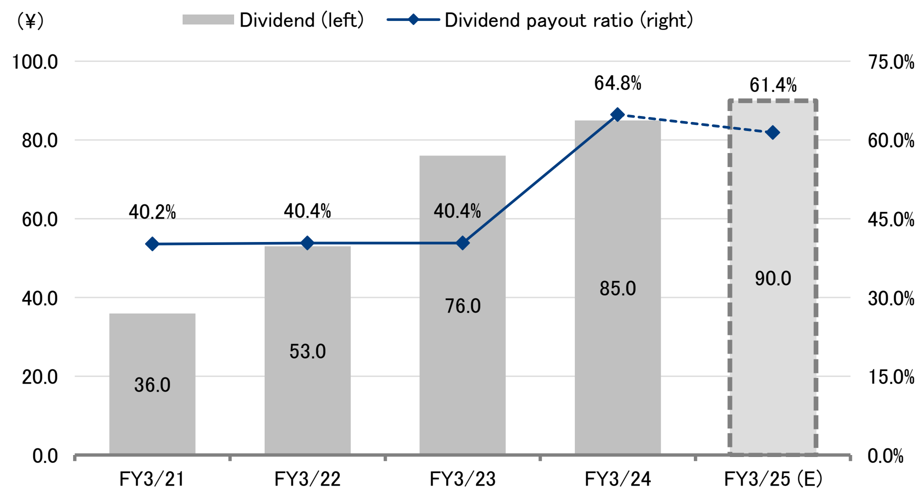
Based on a new dividend policy, planning to pay ¥90 annually for FY3/25. Projecting a payout ratio of 61.4% and DOE of 5.2%

In principle, the Company returns profits to shareholders through dividends, and has set a target dividend payout ratio of at least 40%, but it changed its dividend policy starting in FY3/24 to targeting the amount calculated using the payout ratio (consolidated) of 50% or the DOE of 3%, whichever is higher as a guideline. The reasons the Company changed its policy are 1) cash on hand increased as results steadily expanded, 2) stable revenue increased centering on the Automotive segment, and 3) even if profit drops sharply, it will still be able to pay a dividend based on the added DOE standard.

Based on this policy, in FY3/24 the slump in results led to a decline in the dividend, but "to reward shareholders even a little," the Company actually paid a yearly dividend of ¥85 (¥40 interim, ¥45 year-end, payout ratio of 64.8%). In addition, even for FY3/25 in progress, if the dividend policy is followed, it will lead to a reduced dividend, but the Company plans to increase the amount and pay a yearly dividend of ¥90 (projected payout ratio of 61.4% and DOE of 5.2%).

In this way, the Company's proactive approach to shareholder returns with an eye to improving capital efficiency is worthy of recognition.

Trends in dividend and dividend payout ratio



Source: Prepared by FISCO from the Company's financial results

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