

Nippon Manufacturing Service (2162)

Consolidated Fiscal Year (Million Yen)		Sales	OP	RP	NP	EPS (Yen)	DPS (Yen)	BPS (Yen)
FY03/2012		31,832	251	266	1,356	135.5	4.0	327.1
FY03/2013		38,869	387	564	235	23.0	3.0	367.5
FY03/2014CoE		41,500	(500)	(250)	550	53.8	3.0	-
FY03/2013	YoY	22.1%	54.1%	112.0%	(82.6%)	-	-	-
FY03/2014CoE	YoY	6.8%	-	-	133.5%	-	-	-
Consolidated Q1 to Q3 (Million Yen)		Sales	OP	RP	NP	EPS (Yen)	DPS (Yen)	BPS (Yen)
Q1 to Q3 FY03/2013		29,810	472	417	159	-	-	-
Q1 to Q3 FY03/2014		30,855	(534)	(228)	849	-	-	-
Q1 to Q3 FY03/2014	YoY	3.5%	-	-	432.1%	-	-	-

Source: Company Data, WRJ Calculation

1.0 Executive Summary (20 March 2014)

Hitting the Bottom

Nippon Manufacturing Service, heavily involved with EMS Business for major Japanese manufacturers, mainly those of consumer electronics, appears being on the verge of hitting the bottom in regards to its short-term business performance. The Company has suffered from major operating loss due mainly to that of the mainstay EMS Business basically attributable to China by region where almost half of sales in here is accounted for. EMS Business in China has short-term problems as well as structural problems at the same time. Nevertheless, most recently, the short-term problems are starting to get solved, while the Company is to carry out a structural reform to solve the structural problems. Fundamentally, the Company is to scrap and build own production bases as a whole across Japan, China and ASEAN nations in order to consolidate the overall operations, as far as we could gather.

In Q1 to Q3 FY03/2014, sales came in at ¥30,855m (up 3.5% YoY) and operating loss ¥534m (versus operating profit ¥472m during the same periods in the previous year). In regards to the mainstay EMS Business, sales came in at ¥21,890m (up 8.7%) and operating loss (before elimination) ¥487m (versus operating profit ¥403m), having accounted for the bulk of overall deterioration of operating balance with the Company. Compared with overall net decrease in operating balance ¥1,007m, EMS Business suffered from that of ¥891m. Sales of EMS Business, having become the key negative factor for the overall operating loss, comprised those of Japan (17.5% of total), China (44.0%) and ASEAN nations (38.5%) by regions, suggesting that the Company is most substantially exposed to China. In here, the Company suffered from the most substantial deterioration of operating balance. On top of structural problems, yen's depreciation turned out to be a short-term negative factor. Yen's depreciation is supposed to be roughly immune to operating balance as it increases expenses denominated in foreign currencies and sales at the same time. Nevertheless, there were some cases that the former took place but the latter did not in EMS Business, as the forex rates for booking sales were fixed beforehand. Having suffered from this, the Company is now cutting back exposure


to such cases. This is to sequentially improve short-term operating balance for EMS Business and thus for overall operations with the Company.

A fact that the Company is most substantially exposed to China in the mainstay EMS Business suggests that the largest management resources have been allocated to China to date, which appears to have been generating structural problems. Simply speaking, the problems are that China has a potential to become increasingly less superior, relatively as a site for manufacturing. While minimum wages in ASEAN nations, i.e., Vietnam, Malaysia, Cambodia, Myanmar, etc. are on the rise, those of China are also on the rise although they are relatively higher than the former at the moment. Thus, the minimum wages in China may remain relatively high for the future. Meanwhile, the Company is also involved with EMS Business in ASEAN nations, mainly based in Malaysia where minimal wages are relatively high among the nations and as high as almost those of China. On top of this, emerging Senkaku Islands issue has enhanced importance of so-called “China plus one” strategy among major Japanese manufacturers, i.e., the Company’s customers. Nevertheless, the Company’s structural reform, currently under being planned, is likely solving all those structural problems. In fact, the Company may shift own production bases to regions where relative superiority should be pursued, following plans by major Japanese manufacturers, i.e., own customers.

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2.0 Company Profile

“neo EMS”, the Business Concept

Company Name	Nippon Manufacturing Service Corporation Company Website IR Information Share Price 
Established	18 September 1985
Listing	25 October 2007 (Tokyo Stock Exchange JASDAQ Standard: 2162)
Capital	¥500m (As of the end of December 2013)
No. of Shares	10,805,500 shares, including 581,500 treasury shares (As of the end of December 2013)
Main Features	<ul style="list-style-type: none"> ● EMS & human resources businesses in Japan, China and ASEAN nations ● To benefit from reorganization by domestic manufacturers in Japan ● Targeting to lead manufacturing-oriented outsourcing in Asia
Businesses	I. In-Line Solutions (IS) Business II. Customer Service (CS) Business III. Global Engineering (GE) Business IV. Electronics Manufacturing Service (EMS) Business
Top Management	President & CEO: Fumiaki Ono
Shareholders	JAFCO Buyout No.2 Investment Limited Partnership 35.8%, Fumiaki Ono 16.8% (As of the end of September 2013)
Headquarters	Shinjuku-ku, Tokyo JAPAN
No. of Employees	Consolidated: 6,352, Unconsolidated :3,218 (As of the end of December 2013)

Source: Company Data

3.0 Recent Trading & Prospects

Q1 to Q3 FY03/2014 Results

In Q1 to Q3 FY03/2014, sales came in at ¥30,855m (up 3.5% YoY), operating loss ¥534m (versus operating profit ¥472m during the same periods in the previous year), recurring loss ¥228m (recurring profit ¥417m) and net profit ¥849m (up 432.1%). Company forecasts in FY03/2014, revised in line with release of Q2 results (14 November 2013), assumed sales ¥31,100m and operating loss ¥520m in Q1 to Q3, implying that the results were roughly in line with expectations.

At the non-operating level, the Company reported profit ¥305m on a net basis, up ¥361m from the same periods in the previous year, having resulted in recurring loss smaller than operating loss as much as this. The Company reported forex profit ¥240m versus forex loss ¥64m during the same periods in the previous year, driven by yen's depreciation, which was the key reason for the improvements for non-operating balance.

Moreover, the Company reported profit ¥1,101m on a net basis at the extraordinary level, up ¥1,200m from the same periods in the previous year and thus the Company saw net profit in spite of recurring loss. The Company reported extraordinary loss ¥98m, stemming from workforce adjustments to improve efficiency of operations in Hong Kong base of Shima Electronic Industry Co., Ltd. (100% held) which is one of consolidated subsidiaries in charge of the Company's EMS Business. More importantly, however, the Company report gain on negative goodwill ¥1,174m.

The gain on negative goodwill was generated by additional procurement of the shares of TKR Corporation which is the other consolidated subsidiary in charge of the Company's EMS Business. The Company had maintained shareholding ratio 53.01% for this consolidated subsidiary by the end of Q2 FY03/2014, since the procurement of the shares to include this as a consolidated subsidiary in its consolidated accounts in July 2011. As of the end of Q3, the shareholding ratio stood at 87.01%, due to a new transaction for the Company to procure the shares from top management of this consolidated subsidiary in November 2013.

As mentioned earlier, the Company, currently experiencing difficult situations to make money, has reached a conclusion that it has to implement structural reform for its mainstay EMS Business, while the additional procurement of the shares with TKR Corporation suggests that the Company is starting to get ready for this. In order to drastically reform the whole operations, it is taken for granted that the Company should smoothly facilitate decision-making for the whole group, to which the issue is expected to contribute.

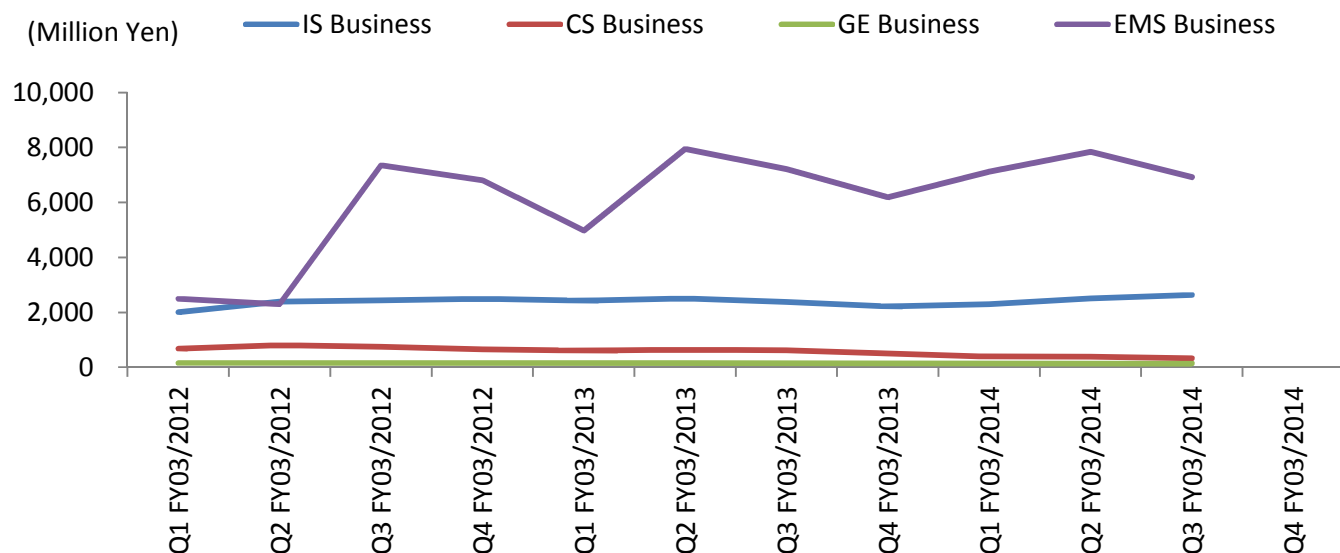
In fact, the recent business performance of the Company heavily hinges on that of the mainstay EMS Business. In July 2010, the Company started up its involvements with EMS Business, having merged with Shima Electronic Industry Co., Ltd. that runs manufacturing facilities in China, Malaysia, etc. Roughly at the same time, the Company obtained a business license for "on-premises production contract" in Vietnam as the first Japanese operator in there. On top of this, in December 2010, the Company obtained a business license for production dispatch in China as the first Japanese operator in there, having established a comprehensive structure for own services, even overseas, including developments, mounting and manufacturing, combined with existing operations. This represents "neo EMS (advanced EMS)", advocated by the Company.

Moreover, acquisition of TKR Corporation shares in July 2011 substantially increased the Company's exposure to EMS Business. While TKR Corporation was involved with designing & manufacturing for dies and molds, press processing, modules assembly including substrates mounting and ODM/OEM operations together with own advantageous capability for designing and developments, it was running overseas manufacturing facilities as well. However, it was the case that TKR Corporation was lacking in marketing capability, etc. as in Shima Electronic Industry Co., Ltd. Due mainly to this, both were seeing unfavorable business performance, while the Company, having acquired their shares at prices lower than their net assets value, immediately wrote off negative goodwill to have been generated for each deal and pursued synergy by means of applying own marketing capability.

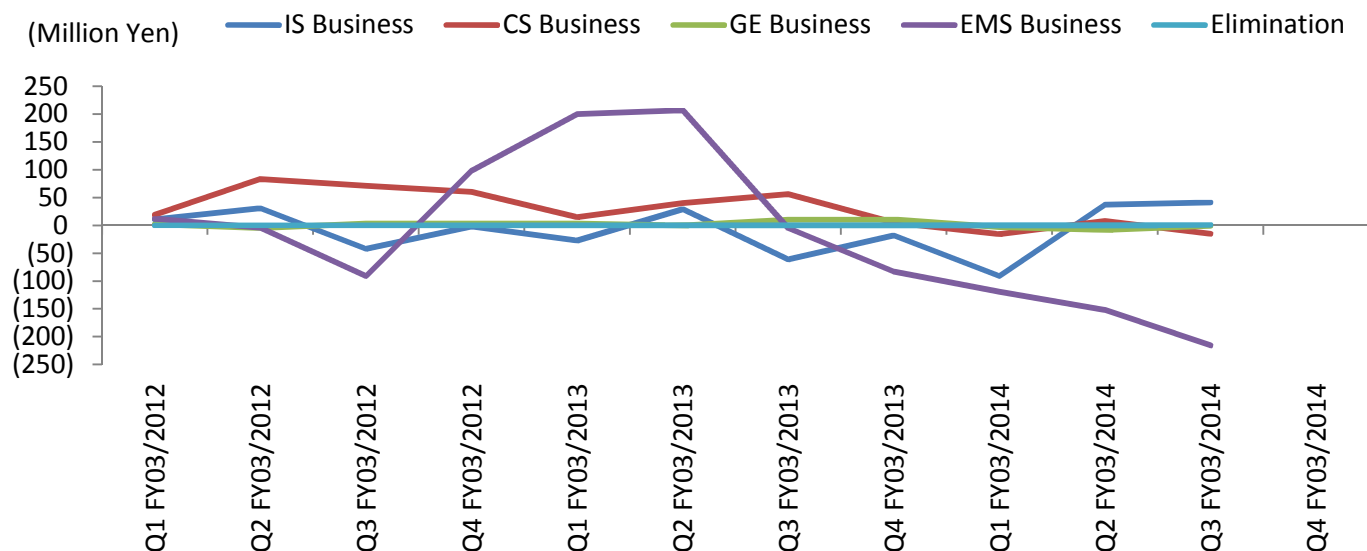
As a result, the Company saw substantial improvements in its EMS Business in FY03/2013, having contributed to sales and earnings with the Company to a substantial extent. While the Company saw sales ¥38,869m (up 22.1% YoY) and operating profit ¥387m (up 54.1%), sales came in at ¥26,333m (up 39.0%) and operating profit ¥320m (versus ¥14m in the previous year) for EMS Business, having accounted for 67.7% of sales and 82.8% of operating profit (before elimination) out of the Company as a whole or having become an overwhelming earnings source for the Company.

Quarterly Trends by Business Segment

Sales



Operating Balance



Source: Company Data,

Nevertheless, EMS Business has been seeing sequentially increasing operating loss most recently after seeing the peak operating profit in Q2 FY03/2013. In regards to sales, the Company has been seeing sequential improvements so far in FY03/2014, but sales have been coming down from the previous year when positive impacts from yen's depreciation are removed. Senkaku Islands issue, having arisen in September 2012, led to occurrences of anti-Japan protests in China and then persuaded major Japanese manufacturers, i.e., the Company's customers to make a fast changeover from China to South East Asian countries for manufacturing in line with "China plus one" strategy.

Thus, the Company inevitably suffers from slowing sales in EMS Business, being exposed a lot to China. Meanwhile, expenses in China are on the rise, due to surging labor costs in there as well as surging Chinese Yuan. This is why the Company is to launch structural reform.

Meanwhile, IS Business to offer production contract and production dispatch mainly in Japan maintained high level of earnings in Q2 and Q3 when compared with historical level. Nevertheless, the Company's exposure to this business segment is far too smaller than the mainstay EMS Business and thus this business segment has limited impacts to overall earnings with the Company. In regards to CS Business to provide repair services mainly for game consoles and mobile phones and GE Business to dispatch engineers, the Company's exposure is even smaller than IS Business while both of them are roughly breaking even.

In regards to IS Business, it appears that the Company benefits from completion of adjustments on the mainstay electric machine side by customer category. This business segment is mainly represented by production contract that carries high marginal profit ratio, while being exposed not much to production dispatch that carries low marginal profit ratio. In Q2 and Q3, it appears that the former did well.

Income Statement (Cumulative, Quarterly)

Income Statement	Cons.Act	Cons.Act	Cons.Act	Cons.Act	Cons.Act	Cons.Act	Cons.Act	Cons.Act	Cons.Act	YoY
(Million Yen)	Q1	Q1 to Q2	Q1 to Q3	Q1 to Q4	Q1	Q1 to Q2	Q1 to Q3	Q1 to Q4		Net Chg.
	03/2013	03/2013	03/2013	03/2013	03/2014	03/2014	03/2014	03/2014		
Sales	8,172	19,438	29,810	38,869	9,941	20,823	30,855	-		+1,044
Cost of Sales	6,917	16,821	26,156	34,357	9,122	19,047	28,185	-		+2,028
Gross Profit	1,254	2,616	3,654	4,512	818	1,775	2,670	-		(983)
SG&A Expenses	1,061	2,145	3,181	4,124	1,049	2,121	3,204	-		+23
Operating Profit	192	471	472	387	(230)	(345)	(534)	-		(1,007)
Non Operating Balance	51	(10)	(55)	176	201	277	305	-		+361
Recurring Profit	243	461	417	564	(29)	(68)	(228)	-		(645)
Extraordinary Balance	(1)	(31)	(99)	(106)	(97)	(78)	1,101	-		+1,200
Pretax Profit	242	429	317	458	(126)	(146)	872	-		+554
Tax Charges etc.	37	77	65	94	3	28	58	-		(7)
Minorities' Interests	97	151	92	128	25	21	(35)	-		(128)
Net Profit	107	200	159	235	(155)	(197)	849	-		+690
Sales YoY	+52.8%	+76.6%	+37.3%	+22.1%	+21.7%	+7.1%	+3.5%	-		-
Operating Profit YoY	+327.7%	+215.9%	+422.9%	+54.1%	-	-	-	-		-
Recurring Profit YoY	-	+449.0%	-	+112.0%	-	-	-	-		-
Net Profit YoY	-	(84.3%)	(87.1%)	(82.6%)	-	-	+432.1%	-		-
Gross Profit Margin	15.4%	13.5%	12.3%	11.6%	8.2%	8.5%	8.7%	-		(3.6%)
SG&A / Sales	13.0%	11.0%	10.7%	10.6%	10.6%	10.2%	10.4%	-		(0.3%)
Operating Profit Margin	2.4%	2.4%	1.6%	1.0%	(2.3%)	(1.7%)	(1.7%)	-		(3.3%)
Recurring Profit Margin	3.0%	2.4%	1.4%	1.5%	(0.3%)	(0.3%)	(0.7%)	-		(2.1%)
Net Profit Margin	1.3%	1.0%	0.5%	0.6%	(1.6%)	(0.9%)	2.8%	-		+2.2%
Tax Charges etc. / Pretax Profit	15.4%	18.1%	20.6%	20.6%	-	-	6.7%	-		(13.9%)

Income Statement	Cons.Act	Cons.Act	Cons.Act	Cons.Act	Cons.Act	Cons.Act	Cons.Act	Cons.Act	Cons.Act	YoY
(Million Yen)	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4		Net Chg.
	03/2013	03/2013	03/2013	03/2013	03/2014	03/2014	03/2014	03/2014		
Sales	8,172	11,265	10,372	9,059	9,941	10,881	10,032	-		(340)
Cost of Sales	6,917	9,903	9,335	8,200	9,122	9,925	9,137	-		(197)
Gross Profit	1,254	1,362	1,037	858	818	956	894	-		(142)
SG&A Expenses	1,061	1,083	1,036	943	1,049	1,071	1,083	-		+47
Operating Profit	192	278	0	(84)	(230)	(115)	(188)	-		(189)
Non Operating Balance	51	(61)	(45)	232	201	75	28	-		+73
Recurring Profit	243	217	(44)	147	(29)	(39)	(160)	-		(116)
Extraordinary Balance	(1)	(29)	(68)	(6)	(97)	19	1,179	-		+1,247
Pretax Profit	242	187	(112)	140	(126)	(19)	1,019	-		+1,131
Tax Charges etc.	37	40	(12)	28	3	25	29	-		+41
Minorities' Interests	97	53	(59)	36	25	(3)	(57)	-		+1
Net Profit	107	93	(40)	75	(155)	(41)	1,046	-		+1,087
Sales YoY	+52.8%	+99.0%	(3.0%)	(10.6%)	+21.7%	(3.4%)	(3.3%)	-		-
Operating Profit YoY	+327.7%	+167.6%	-	-	-	-	-	-		-
Recurring Profit YoY	-	+250.4%	-	(42.1%)	-	-	-	-		-
Net Profit YoY	-	(92.7%)	-	(33.3%)	-	-	-	-		-
Gross Profit Margin	15.4%	12.1%	10.0%	9.5%	8.2%	8.8%	8.9%	-		(1.1%)
SG&A / Sales	13.0%	9.6%	10.0%	10.4%	10.6%	9.8%	10.8%	-		+0.8%
Operating Profit Margin	2.4%	2.5%	0.0%	(0.9%)	(2.3%)	(1.1%)	(1.9%)	-		(1.9%)
Recurring Profit Margin	3.0%	1.9%	(0.4%)	1.6%	(0.3%)	(0.4%)	(1.6%)	-		(1.2%)
Net Profit Margin	1.3%	0.8%	(0.4%)	0.8%	(1.6%)	(0.4%)	10.4%	-		+10.8%
Tax Charges etc. / Pretax Profit	15.4%	21.5%	-	20.5%	-	-	2.9%	-		-

Source: Company Data, WRJ Calculation

Segmented Information (Cumulative, Quarterly)

Segmented Information	Cons.Act Q1 03/2013	Cons.Act Q1 to Q2 03/2013	Cons.Act Q1 to Q3 03/2013	Cons.Act Q1 to Q4 03/2013	Cons.Act Q1 03/2014	Cons.Act Q1 to Q2 03/2014	Cons.Act Q1 to Q3 03/2014	Cons.Act Q1 to Q4 03/2014	YoY Net Chg.
IS Business	2,432	4,936	7,321	9,538	2,304	4,819	7,450	-	+129
CS Business	606	1,258	1,884	2,386	392	777	1,107	-	(777)
GE Business	156	313	462	611	128	262	406	-	(56)
EMS Business	4,977	12,929	20,142	26,333	7,115	14,963	21,890	-	+1,748
Sales	8,172	19,438	29,810	38,869	9,941	20,823	30,855	-	+1,044
IS Business	+21.1%	+12.0%	+6.9%	+2.0%	(5.2%)	(2.4%)	+1.8%	-	-
CS Business	(11.5%)	(15.6%)	(15.9%)	(17.8%)	(35.3%)	(38.2%)	(41.2%)	-	-
GE Business	+0.7%	+1.7%	(0.5%)	(2.5%)	(17.5%)	(16.3%)	(12.1%)	-	-
EMS Business	+99.3%	+169.4%	+65.8%	+39.0%	+43.0%	+15.7%	+8.7%	-	-
Sales (YoY)	+52.8%	+76.6%	+37.3%	+22.1%	+21.7%	+7.1%	+3.5%	-	-
IS Business	29.8%	25.4%	24.6%	24.5%	23.2%	23.1%	24.1%	-	-
CS Business	7.4%	6.5%	6.3%	6.1%	3.9%	3.7%	3.6%	-	-
GE Business	1.9%	1.6%	1.6%	1.6%	1.3%	1.3%	1.3%	-	-
EMS Business	60.9%	66.5%	67.6%	67.7%	71.6%	71.9%	70.9%	-	-
Sales (Composition)	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	-	-
IS Business	(27)	2	(58)	(77)	(91)	(54)	(13)	-	+45
CS Business	15	56	113	118	(16)	(7)	(23)	-	(136)
GE Business	3	3	14	25	(3)	(11)	(12)	-	(27)
EMS Business	200	408	403	320	(119)	(271)	(487)	-	(891)
Operating Profit (Before Elimination)	192	471	471	386	(230)	(346)	(536)	-	(1,008)
Elimination	-	-	-	-	-	-	2	-	+1
Operating Profit	192	471	472	387	(230)	(345)	(534)	-	(1,007)
IS Business	(1.1%)	0.1%	(0.8%)	(0.8%)	(4.0%)	(1.1%)	(0.2%)	-	+0.6%
CS Business	2.6%	4.5%	6.0%	5.0%	(4.1%)	(1.0%)	(2.1%)	-	(8.1%)
GE Business	1.9%	1.2%	3.1%	4.2%	(2.8%)	(4.5%)	(3.1%)	-	(6.2%)
EMS Business	4.0%	3.2%	2.0%	1.2%	(1.7%)	(1.8%)	(2.2%)	-	(4.2%)
Elimination	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	-	+0.0%
Operating Profit Margin	2.4%	2.4%	1.6%	1.0%	(2.3%)	(1.7%)	(1.7%)	-	(3.3%)

Segmented Information	Cons.Act Q1 03/2013	Cons.Act Q2 03/2013	Cons.Act Q3 03/2013	Cons.Act Q4 03/2013	Cons.Act Q1 03/2014	Cons.Act Q2 03/2014	Cons.Act Q3 03/2014	Cons.Act Q4 03/2014	YoY Net Chg.
IS Business	2,432	2,504	2,384	2,217	2,304	2,514	2,631	-	+246
CS Business	606	651	626	501	392	385	329	-	(296)
GE Business	156	157	148	149	128	133	143	-	(4)
EMS Business	4,977	7,952	7,213	6,190	7,115	7,847	6,927	-	(285)
Sales	8,172	11,265	10,372	9,059	9,941	10,881	10,032	-	(340)
IS Business	+21.1%	+4.4%	(2.4%)	(11.3%)	(5.2%)	+0.4%	+10.3%	-	-
CS Business	(11.5%)	(19.1%)	(16.3%)	(24.4%)	(35.3%)	(40.9%)	(47.4%)	-	-
GE Business	+0.7%	+2.8%	(4.9%)	(8.4%)	(17.5%)	(15.2%)	(3.2%)	-	-
EMS Business	+99.3%	+245.4%	(1.9%)	(9.0%)	+43.0%	(1.3%)	(4.0%)	-	-
Sales (YoY)	+52.8%	+99.0%	(3.0%)	(10.6%)	+21.7%	(3.4%)	(3.3%)	-	-
IS Business	29.8%	22.2%	23.0%	24.5%	23.2%	23.1%	26.2%	-	-
CS Business	7.4%	5.8%	6.0%	5.5%	3.9%	3.5%	3.3%	-	-
GE Business	1.9%	1.4%	1.4%	1.7%	1.3%	1.2%	1.4%	-	-
EMS Business	60.9%	70.6%	69.5%	68.3%	71.6%	72.1%	69.1%	-	-
Sales (Composition)	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	-	-
IS Business	(27)	29	(61)	(18)	(91)	37	41	-	+103
CS Business	15	40	56	5	(16)	8	(15)	-	(71)
GE Business	3	0	10	11	(3)	(8)	(1)	-	(11)
EMS Business	200	207	(5)	(83)	(119)	(152)	(216)	-	(211)
Operating Profit (Before Elimination)	192	278	0	(85)	(230)	(115)	(190)	-	(191)
Elimination	-	-	-	-	-	-	1	-	+1
Operating Profit	192	278	0	(84)	(230)	(115)	(188)	-	(189)
IS Business	(1.1%)	1.2%	(2.6%)	(0.8%)	(4.0%)	1.5%	1.6%	-	+4.2%
CS Business	2.6%	6.2%	9.1%	1.1%	(4.1%)	2.1%	(4.6%)	-	(13.7%)
GE Business	1.9%	0.5%	7.0%	7.4%	(2.8%)	(6.0%)	(0.8%)	-	(7.8%)
EMS Business	4.0%	2.6%	(0.1%)	(1.3%)	(1.7%)	(1.9%)	(3.1%)	-	(3.0%)
Elimination	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	-	+0.0%
Operating Profit Margin	2.4%	2.5%	0.0%	(0.9%)	(2.3%)	(1.1%)	(1.9%)	-	(1.9%)

Source: Company Data, WRJ Calculation

Balance Sheet (Quarterly)

Balance Sheet (Million Yen)	Cons.Act	Cons.Act	Cons.Act	Cons.Act	Cons.Act	Cons.Act	Cons.Act	Cons.Act	Cons.Act	YoY Net Chg.
	Q1 03/2013	Q2 03/2013	Q3 03/2013	Q4 03/2013	Q1 03/2014	Q2 03/2014	Q3 03/2014	Q4 03/2014		
Cash & Deposit	3,915	4,255	3,710	3,635	3,986	3,703	3,656	-	(53)	
Accounts Receivables	6,192	6,868	6,285	6,332	6,516	6,680	5,955	-	(329)	
Inventory	2,426	2,246	2,288	2,729	2,983	2,913	2,565	-	+277	
Other	881	393	488	631	639	523	549	-	+60	
Current Assets	13,416	13,764	12,773	13,328	14,126	13,821	12,727	-	(45)	
Tangible Assets	4,012	3,908	3,923	4,203	4,179	4,219	4,387	-	+464	
Intangible Assets	462	463	451	448	444	437	432	-	(19)	
LT Investment Securities etc.	1,434	1,206	1,060	1,080	1,060	1,092	1,159	-	+99	
Fixed Assets	5,909	5,578	5,435	5,732	5,684	5,748	5,979	-	+543	
Total Assets	19,325	19,342	18,208	19,061	19,810	19,570	18,707	-	+498	
Accounts Payable	3,464	3,820	3,107	3,571	3,676	3,744	2,910	-	(197)	
Short Term Debt	4,669	4,761	4,895	4,264	4,868	4,988	6,021	-	+1,125	
Corporate Bond (Less than 1 year)	100	100	100	100	100	50	50	-	(50)	
Other	2,475	2,502	2,310	2,213	2,361	2,058	2,121	-	(188)	
Current Liabilities	10,709	11,184	10,413	10,149	11,006	10,841	11,102	-	+689	
Corporate Bond	100	50	50	-	-	-	-	-	(50)	
Long Term Debt	1,552	1,250	905	1,701	1,542	1,419	1,395	-	+490	
Other	727	713	706	686	691	703	713	-	+7	
Fixed Liabilities	2,379	2,013	1,661	2,387	2,234	2,123	2,109	-	+447	
Total Liabilities	13,089	13,197	12,074	12,537	13,240	12,964	13,212	-	+1,137	
Shareholders' Equity	3,596	3,689	3,648	3,724	3,476	3,435	4,482	-	+833	
Other	2,639	2,454	2,484	2,799	3,093	3,170	1,013	-	(1,471)	
Total Assets	6,236	6,144	6,133	6,523	6,569	6,605	5,495	-	(638)	
Total Liabilities & net Assets	19,325	19,342	18,208	19,061	19,810	19,570	18,707	-	+498	
Equity Capital	3,543	3,473	3,476	3,756	3,695	3,717	4,699	-	+1,223	
Interest Bearing Debt	6,421	6,161	5,951	6,066	6,511	6,458	7,466	-	+1,515	
Net Debt	2,506	1,905	2,240	2,430	2,524	2,754	3,810	-	+1,569	
Equity Capital Ratio	18.3%	18.0%	19.1%	19.7%	18.7%	19.0%	25.1%	-	+6.0%	
Net-Debt-Equity Ratio	69.7%	51.6%	61.4%	65.2%	72.6%	80.2%	85.0%	-	+23.6%	
ROE	12.4%	11.8%	6.2%	6.6%	(16.7%)	(10.5%)	26.8%	-	+20.6%	
ROA	5.1%	4.8%	3.0%	3.0%	(0.6%)	(0.7%)	-1.6%	-	(4.6%)	
Days for Inventory Turnover	32	21	22	30	30	27	26	-	-	
Inventory Turnover	11.4	17.6	16.3	12.0	12.2	13.6	14.2	-	-	
Quick Ratio	94%	99%	96%	98%	95%	96%	87%	-	-	
Current Ratio	125%	123%	123%	131%	128%	127%	115%	-	-	

Source: Company Data, WRJ Calculation

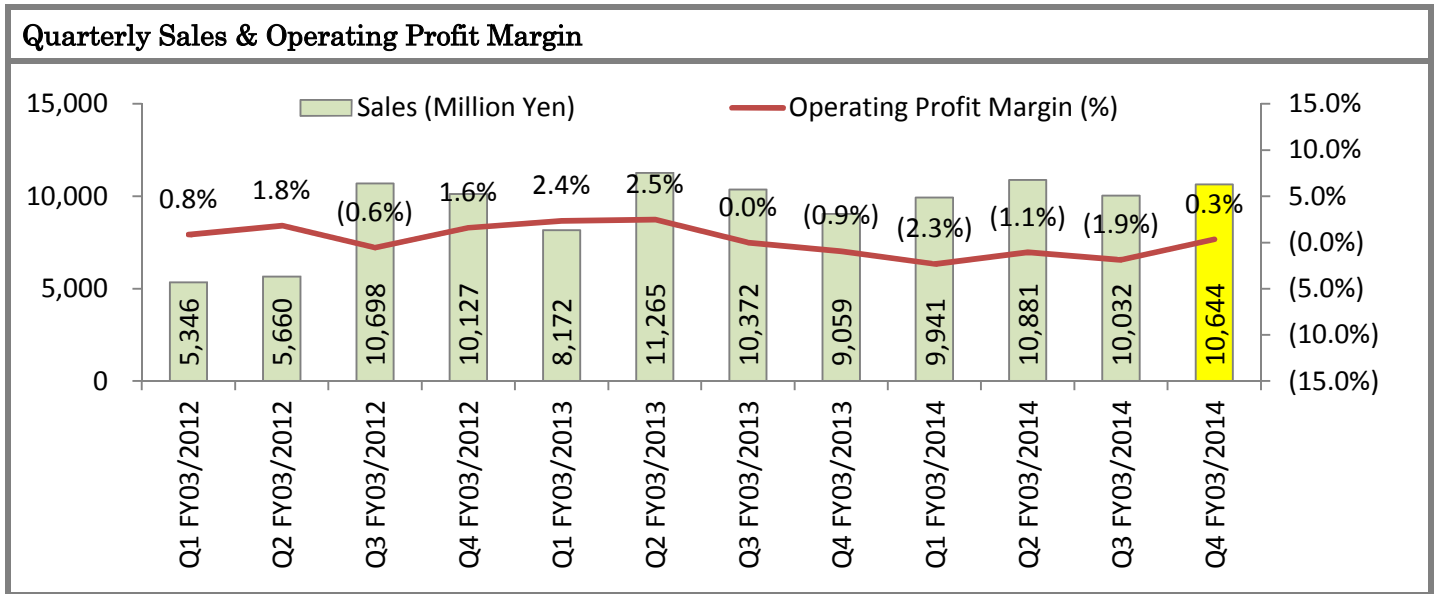
Cash flow Statement (Cumulative)

Cash Flow Statement (Million Yen)	Cons.Act	Cons.Act	Cons.Act	Cons.Act	Cons.Act	Cons.Act	Cons.Act	Cons.Act	Cons.Act	YoY Net Chg.
	Q1 03/2013	Q1 to Q2 03/2013	Q1 to Q3 03/2013	Q1 to Q4 03/2013	Q1 03/2014	Q1 to Q2 03/2014	Q1 to Q3 03/2014	Q1 to Q4 03/2014		
Operating Cash Flow	na	230	na	145	na	(317)	na	-	-	
Investing Cash Flow	na	88	na	(222)	na	(194)	na	-	-	
Operating CF + Investment CF	na	319	na	(77)	na	(512)	na	-	-	
Financing Cash Flow	na	(227)	na	(382)	na	281	na	-	-	

Source: Company Data, WRJ Calculation

FY03/2014 Company Forecasts

In the latest FY03/2014 Company forecasts, the Company goes for prospective sales ¥41,500m (up 6.8% YoY), operating loss ¥500m (versus operating profit ¥387m in the previous year), recurring loss ¥250m (recurring profit ¥564m) and net profit ¥550m (up 133.5%). These prospective figures were released on 14 November 2013. Compared with initial Company forecasts (as of 15 May 2013), prospective sales have been downgraded ¥3,500m (7.8%), operating balance ¥1,320m and recurring balance ¥1,250m. Meanwhile, prospective net profit has been upgraded ¥50m (10.0%), to which booking of aforementioned gain on negative goodwill ¥1,174m in Q3, initially unexpected, contributes a lot. Meanwhile, prospective dividend per share has remained unchanged at ¥3.0, implying payout ratio 5.6%.



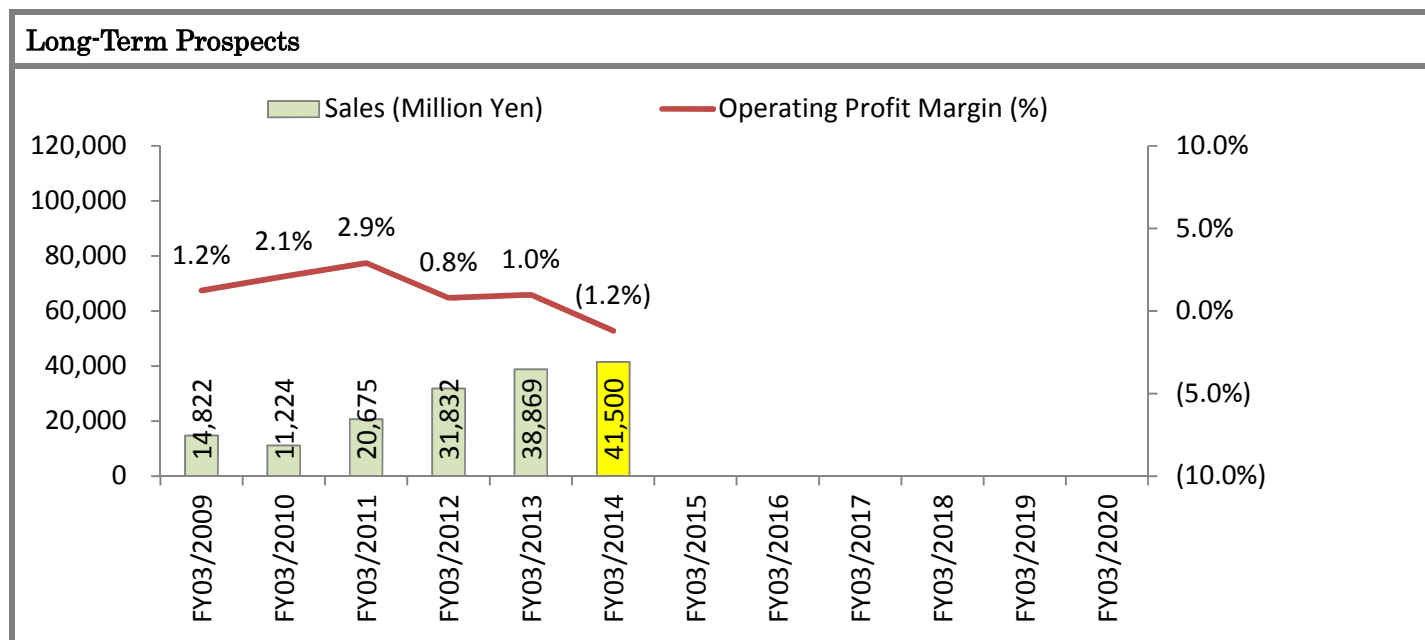
Source: Company Data, WRJ Calculation

According to the Company, out of downgrade ¥1,320m for full-year prospective operating balance, ¥908m was associated with structural problems in EMS Business, comprising ¥603m in China and ¥305m in Japan by region. In regards to the other region, i.e., ASEAN nations, the Company has not mentioned anything about downgrade for operating balance due to structural problems.

This suggests that the Company is seeing relatively better business performance in ASEAN nations where the Company is mainly involved with operations in Malaysia. By consolidated subsidiary, TKR Corporation has a high exposure to Malaysia and thus it is presumed that TKR Corporation sees better business performance than the other Shima Electronic Industry Co., Ltd. in the Company's EMS Business. Thus, it should be interpreted that the Company is to increase its exposure to EMS Business whose business performance is relatively better, after additional procurement of TKR Corporation shares. Out of overall sales in EMS Business, TKR Corporation accounts for some 70% while Shima Electronic Industry Co., Ltd. for the remaining some 30%, as far as we could gather.

Long-Term Prospects

In midterm management plan and long-term prospects, the Company used to call for prospective sales ¥60,000m in FY03/2015 and ¥100,000m in FY03/2020, respectively, while suggesting target operating profit margin some 2.5%. To date, however, the Company has abandoned them while revealed that it started to work on new equivalents. Basically, it appears that the issue is to examine consolidating and/or closing down production bases that have been suffering from loss due to structural problems as well as increasing exposure to operations in South East Asian countries or “one” of “China plus one”.



Source: Company Data, WRJ Calculation

Meanwhile, the Company revealed, in its release on 2 July 2013, that TKR Corporation was going to succeed a part of businesses with a sub-subsidiary of Hitachi, Ltd. The Company suggests that it is eager to have more deals like this to enhance sales in a long-term view. In regards to this deal, the Company is to benefit from full-fledged contribution to sales and earnings, starting in FY03/2015.

TKR Corporation revealed that it was going to succeed a part of businesses with Hitachi Media Electronics Co., Ltd. (capital ¥50m, 100% owned by Hitachi Consumer Electronics Co., Ltd.) which is a sub-subsidiary of Hitachi, Ltd., while the contract for this deal was signed up on 1 July 2013. Then, the deal to succeed was done, on 1 October 2013. The fact that the Company was chosen to help this reorganization suggests that the Company's comprehensive knowhow on manufacturing or "Monozukuri" is highly appreciated.

Contents of the deal this time by business are Power Supply Business, Transformer Business, In-Car Tuner Business and Video Board Business. Businesses in here, across the board, relate to those incorporating the key technologies in the field of digital consumer electronics, while the Company succeeds operations comprising developments, designing and manufacturing (assembling) for boards (modules) and units to be adopted in diversified final products in here. In particular, LED power supply, one of constituents for Power Supply Business, could be very promising. LED lighting, the final product that requires power supply as an indispensable component, is currently seeing steady growth, essentially driving demand for LED power supply.

The other thing is that the Company acquired Mizusawa Factory (located in Ohshu-city, Iwate-prefecture; ground area 36,000 square meters and building area 24,700 square meters) and its production facilities, etc. owned by Hitachi Media Electronics Co., Ltd. Mizusawa Factory has been in charge of operations to have been succeeded. On top this, the Company is to basically succeed all the headcounts in there.

The issues of reorganization by major Japanese manufacturers, i.e., the Company's customers, are on the verge of emerging from now on, implying a high probability for the Company to persistently succeed businesses in the same way in a long-term view. The Company, advocating "neo EMS", referring to advanced form for EMS, as own business concept, intends to move into operating profit from operating loss as soon as possible while pursuing long-term earnings expansion with this issue as a growth drivers.

4.0 Business Model

"neo EMS", the Business Concept

The Company advocates that it is to "develop unprecedented and innovated solutions for "Monozukuri" (or manufacturing) on a global basis". As for a concrete vision, does the Company mention "neo-EMS (advanced EMS)" which is the business concept with the Company. While holding "Monozukuri knowhow on designing to assembly" and "capability to flexibly supply human resources through human resources businesses" at a time, the Company provides the best solutions for "Monozukuri, demanded by Japanese manufacturers" based on the expertise like these. Even going forward, the Company is to remain being exposed to businesses for Japanese major manufacturers only, according to the Company.

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Image Pictures (Inside of Oversea EMS Factory)



Source: Company Data

In terms of sales by customer category in FY03/2013, electric machine accounted for 57% of sales with the Company, rubber, plastics and chemicals 9%, electronic components & devices 8%, precision machinery 4%, information & communication equipment 3%, general machinery 2%, transportation equipment & components 1% and other 16%. Meanwhile, the contents of businesses with top 10 customers, collectively accounted for 46.3% of sales with the Company, suggest that electric machine, accounting for more than half of sales with the Company, mainly comprise control units for air-conditioners, MFPs (multifunctional peripherals), mobile phones, home-use MFPs. On top of this, it is presumed that the Company is involved with the manufacture of diversified final products, including toner cartridges for MFPs, built-in antenna for mobile phones, optical disk drives, car navigations, in-car seats, etc.

Disclaimer

Information here is a summary of “IR Information” of the Company, compiled by Walden Research Japan, from a neutral and professional standing point, in the form of a report. “IR Information” of the Company comprises a) contents of our interview with the Company, b) contents of presentations for institutional investors, c) contents of timely disclosed information and d) contents of the homepage etc.

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