

Nippon Manufacturing Service (2162)

Consolidated Fiscal Year (Million Yen)		Sales	OP	RP	NP	EPS (Yen)	DPS (Yen)	BPS (Yen)
FY03/2013		38,869	387	564	235	23.0	3.0	367.5
FY03/2014		41,905	(643)	(175)	648	63.4	3.0	451.8
FY03/2015CoE		48,800	490	510	320	31.3	3.0	-
FY03/2014	YoY	7.8%	-	-	175.4%	-	-	-
FY03/2015CoE	YoY	16.5%	-	-	(50.7%)	-	-	-
Consolidated Half Year (Million Yen)		Sales	OP	RP	NP	EPS (Yen)	DPS (Yen)	BPS (Yen)
Q1 to Q2 FY03/2014		20,823	(345)	(68)	(197)	-	-	-
Q3 to Q4 FY03/2014		21,082	(298)	(107)	845	-	-	-
Q1 to Q2 FY03/2015CoE		24,000	130	115	45	-	-	-
Q3 to Q4 FY03/2015CoE		24,800	360	395	275	-	-	-
Q1 to Q2 FY03/2015CoE	YoY	15.3%	-	-	-	-	-	-
Q3 to Q4 FY03/2015CoE	YoY	17.6%	-	-	(67.5%)	-	-	-
Consolidated Quarter (Million Yen)		Sales	OP	RP	NP	EPS (Yen)	DPS (Yen)	BPS (Yen)
Q1 FY03/2014		9,941	(230)	(29)	(155)	-	-	-
Q2 FY03/2014		10,881	(115)	(39)	(41)	-	-	-
Q3 FY03/2014		10,032	(188)	(160)	1,046	-	-	-
Q4 FY03/2014		11,050	(109)	53	(201)	-	-	-
Q1 FY03/2015		11,630	87	29	4	-	-	-
Q1 FY03/2015	YoY	17.0%	-	-	-	-	-	-

Source: Company Data, WRJ Calculation

1.0 Executive Summary (12 September 2014)

Now Making Money

Nippon Manufacturing Service, heavily involved with EMS operations for major Japanese manufacturers, mainly those of consumer electronics, is now making money versus loss over the year. This is in line with improving business performance of EMS Business in Japan, China and Malaysia, across the board, while the Company also sees improving business performance in its HS Business where it is involved with human-resources-related operations, i.e., manufacturing dispatch and contracted manufacturing. In particular, the Company benefits from improvements in its EMS operations in China. All those one-off negative factors did not reappear, such as disadvantageous forex agreement with a customer, lowered productivity as a result of early redundancies and increasing volume of loss-making products. The other issue for EMS Business is that business transfer from Hitachi Group has started to contribute while that from Panasonic Group is expected to follow suit. Meanwhile, on the HS Business side, sales of contracted manufacturing in China on which the Company emphasizes at the moment are surging most recently and this could be a new major source of earnings with the Company in a long-term view. The Company is trying to get at long-term growth

potentials in both EMS Business and HS Business.


In Q1 FY03/2015, sales came in at ¥11,630m (up 17.0% YoY) and operating profit ¥87m (versus operating loss ¥230m over the year). In regards to EMS Business, sales came in at ¥8,389m (up 17.9%) and operating profit ¥121m (versus operating loss ¥119m over the year), while sales ¥3,241m (down 14.7%) and operating loss ¥36m (versus operating loss ¥111m over the year) on the HS Business side. Operating profit ¥87m with the Company comprised elimination ¥2m and collective operating balance of the two business segments. On the EMS Business side, having accounted for 143.1% of operating profit before elimination with the Company, earnings continued increasing in Malaysia where the Company has been persistently making money for some time, while the Company moved into profit in China, as the aforementioned one-off negative factors did not reappear. In Japan, the Company saw reduced operating loss, due to progressing reorganization, improving contents of businesses and generation of add-on sales stemming from business transfer from Hitachi Group. In regards to reduced loss on the HS Business side, increasing sales of the mainstay operations of manufacturing dispatch and contracted manufacturing in Japan is mentioned as the key driver.

FY03/2015 Company forecasts are going for prospective sales ¥48,800m (up 16.5% YoY) and operating profit ¥490m (versus operating loss ¥643m over the year). The Company made money at the operating level in Q1 is now calling for further improvements in H2. Prospective operating profit in Q1 to Q2 is ¥130m and ¥360m in H2. By business segment, Company forecasts are going for prospective sales ¥34,280m (up 14.9%) and operating profit ¥340m (versus operating loss ¥621m over the year) on the EMS Business side, on a full-year basis, while sales ¥14,520m (up 20.3%) and operating profit ¥150m (versus operating loss ¥27m over the year) on the HS Business side. The mainstay EMS Business is expected to account for 84.4% of net increases in operating balance (before elimination) with the Company.

IR Representative: PR & IR Group (+81 3 5333 1711 k_yanase@n-ms.co.jp)

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 (ticker: 2162)
Capital	¥500m (As of the end of June 2014)
No. of Shares	10,805,500 shares, including 581,500 treasury shares (As of the end of June 2014)
Main Features	<ul style="list-style-type: none"> ● Involved with EMS operations and human-resources-related business (HS Business) in Japan, China and Malaysia ● To benefit from reorganization by domestic manufacturers in Japan ● Targeting to lead manufacturing-oriented outsourcing in Asia
Businesses	<ul style="list-style-type: none"> . HS Business . 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 March 2014) N.B. Fumiaki Ono, changed to the leading shareholder, half way through Q2 FY03/2015.
Headquarters	Shinjuku-ku, Tokyo JAPAN
No. of Employees	Consolidated: 6,451, Unconsolidated :3,367 (As of the end of June 2014)

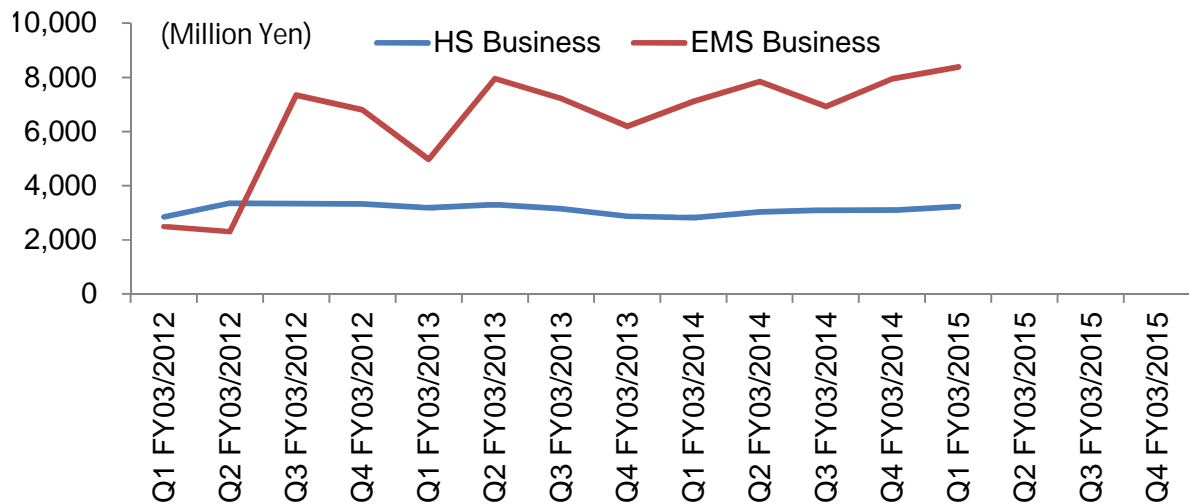
Source: Company Data

3.0 Recent Trading & Prospects

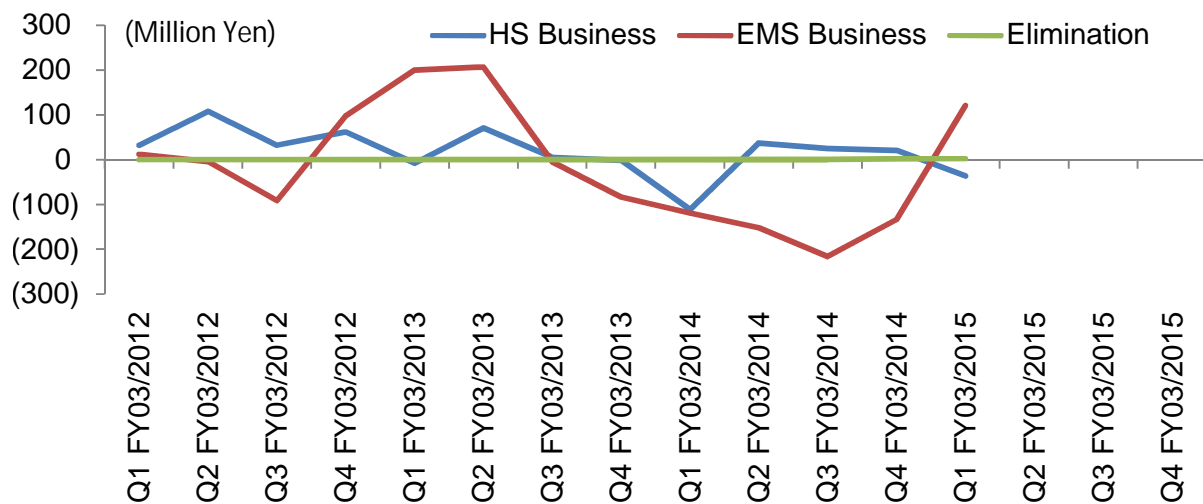
Q1 FY03/2015 Results

In Q1 FY03/2015, sales came in at ¥11,630m (up 17.0% YoY), operating profit ¥87m (versus operating loss ¥230m over the year), recurring profit ¥29m (versus recurring loss ¥29m over the year) and net profit ¥4m (versus net loss ¥155m over the year). The Company has achieved 48.5% of prospective sales of Company forecasts in Q1 to Q2 and 67.1% in operating profit, suggesting that the results were effectively as assumed in Company forecasts.

Quarterly Sales by Business Segment



Quarterly Operating Balance by Segment



Source: Company Data,

Operating balance with the Company hinges on business performance on the EMS Business side. For example, the Company saw operating profit ¥84m (before elimination in Q1 versus operating loss ¥230m over the year (net increases ¥315m) while operating profit ¥121m from operating loss ¥119m (net increases ¥240m) on the EMS Business side and thus 76.2% of net increases in operating balance with the Company came from the EMS Business side. At the moment, EMS Business is run by two consolidated subsidiaries, i.e., Shima Electronic Industry Co., Ltd. and TKR Corporation in Japan, China and Malaysia.

Shima Electronic Industry Co., Ltd. has been a 100% consolidated subsidiary since the merger, while the Company raised its holding ratio up to 87.01% from initial holding ratio 53.01% at the merger in line with additional share procurement made in November 2013. According to the Company, this additional procurement is now starting to contribute to quick decision-making, etc. on the EMS Business side which is the key driver for overall business performance with the Company.

In July 2010, the Company started up its involvements with EMS Business, having merged with Shima Electronic Industry Co., Ltd. that was running manufacturing facilities in China, Malaysia, etc. Roughly at the same time, the Company obtained a business license for “on-premises contracted manufacturing” in Vietnam as the first Japanese company in there. On top of this, in December 2010, the Company obtained a business license for manufacturing dispatch in China as the first Japanese company in there, having established a comprehensive structure for own services, even overseas, including developments, mounting and manufacturing, combined with existing operations. This is so-called “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 competitive capability for designing and developments, while 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 problem, both were seeing unfavorable business performance, while the Company, having acquired their shares at prices lower than their net asset value, immediately wrote off negative goodwill to have been generated for each deal and then pursued synergy by means of applying own marketing capability.

As a result, the Company saw substantial improvements in EMS Business in FY03/2013, having contributed to sales and earnings with the Company quite a lot. 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 over the year) on the EMS Business side, 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 the overwhelming earnings source for the Company.

Nevertheless, EMS Business almost collapsed in the following year, i.e., FY03/2014. Sales came in at ¥29,838m from ¥26,333 in FY03/2013, having risen 13.3% due mainly to yen's appreciation, but operating loss ¥621m from operating profit ¥320m (net decreases ¥941m), comprising operating loss ¥451m from operating profit ¥5m in Japan (net decreases ¥456m), operating loss ¥391m from operating profit ¥59m (net decreases ¥450m) in China and operating profit ¥327m from operating profit ¥238m (net increases ¥89m) in Malaysia by region. Collective operating balance of all those regions, combined with consolidated adjustments negative ¥106m from positive ¥18m (net decreases ¥124m) accounted for the net changes of operating balance on the EMS Business side.

In regards to the net decreases ¥456m in operating balance in Japan, the Company mentions negative factors that R&D expenses increased in TKR Corporation and that sales stemming from business transfer were delayed while add-on SG&A expenses did incur as initially planned. In regards to the net decreases ¥450m in operating balance in China, negative impacts from one-off issues (collective ¥320m) were mentioned for the reason, comprising disadvantageous forex agreement with a customer (¥145m), lowered productivity as a result of early redundancies (¥70m) and increasing volume of loss-making products (¥105m). On the other hand, the Company saw increasing earnings in Malaysia, but this was not substantial enough to compensate for major adjustments in Japan and China.

Although EMS Business was forced to suffer from massive operating loss in FY03/2014 as mentioned above, here did the Company make money at the operating level in Q1 FY03/2015. In Japan, on top of progressing reorganization and improving contents of businesses, sales stemming from business transfer from Hitachi Group have started to take off on a full-fledged basis, having resulted in substantial decreases of operating loss over the year. Meanwhile, the Company saw the largest positive impacts from turnaround in operating balance to profit from loss in China as a result of non-reappearances of all the aforementioned one-off negative factors, for the turnaround of EMS Business a whole. On top of this, the Company persistently saw increasing sales and earnings in Malaysia where they have been doing so for some time.

The Company is also involved with HS Business on top of EMS Business. In Q1, sales came in at ¥3,241m (up 14.7%) and operating loss ¥36m (versus operating loss ¥111m over the year). HS Business is represented by all those ex-business segments of the Company, comprising IS Business to offer manufacturing dispatch and contracted manufacturing in Japan and China, CS Business to provide repair services mainly for game consoles and mobile phones and GE Business to dispatch engineers, simply put all together. Meanwhile, the largest issue to have contributed to decreasing operating loss on the HS Business side was that sales of domestic manufacturing dispatch and contracted manufacturing increased steadily in line with successful hiring of human resources, having resulted in decreasing operating loss from here.

The other thing is that there was a change for the leading shareholders with the Company, halfway through Q2. The ex-leading shareholder JAFCO Buyout No.2 Investment Limited Partnership was replaced by Mr. Fumiaki Ono, president & CEO with the Company. Mr. Ono has maintained his holding ratio of the shares (the ratio to overall shares, including treasury shares) at 16.8% as he did as of the end of FY03/2014. Meanwhile, collective holding ratio of the shares held by two funds run by JAFCO Co., Ltd. came down 26.4% points to 10.9% from 37.3% as of the end of FY03/2014. This is a result of two deals, i.e., the procurement of own shares from the two funds by the Company on 12 August (13.2%) and another one from them by Mr. Siozawa, one of the directors with the Company on 14 August (13.2%).

Income Statement (Cumulative, Quarterly)

Income Statement	Cons.Act Q1	Cons.Act Q1 to Q2	Cons.Act Q1 to Q3	Cons.Act Q1 to Q4	Cons.Act Q1	Cons.Act Q1 to Q2	Cons.Act Q1 to Q3	Cons.Act Q1 to Q4	YoY
(Million Yen)	03/2014	03/2014	03/2014	03/2014	03/2015	03/2015	03/2015	03/2015	Net Chg.
Sales	9,941	20,823	30,855	41,905	11,630	-	-	-	+1,688
Cost of Sales	9,122	19,047	28,185	38,223	10,349	-	-	-	+1,226
Gross Profit	818	1,775	2,670	3,682	1,281	-	-	-	+462
SG&A Expenses	1,049	2,121	3,204	4,326	1,193	-	-	-	+144
Operating Profit	(230)	(345)	(534)	(643)	87	-	-	-	+317
Non Operating Balance	201	277	305	468	(57)	-	-	-	(258)
Recurring Profit	(29)	(68)	(228)	(175)	29	-	-	-	+58
Extraordinary Balance	(97)	(78)	1,101	733	19	-	-	-	+117
Pretax Profit	(126)	(146)	872	557	49	-	-	-	+176
Tax Charges etc.	3	28	58	100	43	-	-	-	+40
Minorities' Interests	25	21	(35)	(191)	1	-	-	-	(23)
Net Profit	(155)	(197)	849	648	4	-	-	-	+159
Sales YoY	+21.7%	+7.1%	+3.5%	+7.8%	+17.0%	-	-	-	-
Operating Profit YoY	-	-	-	-	-	-	-	-	-
Recurring Profit YoY	-	-	-	-	-	-	-	-	-
Net Profit YoY	-	-	+432.1%	+175.4%	-	-	-	-	-
Gross Profit Margin	8.2%	8.5%	8.7%	8.8%	11.0%	-	-	-	+2.8%
SG&A / Sales	10.6%	10.2%	10.4%	10.3%	10.3%	-	-	-	(0.3%)
Operating Profit Margin	(2.3%)	(1.7%)	(1.7%)	(1.5%)	0.8%	-	-	-	+3.1%
Recurring Profit Margin	(0.3%)	(0.3%)	(0.7%)	(0.4%)	0.3%	-	-	-	+0.5%
Net Profit Margin	(1.6%)	(0.9%)	2.8%	1.5%	0.0%	-	-	-	+1.6%
Tax Charges etc. / Pretax Profit	-	-	6.7%	18.0%	88.0%	-	-	-	-

Income Statement	Cons.Act Q1	Cons.Act Q2	Cons.Act Q3	Cons.Act Q4	Cons.Act Q1	Cons.Act Q2	Cons.Act Q3	Cons.Act Q4	YoY
(Million Yen)	03/2014	03/2014	03/2014	03/2014	03/2015	03/2015	03/2015	03/2015	Net Chg.
Sales	9,941	10,881	10,032	11,050	11,630	-	-	-	+1,688
Cost of Sales	9,122	9,925	9,137	10,038	10,349	-	-	-	+1,226
Gross Profit	818	956	894	1,011	1,281	-	-	-	+462
SG&A Expenses	1,049	1,071	1,083	1,121	1,193	-	-	-	+144
Operating Profit	(230)	(115)	(188)	(109)	87	-	-	-	+317
Non Operating Balance	201	75	28	162	(57)	-	-	-	(258)
Recurring Profit	(29)	(39)	(160)	53	29	-	-	-	+58
Extraordinary Balance	(97)	19	1,179	(368)	19	-	-	-	+117
Pretax Profit	(126)	(19)	1,019	(314)	49	-	-	-	+176
Tax Charges etc.	3	25	29	42	43	-	-	-	+40
Minorities' Interests	25	(3)	(57)	(155)	1	-	-	-	(23)
Net Profit	(155)	(41)	1,046	(201)	4	-	-	-	+159
Sales YoY	+21.7%	(3.4%)	(3.3%)	+22.0%	+17.0%	-	-	-	-
Operating Profit YoY	-	-	-	-	-	-	-	-	-
Recurring Profit YoY	-	-	-	(63.7%)	-	-	-	-	-
Net Profit YoY	-	-	-	-	-	-	-	-	-
Gross Profit Margin	8.2%	8.8%	8.9%	9.2%	11.0%	-	-	-	+2.8%
SG&A / Sales	10.6%	9.8%	10.8%	10.1%	10.3%	-	-	-	(0.3%)
Operating Profit Margin	(2.3%)	(1.1%)	(1.9%)	(1.0%)	0.8%	-	-	-	+3.1%
Recurring Profit Margin	(0.3%)	(0.4%)	(1.6%)	0.5%	0.3%	-	-	-	+0.5%
Net Profit Margin	(1.6%)	(0.4%)	10.4%	(1.8%)	0.0%	-	-	-	+1.6%
Tax Charges etc. / Pretax Profit	-	-	2.9%	-	88.0%	-	-	-	-

Source: Company Data, WRJ Calculation

Segmented Information (Cumulative, Quarterly)

Segmented Information	Cons.Act Q1	Cons.Act Q1 to Q2	Cons.Act Q1 to Q3	Cons.Act Q1 to Q4	Cons.Act Q1	Cons.Act Q1 to Q2	Cons.Act Q1 to Q3	Cons.Act Q1 to Q4	YoY
(Million Yen)	03/2014	03/2014	03/2014	03/2014	03/2015	03/2015	03/2015	03/2015	Net Chg.
HS Business	2,826	5,859	8,964	12,067	3,241	-	-	-	+415
EMS Business	7,115	14,963	21,890	29,838	8,389	-	-	-	+1,273
Sales	9,941	20,823	30,855	41,905	11,630	-	-	-	+1,688
HS Business	(11.5%)	(10.0%)	(7.3%)	(3.7%)	+14.7%	-	-	-	-
EMS Business	+43.0%	+15.7%	+8.7%	+13.3%	+17.9%	-	-	-	-
Sales (YoY)	+21.7%	+7.1%	+3.5%	+7.8%	+17.0%	-	-	-	-
HS Business	28.4%	28.1%	29.1%	28.8%	27.9%	-	-	-	-
EMS Business	71.6%	71.9%	70.9%	71.2%	72.1%	-	-	-	-
Sales (Composition)	100.0%	100.0%	100.0%	100.0%	100.0%	-	-	-	-
HS Business	(111)	(74)	(48)	(27)	(36)	-	-	-	+75
EMS Business	(119)	(271)	(487)	(621)	121	-	-	-	+240
Operating Profit (Before Elimination)	(230)	(346)	(536)	(648)	84	-	-	-	+315
Elimination	-	-	2	4	2	-	-	-	+2
Operating Profit	(230)	(345)	(534)	(643)	87	-	-	-	+317
HS Business	-	-	-	-	-	-	-	-	-
EMS Business	-	-	-	-	-	-	-	-	-
Operating Profit (YoY)	-	-	-	-	-	-	-	-	-
HS Business	-	-	-	-	(43.0%)	-	-	-	-
EMS Business	-	-	-	-	143.1%	-	-	-	-
Operating Profit (Composition)	-	-	-	-	100.0%	-	-	-	-
HS Business	(3.9%)	(1.3%)	(0.5%)	(0.2%)	(1.1%)	-	-	-	+2.8%
EMS Business	(1.7%)	(1.8%)	(2.2%)	(2.1%)	1.4%	-	-	-	+3.1%
HS Business	0.0%	0.0%	0.0%	0.0%	0.0%	-	-	-	+0.0%
Operating Profit Margin	(2.3%)	(1.7%)	(1.7%)	(1.5%)	0.8%	-	-	-	+3.1%

Segmented Information	Cons.Act Q1	Cons.Act Q2	Cons.Act Q3	Cons.Act Q4	Cons.Act Q1	Cons.Act Q2	Cons.Act Q3	Cons.Act Q4	YoY
(Million Yen)	03/2014	03/2014	03/2014	03/2014	03/2015	03/2015	03/2015	03/2015	Net Chg.
HS Business	2,826	3,033	3,104	3,102	3,241	-	-	-	+415
EMS Business	7,115	7,847	6,927	7,947	8,389	-	-	-	+1,273
Sales	9,941	10,881	10,032	11,050	11,630	-	-	-	+1,688
HS Business	(11.5%)	(8.4%)	(1.7%)	+8.2%	+14.7%	-	-	-	-
EMS Business	+43.0%	(1.3%)	(4.0%)	+28.4%	+17.9%	-	-	-	-
Sales (YoY)	+21.7%	(3.4%)	(3.3%)	+22.0%	+17.0%	-	-	-	-
HS Business	28.4%	27.9%	30.9%	28.1%	27.9%	-	-	-	-
EMS Business	71.6%	72.1%	69.1%	71.9%	72.1%	-	-	-	-
Sales (Composition)	100.0%	100.0%	100.0%	100.0%	100.0%	-	-	-	-
HS Business	(111)	37	25	21	(36)	-	-	-	+75
EMS Business	(119)	(152)	(216)	(133)	121	-	-	-	+240
Operating Profit (Before Elimination)	(230)	(115)	(190)	(112)	84	-	-	-	+315
Elimination	-	-	1	2	2	-	-	-	+2
Operating Profit	(230)	(115)	(188)	(109)	87	-	-	-	+317
HS Business	-	(47.9%)	+339.8%	-	-	-	-	-	-
EMS Business	-	-	-	-	-	-	-	-	-
Operating Profit (YoY)	-	-	-	-	-	-	-	-	-
HS Business	-	-	-	-	(43.0%)	-	-	-	-
EMS Business	-	-	-	-	143.1%	-	-	-	-
Operating Profit (Composition)	-	-	-	-	100.0%	-	-	-	-
HS Business	(3.9%)	1.2%	0.8%	0.7%	(1.1%)	-	-	-	+2.8%
EMS Business	(1.7%)	(1.9%)	(3.1%)	(1.7%)	1.4%	-	-	-	+3.1%
HS Business	0.0%	0.0%	0.0%	0.0%	0.0%	-	-	-	+0.0%
Operating Profit Margin	(2.3%)	(1.1%)	(1.9%)	(1.0%)	0.8%	-	-	-	+3.1%

Source: Company Data, WRJ Calculation

Balance Sheet (Quarterly)

Balance Sheet	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.
	03/2014	03/2014	03/2014	03/2014	03/2015	03/2015	03/2015	03/2015		
Cash & Deposit	3,986	3,703	3,656	3,209	3,000	-	-	-		(986)
Accounts Receivables	6,516	6,680	5,955	6,912	7,577	-	-	-		+1,060
Inventory	2,983	2,913	2,565	3,035	3,385	-	-	-		+401
Other	639	523	549	551	497	-	-	-		(141)
Current Assets	14,126	13,821	12,727	13,708	14,460	-	-	-		+334
Tangible Assets	4,179	4,219	4,387	4,292	4,254	-	-	-		+74
Intangible Assets	444	437	432	406	406	-	-	-		(38)
Investments & Other Assets	1,060	1,092	1,159	1,055	1,060	-	-	-		-
Fixed Assets	5,684	5,748	5,979	5,753	5,721	-	-	-		+36
Total Assets	19,810	19,570	18,707	19,462	20,182	-	-	-		+371
Accounts Payable	3,676	3,744	2,910	3,934	3,917	-	-	-		+241
Short Term Debt	4,868	4,988	6,021	5,981	6,726	-	-	-		+1,857
Corporate Bond (Less than 1 year)	100	50	50	-	-	-	-	-		(100)
Other	2,361	2,058	2,121	2,077	2,304	-	-	-		(57)
Current Liabilities	11,006	10,841	11,102	11,994	12,947	-	-	-		+1,941
Corporate Bond	-	-	-	-	-	-	-	-		-
Long Term Debt	1,542	1,419	1,395	1,345	1,210	-	-	-		(332)
Other	691	703	713	738	727	-	-	-		+35
Fixed Liabilities	2,234	2,123	2,109	2,084	1,937	-	-	-		(296)
Total Liabilities	13,240	12,964	13,212	14,078	14,885	-	-	-		+1,644
Shareholders' Equity	3,476	3,435	4,482	4,280	4,254	-	-	-		+777
Other	3,093	3,170	1,013	1,103	1,042	-	-	-		(2,051)
Total Assets	6,569	6,605	5,495	5,384	5,296	-	-	-		(1,273)
Total Liabilities & net Assets	19,810	19,570	18,707	19,462	20,182	-	-	-		+371
Equity Capital	3,695	3,717	4,699	4,619	4,551	-	-	-		+856
Interest Bearing Debt	6,511	6,458	7,466	7,327	7,937	-	-	-		+1,425
Net Debt	2,524	2,754	3,810	4,117	4,936	-	-	-		+2,411
Equity Capital Ratio	18.7%	19.0%	25.1%	23.7%	22.6%	-	-	-		+3.9%
Net-Debt-Equity Ratio	72.6%	80.2%	85.0%	96.2%	116.0%	-	-	-		+43.4%
ROE	(16.7%)	(10.5%)	26.8%	15.5%	0.4%	-	-	-		+17.1%
ROA	(0.6%)	(0.7%)	(1.6%)	(0.9%)	0.6%	-	-	-		+1.2%
Days for Inventory Turnover	30	27	26	28	30	-	-	-		-
Inventory Turnover	12.2	13.6	14.2	13.2	12.2	-	-	-		-
Quick Ratio	95%	96%	87%	84%	82%	-	-	-		-
Current Ratio	128%	127%	115%	114%	112%	-	-	-		-

Source: Company Data, WRJ Calculation

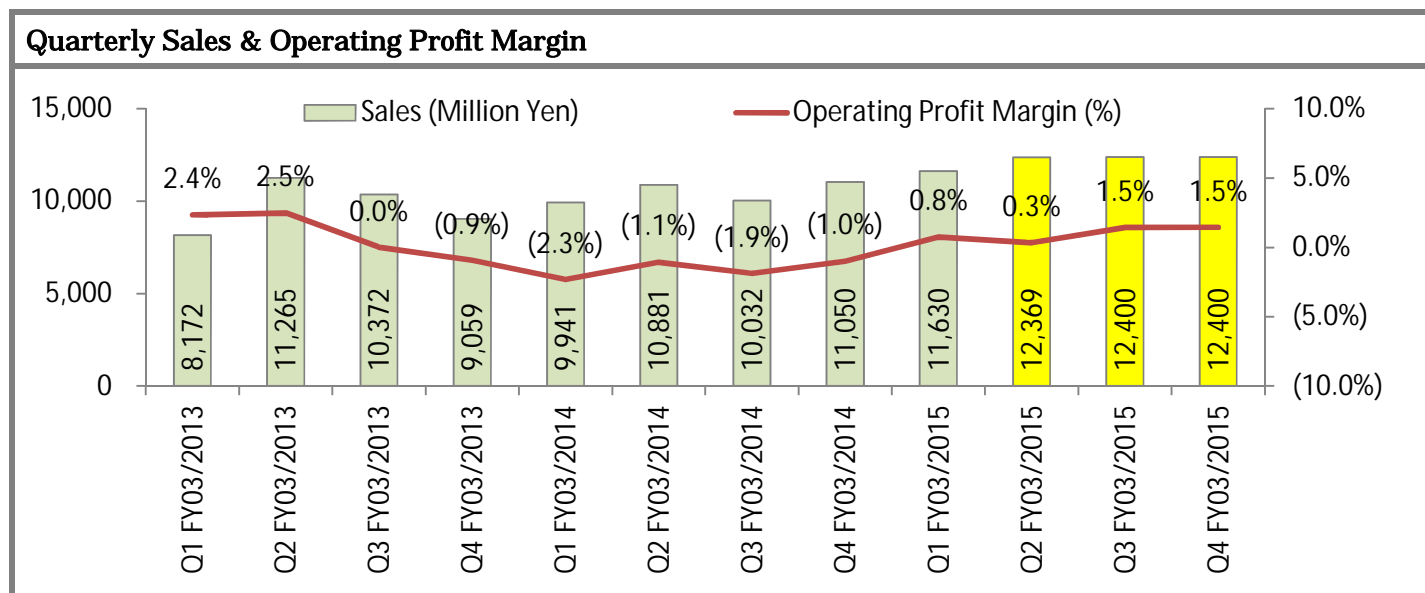
Cash flow Statement (Cumulative)

Cash Flow 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.
	03/2014	03/2014	03/2014	03/2014	03/2015	03/2015	03/2015	03/2015		
Operating Cash Flow	na	(317)	na	(464)	na	-	-	-		-
Investing Cash Flow	na	(194)	na	(1,347)	na	-	-	-		-
Operating CF + Investment CF	na	(512)	na	(1,812)	na	-	-	-		-
Financing Cash Flow	na	281	na	1,020	na	-	-	-		-

Source: Company Data, WRJ Calculation

FY03/2015 Company Forecasts

FY03/2015 Company forecasts have remained unchanged, going for prospective sales ¥48,800m (up 16.5% YoY), operating profit ¥490m (versus operating loss ¥643m over the year), recurring profit ¥510m (versus recurring loss ¥175m over the year) and net profit ¥320m (down 50.7%). Meanwhile, prospective dividend per share is set at ¥3.0, unchanged from FY03/2014, implying payout ratio 9.6%.



Source: Company Data, WRJ Calculation(forecasts in Q3 and Q4 FY03/2015, based on half year Company forecasts pro rata)

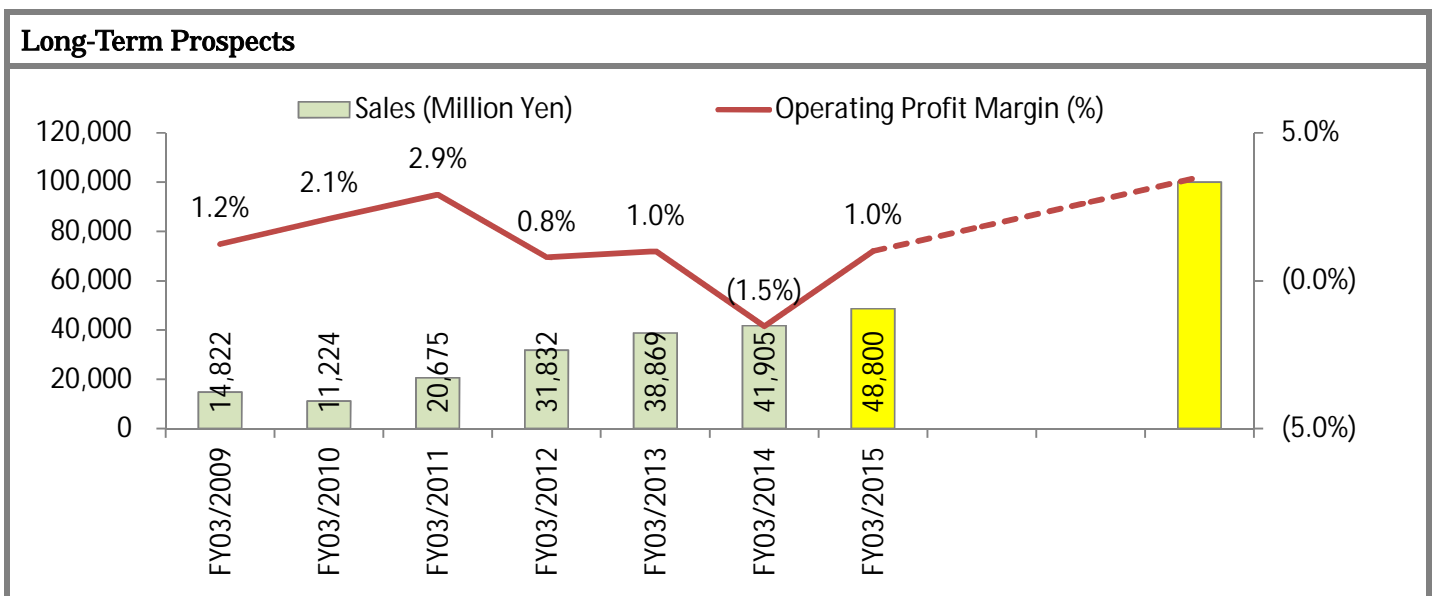
The Company has started making money at the operating level in Q1, as mentioned earlier. Basically, this trend is to persist in Q2, while further improvements are expected to come out in H2. Meanwhile, improvement at the recurring level is smaller than that of operating level and even smaller at the net level. This is because one-off factors in FY03/2014 are not to reappear.

In FY03/2014, the Company saw net add-ons ¥468m at the non-operating level and ¥733m at the extraordinary level. The former was basically due to booking of forex profit ¥358m and the latter profit from negative goodwill write-off ¥1,093m stemming from additional procurement of TKR Corporation shares. Both of them are not going to reappear in FY03/2015.

Long-Term Prospects

The Company is going for ongoing increases in sales and operating profit margin in a long-term view. While it is considered to increase exposure to operations in South East Asian countries or “one” of “China plus one”, the Company is trying to get at obtaining more deals to take over businesses from leading domestic manufacturers in Japan in line with their reorganization for the pursuit of demand.

Elsewhere, on the HS Business side, the Company is looking to future developments of contracted manufacturing in China, eventually creating a new major source of earnings with the Company. In China, the Company believes a dramatic changeover to contracted manufacturing from manufacturing dispatch will inevitably take place, as a result of revision of labor contract law in there. The Company is to pursue opportunities from here as much as possible in the foreseeable future by means of efficiency applying own strengths on contracted manufacturing.



Source: Company Data, WRJ Calculation

On 2 July 2013, it was revealed that TKR Corporation, one of the Company’s consolidated subsidiaries, was going to succeed a part of businesses with a sub-subsidiary of Hitachi, Ltd. In FY03/2015, this deal starts contributing to the Company’s business performance on a full-fledged basis. The said businesses to have been acquired comprise Power Supply Business, Transformer Business, In-Car Tuner Business and Video Board Business by category. All those businesses refer to those incorporating important technologies in the field of digital consumer electronics, while the Company succeeded knowhow on developments, designing and manufacturing (assembling) for boards (modules) and units to be adopted in diverse final products in here.

On top of this, on 26 June 2014, the Company made an IR disclosure to notify that the Company entered into basic agreement to acquire General Power Supply Business (high-voltage power supply, low-voltage power supply, magnet roll, transformer, etc.) from Panasonic Corporation. Meanwhile, the business transfer is expected to start up on 1 October 2014. The Company started up its involvements with power supply domain in line with acquisition of businesses from Hitachi Group and the above-stated deal is to further deepen the involvements with power supply domain for the Company. To date, the Company has set it as the key technology domain.

It is true, generally speaking, that almost all the players in the market for power supply and its peripherals have difficulties to differentiate each other among themselves, but the Company is trying to get at the pursuit of earnings by means of focusing on relatively highly-valued-added products, represented by high-voltage power supply to be adopted mainly in copiers and medical equipment by final product, which is a part of businesses to be taken over by the Company from Panasonic Corporation. As far as high-voltage power supply is concerned, Panasonic Corporation is estimated to command some 40% of the domestic market in Japan as the leader.

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 a concrete vision, does the Company mention “neo-EMS (advanced EMS)” which is the Company’s business concept. While holding “Monozukuri knowhow on designing to assembly” and “capability to flexibly supply human resources through human-resources-related business” at a time, the Company provides the best solutions for “Monozukuri, demanded by Japanese manufacturers” based on above-stated expertise. Even going forward, the Company is to remain being exposed to businesses for Japanese major manufacturers only, according to the Company.

Image Pictures (Inside of Overseas EMS Factory)



Source: Company Data

In terms of sales by customer category in FY03/2014, electrical-&-electronics-related accounted for more than 80% of total, comprising electrical machine 71%, electronic components & devices 6%, precision machinery 2% and telecom equipment 2%. On top of this, the Company was exposed to rubber, plastic and chemicals 7% as well as to other customer categories collectively 12%. Meanwhile, the contents of businesses with top 10 customers, having accounted for collective 48% of sales with the Company, suggest that major final products for the Company include control units for air-conditioners, MFPs (multifunctional printers), mobile phones and MFPs for home use. In addition to all those ones, it is presumed that the Company was involved with diverse 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.

Company Name: Walden Research Japan Incorporated

Headquarters Office : #1110 4-12-4 Hatchobori, Chuo-ku, Tokyo 104-0032, JAPAN

URL: www.walden.co.jp

E-mail: info@walden.co.jp

Phone : +81 3 3553 3769