

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 Half Year (Million Yen)		Sales	OP	RP	NP	EPS (Yen)	DPS (Yen)	BPS (Yen)
Q1 to Q2 FY03/2013		19,438	471	461	200	-	-	-
Q3 to Q4 FY03/2013		19,431	(83)	103	34	-	-	-
Q1 to Q2 FY03/2014		20,823	(345)	(68)	(197)	-	-	-
Q3 to Q4 FY03/2014CoE		20,676	(154)	(181)	747	-	-	-
Q1 to Q2 FY03/2014	YoY	7.1%	-	-	-	-	-	-
Q3 to Q4 FY03/2014CoE	YoY	6.4%	-	-	-	-	-	-

Source: Company Data, WRJ Calculation

1.0 Executive Summary (23 January 2014)

Structural Reform to Launch

Nippon Manufacturing Service, heavily involved with EMS Business mainly for major Japanese manufacturers, has revealed that the Company launches structural reform. Short-term business performance trends with the Company had hit the bottom in Q1 FY03/2014, but sequential recovery in Q2 was limited. The key negative factors stemmed from structural problems associated with the mainstay EMS Business. In our estimates, the Company's EMS Business is exposed 18% to Japan, 45% to China and 37% to Malaysia in terms of sales by region to manufacture, suggesting a meaningful exposure to high-cost domestic operations as well as an almost half exposure to China where Senkaku Islands issue generates negative impacts on to of surging labor costs and currency. Indeed, the Company mentions that the shortfall of operating profit in Q1 to Q2 was mainly due to structural problems in EMS Business associated with China by region.

In Q1 to Q2 FY03/2014, sales came in at ¥20,823m (up 7.1% YoY) and operating loss ¥345m (versus operating profit ¥471m during the same periods in the previous year). Operating balance came down ¥817m over the previous year, while the mainstay EMS Business, having accounted for 71.9% of sales with the Company, generated the key negative impacts by suffering from net decreases ¥679m in operating balance. Meanwhile, although EMS Business saw sequentially increasing operating loss through Q1 to Q2, the Company as a whole reduced operating loss to ¥115m in Q2 from ¥230m in Q1 due to improving operating balance of IS Business to offer production contract and production dispatch. Compared with assumptions of initial Company forecasts (as of 15 May 2013), operating balance was lower ¥220m, while the Company estimates the structural problems generated shortfall ¥320m in operating balance, comprising ¥253m associated with EMS Business in China and ¥67m with that of Japan. EMS Business in Japan as a whole


performed in line with expectations, but the Company perceives structural problems in some parts, which appear to be the objects of structural reform just like EMS Business in China. On the other hand, EMS Business in Malaysia performed better than expected.

Emergences of Senkaku Islands issue, etc. appear to have enhanced importance of so-called “China plus one” strategy among major Japanese manufacturers, i.e., the Company’s customers. The gist to be claimed here is that it is a must not to concentrate in China for manufacturing by diversifying to anywhere else for the sake of avoiding risks. When the Q1 FY03/2014 results were released, the Company maintained existing midterm management plan and long-term prospects. To date, however, the Company has once abandoned them and started to work on formulating new equivalents. As far as additional procurement of TKR Corporation’s shares is concerned, the Company has already disclosed details. According to the Company, this additional procurement of the shares is to make decision-making as a group more smoothly than before.

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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 September 2013)
No. of Shares	108,055 shares, including 5,815 treasury shares (As of the end of September 2013)
Main Features	<ul style="list-style-type: none"> ● EMS & human resources businesses in Japan, China and ASEAN ● 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: 6,568, Unconsolidated :3,279 (As of the end of September 2013)

Source: Company Data

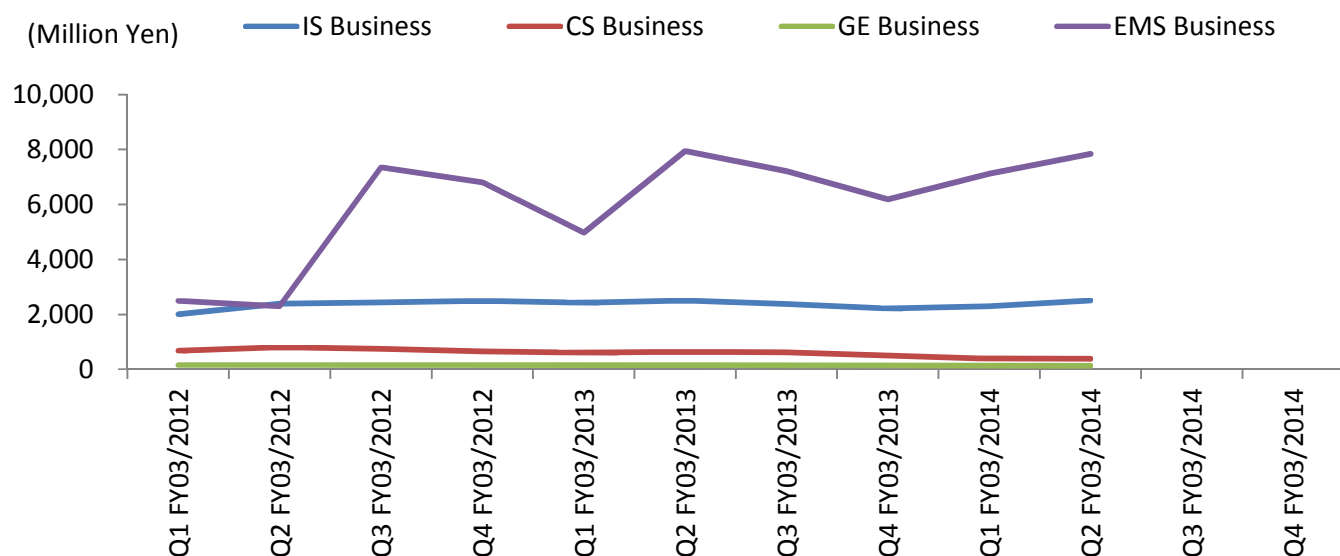
3.0 Recent Trading & Prospects

Q1 to Q2 FY03/2014 Results

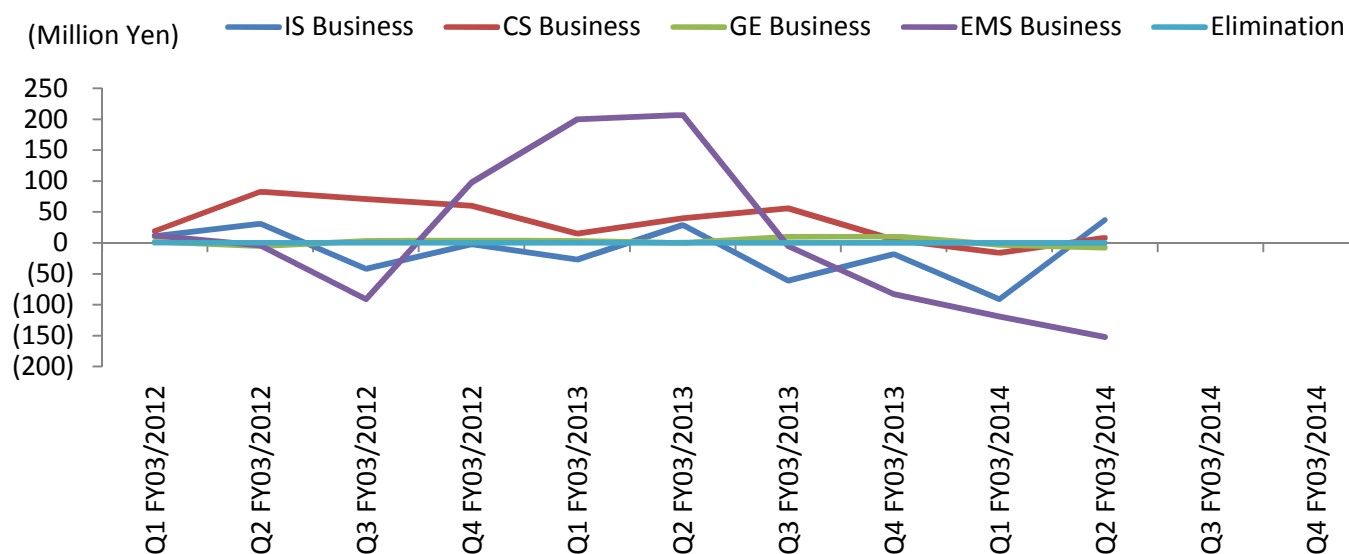
In Q1 to Q2 FY03/2014, sales came in at ¥20,823m (up 7.1% YoY), operating loss ¥345m (versus operating profit ¥471m during the same periods in the previous year), recurring loss ¥68m (recurring profit ¥461m) and net loss ¥197m (net profit ¥200m). Compared with initial Company forecasts (as of 15 May 2013), sales were exceeded ¥1,523m (7.9%), but operating balance saw shortages ¥220m as well as recurring balance ¥153m and net balance ¥197m, respectively. Yen's depreciation accounts for the bulk of overshoots in sales, while it also increased operating expenses. Thus, the Company's operating balance was almost immune to yen's depreciation.

Quarterly Trends by Business Segment

Sales



Operating Balance



Source: Company Data,

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. (100% held as of the end of Q2) 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 developing, mounting and manufacturing, combined with existing operations. This refers to “neo EMS (advanced EMS)”, advocated by the Company.

Acquisition of TKR Corporation (53.01% as of the end of Q2) 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 situations in terms of business performance, while the Company, having acquired their shares at prices lower than their net assets value, immediately wrote off negative goodwill to have generated for each 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 large 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 with the Company.

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 and then having made 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 (45% in terms of sales). 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 launches structural reform.

Meanwhile, IS Business to offer production contract and production dispatch mainly in Japan moved into operating profit in Q2 from Q1, after adjustments on the mainstay electric machine side by customer. 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, it appears that the former did well. In regards to CS Business to provide repair services mainly for game consoles and mobile phones, sales have remained insignificant while being rough breaking even. This is also true of GE Business to dispatch engineers.

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	Q1 to Q4	Net Chg.
	03/2013	03/2013	03/2013	03/2013	03/2014	03/2014	03/2014	03/2014	03/2014	
Sales	8,172	19,438	29,810	38,869	9,941	20,823	-	-	-	+1,385
CoGS	6,917	16,821	26,156	34,357	9,122	19,047	-	-	-	+2,226
Gross Profit	1,254	2,616	3,654	4,512	818	1,775	-	-	-	(841)
SG&A Expenses	1,061	2,145	3,181	4,124	1,049	2,121	-	-	-	(24)
Operating Profit	192	471	472	387	(230)	(345)	-	-	-	(817)
Non Operating Balance	51	(10)	(55)	176	201	277	-	-	-	+287
Recurring Profit	243	461	417	564	(29)	(68)	-	-	-	(529)
Extraordinary Balance	(1)	(31)	(99)	(106)	(97)	(78)	-	-	-	(47)
Pretax Profit	242	429	317	458	(126)	(146)	-	-	-	(576)
Tax Charges etc.	37	77	65	94	3	28	-	-	-	(49)
Minorities' Interests	97	151	92	128	25	21	-	-	-	(130)
Net Profit	107	200	159	235	(155)	(197)	-	-	-	(397)
Sales YoY	+52.8%	+76.6%	+37.3%	+22.1%	+21.7%	+7.1%	-	-	-	-
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%)	-	-	-	-	-	-
Gross Profit Margin	15.4%	13.5%	12.3%	11.6%	8.2%	8.5%	-	-	-	(4.9%)
SG&A / Sales	13.0%	11.0%	10.7%	10.6%	10.6%	10.2%	-	-	-	(0.8%)
Operating Profit Margin	2.4%	2.4%	1.6%	1.0%	(2.3%)	(1.7%)	-	-	-	(4.1%)
Recurring Profit Margin	3.0%	2.4%	1.4%	1.5%	(0.3%)	(0.3%)	-	-	-	(2.7%)
Net Profit Margin	1.3%	1.0%	0.5%	0.6%	(1.6%)	(0.9%)	-	-	-	(2.0%)
Tax Charges etc. / Pretax Profit	15.4%	18.1%	20.6%	20.6%	-	-	-	-	-	-

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	Q4	Net Chg.
	03/2013	03/2013	03/2013	03/2013	03/2014	03/2014	03/2014	03/2014	03/2014	
Sales	8,172	11,265	10,372	9,059	9,941	10,881	-	-	-	(384)
CoGS	6,917	9,903	9,335	8,200	9,122	9,925	-	-	-	+21
Gross Profit	1,254	1,362	1,037	858	818	956	-	-	-	(405)
SG&A Expenses	1,061	1,083	1,036	943	1,049	1,071	-	-	-	(11)
Operating Profit	192	278	0	(84)	(230)	(115)	-	-	-	(394)
Non Operating Balance	51	(61)	(45)	232	201	75	-	-	-	+137
Recurring Profit	243	217	(44)	147	(29)	(39)	-	-	-	(256)
Extraordinary Balance	(1)	(29)	(68)	(6)	(97)	19	-	-	-	+49
Pretax Profit	242	187	(112)	140	(126)	(19)	-	-	-	(207)
Tax Charges etc.	37	40	(12)	28	3	25	-	-	-	(15)
Minorities' Interests	97	53	(59)	36	25	(3)	-	-	-	(57)
Net Profit	107	93	(40)	75	(155)	(41)	-	-	-	(134)
Sales YoY	+52.8%	+99.0%	(3.0%)	(10.6%)	+21.7%	(3.4%)	-	-	-	-
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%	-	-	-	(3.3%)
SG&A / Sales	13.0%	9.6%	10.0%	10.4%	10.6%	9.8%	-	-	-	+0.2%
Operating Profit Margin	2.4%	2.5%	0.0%	(0.9%)	(2.3%)	(1.1%)	-	-	-	(3.5%)
Recurring Profit Margin	3.0%	1.9%	(0.4%)	1.6%	(0.3%)	(0.4%)	-	-	-	(2.3%)
Net Profit Margin	1.3%	0.8%	(0.4%)	0.8%	(1.6%)	(0.4%)	-	-	-	(1.2%)
Tax Charges etc. / Pretax Profit	15.4%	21.5%	-	20.5%	-	-	-	-	-	-

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	-	-	(116)
CS Business	606	1,258	1,884	2,386	392	777	-	-	(480)
GE Business	156	313	462	611	128	262	-	-	(51)
EMS Business	4,977	12,929	20,142	26,333	7,115	14,963	-	-	+2,033
Sales	8,172	19,438	29,810	38,869	9,941	20,823	-	-	+1,385
IS Business	+21.1%	+12.0%	+6.9%	+2.0%	(5.2%)	(2.4%)	-	-	-
CS Business	(11.5%)	(15.6%)	(15.9%)	(17.8%)	(35.3%)	(38.2%)	-	-	-
GE Business	+0.7%	+1.7%	(0.5%)	(2.5%)	(17.5%)	(16.3%)	-	-	-
EMS Business	+99.3%	+169.4%	+65.8%	+39.0%	+43.0%	+15.7%	-	-	-
Sales (YoY)	+52.8%	+76.6%	+37.3%	+22.1%	+21.7%	+7.1%	-	-	-
IS Business	29.8%	25.4%	24.6%	24.5%	23.2%	23.1%	-	-	-
CS Business	7.4%	6.5%	6.3%	6.1%	3.9%	3.7%	-	-	-
GE Business	1.9%	1.6%	1.6%	1.6%	1.3%	1.3%	-	-	-
EMS Business	60.9%	66.5%	67.6%	67.7%	71.6%	71.9%	-	-	-
Sales (Composition)	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	-	-	-
IS Business	(27)	2	(58)	(77)	(91)	(54)	-	-	(57)
CS Business	15	56	113	118	(16)	(7)	-	-	(64)
GE Business	3	3	14	25	(3)	(11)	-	-	(15)
EMS Business	200	408	403	320	(119)	(271)	-	-	(679)
Operating Profit (Before Elimination)	192	471	471	386	(230)	(346)	-	-	(817)
Elimination	-	-	-	-	-	-	-	-	-
Operating Profit	192	471	472	387	(230)	(345)	-	-	(817)
IS Business	(1.1%)	0.1%	(0.8%)	(0.8%)	(4.0%)	(1.1%)	-	-	(1.2%)
CS Business	2.6%	4.5%	6.0%	5.0%	(4.1%)	(1.0%)	-	-	(5.5%)
GE Business	1.9%	1.2%	3.1%	4.2%	(2.8%)	(4.5%)	-	-	(5.7%)
EMS Business	4.0%	3.2%	2.0%	1.2%	(1.7%)	(1.8%)	-	-	(5.0%)
Elimination	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%)	-	-	(4.1%)

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	-	-	+10
CS Business	606	651	626	501	392	385	-	-	(266)
GE Business	156	157	148	149	128	133	-	-	(23)
EMS Business	4,977	7,952	7,213	6,190	7,115	7,847	-	-	(104)
Sales	8,172	11,265	10,372	9,059	9,941	10,881	-	-	(384)
IS Business	+21.1%	+4.4%	(2.4%)	(11.3%)	(5.2%)	+0.0%	-	-	-
CS Business	(11.5%)	(19.1%)	(16.3%)	(24.4%)	(35.3%)	(40.9%)	-	-	-
GE Business	+0.7%	+2.8%	(4.9%)	(8.4%)	(17.5%)	(15.2%)	-	-	-
EMS Business	+99.3%	+245.4%	(1.9%)	(9.0%)	+43.0%	(1.3%)	-	-	-
Sales (YoY)	+52.8%	+99.0%	(3.0%)	(10.6%)	+21.7%	(3.4%)	-	-	-
IS Business	29.8%	22.2%	23.0%	24.5%	23.2%	23.1%	-	-	-
CS Business	7.4%	5.8%	6.0%	5.5%	3.9%	3.5%	-	-	-
GE Business	1.9%	1.4%	1.4%	1.7%	1.3%	1.2%	-	-	-
EMS Business	60.9%	70.6%	69.5%	68.3%	71.6%	72.1%	-	-	-
Sales (Composition)	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	-	-	-
IS Business	(27)	29	(61)	(18)	(91)	37	-	-	+7
CS Business	15	40	56	5	(16)	8	-	-	(32)
GE Business	3	0	10	11	(3)	(8)	-	-	(8)
EMS Business	200	207	(5)	(83)	(119)	(152)	-	-	(359)
Operating Profit (Before Elimination)	192	278	0	(85)	(230)	(115)	-	-	(393)
Elimination	-	-	-	-	-	-	-	-	-
Operating Profit	192	278	0	(84)	(230)	(115)	-	-	(394)
IS Business	(1.1%)	1.2%	(2.6%)	(0.8%)	(4.0%)	1.5%	-	-	+0.3%
CS Business	2.6%	6.2%	9.1%	1.1%	(4.1%)	2.1%	-	-	(4.1%)
GE Business	1.9%	0.5%	7.0%	7.4%	(2.8%)	(6.0%)	-	-	(6.6%)
EMS Business	4.0%	2.6%	(0.1%)	(1.3%)	(1.7%)	(1.9%)	-	-	(4.5%)
Elimination	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%)	-	-	(3.5%)

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	-	-	(551)	
Accounts Receivables	6,192	6,868	6,285	6,332	6,516	6,680	-	-	(187)	
Inventory	2,426	2,246	2,288	2,729	2,983	2,913	-	-	+667	
Other	881	393	488	631	639	523	-	-	+129	
Current Assets	13,416	13,764	12,773	13,328	14,126	13,821	-	-	+57	
Tangible Assets	4,012	3,908	3,923	4,203	4,179	4,219	-	-	+311	
Intangible Assets	462	463	451	448	444	437	-	-	(25)	
LT Investment Securities etc.	1,434	1,206	1,060	1,080	1,060	1,092	-	-	(114)	
Fixed Assets	5,909	5,578	5,435	5,732	5,684	5,748	-	-	+170	
Total Assets	19,325	19,342	18,208	19,061	19,810	19,570	-	-	+227	
Accounts Payable	3,464	3,820	3,107	3,571	3,676	3,744	-	-	(75)	
Short Term Debt	4,669	4,761	4,895	4,264	4,868	4,988	-	-	+227	
Corporate Bond (Less than 1 year)	100	100	100	100	100	50	-	-	(50)	
Other	2,475	2,502	2,310	2,213	2,361	2,058	-	-	(444)	
Current Liabilities	10,709	11,184	10,413	10,149	11,006	10,841	-	-	(342)	
Corporate Bond	100	50	50	-	-	-	-	-	(50)	
Long Term Debt	1,552	1,250	905	1,701	1,542	1,419	-	-	+169	
Other	727	713	706	686	691	703	-	-	(10)	
Fixed Liabilities	2,379	2,013	1,661	2,387	2,234	2,123	-	-	+109	
Total Liabilities	13,089	13,197	12,074	12,537	13,240	12,964	-	-	(232)	
Shareholders' Equity	3,596	3,689	3,648	3,724	3,476	3,435	-	-	(254)	
Other	2,639	2,454	2,484	2,799	3,093	3,170	-	-	+715	
Total Assets	6,236	6,144	6,133	6,523	6,569	6,605	-	-	+460	
Total Liabilities & net Assets	19,325	19,342	18,208	19,061	19,810	19,570	-	-	+227	
Equity Capital	3,543	3,473	3,476	3,756	3,695	3,717	-	-	+244	
Interest Bearing Debt	6,421	6,161	5,951	6,066	6,511	6,458	-	-	+297	
Net Debt	2,506	1,905	2,240	2,430	2,524	2,754	-	-	+848	
Equity Capital Ratio	18.3%	18.0%	19.1%	19.7%	18.7%	19.0%	-	-	+1.0%	
Net-Debt-Equity Ratio	69.7%	51.6%	61.4%	65.2%	72.6%	80.2%	-	-	+28.5%	
ROE	12.4%	11.8%	6.2%	6.6%	(16.7%)	(10.5%)	-	-	(22.3%)	
ROA	5.1%	4.8%	3.0%	3.0%	(0.6%)	(0.7%)	-	-	(5.6%)	
Days for Inventory Turnover	32	21	22	30	30	27	-	-	-	
Inventory Turnover	11.4	17.6	16.3	12.0	12.2	13.6	-	-	-	
Quick Ratio	94%	99%	96%	98%	95%	96%	-	-	-	
Current Ratio	125%	123%	123%	131%	128%	127%	-	-	-	

Source: Company Data, WRJ Calculation

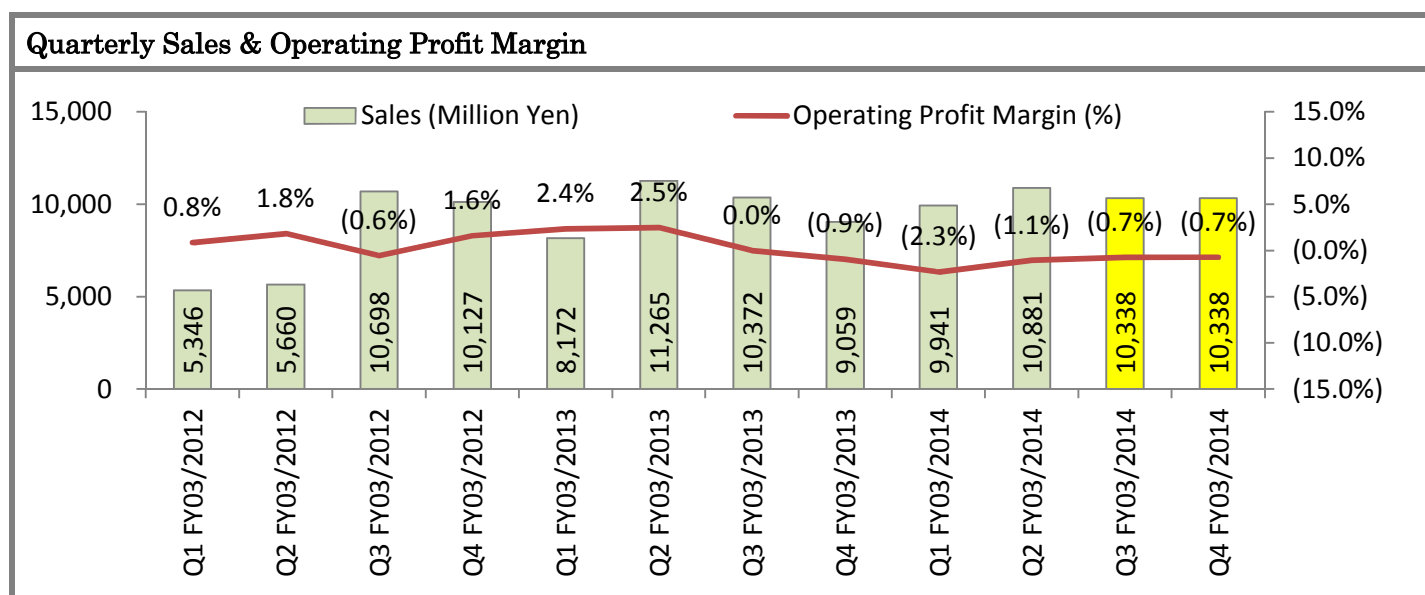
Cash flow Statement (Cumulative)

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	-	230	-	145	-	(317)	-	-	(548)	
Investing Cash Flow	-	88	-	(222)	-	(194)	-	-	(283)	
Operating CF + Investment CF	-	319	-	(77)	-	(512)	-	-	(832)	
Financing Cash Flow	-	(227)	-	(382)	-	281	-	-	+508	

Source: Company Data, WRJ Calculation

FY03/2014 Company Forecasts

According to 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 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%). Prospective dividend per share has remained unchanged at ¥3.0, implying payout ratio 5.6%.



Source: Company Data, WRJ Calculation (Q3 and Q4 FY03/2014 figures; half year Company forecasts pro rata)

Full-year prospective operating profit has been downgraded ¥1,320m, out of which ¥908m is attributable to structural factors according to the Company, ¥603m being associated with EMS Business in China and ¥305m to that of Japan. In Q1 to Q2 results, they were ¥320m, ¥253m and ¥67m, respectively, implying the negative impacts are to be enlarged. However, this has a lot to do with the assumptions of initial Company forecasts calling for substantial improvements in operating balance from H1 to H2 (operating loss ¥125m to operating profit ¥945m).

Meanwhile, the current Company forecasts assume operating loss with the Company to be reduced to ¥154m in H2 versus ¥345m in Q1 to Q2 results. Although the mainstay EMS Business is expected to suffer from operating loss roughly as much as in Q1 to Q2 results, ongoing improvements in earnings of IS Business after moving into operating profit in Q2 is to contribute.

Thus, the Company is likely to benefit from structural reform for it to launch, basically after the end of FY03/2014 or in FY03/2015 and later. This looks applicable to an issue to additionally procure shares of TKR Corporation (53.01% as of the end of Q2). This consolidated subsidiary in charge of EMS Business, together with Shima Electronic Industry Co., Ltd. (100% held as of the end of Q2). EMS Business saw sales ¥14,963m and operating loss ¥271m, while TKR Corporation accounted for some 70% of sales in here and Shima Electronic Industry Co., Ltd. for the remaining 30% or so.

TKR Corporation has a small exposure to China while being exposed a lot to Malaysia and thus it appears that business performance is relatively better. Meanwhile, it is vice versa for Shima Electronic Industry Co., Ltd., being exposed a lot to China and not much to Malaysia.

As of the end of December 2013, the Company raised its holding ratio up to 87.01% for TKR Corporation from 53.01% by means of additionally procuring the shares. This will enable the Company to more smoothly making management decision than before in EMS Business and thus overall operations as a group, eventually contributing to set up management structure to carry out structural reform. The other thing is negative goodwill to be generated by the deal is to be immediately written off and the Company is to book extraordinary profit some ¥1,000m, stemming from here. This is the reason why full-year prospective net profit has been upgraded.

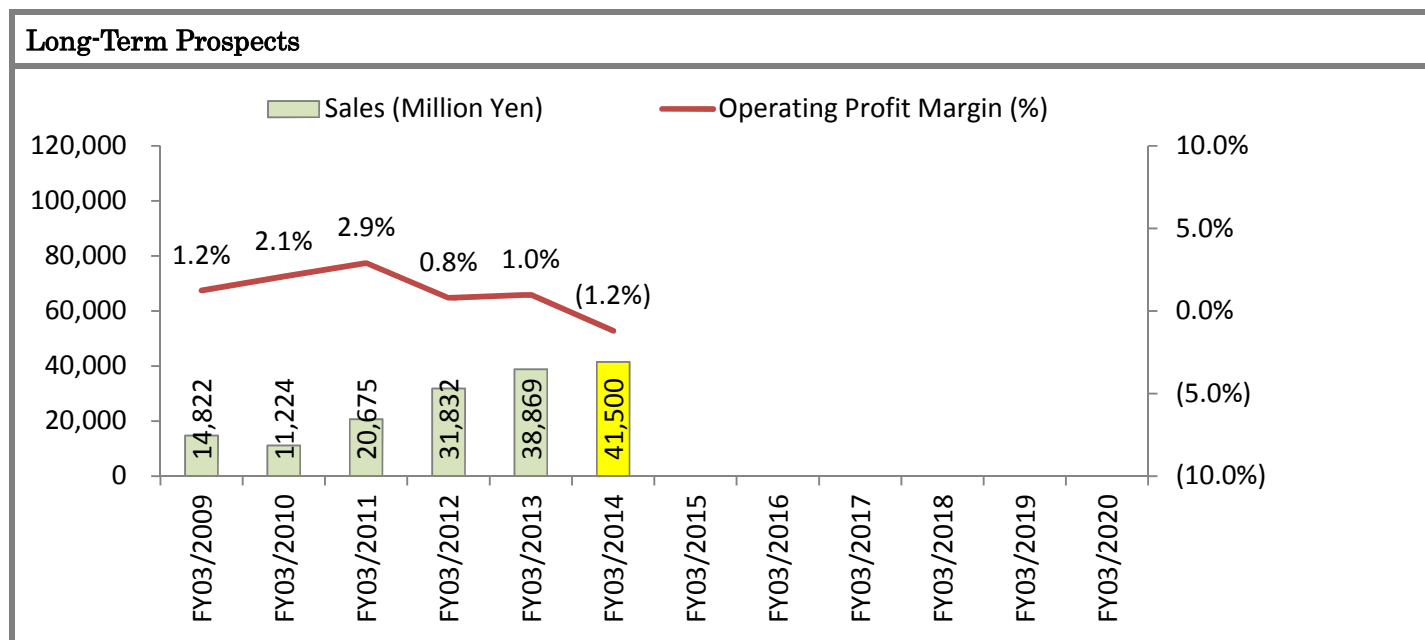
Income Statement

Income Statement	Par.Act	Par.Act	Cons.Act	Cons.Act	Cons.Act	Cons.CoE	
(Million Yen)	FY	FY	FY	FY	FY	FY	YoY
	03/2009	03/2010	03/2011	03/2012	03/2013	03/2014	net Chg.
Sales	14,822	11,224	20,675	31,832	38,869	41,500	+2,630
CoGS	12,365	9,310	17,943	28,249	34,357	37,610	+3,252
Gross Profit	2,456	1,913	2,732	3,583	4,512	3,890	(622)
SG&A Expenses	2,272	1,678	2,129	3,331	4,124	4,390	+265
Operating Profit	184	234	602	251	387	(500)	(887)
Non Operating Balance	(10)	(4)	(18)	14	176	250	+73
Recurring Profit	174	230	584	266	564	(250)	(814)
Extraordinary Balance	(198)	(27)	476	1,175	(106)	-	-
Pretax Profit	(24)	203	1,060	1,441	458	-	-
Tax Charges etc.	127	(26)	152	40	94	-	-
Minorities' Interests	-	-	-	45	128	-	-
Net Profit	(152)	230	907	1,356	235	550	+314
Sales YoY	(12.6%)	(24.3%)	+84.2%	+54.0%	+22.1%	+6.8%	-
Operating Profit YoY	(68.1%)	+27.5%	+156.8%	(58.3%)	+54.1%	-	-
Recurring Profit YoY	(67.9%)	+32.4%	+153.5%	(54.4%)	+112.0%	-	-
Net Profit YoY	-	-	+294.6%	+49.4%	(82.6%)	+133.5%	-
Gross Profit Margin	16.6%	17.0%	13.2%	11.3%	11.6%	9.4%	(2.2%)
SG&A / Sales	15.3%	15.0%	10.3%	10.5%	10.6%	10.6%	(0.0%)
Operating Profit Margin	1.2%	2.1%	2.9%	0.8%	1.0%	(1.2%)	(2.2%)
Recurring Profit Margin	1.2%	2.1%	2.8%	0.8%	1.5%	(0.6%)	(2.1%)
Net Profit Margin	(1.0%)	2.0%	4.4%	4.3%	0.6%	1.3%	+0.7%
Tax Charges etc. / Pretax Profit	-	-	14.4%	2.8%	20.6%	-	-

Source: Company Data, WRJ Calculation

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 2.5%. To date, however, the Company has once abandoned them and revealed that it started to work on new equivalents. 2014. Basically, it appears that the issue is to examine integrating and 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

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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.

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, going forward, in a long-term view. The Company, advocating "neo EMS", referring to advanced form for EMS, as own business concept, intends to drive long-term earnings by means of actually incorporating businesses like this as much as possible.

The deal this time includes Power Supply Business, Transformer Business, In-Car Tuner Business and Video Board Business. Businesses 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 a component, is currently seeing steady growth, essentially driving demand for LED power supply.

The other thing is that the Company purchased 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 appears to have succeeded effectively all the headcounts in there, too.

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)” as the business concept. While holding “Monozukuri knowhow on designing to assembly” and “capability to flexibly supply human resources through human resources businesses” at a time, the Company is to provide the best solutions with “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 manufacturers only, according to the Company.

Image Pictures (Inside of Oversea EMS Factory)



Source: Company Data

In terms of sales by customer category in FY03/2013 results, electronic appliances 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 electronic appliances, 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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