

# **Investor Meeting for the Year ended March 2018**

May 21, 2018

 **SANSHIN ELECTRONICS CO., LTD.**

Toshiro Suzuki, Representative Director, COO

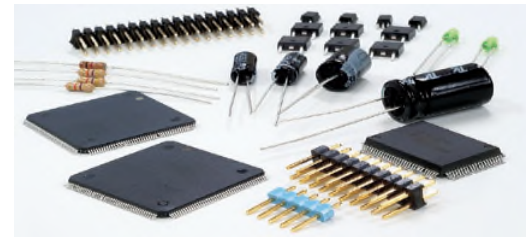
(Stock code: 8150)

**As a general electronics trading company committed to being “customers’ best partner,” Sanshin Electronics runs two major businesses: device business and solution business.**

## Device Business

— Addressing diversified market needs through a wide product lineup —

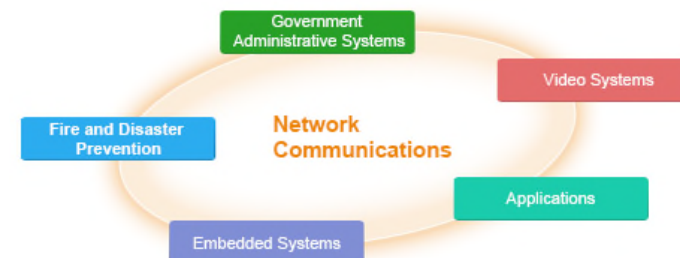
We cover a wide array of manufacturers, from both domestic and overseas major semiconductors/electronic parts makers all the way to emerging manufacturers that are currently developing products with excellent performance. In a time when market needs are constantly diversifying, we respond to our customers’ requests through a full lineup and detailed system of both domestic and overseas sales.



## Solution Business

— Building up social infrastructures interconnected through ICT —

With information and telecommunications network at the core of our operations, we are committed to proposing and building up the optimal system to fit our customers’ needs. We provide our customers with a safe and reliable infrastructure through bundled services, including a support menu, after the system implementation.



# **I. Year Ended March 2018**

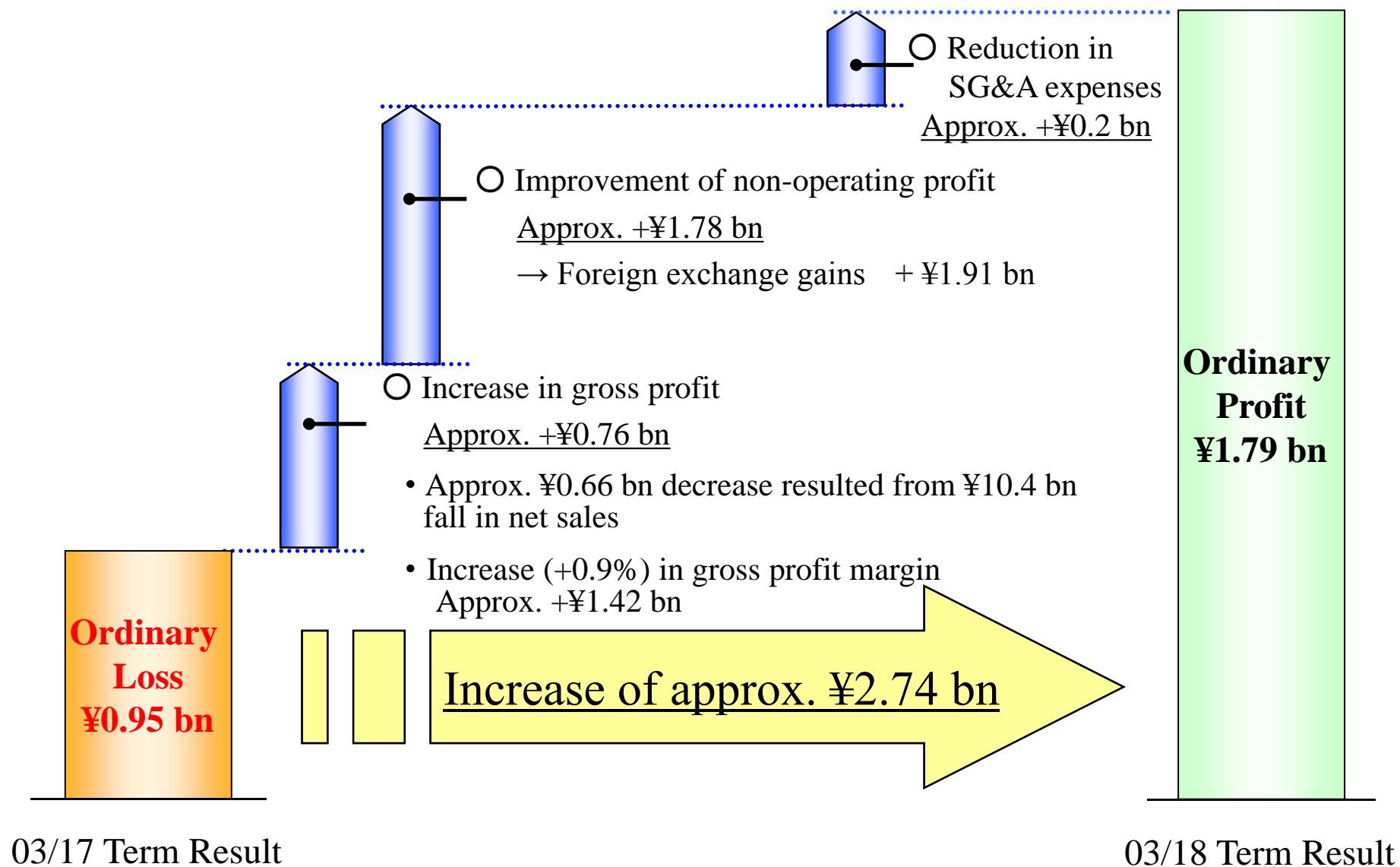
## **Performance Summary**

■ Business performance improved due to improvement of the gross profit margin, reduction of SG&A expenses, reduction of foreign exchange loss, etc.

	03/17 Result	03/18 Result	YoY Change	Forecast <sup>*1)</sup>	Achievement Ratio
Net Sales	1,676.6	1,572.6	94%	1,530.0	103%
Gross Profit on Sales	6.4% 106.9	7.3% 114.5	107%	7.4% 113.4	101%
SG&A Expenses	5.9% 98.8	6.2% 96.8	98%	6.4% 97.4	99%
Operating Profit/Loss	0.5% 8.0	1.1% 17.6	219%	1.0% 16.0	110%
Ordinary Profit/Loss	-0.6% <b>-9.5</b>	1.1% 17.9	+27.4	1.0% 15.0	119%
Net Profit/Loss Attributable to Shareholders of Parent Company	-0.9% <b>-15.8</b>	0.6% 9.5	+25.2	0.5% 8.0	118%
ROE	-2.5%	1.5%	+4.0P	1.3%	+0.2P
Annual Dividend Per Share	¥25	¥33	+¥8	¥25	+¥8
Payout Ratio	—	98.2%	—	88.1%	+10.1%
Exchange Rate (1 US dollar)	¥108.42	¥110.86	¥2.44	¥110.54	¥0.32

\*1) Figures in the Forecast section were revised at the announcement on November 6, 2017 of the results for the Second Quarter of March 2018 Term.

\*2) Figures in the YoY Change section for ordinary profit/loss, net profit/loss, ROE, annual dividend per share, payout ratio and exchange rate represent increases or decreases of amount. Also, figures in the Achievement Ratio section for ROE, annual dividend per share, payout ratio and exchange rate represent increases or decreases of amount.



■ Changes in the Business Environment

- Although concern remains regarding political trends and geopolitical risk in the U.S. and Europe, there is overall recovery with a focus on advanced nations.
- Growth of markets related to advanced driving support systems for automobiles, IoT, M2M, etc.; steady growth of IT investment.

■ Device Business

- Although sales of LCD-related products decreased, sales of automobile products were strong and new business also increased.
- Segment profit returned to profitability due to increase in the gross profit margin, reduction of fixed cost through voluntary retirement/consolidation of offices, and reduction of foreign exchange loss.

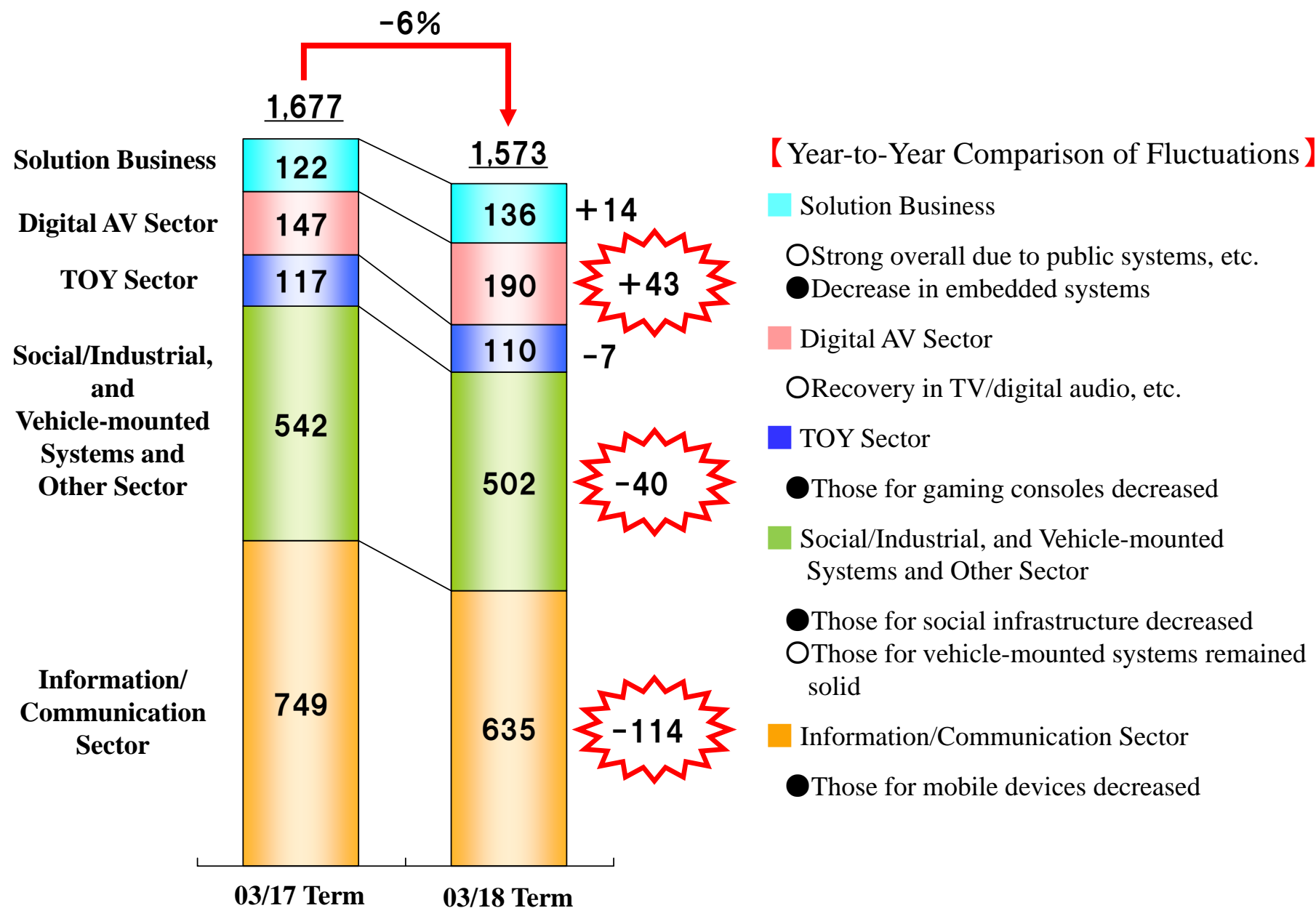
■ Solution Business

- Although sales of embedded systems decreased, net sales were strong due to recovery in solutions for public systems, etc.
- Segment profit remained nearly the same as the previous year due to a decrease in the gross profit margin.

		03/17 Term Result	03/18 Term Result	YoY Change	Forecast <sup>*1)</sup>	Achievement Ratio
Device Business	Net Sales	1,554.8	1,437.0	92%	1,390.0	103%
	Operating Profit/Loss	0.4% 6.8	1.1% 16.2	238%	1.1% 15.3	106%
	Segment Profit/Loss	-1.3% <b>-20.3</b>	0.5% 7.2	+27.5	0.3% 4.2	172%
Solution Business	Net Sales	121.7	135.6	111%	140.0	97%
	Operating Profit/Loss	10.1% 12.4	10.0% 13.6	110%	10.1% 14.1	96%
	Segment Profit/Loss	8.8% 10.8	7.8% 10.6	99%	7.7% 10.8	98%
Exchange rate (1 US dollar)		¥108.42	¥110.86	¥2.44	¥110.54	¥0.32

\*1) Figures in the Forecast section were revised at the 2nd quarter investor meeting held on November 6, 2017.

\*2) Figures in the YoY Change section for segment profit/loss in the device business and figures in the YoY Change and Achievement Ratio sections for exchange rate represent increases or decreases.



## **II. V70 Medium-Term Management Plan Progress and Outlook**



## **II-1) Outline and Interim Assessment**

- Business environment
  - Instability in exchange rates/stock markets, customer/supplier/competitor's business acquisitions and sell-offs
  - Reduction of suppliers' products and termination of the digitalization of wireless communication for firefighting and emergency services
  - Rise of new business fields such as cloud computing/IoT

In order to provide compelling value to all of our stakeholders, including employees, customers, suppliers and shareholders, Sanshin Electronics will establish a strong revenue base that can overcome changes in the business environment

### Strengthening of business capability

- ◆ Returning to profitability in the device business
- ◆ Strengthening of revenue base of the solution business
- ◆ Investment for strengthening of alliance

### Enhancement of capital efficiency

The following measures to be implemented in the 3 terms extending from the fiscal year ended March 31, 2018 to the fiscal year ending March 31, 2020

- ◆ Increase in dividend payout ratio to around 100%
- ◆ Acquisition of treasury stock up to ¥20 billion (10 million shares) in total for the 3 terms

## Strengthening of corporate governance



V70  
quantitative  
target

ROE of 5% by the final year (fiscal year ending March 31, 2021)

Consolidated ordinary profit of ¥3 billion in the final year

## Enhancement of Capital Efficiency

Resolution of treasury stock acquisition to attain the ultimate goal of ROE of 5%

\*For details, please refer to the “Notice Regarding Acquisition of Treasury Stock and Tender Offer of Treasury Stock” as of May 14, 2018.

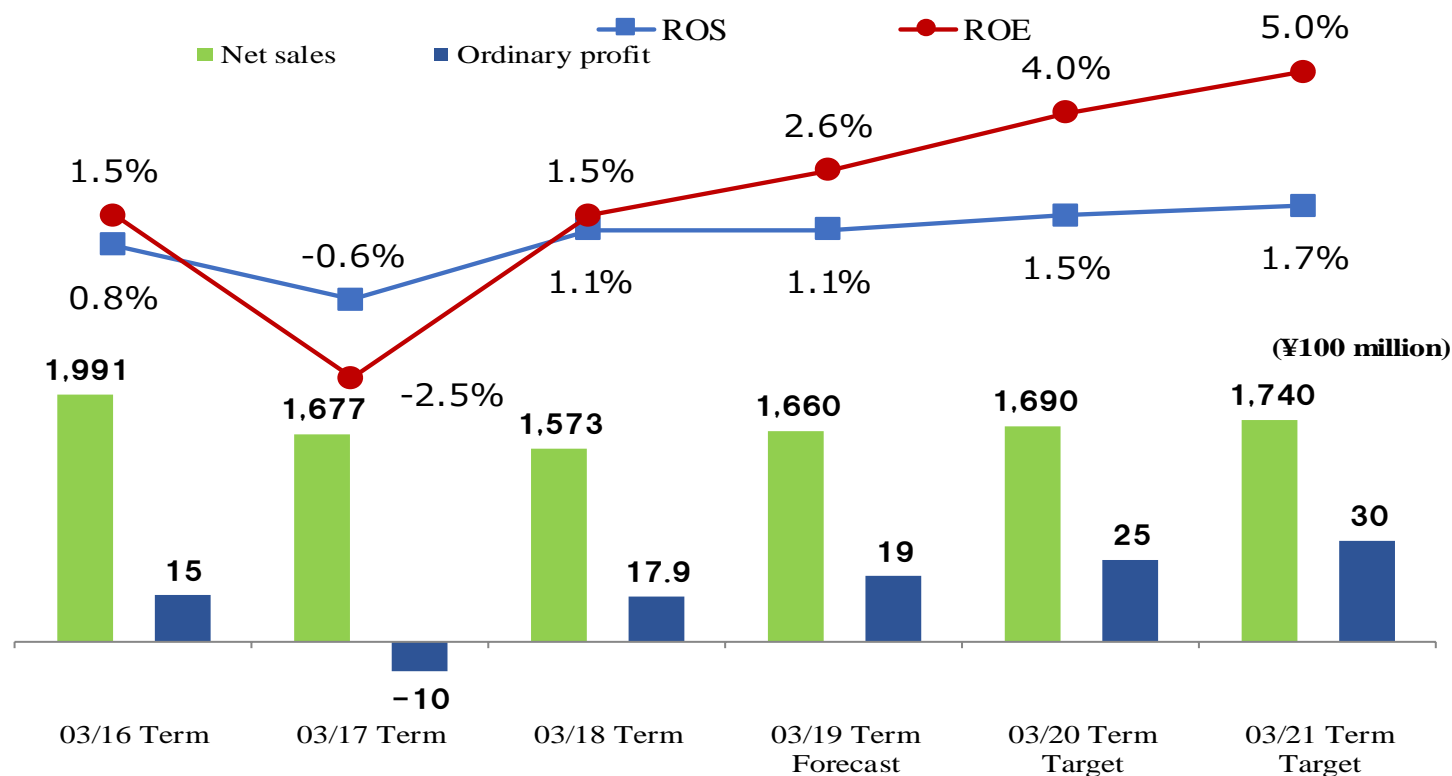
	Tender Offer of Treasury Stock Outline
Purchase Price	¥2,191 per share (equivalent to BPS as of end of March 2018)
Number of Share Certificates Planned for Purchase	9 million ordinary shares *(1) Equivalent to 30.74% of the number of outstanding shares *(2) The number of shares to be purchased will not exceed the number of share certificates planned for purchase (pro rata method)
Total Purchase Amount	¥19,719 million
Tender Offer Period	May 15, 2018 (Tuesday) to June 11, 2018 (Monday) *20 business days
TOB Agent	Daiwa Securities Co. Ltd.
Settlement Start Date	July 3, 2018

The Company will continue to examine acquisition of its treasury stock for the purpose of maximizing value for shareholders with consideration of corporate value and stock price level. In addition, in order to secure flexibility and mobility in the Company's capital policy, the Company plans to reduce the capital reserve and transfer the reduced amount of the capital reserve to other capital surplus.

\*For details, please refer to the "Notice Regarding Reduction of Capital Reserve" as of May 14, 2018.

Through the strengthening of business capability and enhancement of capital efficiency by actively increasing returns to shareholders, the Company sets an ordinary profit of ¥3 billion and ROE of 5% in each fiscal year including the fiscal year ending March 2021 as a goal which must be attained.

#### Numerical Plan Until March 2021 Term



Payout Ratio	115.3%	—	98.2%	100%	100%	50%
Equity Ratio	66.3%	65.4%	65.7%	50% or higher	50% or higher	50% or higher

\*(1) The target for the fiscal year ending March 31, 2020 is added to the V70 Medium-Term Management Plan released on May 15, 2017.

\*(2) Based on the assumption that tender offer of the Company's treasury stock released on May 14, 2018 is implemented.

Efficiency increase phase including the combination and reorganization of business locations has ended for now. In the final 3 years of the Medium-Term Management Plan, we will work on reform of the business portfolio and development of business in new areas which are in the course of completion.

### Main achievements in the first 2 years

- Acquisition of new commercial rights in the device business
- Maintenance of strong vehicle-mounted systems
- Synergy creation between business units and launch of IoT business, etc.
- Production of results by combining and reorganizing business locations and optimizing staffing

### Main challenges to be resolved in the final 3 years

- Reform of the business portfolio in the device business which is half-way through
- Expansion of scale of business in new area IoT business, etc. are in the launch phase → Currently remaining small scale
- Urgent task is the increase of business profitability and expansion of customers/commercial rights, etc.

### Future Activities

- ❑ Device business: Profitability increase by drastic change of business portfolio
- ❑ Solution business: Deep cultivation of existing business + growth of new areas (embedded systems, AI/IoT, SI services, etc. )

### Group management system

Pursuit of management system construction with an eye on (1) further profitability increase for each business, (2) significant expansion of customers/commercial rights, etc. (3) optimal allocation of management resources

Medium-Term Management Plan Measures		Progress	Assessment
I. Returning to profitability in the device business	Reform of business portfolio	Delay in launch of new growth business which is expected to be a new revenue base. → Continuous promotion	△
	Enhancement in profitability of existing business	Although there are still challenges in the expansion of customers/commercial rights, etc., good results are seen in sales expansion of some merchandise.	△
II. Strengthening of revenue base of the solution business	Expansion of cloud service portfolio	Establishment of revenue base of the data center business is halfway through. Booming market cannot be completely captured yet.	×
	Maximization of synergy effects between business units	Some results were made in AP x video, AP x network, video x firefighting and disaster prevention, etc. However, scale expansion is still halfway through and a challenge to be resolved from now on.	△
Others	Cost structure reform	After staffing optimization, efficient management is being conducted according to the policy. Optimization of currency exchange rates and interest rate continues.	○

Focus on reform of the business portfolio and promotion of the cloud business to change the direction to growth

## **II-2) Actions and Roadmap**

## 5 Key Actions

Devices (Overall)	Increase of value and profit rate by <b>reforming the business portfolio</b>
Devices (Individual)	<b>Capture of vehicle-mounted system area</b> by utilizing strong core merchandise and graphic technologies, increase of our share in <b>next generation games, network and wireless market</b> , and focus on <b>IoT business</b>
Solutions	<b>Cross-selling</b> based on internal and external co-creation/ <b>collaboration with SIers</b> , dedication to <b>cloud use</b> , and promotion of the creation of added value
M&A, etc.	Continuous examination of <b>business alliances/M&amp;A contributing to expansion of our activity area, customers/commercial rights, etc.</b>
Management System	Examination of building an optimal management system for the Group with the aim of enhancing corporate value

In the final 3 years, enhance monitoring system for each item more than before and accelerate implementation of the PDCA cycle to ensure that the Medium-Term Management Plan is attained.



<b>Business Vision</b>	Establishment of position as an engineering trading company. Aiming for growth in a sustainable manner by expanding our activity area.
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(Main) Specific Scenarios

Sales target by segment      Profit target by segment

<b>March 2019 Term</b>	<ul style="list-style-type: none"> <li>• Selection and concentration by reform of business portfolio → Continuous increase of gross profit</li> <li>• Focus on strategic devices (for vehicle-mounted systems, next generation games, NW and wireless markets) and capture of a mass market where our strengths can be utilized</li> <li>• Continuous building basis in collaboration with SIers</li> </ul>	¥151.2 billion	¥0.83 billion
<b>March 2020 Term</b>	<ul style="list-style-type: none"> <li>• Focus on strategic devices (for vehicle-mounted systems, next generation games, NW and wireless markets) and deep cultivation of a mass market where our strengths can be utilized</li> <li>• Creation of business by integration of Sanshin System Design and IoT Business Unit</li> <li>• Collaboration with SIers, acceleration of development of new ODM manufacturers and entry in the billing business</li> </ul>	¥154.5 billion	¥1.3 billion
<b>March 2021 Term</b>	<ul style="list-style-type: none"> <li>• Increase in business size by device business x solution business</li> <li>• Monetization of our IoT service business (as an organizer)</li> <li>• Acceleration of integration of IoT strategy and individual business unit strategy → To the <u>establishment of our unique position</u></li> </ul>	¥158.2 billion	¥1.6 billion

**Business  
Vision**

Aiming for transition to AI/IoT and cloud provision type business while placing maintenance and expansion of existing businesses as the core

(Main) Specific Scenarios

Sales target by  
segment      Profit target by  
segment

March  
2019  
Term

- Continuous deep cultivation of existing key accounts
- Establishment of revenue base by cross-selling and response to closed data centers
- Expansion of receiving orders by collaboration of sales policy with key suppliers such as NEC

¥14.8  
billion

¥1.07  
billion

March  
2020  
Term

- Enhancement of hybrid response with an eye on the transition period from on-premises → cloud (Building a system of administration relations + information relations, launch of original merchandise, etc.)
- Acquisition of cloud projects and continuous response to and enhancement of the closed data centers
- Acceleration of service creation by using Sanshin Data Center (SDC)

¥14.5  
billion

¥1.2  
billion

March  
2021  
Term

- Acceleration of response to system outsourcing
- Full launch of provision of the IoT compatible platform system and embedded system
- Penetration of AI/IoT related solutions into medium/small-sized companies → Expansion of business opportunities

¥15.8  
billion

¥1.4  
billion

## **II-3) Device Business**

## Simultaneous promotion of reform of business profile that increases growth rate and enhancement in profitability of existing business

### V70 Direction

#### Reform of business portfolio

Departure from dependence on low-growth and low-profitability business (increase in the ratio of high-growth and high-profitability business)

- Placing priority on the markets where growth is highly expected
- Promotion of solution provision type business through enhancement in SIER capability
- Investment for strengthening of alliance for creation of new business opportunities



### Priority Activities for the Coming 3 Years

- Acceleration of the **shift from a low-profitability volume sale business to a core device business that utilizes our technical ability**
- ➔ Enhancement to acquire the growth amount of the market in the automobile, IoT and wireless fields
- **Creation of business in the IoT field and solution provision type business** by strengthening alliances

#### Enhancement in profitability of existing business

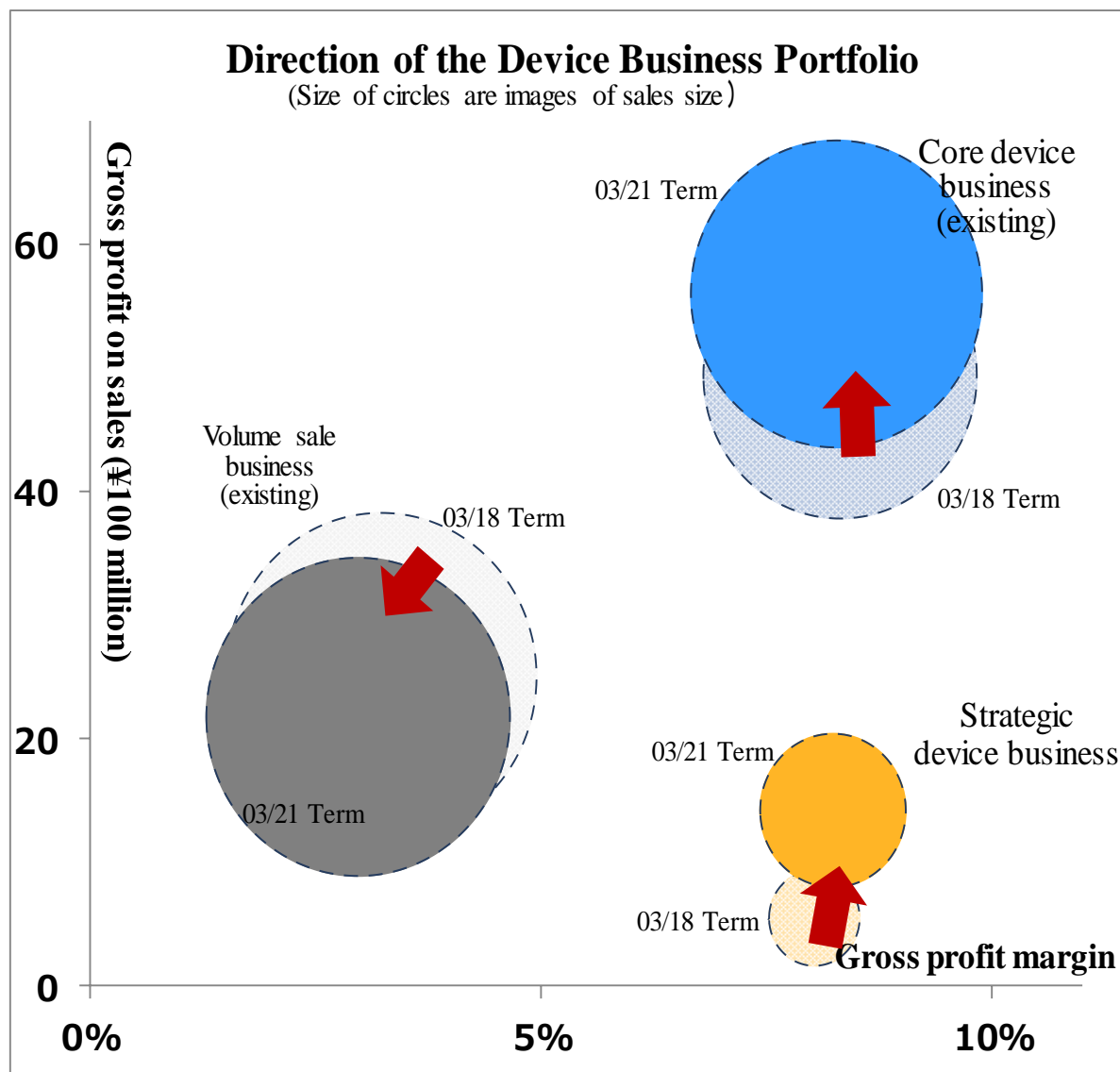
Enhancement in profitability of core device business and volume sale business

- Fixed cost reduction through reform of cost structure
- Strengthening of risk management relating to currency exchange rates and inventory



- **Improvement of gross margin rate in the core device business**
- Sustaining effects of fixed cost cutting
- ➔ Maintaining the decrease of the SG&A expenses ratio
- Enhancement of risk management relating to currency exchange rates and inventory

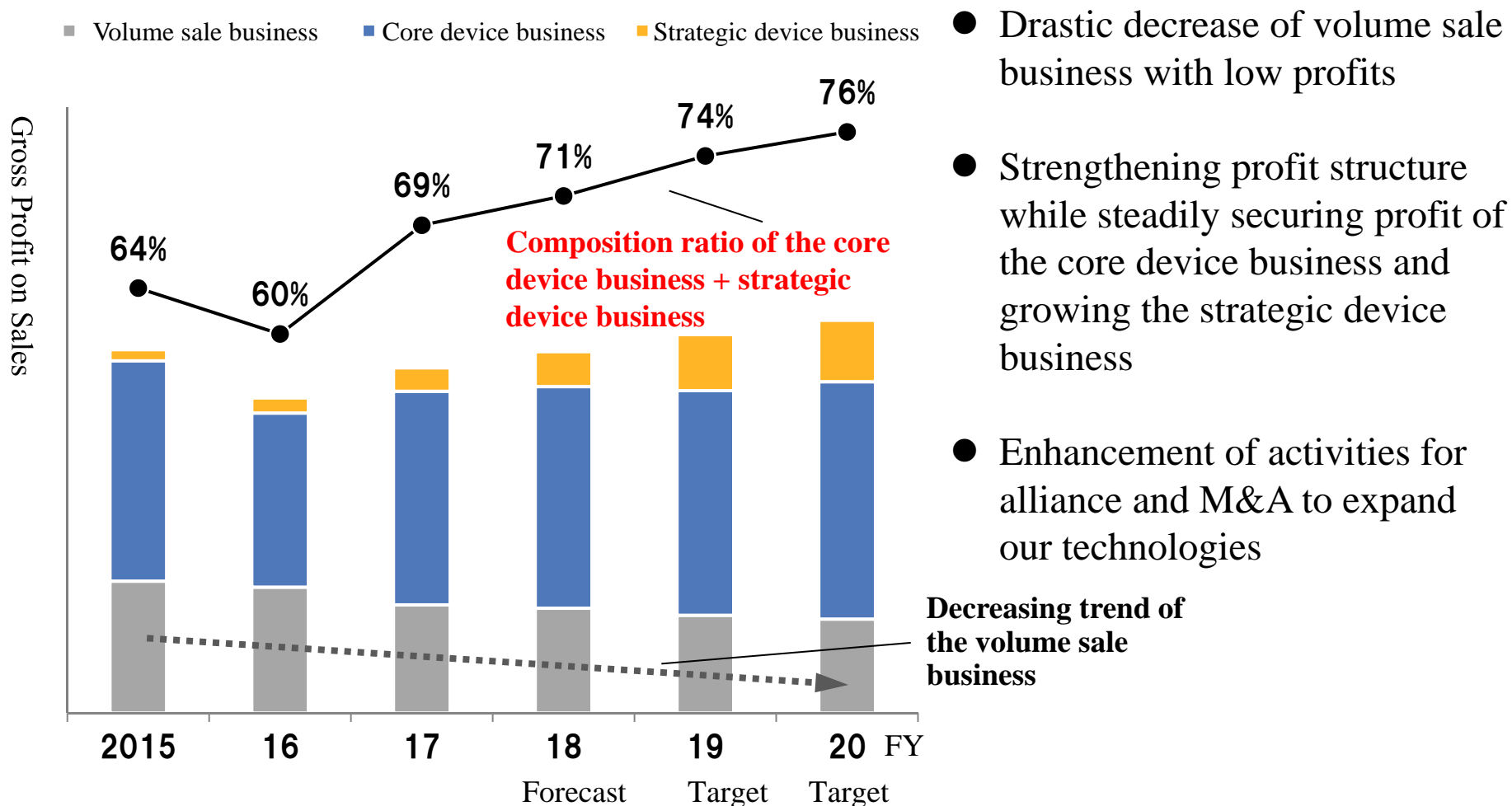
## Enhancement of the profit structure by increasing the ratio of the core device business + strategic device business



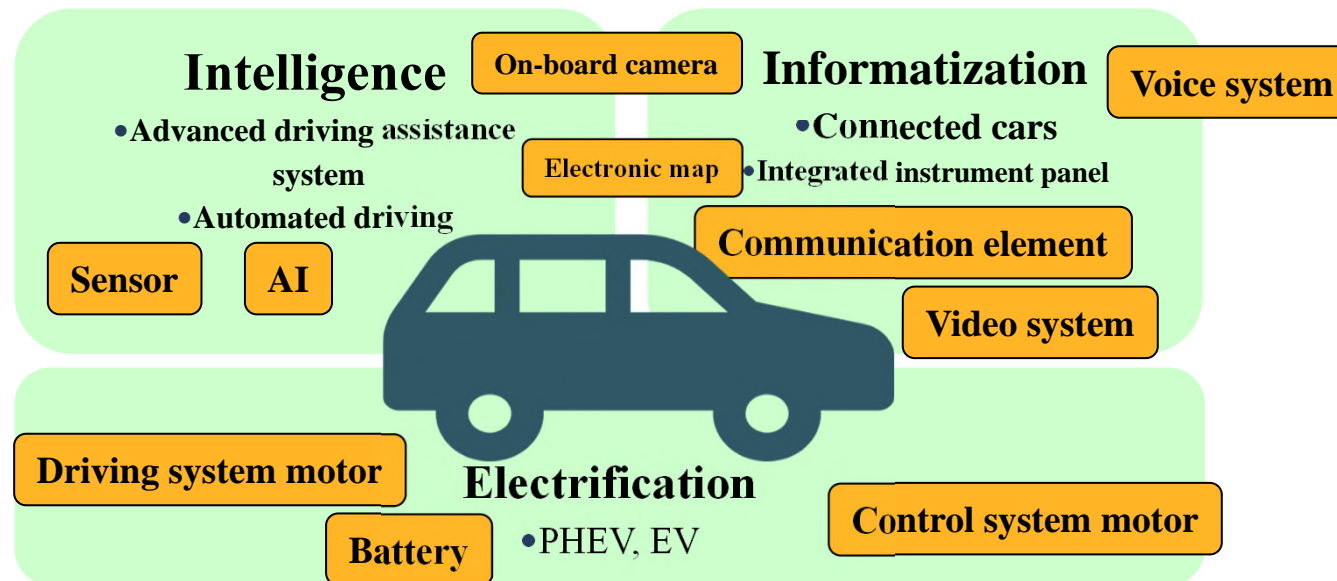
1. Volume sale business  
(for mobile devices and social infrastructure)  
● Maintaining a certain scale by enhancement of risk control and increase of efficiency
2. Core device business  
(Existing devices such as Renesas)  
● Sales expansion of vehicle-mounted systems and in mass market where our strengths can be utilized  
● Activities for an increase of the gross margin rate
3. Strategic device business  
(New devices, new businesses such as IoT, etc.)  
● Aggressive entry into growing markets such as IoT  
● Deepening of solution provision type businesses by cooperation with SIers

## Enhancement of the profit structure by increasing the ratio of the core device business + strategic device business

### Gross Profit on Sales Composition Transition



Expansion to diversified areas with strong core merchandise  
→ Acceleration of approach to new customers



Room for entry of new players is expanding due to the accelerating need for the electrification of cars



- Use of a strategy roadmap to expand the sales area for a sales increase in the medium/long-term
- **Enhancement of power source/analog system in particular** with dedicated FAE\* system at the core

\*Field Application Engineer

A3

「開発部」については正式英名のご確認をお願いします。

作成者, 2018/05/24



For business for automobiles, aiming for ¥13 billion in sales in the fiscal year ending March 2020

**- Informatization related**

- Sales area expansion by customer development support with strong core merchandise (image processing system SoC\*) and TAKUMI's graphic technology
- Sales increase of video related devices

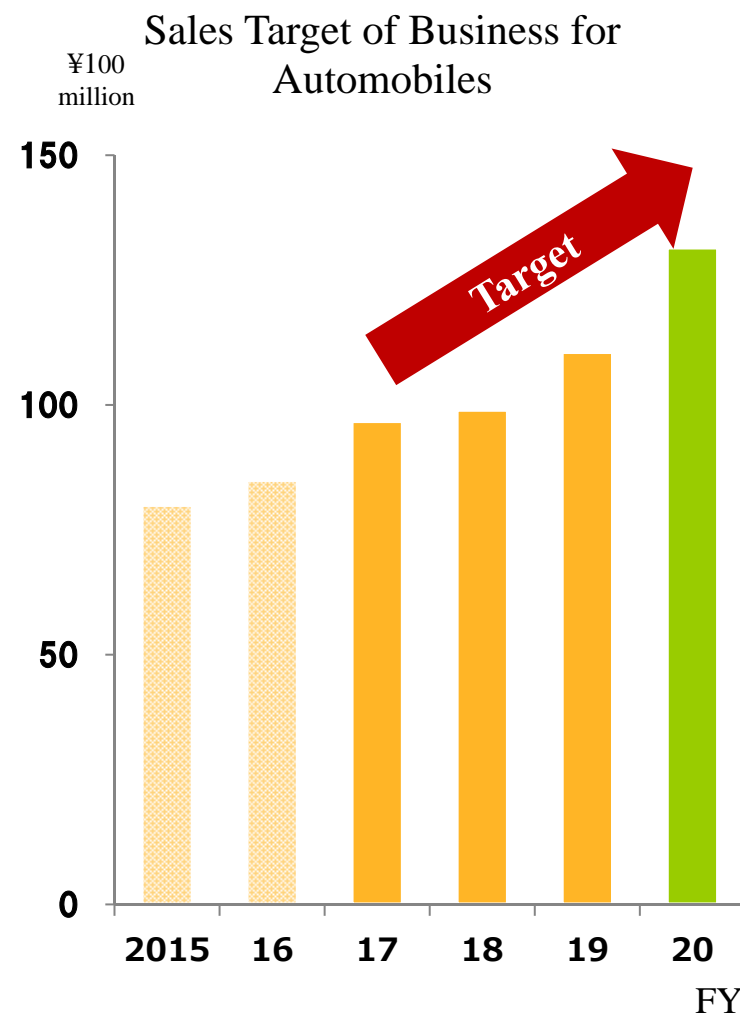
**- Intelligence related**

- Focus on advanced driving assistance system related intelligence and improvement of technical ability to focus on advanced driving assistance system related intelligence (Wireless, power source, analog technology, etc.)

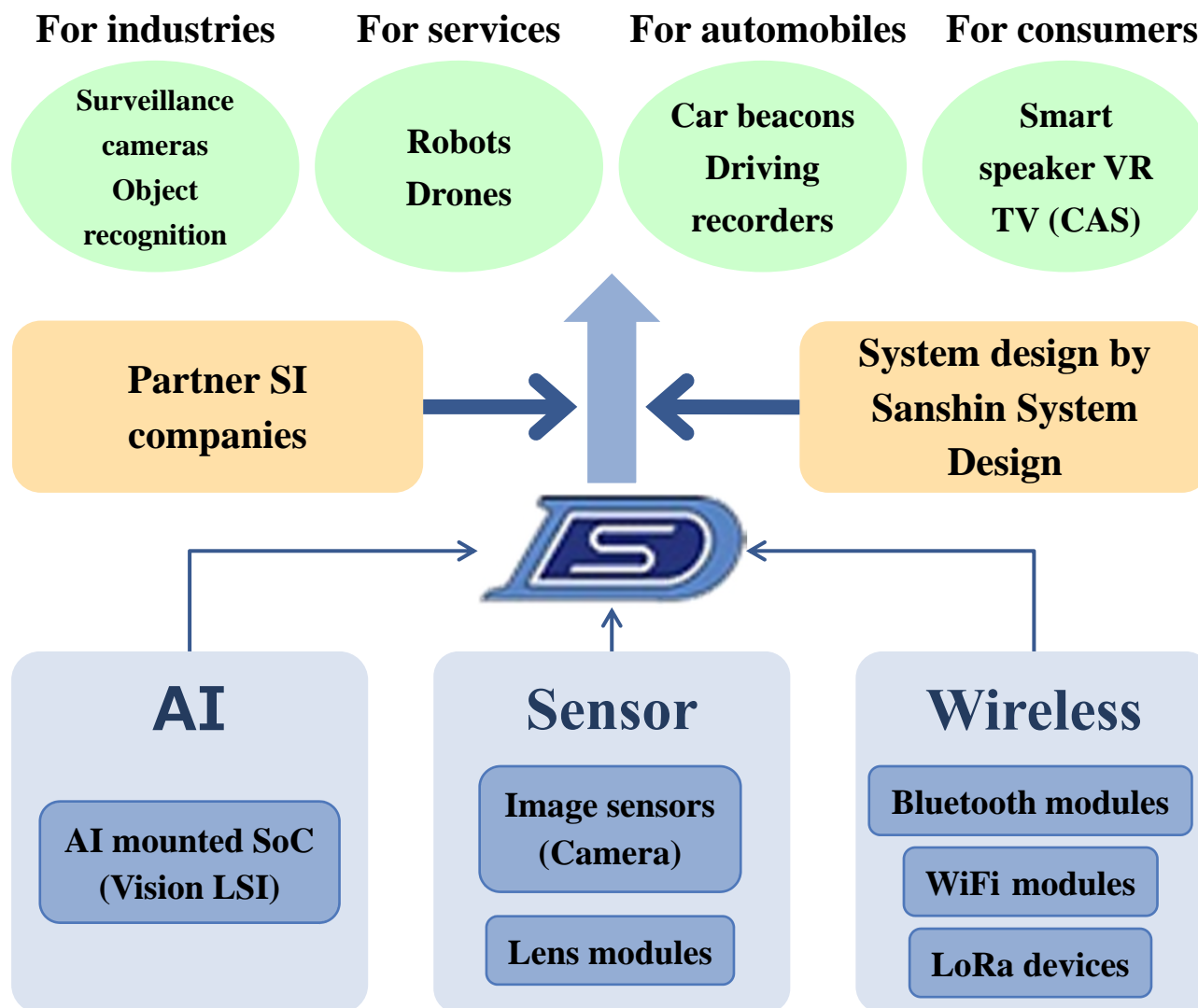
**- Electrification related**

- Focus on MCU for motor related items such as electric power steering and brakes

\*system on chip



## Enhancement of the product lineup and acceleration of suggestions in every single direction by system construction



- Acquisition of competitive merchandise with the focus on devices and modules of 3 elements of IoT technology such as
  - AI (SoC)
  - Sensors
  - Wireless
- Aggressively unearthing needs in cooperation with SI companies and providing solutions
- Furthermore, promotion of increase of partner SI companies

## Aiming for a minimum ¥4 billion in new business sales such as IoT in the fiscal year ending March 2020

### - Camera solutions

- In the vision sensing field, development of usage of AI camera solutions by combining imaging sensors and AI mounted SoC and sales expansion of AI camera solutions
  - Surveillance cameras, robots, drones
  - VR/AR/MR, vending machines and signage, etc.

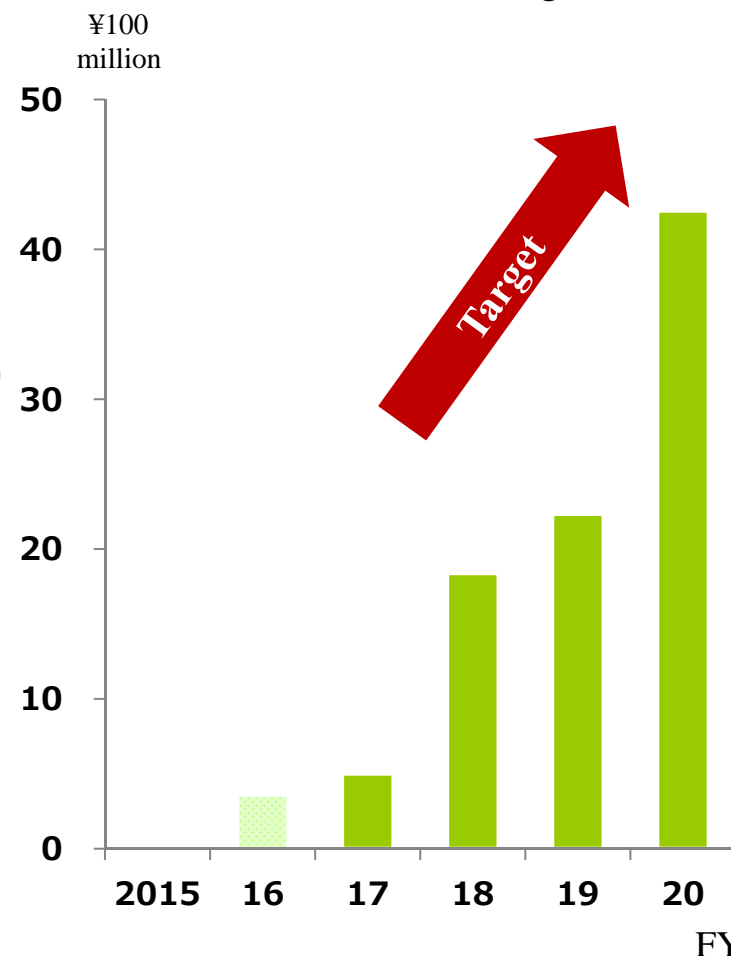
### - Beacon solutions (Cooperation with SI companies)

- Position detection and communication by wireless technologies such as Bluetooth and LPWA.
  - Vehicle-mounted beacons (for property and causality insurance companies)
  - Service operation situation management, behavior management

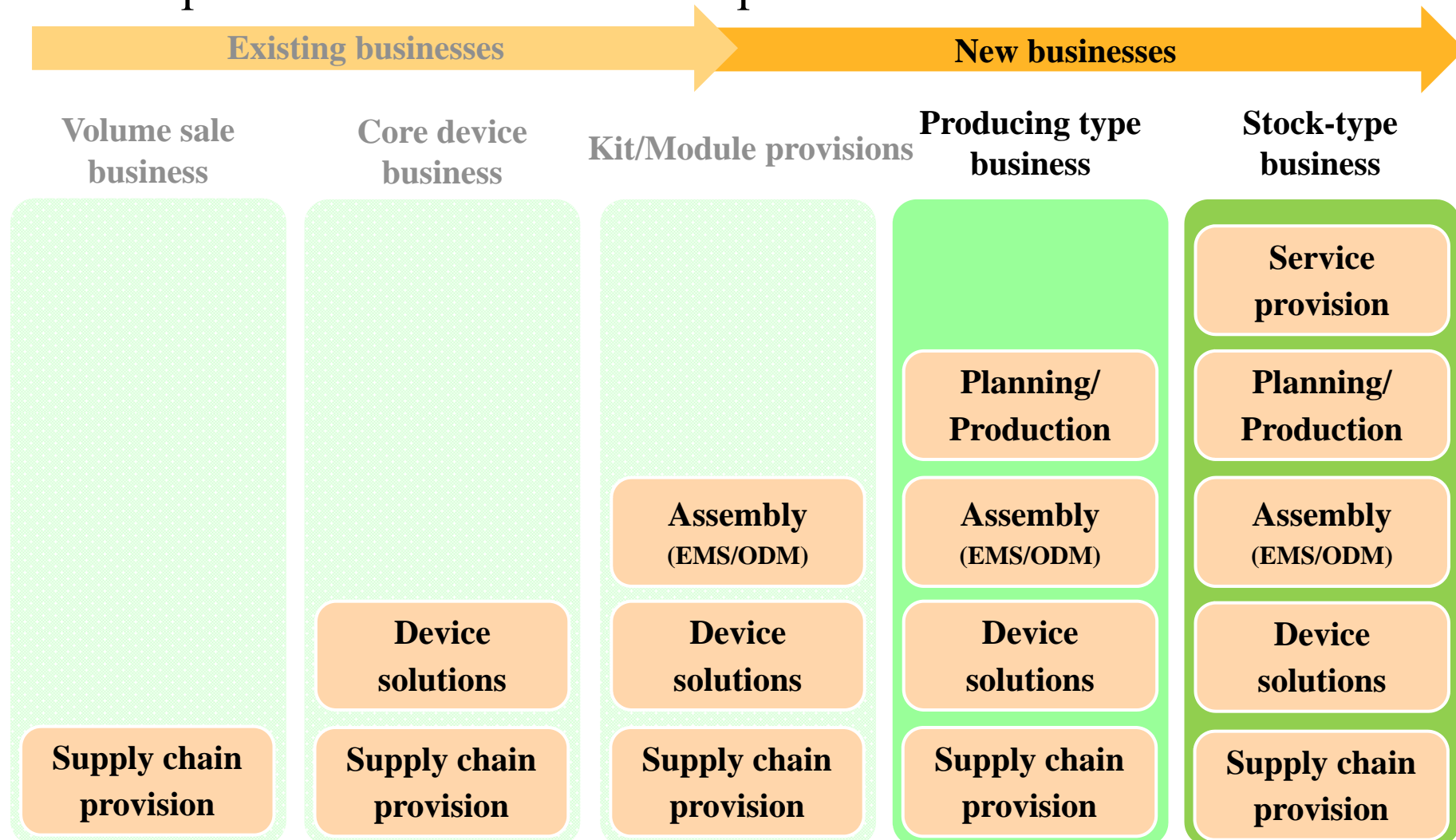
### - AI solutions (Cooperation with SI companies)

- AI dialog software mounted devices, etc.

IoT Related Sales Target

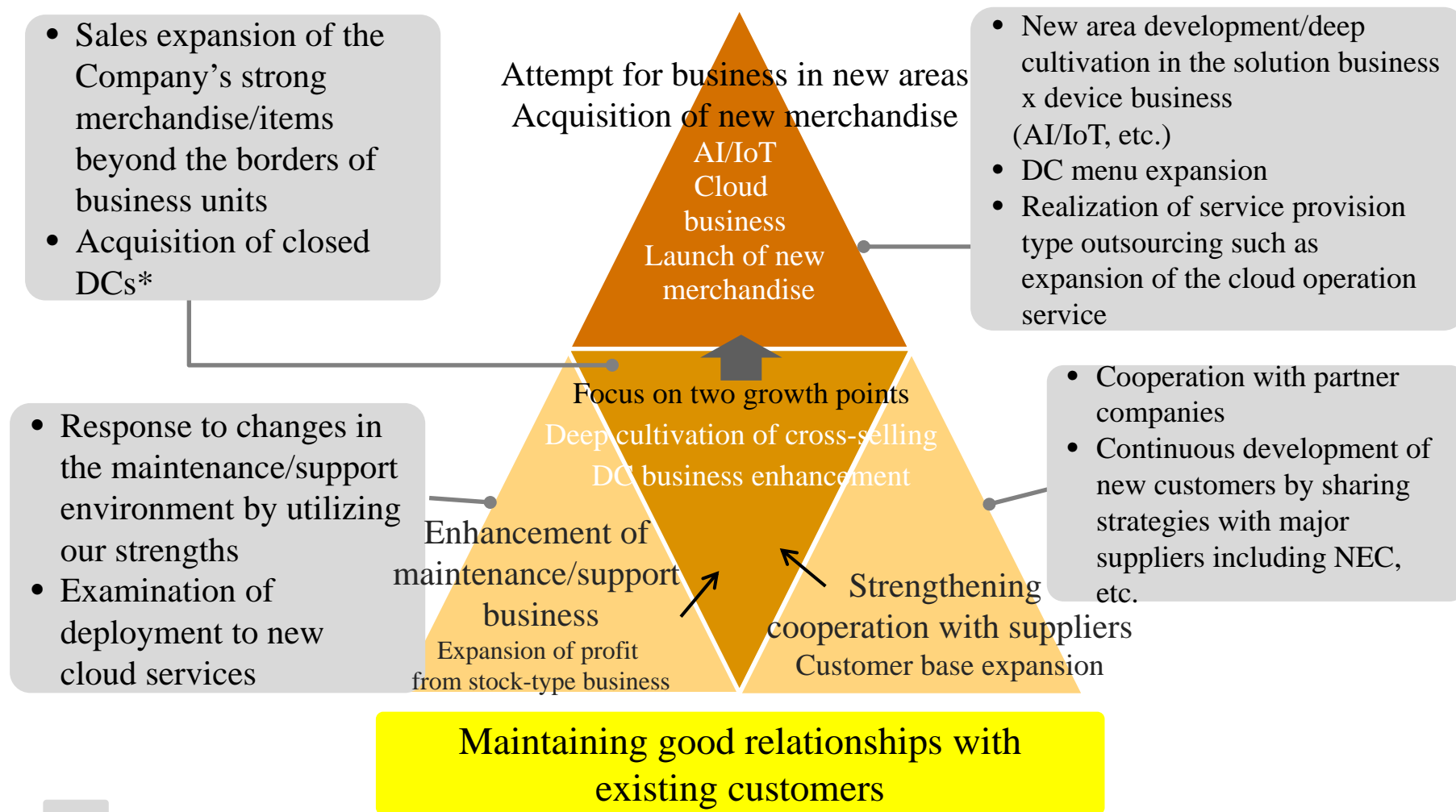


Use of internal and external management resources for producing type businesses and stock-type businesses by service provision  
→ Expansion of business areas upstream



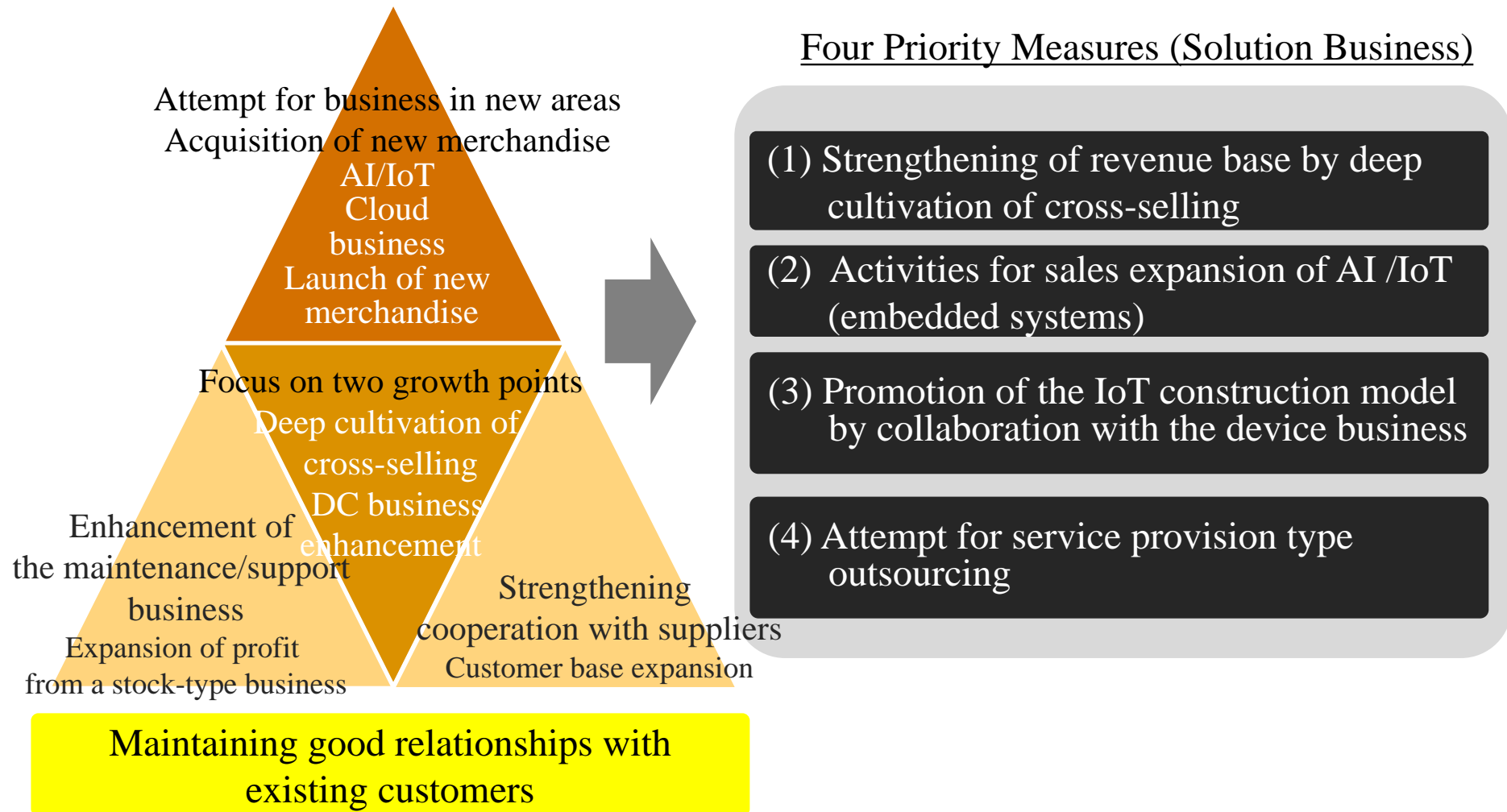
## **II-4) Solution Business**

## Expansion of new business areas by placing internal and external joint creation and cooperation with external partners at the core



\*DC: Data center

## Expansion of new business areas by placing internal and external joint creation and cooperation with external partners at the core



## Continuous promotion of cross-selling of the Company's strong merchandise

BU Merchandise/ service	NW	Government agencies	Embedded systems	Fire fighting and disaster prevention	Video	AP	Technology	Device business
IT infrastructure	○	○					○	
Communication	○	○				○	○	
Application	★			★	★	○	○	
Platform	○	○	○	○	★	○	○	
Video system	★	★	★		○			
Live relay system		★		★	○	★		
Fire fighting system				○				
Disaster prevention radio system				○				
Embedded system	★		○					★
OEM			○					

Area Expansion

Cross-sectoral

- ⇒ Main business of business unit  
 ★ ⇒ Activity ongoing (Area expansion)

Specific Results and Future Outlook

- While using the cross-selling route creation as a common policy, each BU continues to work on the deep cultivation of customers.
- Specifically, a certain level of results is seen in the sales expansion of AP merchandise to customers of video systems and network systems.
- We will focus on increasing cross-selling in the embedded system business in particular in addition to expansion of the scale of business negotiations.



Aim for new business acquisition by using the sales expansion of AI and IoT as a trigger

### AI

Sales expansion to the manufacturing industry mainly for NEC's application

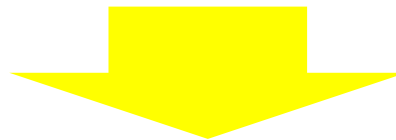
(Ex.) Use in the judgment of quality products/defective products by evaluations with images



### IoT/Embedded Systems

Service deployment from sensor devices to the edge and cloud

⇒ Creation of SI type business model



Approach centered on the manufacturing industry customer base in both the device and solution businesses

Further increase of sales expansion potential by cross-business projects

Aim for sales expansion of the IoT construction model by collaboration with the device business

Sensing + Uploading

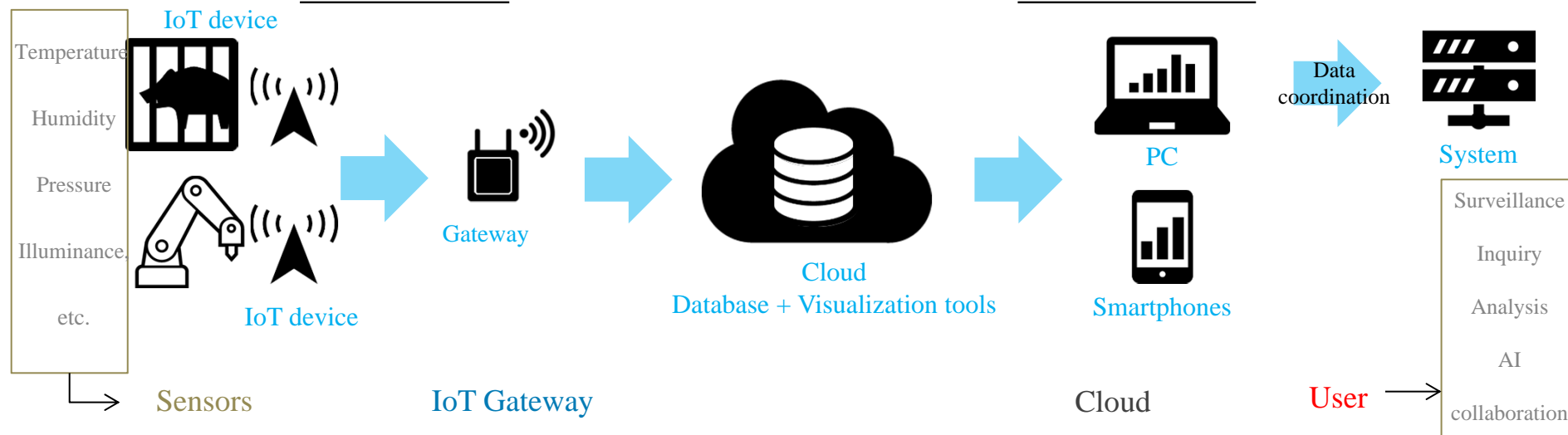
Cloud + Network + Visualization Tools

Device division  
(Sanshin System Design/IoT Unit)

Solution division  
(Network related departments)

### Device Field

### Solution Field



Merchandise  
handled by Sanshin

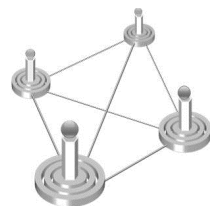
IoT devices



Gateway



Cloud, database, visualization tools



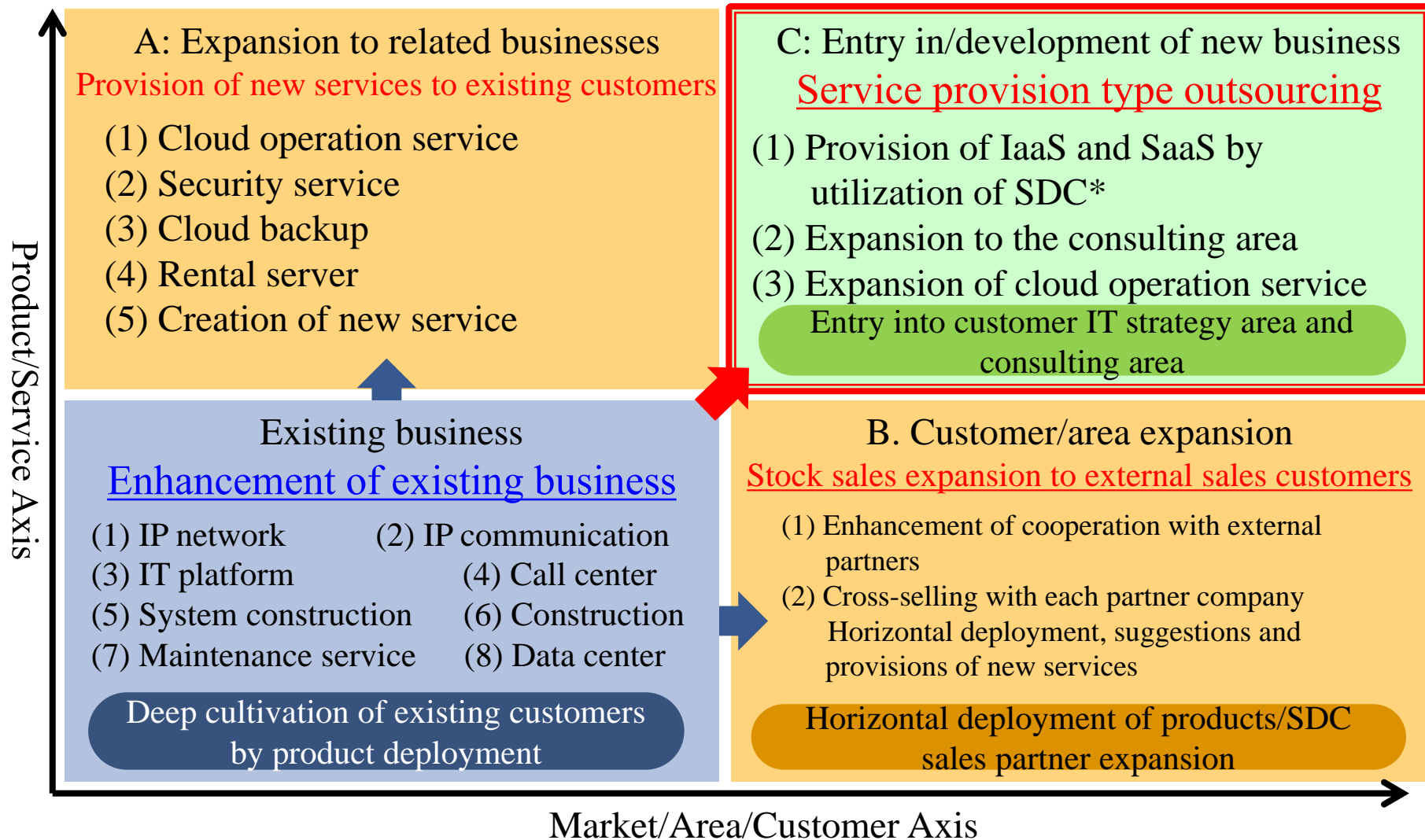
Company A

Company B



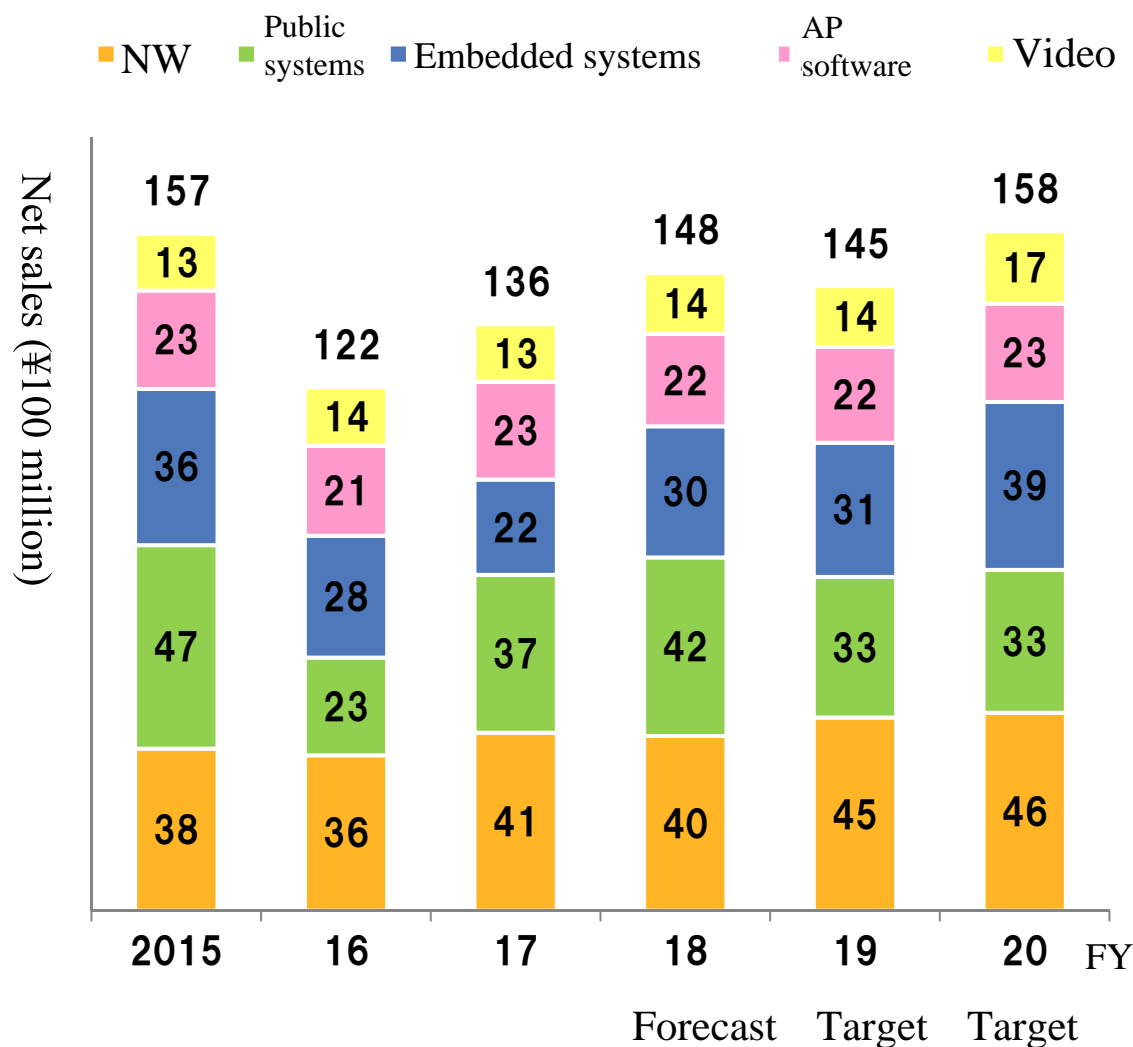
## (4) Attempt for Service Provision Type Outsourcing

Unearthing DC projects by using collaboration with external partners as a basis→ Entry into the consulting area



\*SDC: Sanshin Data Center

# Sales Target by Business Units (Solution Business)



- Against the backdrop of the penetration of use of cloud and the rise of interest in security merchandise, sales increase of NW and AP software is expected.
- Backed up by promotion of visualization of social infrastructure and making social infrastructure smart and recovery of customers' motivation for capital investment, embedded systems are expected to expand.
- Sales by video business unit are also forecast to expand due to the increase in demand for IP relay and live transmission.
- On the other hand, against the backdrop of peak out of upgrading to the digitalization of wireless communication for firefighting and emergency services, etc., sales by the public systems business unit are projected to decrease or remain flat.

## **II-5) Establishment of the Management Foundation**

Aiming for enhancement of the Group's medium-to-long term business performance and corporate value, we will increase the effectiveness of our corporate governance system.

### Strengthening of functions of External Directors

- Continuing to appoint multiple independent External Directors
- Holding Nomination and Remuneration Advisory Committees where independent External Directors are the main members
- Periodical meetings between the independent External Directors and Company's management

Increase of effectiveness of the monitoring function and advisory function

### Operation of a performance-based compensation plan for Executive Directors

- Performance-based stock compensation plan for Executive Directors
- Performance-based bonus payment policy for Directors (Clarification of their management accountability in each fiscal year )

Sharing benefits and risks with shareholders

Toward enhancement of medium-to-long term business performance and corporate value

# Establishment of the Management Foundation

To strengthen our business capability, with the aim of establishing a strong revenue base that can overcome changes in the business environment, contribution to a value increase of each business area from technical ability, human resources, and financial foundation

## Deepening technical ability

- Strengthening our ability in applied technology with full knowledge of the development style unique to each customer
- Acquisition of each elemental technology such as the technologies related to embedded OS, graphics, wireless, IoT, and power devices and enhancement of technology teams

## Deepening human resource development

- Focus on the development of specialists that enable system provision in terminals as well as the cloud
- Against the backdrop of acceleration from on-premise to cloud, focus on the development of specialists in anticipation of an increase of hybrid environment use
- Acceleration of development of Field Application Engineers (FAE) and project managers

## Direction of capital policy

- Enhancement of returns to shareholders toward attainment of 5% of ROE which is the quantitative target of V70 and aiming for a further increase of capital efficiency
- As a part of returns to shareholders, acquisition of the Company's treasury stock based on the policy of acquisition of the Company's treasury stock which was already released
- Continuous examination of acquisition of the Company's treasury stock for the purpose of maximizing value for shareholders in consideration of corporate value and stock price level

Establishment of the Group's management system that contributes to the enhancement of corporate value

- Examination of a management system that enables execution of expertise in both the device/solution businesses from the technology/human resource aspects.
- Examination of a management system based on the precondition of agile execution of M&A and efficiency increase of both businesses.

Further increase of effectiveness of the governance system

# **III. Year Ending March 2019**

## **Full-Year Business Forecasts**



- We forecast an increase in sales and profit due to an increase in net sales, despite factors such as an increase in interest paid due to rising U.S. interest rates.

	03/15 Result	03/16 Result	03/17 Result	03/18 Result	03/19 Forecast	YoY Change
Net Sales	2,190.9	1,990.8	1,676.6	1,572.6	1,660.0	106%
Gross Profit on Sales	6.3% 137.2	6.1% 122.3	6.4% 106.9	7.3% 114.5	7.3% 120.5	105%
SG&A Expenses	4.8% 104.6	5.2% 103.2	5.9% 98.8	6.2% 96.8	6.0% 99.2	102%
Operating Profit/Loss	1.5% 32.6	1.0% 19.1	0.5% 8.0	1.1% 17.6	1.3% 21.3	121%
Ordinary Profit/Loss	1.4% 31.2	0.8% 15.0	-0.6% -9.5	1.1% 17.9	1.1% 19.0	106%
Net Profit/Loss Attributable to Shareholders of Parent	0.9% 20.0	0.5% 9.8	-0.9% -15.8	0.6% 9.5	0.8% 13.5	143%
ROE	3.1%	1.5%	-2.5%	1.5%	2.2%	+0.7P
Annual Dividend Per Share	¥40	¥40	¥25	¥33	¥48	+¥15
Payout Ratio	56.3%	115.3%	—	98.2%	100.2%	+2.0P
Exchange Rate (1 US dollar)	¥109.93	¥120.14	¥108.42	¥110.86	¥105.00	-¥5.86

\*1) Figures in the YoY Change section for ROE, annual dividend per share, payout ratio and exchange rate represent increases or decreases.

\*2) Forecast for ROE in the fiscal year ending March 2019 does not factor in the impact of acquisition of treasury stock.

■ **Device Business**

- We forecast that net sales will increase by 5% on a year-to-year comparison, and that the segment profit will recover due to the increase in net sales.
- We expect an increase in sales of the products for mobile devices, continued strong sales of the products for vehicle-mounted systems, and the launch of new businesses focusing on IoT.

■ **Solution Business**

- We forecast that net sales will increase by 9% on a year-to-year comparison, and that the segment profit will be ¥1.07 bn, almost the same level with the previous term.
- We forecast continued expansion in sales for public institutions and recovery in embedded systems.

		03/15 Result	03/16 Result	03/17 Result	03/18 Result	03/19 Forecast	YoY Change
Device Business	Net Sales	2,024.5	1,833.3	1,554.8	1,437.0	1,512.0	105%
	Operating Profit/Loss	1.3% 26.6	0.7% 13.0	0.4% 6.8	1.1% 16.2	1.5% 22.0	136%
	Segment Profit/Loss	0.7% 14.7	-0.1% -1.0	-1.3% -20.3	0.5% 7.2	0.5% 8.3	115%
Solution Business	Net Sales	166.4	157.5	121.7	135.6	148.0	109%
	Operating Profit/Loss	11.0% 18.3	11.3% 17.8	10.1% 12.4	9.8% 13.4	10.0% 14.7	110%
	Segment Profit/Loss	9.9% 16.5	10.1% 16.0	8.8% 10.8	7.8% 10.6	7.2% 10.7	101%
Exchange rate (1 US dollar)		¥109.93	¥120.14	¥108.42	¥110.86	¥105.00	-¥5.86

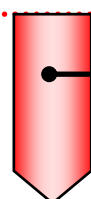
\*Figures in the YoY Change section for exchange rate represent an increase or decrease of amount.

## ○ Increase in gross profit

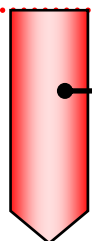
Approx. +¥0.6 bn

- Increase due to ¥8.7 bn increase in net sales  
Approx. +¥0.6 bn
- Gross profit margin remains the same

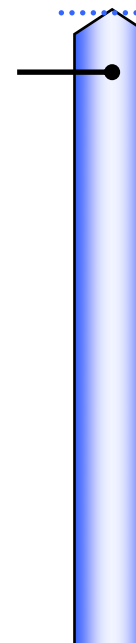
Ordinary  
Profit  
¥1.79 bn



- Increase in SG&A expenses

Approx. -¥0.24 bn

- Decrease in non-operating profit

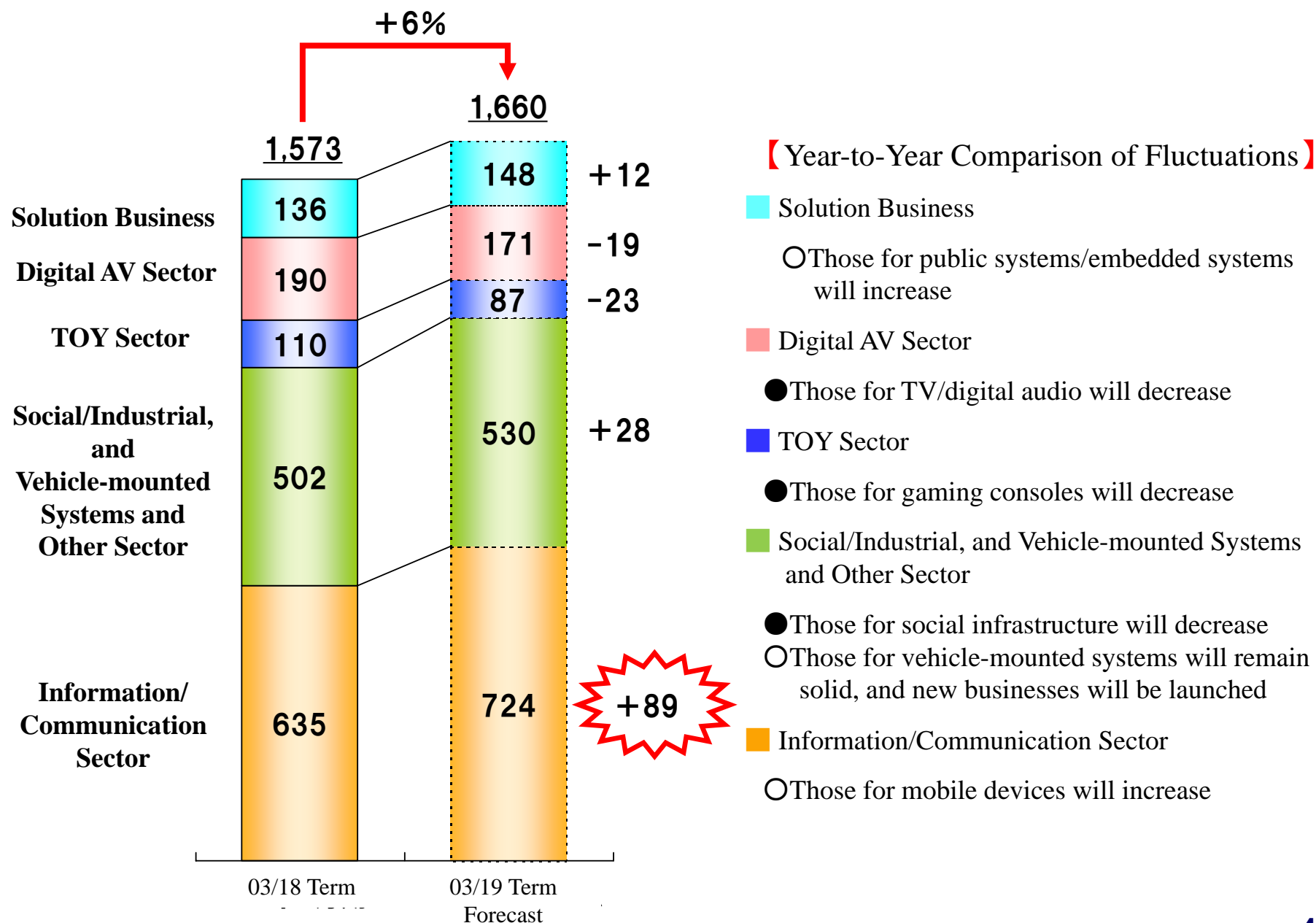
Approx. -¥0.25 bn

Ordinary  
Profit  
¥1.9 bn

Increase of approx. ¥0.11 bn

03/18 Term Result

03/19 Term Forecast



### ● Policy on Distribution of Profits

The Company considers profit returns to its shareholders as one of the most important management issues. The Company's basic policy is to determine dividends by comprehensively considering the need to maintain a balance between rewarding of shareholders, investment to gain opportunities for growth, attainment of sufficient retained earnings to enable sustainable growth, and improvement in capital efficiency. Under this policy, the Company has set a target for its dividend payout ratio of around 50% on a consolidated basis.

### ● Predicted Dividends for the Year Ending March 2019

- An annual dividend of ¥48 per share, the same amount of the previous fiscal year
  - ¥10 at midterm; ¥38 at term-end
  - Consolidated dividend payout ratio of 100.2%
- Average consolidated dividend payout ratio from the term ended Mar. 2015 to the term ending Mar. 2019: 141.8%

Under the current V70 Medium-Term Management Plan (closing in the fiscal year ending March 31, 2021), as part of measures for enhancement in capital efficiency, the Company is increasing the consolidated dividend payout ratio to around 100% in the three consecutive terms extending from the fiscal year ended March 31, 2018 to the fiscal year ending March 31, 2021. In addition, the Company is acquiring treasury stock by setting the maximum acquisition cost at ¥20 bn (or by setting the maximum number of acquired shares at 10 million) in the above three terms. Based on the assumption that the consolidated dividend payout ratio will be around 100% for the number of shares being paid out in the fiscal year ended March 31, 2018, there is the possibility that the number of shares being paid out will change due to tender offers for treasury stock disclosed on May 14, and that this may cause a change in the assessment figures for dividend per share.

## Forecast of Shareholder Returns

	03/15 Term Result	03/16 Term Result	03/17 Term Result	03/18 Term Result	03/19 Term Forecast <sup>*7)</sup>
1) Consolidated net profit	¥2,003 million	¥978 million	-¥1,575 million	¥947 million	¥1,350 million
2) Comprehensive profit	¥3,993 million	-¥1,106 million	-¥720 million	¥912 million	-
3) Consolidated equity ratio	64.5%	66.3%	65.4%	65.7%	51.8%
4) Total dividend (Dividend per share)	¥1,127 million (¥40)	¥1,127 million (¥40)	¥704 million (¥25)	¥934 million (¥33)	¥1,359 million (¥48)
5) Consolidated payout ratio	56.3%	115.3%	-	98.2%	100.2%
6) Value of treasury stock acquired (Number of shares acquired)	-	-	-	-	¥19.72 billion (9 million shares)
7) Total payout ratio (4+6) ÷ 1	56.3%	115.3%	-	98.2%	1,561.4%
8) Cancellation of treasury stock	-	-	-	-	Suspense
9) Total number of shares issued (Excluding treasury stock)	29,281 thousand shares (28,179 thousand shares)	29,281 thousand shares (28,179 thousand shares)	29,281 thousand shares (28,179 thousand shares)	29,281 thousand shares (28,179 thousand shares)	29,281 thousand shares (19,179 thousand shares)
10) Net profit per share	¥71.11	¥34.70	-¥55.90	¥33.62	¥70.39
11) Net assets per share	¥2,328.64	¥2,249.40	¥2,183.84	¥2,191.19	¥2,214.97

\*1) Those acquired along with purchase requests for odd shares are not included in the number of treasury stock acquired.

2) Net profit per share is calculated based on the average number of issued shares (shares other than treasury stock) during the period.

3) Net assets per share is calculated based on the total number of shares issued (excluding treasury stock) at fiscal year end.

4) The forecast for consolidated equity ratio, total dividend and consolidated payout ratio for 03/18 term does not factor in the impact of acquisition of treasury stock. **A4**

5) The forecast for net profit per share and net assets per share for 03/18 term is calculated based on the total number of shares issued (excluding treasury stock) as of September 30, 2017. **A5**

6) The value of treasury stock acquired until 03/16 term is ¥6,035 million (8,281 thousand shares, of which 7,179 shares were cancelled).

7) The forecast for 03/19 term assumes that tender offers will be made for treasury stock on May 14. However, the dividend per share does not consider tender offers for treasury stock on May 14.

## スライド 45

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**A4** 4)と5)について、「18年3月期予想」は「19年3月期予想」の誤りではないかと思いますが、原文通りの訳としています。  
作成者, 2018/05/28

**A5** 原文: 但し、1株当たり配当は左記を織り込んでおりません。

「左記」は、「5/14付自己株式の公開買付けの実施」のことを指していると考え、「tender offers for treasury stock on May 14」としました。ご確認ください。  
作成者, 2018/05/31

## **IV. Financial Situation**



- Regarding the results of the fiscal year ended March 31 2018, total assets were ¥94.0 bn; cash and deposits decreased mainly due to an increase in inventories; and the equity ratio was 65.7%.
- Regarding the forecast for the fiscal year ending March 2019, total assets will be ¥82.0 bn; cash and deposits will decrease mainly due to accounts receivable and purchase of treasury stock; and the equity ratio will be 51.8%.

## 1) Balance Sheets

	FY ended Mar. 17 Result (A)	FY ended Mar. 18 Result (B)	B-A Increase/ Decrease	FY ending Mar. 19 Forecast (C)	C-B Increase/ Decrease
Cash and deposits	196.0	171.8	-24.2	70.0	-101.8
Accounts receivable	526.1	480.7	-45.4	502.0	21.3
Inventories	113.3	168.9	55.6	130.0	-38.9
Other assets	106.1	118.3	12.2	118.0	-0.3
Total assets	941.4	939.7	-1.7	820.0	-119.7
Accounts payable	167.2	156.3	-10.8	163.0	6.7
Interest bearing liabilities	131.2	138.1	6.9	208.1	70.0
Other liabilities	27.7	27.4	-0.2	24.1	-3.3
Total net assets	615.4	617.9	2.5	424.8	-193.1
Total liabilities and net assets	941.4	939.7	-1.7	820.0	-119.7
Equity ratio	65.4%	65.7%	+0.3P	51.8%	-13.9P

## 2) Cash Flows

	FY ended Mar. 17 Result	FY ended Mar. 18 Result	FY ending Mar. 19 Forecast
Decrease (increase) in accounts receivable-trade	27.8	33.6	-21.3
Decrease (increase) in inventories	68.0	-57.8	38.9
Increase (decrease) in accounts payable-trade	-52.6	-7.6	6.7
Other	7.5	11.9	12.0
Operating C/F	50.7	-20.0	36.3
Investing C/F	-7.3	-10.5	-1.0
Financing C/F	52.6	5.8	-137.1
Foreign currency conversion adjustments	-0.9	-0.0	
Increase (decrease) in cash and deposits	95.1	-24.7	-101.8
Increase in cash and deposits from newly consolidated subsidiary		0.4	
Balance of cash and deposits at term-end	196.0	171.7	69.9

\* The forecast for the fiscal year ending March 31, 2019 assumes that tender offers will be made for treasury stock on May 14.

Supplemental Materials

# **Year Ending March 2019**

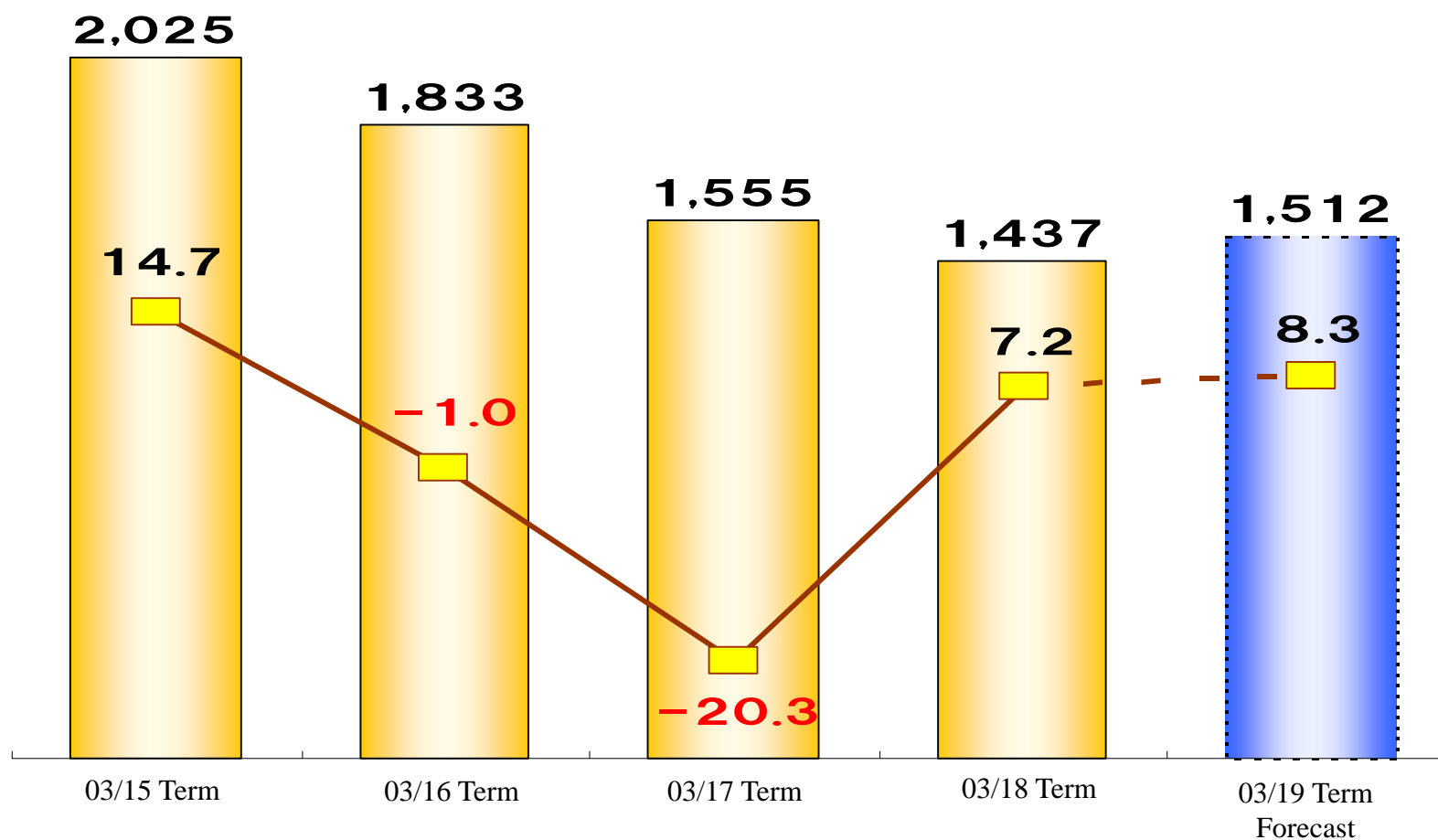
## **Device Business Forecasts**

Segment profit returned to profitability; we will now focus on reform of our business portfolio to enhance profitability

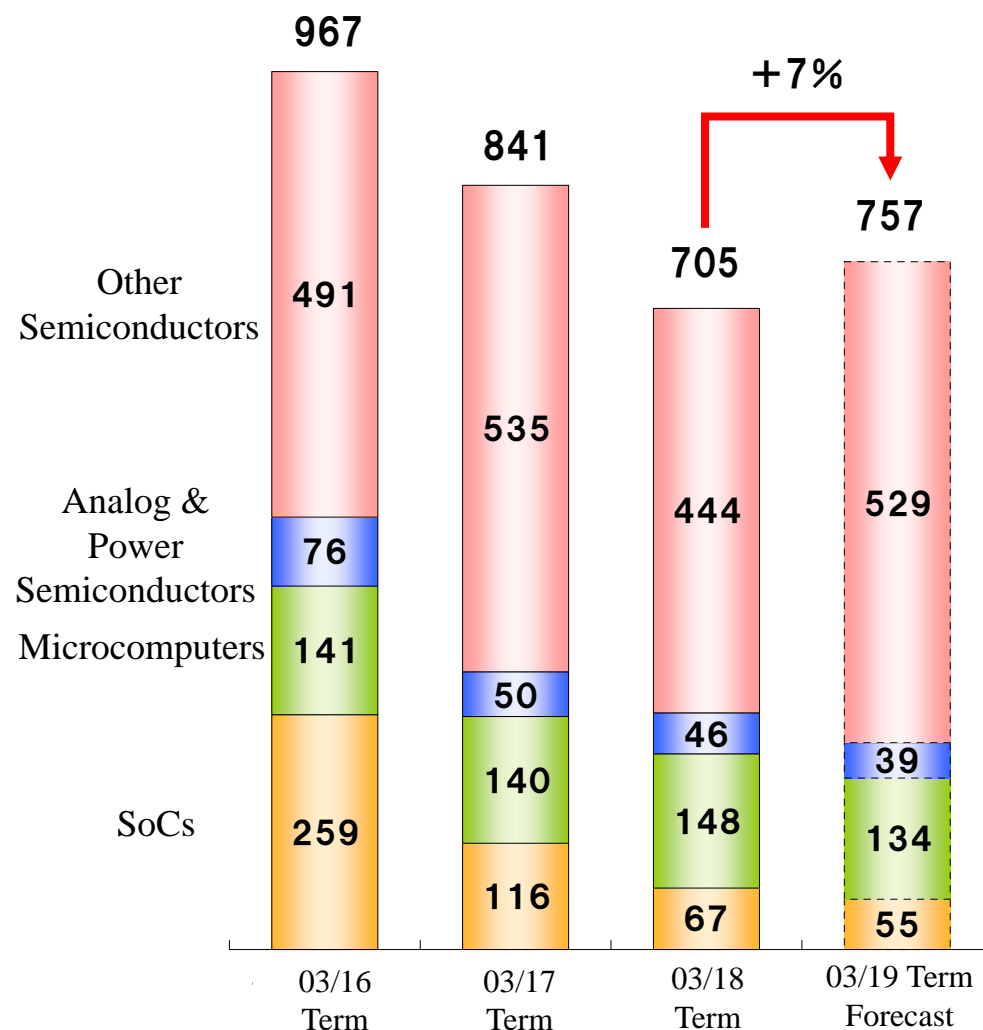
Net Sales/Segment Profit

\*Bar Graph: Net Sales

\*Polygonal Line: Segment Profit



Sales for the Full Year



## 【Year-to-Year Comparison of Fluctuations】

## SoCs (System LSIs)

- Those for gaming consoles will decrease

## Microcomputers

- Those for gaming consoles will decrease
- Those for vehicle-mounted systems/household electrical appliances will remain solid

## Analog &amp; Power Semiconductors

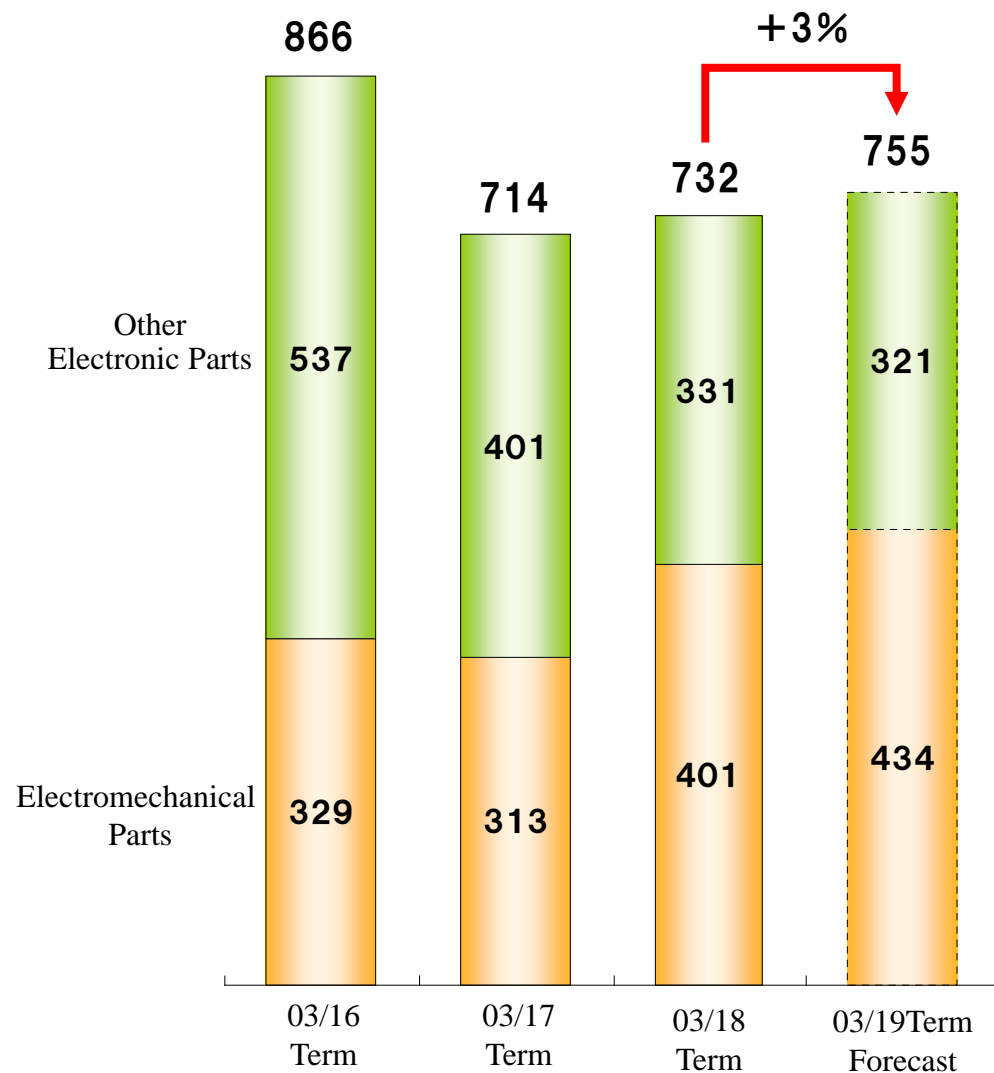
- A decrease is expected due to planned production cease at a supplier

## Other Semiconductors

- Those for mobile devices, storage, motors and vehicle-mounted systems will increase
- An increase in sales of new businesses such as wireless ICs is expected

	YoY Change
SoCs	-18%
Microcomputers	-10%
Analog & Power Semiconductors	-16%
Other Semiconductors	+7%

Sales for the Full Year



## 【Year-to-Year Comparison of Fluctuations】

## ■ Electromechanical Parts

○ Those for mobile devices will increase

## ■ Other Electronic Parts

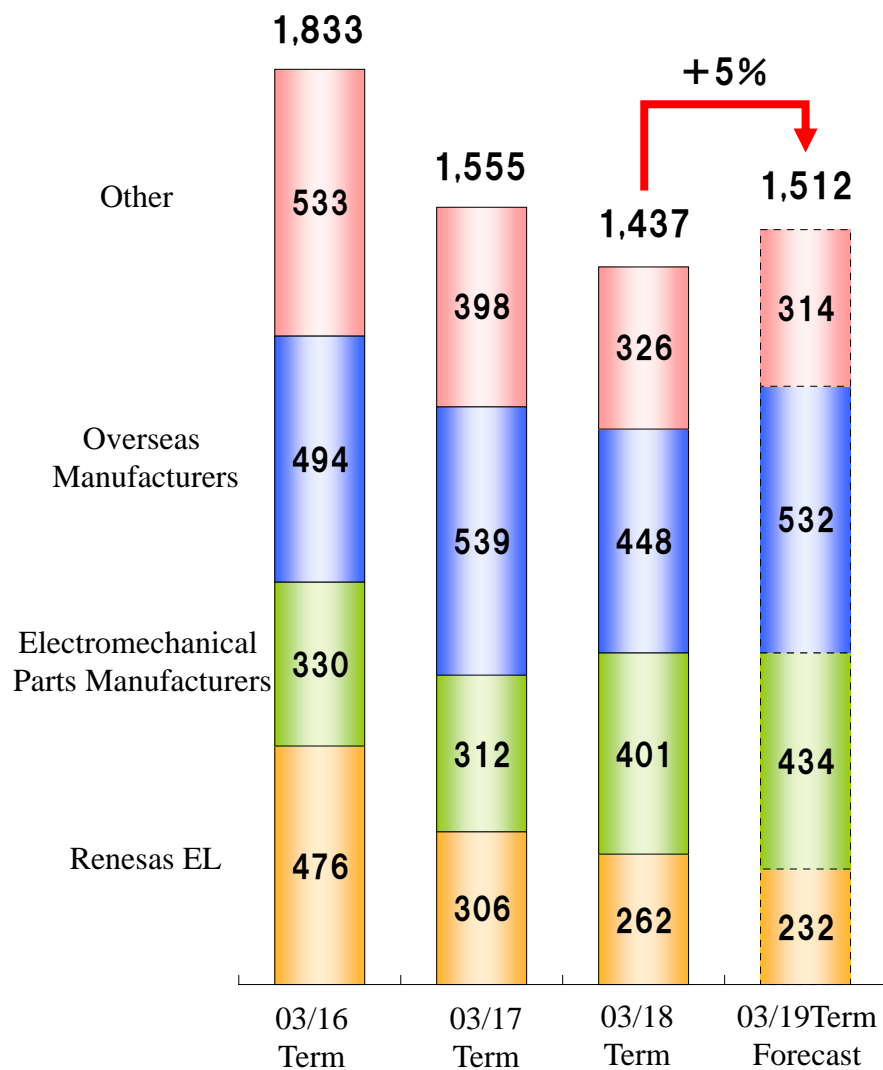
● Those for social infrastructure will decrease

○ We expect new businesses including solution proposals for modules/finished products

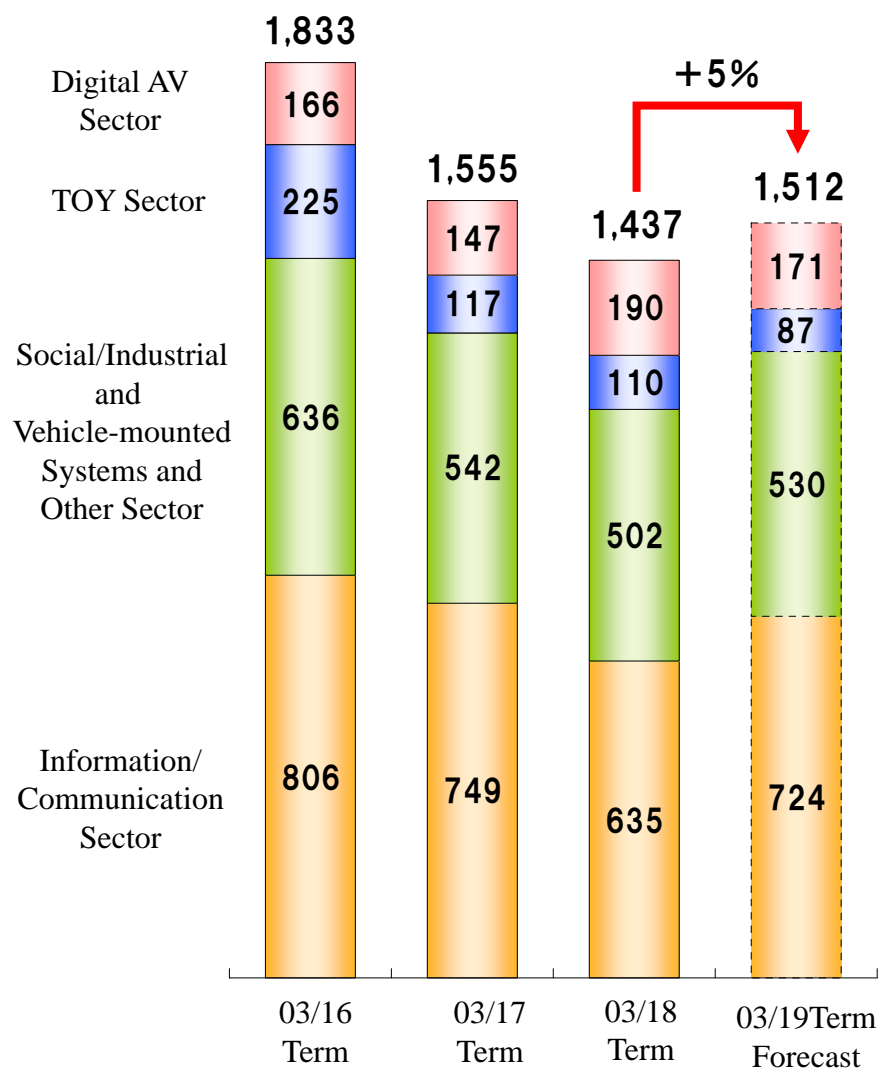
	YoY Change
Electromechanical Parts	+8%
Other	-3%

# Changes in Net Sales for Device Business

## Net Sales by Supplier



## Net Sales by Sector



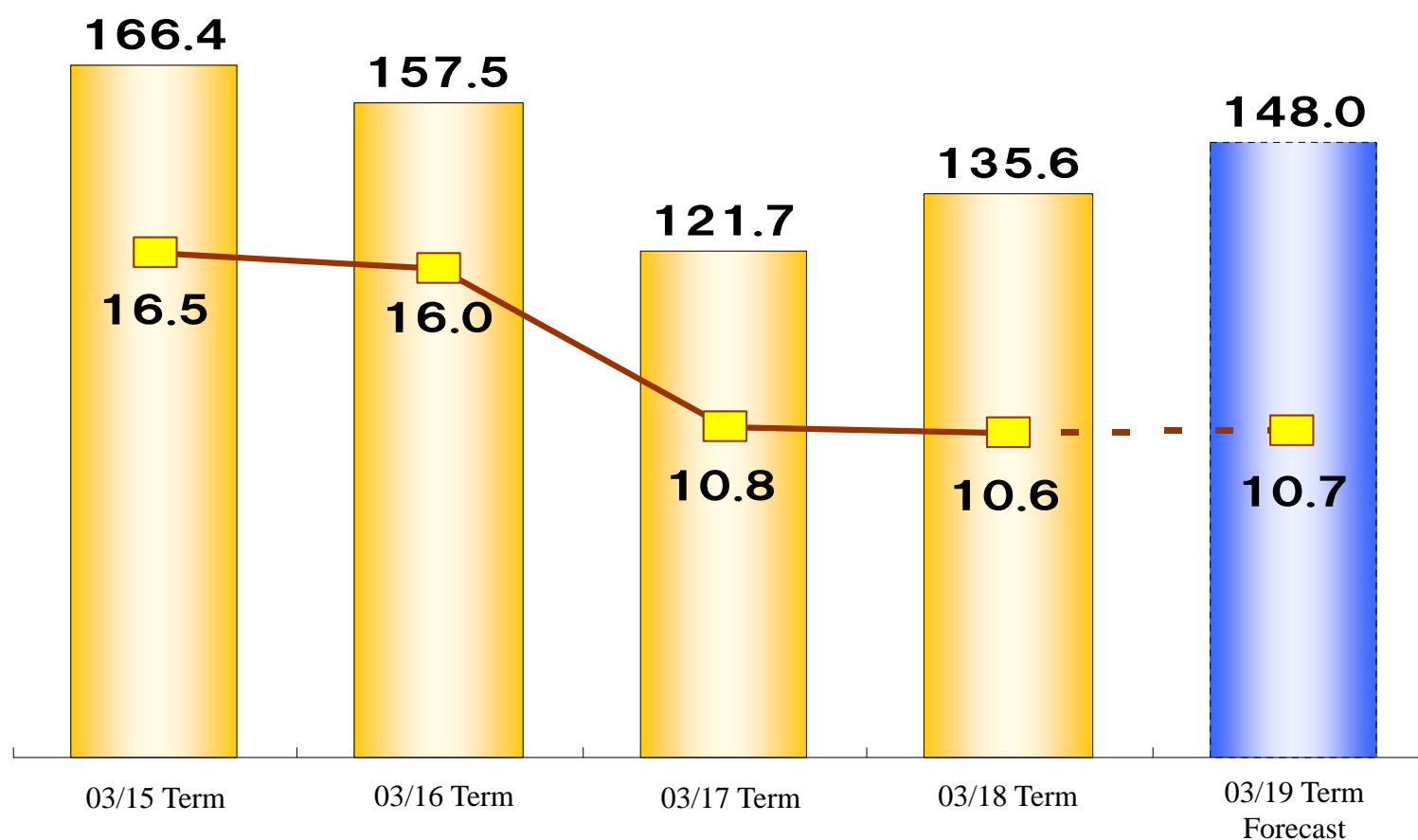
# **Year Ending March 2019 Solution Business Forecasts**

After recording an increase in sales and a decrease in profit, we forecast that, despite of an increase in sales, profit would remain at the same level with the current term, but need to focus on building a highly profitable revenue base.

Net Sales/Segment Profit

\*Bar Graph: Net Sales

\*Polygonal Line: Segment Profit

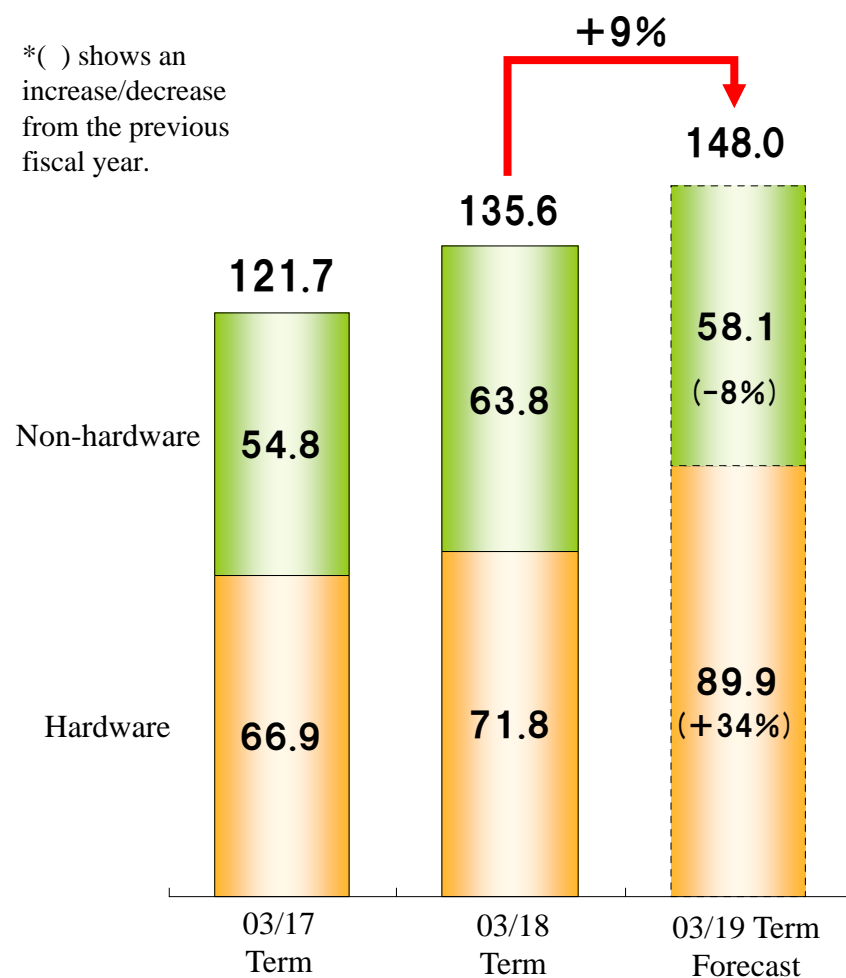




## Changes in Net Sales by Product

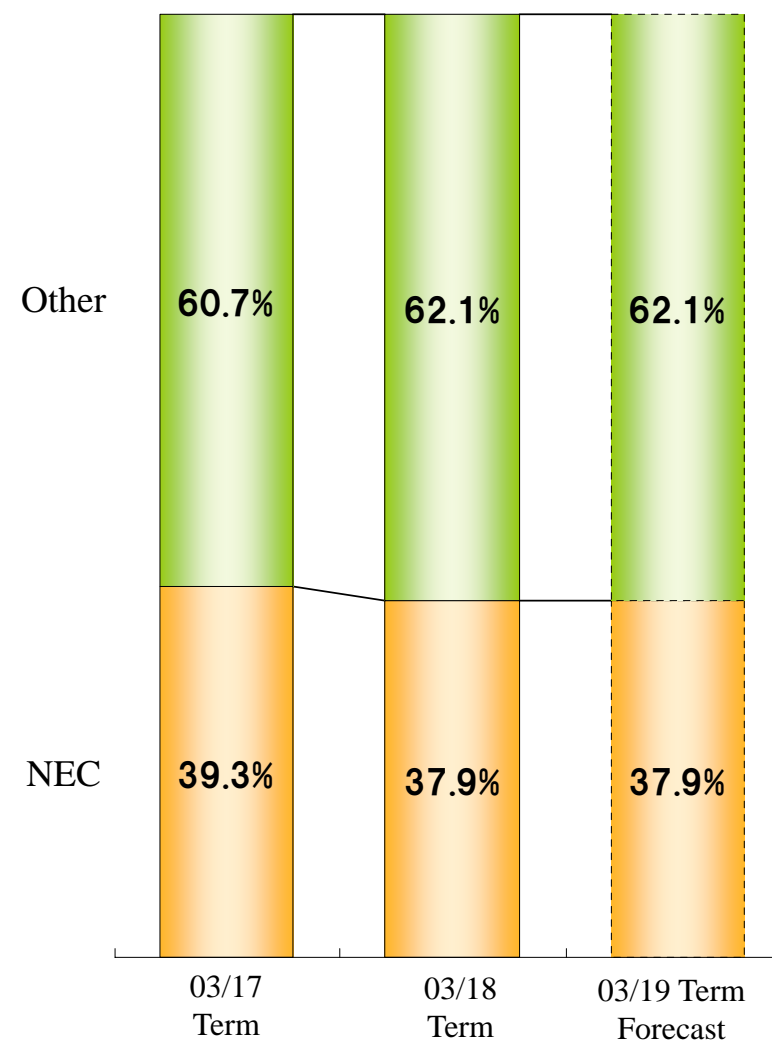
- Hardware: Public systems/embedded systems will increase
- Non-hardware: Spots for NW/public systems will decrease

\*( ) shows an increase/decrease from the previous fiscal year.

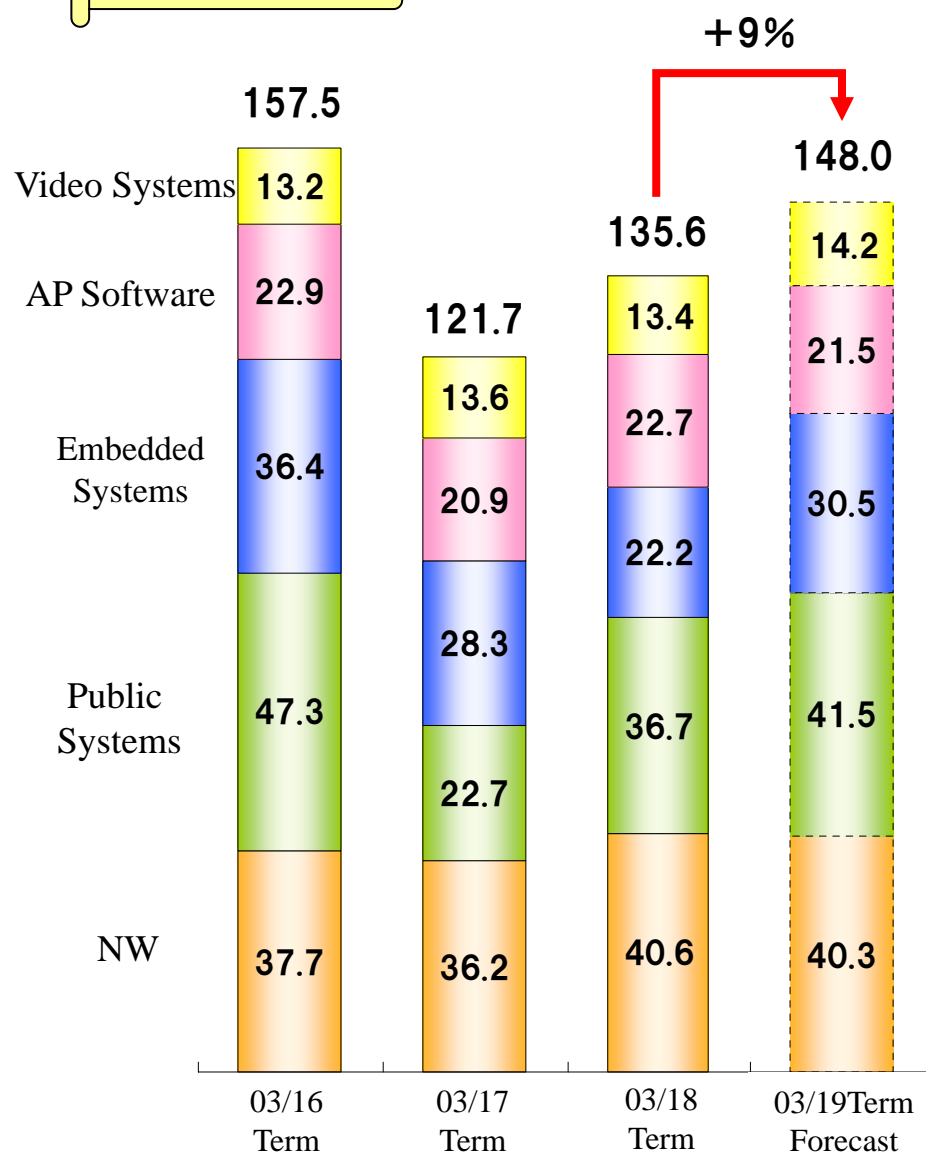


## Sales Composition Ratio by Supplier

- Proportion taken by NEC will be maintained at 37%-39%; collaboration will be strengthened



Sales for the Full Year



## 【 Year-to-Year Comparison of Fluctuations 】

## NW

● Infrastructure-related business for private sector will decrease slightly

## Public Systems (fire stations &amp; government agencies)

○ Sales relating to firefighting, disaster prevention and infrastructure will increase

## Embedded Systems

○ OLTO and RAID technologies will increase

## AP Software

● Production/SG&A expenses, etc. will decrease

## Video Systems

○ Portable video transmitters/IPTV systems and other products will increase

	YoY Change
NW	-1%
Public Systems	+13%
Embedded Systems	+38%
AP Software	-5%
Video Systems	+6%

The character '信' (Shin) is written in a bold, black, calligraphic style and is enclosed within a red circle.The character '用' (Yō) is written in a bold, black, calligraphic style.

TRUST

*Business cannot  
succeed without trust.  
It begins and ends  
with trust.*

The character '信' (Shin) is written in a bold, black, calligraphic style and is enclosed within a red circle.The character '念' (Gen) is written in a bold, black, calligraphic style.

PRINCIPLES

*Do not just pursue  
profit. But act based  
on principles, which  
can be realized  
through self-  
discipline.*

The character '信' (Shin) is written in a bold, black, calligraphic style and is enclosed within a red circle.The character '実' (Jitsu) is written in a bold, black, calligraphic style.

SINCERITY

*Always act sincerely.  
Rise to the challenge  
head-on.*

# Thank you for your attention.

## **\*Note for Use of This Reference Material**

Business forecasts and other statements contained in this reference material regarding the future are predictions based on information available at the time of writing and are not intended as a promise of performance on the part of the Company. Due to various factors, actual results may differ from assessment figures. Major factors affecting actual results are mainly those listed below.

- Economic conditions and consumption trends in Japan,  
North America and Asia
- Purchaser's production trends and product development
- Supplier's supply situation and product development
- Price drops due to intensifying competition
- Significant fluctuations in exchange rates