

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		45,000	820	1,000	500	48.9	3.0	-
FY03/2013		YoY	22.1%	54.1%	112.0%	(82.6%)	-	-
FY03/2014CoE		YoY	15.8%	111.5%	77.1%	112.3%	-	-
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 FY03/2014CoE		19,300	(125)	85	0	-	-	-
Q3 to Q4 FY03/2014CoE		25,700	945	915	500	-	-	-
Q1 to Q2 FY03/2014CoE		YoY	(0.7%)	-	(81.6%)	-	-	-
Q3 to Q4 FY03/2014CoE		YoY	32.3%	-	779.8%	-	-	-
Consolidated Quarter (Million Yen)		Sales	OP	RP	NP	EPS (Yen)	DPS (Yen)	BPS (Yen)
Q1 FY03/2013		8,172	192	243	107	-	-	-
Q2 FY03/2013		11,265	278	217	93	-	-	-
Q3 FY03/2013		10,372	0	(44)	(40)	-	-	-
Q4 FY03/2013		9,059	(84)	147	75	-	-	-
Q1 FY03/2014		9,941	(230)	(29)	(155)	-	-	-
Q1 FY03/2014		YoY	21.7%	-	-	-	-	-

Source: Company Data, WRJ Calculation (Per share data: after adjustments for 1:100 share split, effective on 1 January 2014)

1.0 Executive Summary (6 September 2013)

Unprofitable Project, Terminating

Nippon Manufacturing Service, heavily involved with EMS operations mainly for Japanese major consumer electronics makers, is to see improving short-term earnings, in line with termination of unprofitable project. Longer-term, meanwhile, the Company is to pursue business expansion through aggressively succeeding manufacturing operations to be spun off from manufacturers, represented by Japanese major consumer electronics makers, driven by their reorganization. The Company goes for prospective sales ¥100,000m in FY03/2020 (versus ¥38,869m in FY03/2013 results) with its long-term management plan. For example, it has been revealed that TKR Corporation, the Company's mainstay consolidated subsidiary (53.1% held) in EMS operations, is to succeed a part of businesses in a second-generation subsidiary of Hitachi Ltd., while this issue is likely to contribute to sales with the Company in FY03/2014. The Company mentions "neo EMS" as its business concept, while planning to consistently pursue issues like this case together with own strengths in this field.

In Q1 FY03/2014, sales came in at ¥9,941m (up 21.7% YoY) and operating loss ¥230m. Sales of the mainstay EMS Business surged to ¥7,115m (up 43.0%) and accounted for 71.6% of sales with the Company, which is the key reason for steady sales growth as a whole for the Company. Nevertheless, as this was partly due to


intentional inventory buildup associated with unprofitable project prior to the termination for its manufacturing, the Company inevitably suffered from a major negative impact from here in terms of earnings. The Company's operating balance came down ¥423m from operating profit ¥192m during the same period in the previous year, while down ¥320m from operating profit ¥200m to operating loss ¥119m for EMS Business, having accounted for the bulk of overall earnings deterioration with the Company.

Another project from the same customer to compensate for losses from the unprofitable project should have been feeding through, but it did not. Meanwhile, it appears that the Company was obliged to see increasing manufacturing for the very-badly-conditioned project only, where shipment prices are lower than procurement costs. In terms of the Company's accounting period, negative impacts from here are to marginally remain even in Q2, but the manufacturing for this project had been terminated for some time, implying that the negative impacts will no further exist in Q3. Consequently, it will be the case that short-term earnings for EMS Business bottoms in Q1, followed by sequential recovery in Q2 and Q3, leading to the same trends for overall earnings with the Company.

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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: 2162)	
Capital	¥500m (as of the end of June 2013)	
No. of Shares	108,055 shares, including 5,815 treasury shares (as of the end of June 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 March 2013)	
Headquarters	Shinjuku-ku, Tokyo JAPAN	
No. of Employees	Consolidated: 6,598, Unconsolidated :3,311 (as of the end of June 2013)	

Source: Company Data

3.0 Recent Trading & Prospects

Q1 FY03/2014 Results

In Q1 FY03/2014, sales came in at ¥9,941m (up 21.7% YoY), operating loss ¥230m, recurring loss ¥29m and net loss ¥155m. As far as sales are concerned, results were roughly in line with initial Company forecasts (released on 15 May 2013), having achieved 51.5% of prospective sales in H1, but earnings appears to have been worse than expected when it is reviewed that the Company suffered from operating loss ¥230m in Q1 versus prospective operating loss ¥125m in H1. Presumably, negative impacts from the unprofitable project were larger than expected.

Major adjustments in EMS Business, having accounting for no less than 67.7% of sales and 82.8% of operating profit (before elimination) with the Company in FY03/2013 results, inevitably gave crucially negative impacts to overall business trends with the Company. In July 2010, the Company merged with Shima Electronic Industry Co., Ltd. (100% held), operating manufacturing facilities in China and Malaysia, while obtaining a business license for “in-plant contract manufacturing” in Vietnam as the first Japanese operator in there. On top of this, in December 2010, the Company obtained a business license for “manufacturing dispatch” in China also as the first Japanese operator in there, having established a comprehensive structure for services, even overseas, including designing, developing, mounting and manufacturing, combined with existing operations. This refers to “neo EMS (advanced EMS)”, advocated by the Company.

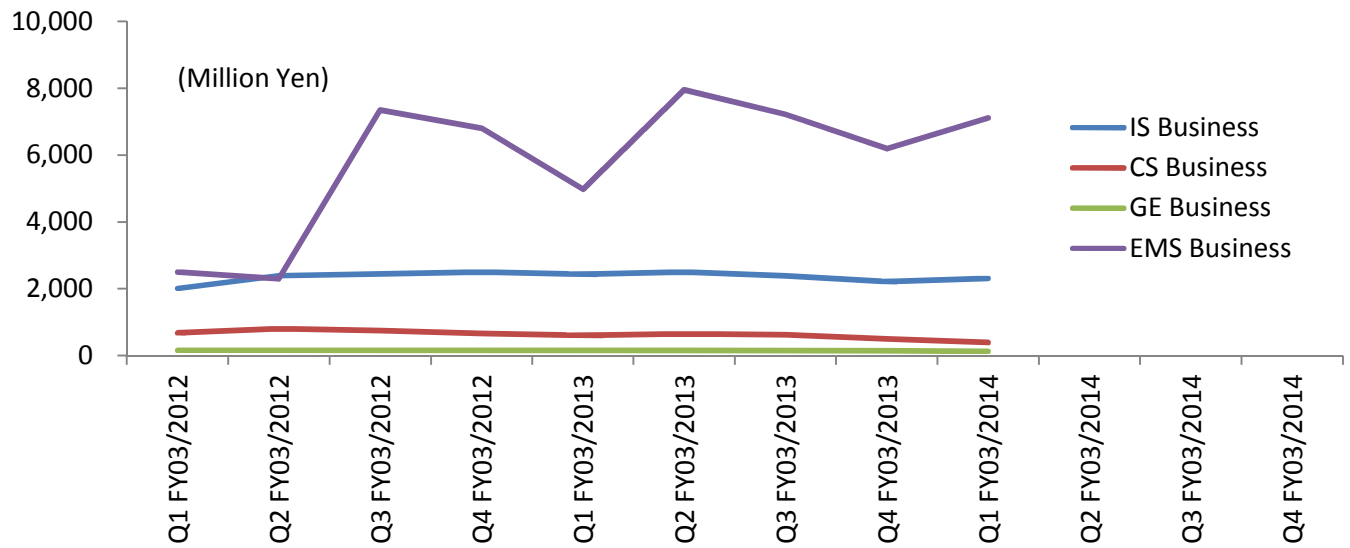
Acquisition of TKR Corporation (53.1%) in July 2011 further increased the Company’s exposure to EMS Business. While TKR Corporation had been involved with designing & manufacturing for dies and molds, press processing, modules assembly including substrates mounting and ODM/OEM operations together with own advantageous capability for designing and developments, it had been 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 earnings, while the Company, having acquired their shares at prices lower than their net assets value, immediately wrote off negative goodwill to have generated and pursued synergy by means of applying own marketing capability. As a result, the Company achieved sales ¥38,869m (up 22.1% YoY) and operating profit ¥387m (up 54.1%) in FY03/2013.

While collective contributions from TKR Corporation and Shima Electronic Industry Co., Ltd. have been already mentioned, it should be noticed that the former accounts for some 70% of sales for EMS business while some 30% for the latter in our estimates. Based on the fact that minorities’ interest came in at ¥25m in Q1, it is presumed that the former should have seen pretax profit some ¥50m during the same period, while the latter, being exposed to the unprofitable project in its manufacturing facilities based in Hong Kong, is presumed to have suffered from major losses. Meanwhile, the Company reported compensations for payments ¥96m at the extraordinary levels, relating to redundancies in the latter’s manufacturing facilities based on Hong Kong. On top of termination of the unprofitable project, surging personnel expenses are the key reason for the redundancies, according to the Company.

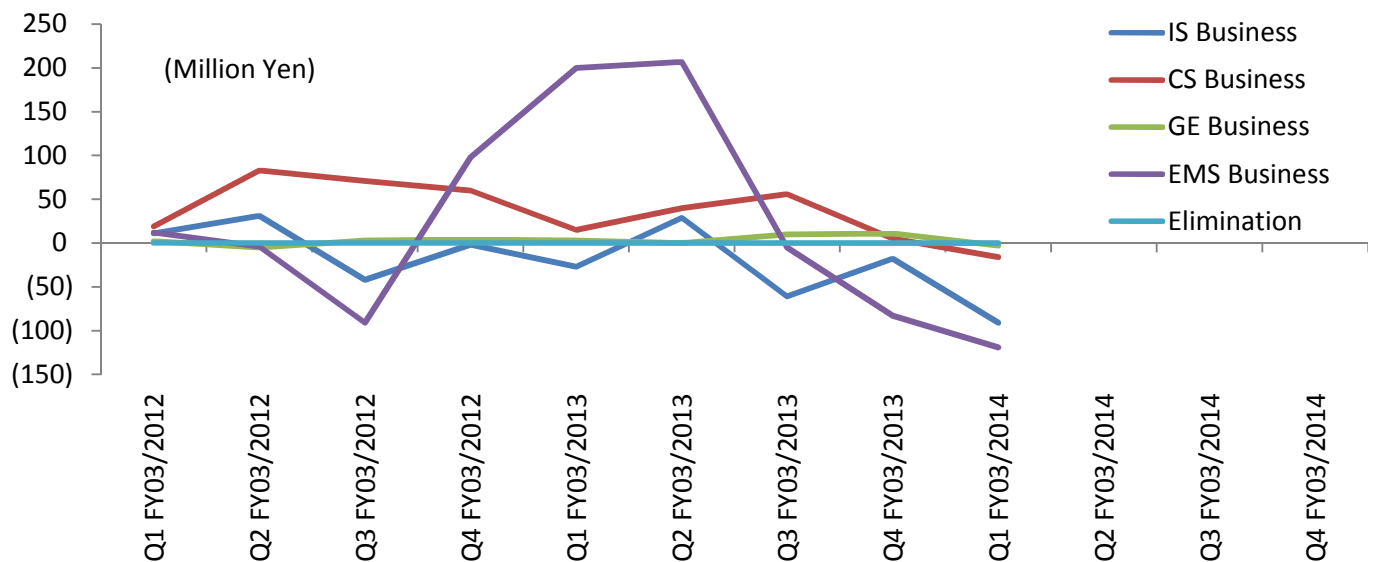
On the other hand, existing businesses but for EMS Business, having accounted for 32.3% of sales and 17.2% of operating profit (before elimination) in FY03/2013 results, suffered from adjustments in both sales and earnings across the board. IS Business, the mainstay operations here to be in charge of running contract manufacturing and manufacturing dispatch operations domestically and overseas suffered from adjustments with the key customers related to electronic appliances and thus sales came in at ¥2,304m (down 5.2%) while operating losses expanded for this business segment. Meanwhile, CS Business to be in charge of providing repair services mainly for game consoles and mobile phones suffered from major adjustments in sales while this segment moved into losses in line with decreasing number of providing repair services as a result of format changes for objects to repair. Likewise, GE Business to be in charge of dispatching engineers suffered from adjustments.

Quarterly Trends by Business Segment

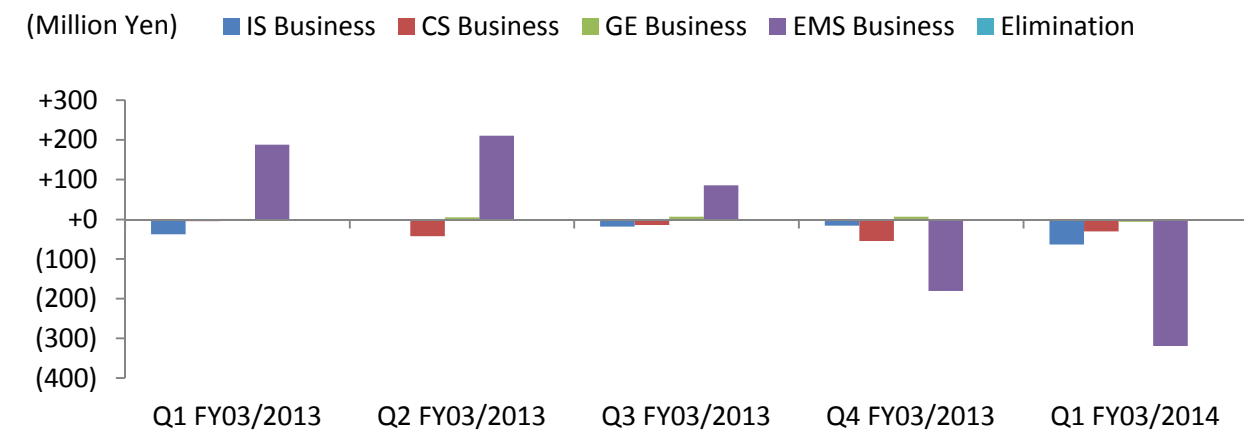
Sales



Operating Profit



Operating Profit (Year-On-Year Changes)



Source: Company Data,

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	-	-	-	-	+1,769
CoGS	6,917	16,821	26,156	34,357	9,122	-	-	-	-	+2,204
Gross Profit	1,254	2,616	3,654	4,512	818	-	-	-	-	(435)
SG&A Expenses	1,061	2,145	3,181	4,124	1,049	-	-	-	-	(12)
Operating Profit	192	471	472	387	(230)	-	-	-	-	(423)
Non Operating Balance	51	(10)	(55)	176	201	-	-	-	-	+150
Recurring Profit	243	461	417	564	(29)	-	-	-	-	(272)
Extraordinary Balance	(1)	(31)	(99)	(106)	(97)	-	-	-	-	(96)
Pretax Profit	242	429	317	458	(126)	-	-	-	-	(369)
Tax Charges etc.	37	77	65	94	3	-	-	-	-	(33)
Minorities' Interests	97	151	92	128	25	-	-	-	-	(72)
Net Profit	107	200	159	235	(155)	-	-	-	-	(262)
Sales YoY	+52.8%	+76.6%	+37.3%	+22.1%	+21.7%	-	-	-	-	-
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%	-	-	-	-	(7.1%)
SG&A / Sales	13.0%	11.0%	10.7%	10.6%	10.6%	-	-	-	-	(2.4%)
Operating Profit Margin	2.4%	2.4%	1.6%	1.0%	(2.3%)	-	-	-	-	(4.7%)
Recurring Profit Margin	3.0%	2.4%	1.4%	1.5%	(0.3%)	-	-	-	-	(3.3%)
Net Profit Margin	1.3%	1.0%	0.5%	0.6%	(1.6%)	-	-	-	-	(2.9%)
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	-	-	-	-	+1,769
CoGS	6,917	9,903	9,335	8,200	9,122	-	-	-	-	+2,204
Gross Profit	1,254	1,362	1,037	858	818	-	-	-	-	(435)
SG&A Expenses	1,061	1,083	1,036	943	1,049	-	-	-	-	(12)
Operating Profit	192	278	0	(84)	(230)	-	-	-	-	(423)
Non Operating Balance	51	(61)	(45)	232	201	-	-	-	-	+150
Recurring Profit	243	217	(44)	147	(29)	-	-	-	-	(272)
Extraordinary Balance	(1)	(29)	(68)	(6)	(97)	-	-	-	-	(96)
Pretax Profit	242	187	(112)	140	(126)	-	-	-	-	(369)
Tax Charges etc.	37	40	(12)	28	3	-	-	-	-	(33)
Minorities' Interests	97	53	(59)	36	25	-	-	-	-	(72)
Net Profit	107	93	(40)	75	(155)	-	-	-	-	(262)
Sales YoY	+52.8%	+99.0%	(3.0%)	(10.6%)	+21.7%	-	-	-	-	-
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%	-	-	-	-	(7.1%)
SG&A / Sales	13.0%	9.6%	10.0%	10.4%	10.6%	-	-	-	-	(2.4%)
Operating Profit Margin	2.4%	2.5%	0.0%	(0.9%)	(2.3%)	-	-	-	-	(4.7%)
Recurring Profit Margin	3.0%	1.9%	(0.4%)	1.6%	(0.3%)	-	-	-	-	(3.3%)
Net Profit Margin	1.3%	0.8%	(0.4%)	0.8%	(1.6%)	-	-	-	-	(2.9%)
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	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 Net Chg.
(Million Yen)	03/2013	03/2013	03/2013	03/2013	03/2014	03/2014	03/2014	03/2014	
IS Business	2,432	4,936	7,321	9,538	2,304	-	-	-	(127)
CS Business	606	1,258	1,884	2,386	392	-	-	-	(214)
GE Business	156	313	462	611	128	-	-	-	(27)
EMS Business	4,977	12,929	20,142	26,333	7,115	-	-	-	+2,138
Sales	8,172	19,438	29,810	38,869	9,941	-	-	-	+1,769
IS Business	+21.1%	+12.0%	+6.9%	+2.0%	(5.2%)	-	-	-	-
CS Business	(11.5%)	(15.6%)	(15.9%)	(17.8%)	(35.3%)	-	-	-	-
GE Business	+0.7%	+1.7%	(0.5%)	(2.5%)	(17.5%)	-	-	-	-
EMS Business	+99.3%	+169.4%	+65.8%	+39.0%	+43.0%	-	-	-	-
Sales (YoY)	+52.8%	+76.6%	+37.3%	+22.1%	+21.7%	-	-	-	-
IS Business	29.8%	25.4%	24.6%	24.5%	23.2%	-	-	-	-
CS Business	7.4%	6.5%	6.3%	6.1%	3.9%	-	-	-	-
GE Business	1.9%	1.6%	1.6%	1.6%	1.3%	-	-	-	-
EMS Business	60.9%	66.5%	67.6%	67.7%	71.6%	-	-	-	-
Sales (Composition)	100.0%	100.0%	100.0%	100.0%	100.0%	-	-	-	-
IS Business	(27)	2	(58)	(77)	(91)	-	-	-	(64)
CS Business	15	56	113	118	(16)	-	-	-	(31)
GE Business	3	3	14	25	(3)	-	-	-	(6)
EMS Business	200	408	403	320	(119)	-	-	-	(320)
Operating Profit (Before Elimination)	192	471	471	386	(230)	-	-	-	(423)
Elimination	-	-	-	-	-	-	-	-	-
Operating Profit	192	471	472	387	(230)	-	-	-	(423)
IS Business	(1.1%)	0.1%	(0.8%)	(0.8%)	(4.0%)	-	-	-	(2.9%)
CS Business	2.6%	4.5%	6.0%	5.0%	(4.1%)	-	-	-	(6.7%)
GE Business	1.9%	1.2%	3.1%	4.2%	(2.8%)	-	-	-	(4.8%)
EMS Business	4.0%	3.2%	2.0%	1.2%	(1.7%)	-	-	-	(5.7%)
Elimination	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%)	-	-	-	(4.7%)

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 Net Chg.
(Million Yen)	03/2013	03/2013	03/2013	03/2013	03/2014	03/2014	03/2014	03/2014	
IS Business	2,432	2,504	2,384	2,217	2,304	-	-	-	(127)
CS Business	606	651	626	501	392	-	-	-	(214)
GE Business	156	157	148	149	128	-	-	-	(27)
EMS Business	4,977	7,952	7,213	6,190	7,115	-	-	-	+2,138
Sales	8,172	11,265	10,372	9,059	9,941	-	-	-	+1,769
IS Business	+21.1%	+4.4%	(2.4%)	(11.3%)	(5.2%)	-	-	-	-
CS Business	(11.5%)	(19.1%)	(16.3%)	(24.4%)	(35.3%)	-	-	-	-
GE Business	+0.7%	+2.8%	(4.9%)	(8.4%)	(17.5%)	-	-	-	-
EMS Business	+99.3%	+245.4%	(1.9%)	(9.0%)	+43.0%	-	-	-	-
Sales (YoY)	+52.8%	+99.0%	(3.0%)	(10.6%)	+21.7%	-	-	-	-
IS Business	29.8%	22.2%	23.0%	24.5%	23.2%	-	-	-	-
CS Business	7.4%	5.8%	6.0%	5.5%	3.9%	-	-	-	-
GE Business	1.9%	1.4%	1.4%	1.7%	1.3%	-	-	-	-
EMS Business	60.9%	70.6%	69.5%	68.3%	71.6%	-	-	-	-
Sales (Composition)	100.0%	100.0%	100.0%	100.0%	100.0%	-	-	-	-
IS Business	(27)	29	(61)	(18)	(91)	-	-	-	(64)
CS Business	15	40	56	5	(16)	-	-	-	(31)
GE Business	3	0	10	11	(3)	-	-	-	(6)
EMS Business	200	207	(5)	(83)	(119)	-	-	-	(320)
Operating Profit (Before Elimination)	192	278	0	(85)	(230)	-	-	-	(423)
Elimination	-	-	-	-	-	-	-	-	-
Operating Profit	192	278	0	(84)	(230)	-	-	-	(423)
IS Business	(1.1%)	1.2%	(2.6%)	(0.8%)	(4.0%)	-	-	-	(2.9%)
CS Business	2.6%	6.2%	9.1%	1.1%	(4.1%)	-	-	-	(6.7%)
GE Business	1.9%	0.5%	7.0%	7.4%	(2.8%)	-	-	-	(4.8%)
EMS Business	4.0%	2.6%	(0.1%)	(1.3%)	(1.7%)	-	-	-	(5.7%)
Elimination	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%)	-	-	-	(4.7%)

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	-	-	-	-	+71
Accounts Receivables	6,192	6,868	6,285	6,332	6,516	-	-	-	-	+324
Inventory	2,426	2,246	2,288	2,729	2,983	-	-	-	-	+556
Other	881	393	488	631	639	-	-	-	-	(242)
Current Assets	13,416	13,764	12,773	13,328	14,126	-	-	-	-	+709
Tangible Assets	4,012	3,908	3,923	4,203	4,179	-	-	-	-	+167
Intangible Assets	462	463	451	448	444	-	-	-	-	(17)
LT Investment Securities etc.	1,434	1,206	1,060	1,080	1,060	-	-	-	-	(374)
Fixed Assets	5,909	5,578	5,435	5,732	5,684	-	-	-	-	(224)
Total Assets	19,325	19,342	18,208	19,061	19,810	-	-	-	-	+485
Accounts Payable	3,464	3,820	3,107	3,571	3,676	-	-	-	-	+211
Short Term Debt	4,669	4,761	4,895	4,264	4,868	-	-	-	-	+198
Corporate Bond (Less than 1 year)	100	100	100	100	100	-	-	-	-	+0
Other	2,475	2,502	2,310	2,213	2,361	-	-	-	-	(113)
Current Liabilities	10,709	11,184	10,413	10,149	11,006	-	-	-	-	+296
Corporate Bond	100	50	50	-	-	-	-	-	-	(100)
Long Term Debt	1,552	1,250	905	1,701	1,542	-	-	-	-	(9)
Other	727	713	706	686	691	-	-	-	-	(35)
Fixed Liabilities	2,379	2,013	1,661	2,387	2,234	-	-	-	-	(144)
Total Liabilities	13,089	13,197	12,074	12,537	13,240	-	-	-	-	+151
Shareholders' Equity	3,596	3,689	3,648	3,724	3,476	-	-	-	-	(119)
Other	2,639	2,454	2,484	2,799	3,093	-	-	-	-	+453
Total Assets	6,236	6,144	6,133	6,523	6,569	-	-	-	-	+333
Total Liabilities & net Assets	19,325	19,342	18,208	19,061	19,810	-	-	-	-	+485
Equity Capital	3,543	3,473	3,476	3,756	3,695	-	-	-	-	+152
Interest Bearing Debt	6,421	6,161	5,951	6,066	6,511	-	-	-	-	+89
Net Debt	2,506	1,905	2,240	2,430	2,524	-	-	-	-	+18
Equity Capital Ratio	18.3%	18.0%	19.1%	19.7%	18.7%	-	-	-	-	+0.3%
Net-Debt-Equity Ratio	69.7%	51.6%	61.4%	65.2%	72.6%	-	-	-	-	+2.9%
ROE	12.4%	11.8%	6.2%	6.6%	(16.7%)	-	-	-	-	(29.2%)
ROA	5.1%	4.8%	3.0%	3.0%	(0.6%)	-	-	-	-	(5.7%)
Days for Inventory Turnover	32	21	22	30	30	-	-	-	-	-
Inventory Turnover	11.4	17.6	16.3	12.0	12.2	-	-	-	-	-
Quick Ratio	94%	99%	96%	98%	95%	-	-	-	-	-
Current Ratio	125%	123%	123%	131%	128%	-	-	-	-	-

Source: Company Data, WRJ Calculation

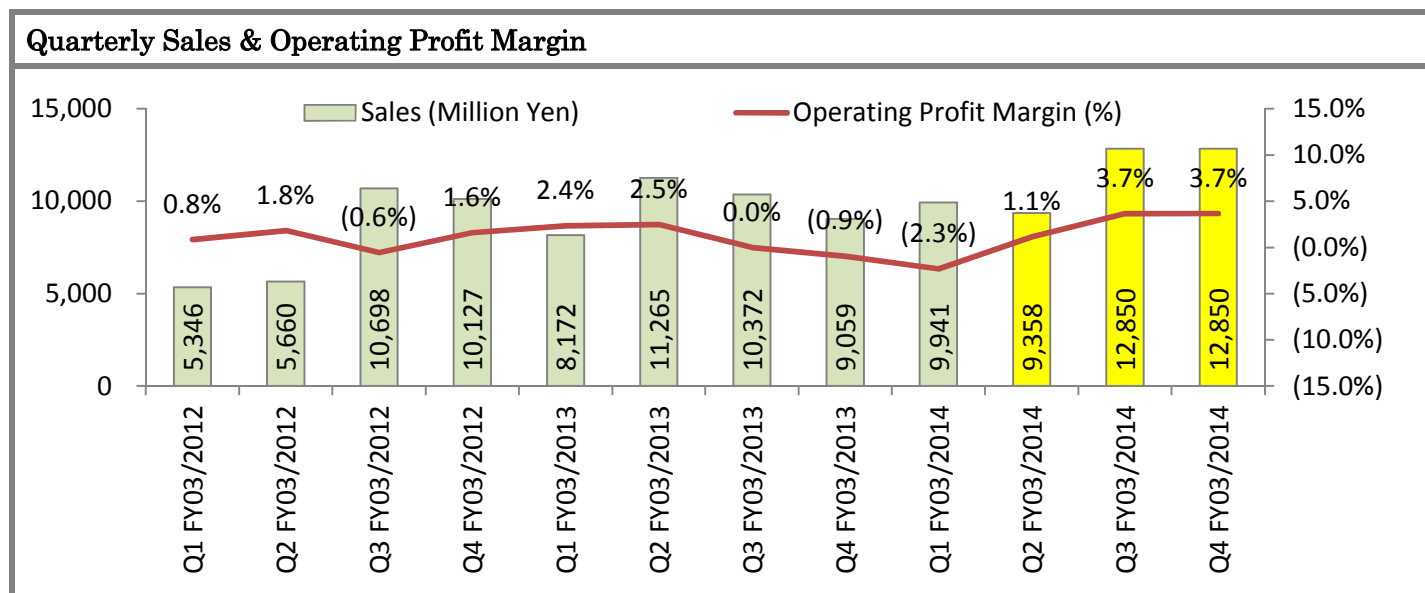
Cash flow Statement (Cumulative)

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	-	-	-	-	-	-
Investing Cash Flow	-	88	-	(222)	-	-	-	-	-	-
Operating CF + Investment CF	-	319	-	(77)	-	-	-	-	-	-
Financing Cash Flow	-	(227)	-	(382)	-	-	-	-	-	-

Source: Company Data, WRJ Calculation

FY03/2014 Company Forecasts

FY03/2014 Company forecasts (released on 15 May 2013) have remained unchanged. Prospective sales are ¥45,000m (up 15.8% YoY), operating profit ¥820m (up 111.5%), recurring profit ¥1,000m (up 77.1%) and net profit ¥500m (up 112.3%). Prospective dividend per share has also remained unchanged at ¥3.0, implying payout ratio 6.1%, after adjustments for 1:100 share split, effective on 1 January 2014.



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

It is assumed in full-year Company forecasts that sales are to significantly increase in H2 sequentially from H1, which are likely to feed through in reality at the moment according to the Company, while it could be the case that the Company may suffer from shortage of headcounts in some operations. At the same time, it has a high probability for operating profit margin to sequentially improve to Q2 from Q1 and then to H2, as expected in Company forecasts, when based on trends of manufacturing for the unprofitable projects in Hong Kong manufacturing facilities of Shima Electronic Industry Co., Ltd.

Full-year Company forecasts are going for prospective operating profit ¥820m, net increases ¥432m from the previous year and/or net increases ¥433m before elimination. By business segment, IS Business is expected to see net increases ¥187m, CS Business ¥76m, GE Business ¥24m and EMS ¥144m. IS Business to be in charge of running contract manufacturing and manufacturing dispatch operations domestically and overseas is expected to contribute to net increases of operating profit with the Company most significantly.

In regards to IS Business, the bulk is accounted for by contract manufacturing that carries high ratio of marginal profit, while it is exposed limitedly to manufacturing dispatch that carries low ratio of marginal profit as the characteristics for this business segment, according to the Company. It is presumed that adjustments of sales with the former gave major negative impacts to earnings in Q1 for IS Business, while prospective sales on a full-year basis are ¥12,910m (up 35.3%) in this business segment. It looks sales of the mainstay contract manufacturing carrying high ratio of marginal profit is to contribute to sales in IS business and far more substantially to earnings due to its high ratio of marginal profit.

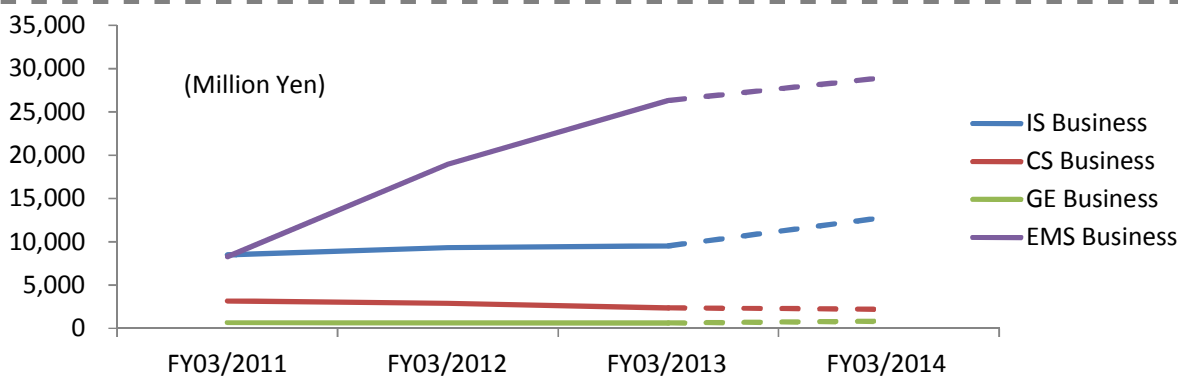
Income Statement

Income Statement (Million Yen)	Par.Act	Par.Act	Cons.Act	Cons.Act	Cons.Act	Cons.CoE	
	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	45,000	+6,130
CoGS	12,365	9,310	17,943	28,249	34,357	39,750	+5,392
Gross Profit	2,456	1,913	2,732	3,583	4,512	5,250	+737
SG&A Expenses	2,272	1,678	2,129	3,331	4,124	4,430	+305
Operating Profit	184	234	602	251	387	820	+432
Non Operating Balance	(10)	(4)	(18)	14	176	180	+3
Recurring Profit	174	230	584	266	564	1,000	+435
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	500	+264
Sales YoY	(12.6%)	(24.3%)	+84.2%	+54.0%	+22.1%	+15.8%	-
Operating Profit YoY	(68.1%)	+27.5%	+156.8%	(58.3%)	+54.1%	+111.5%	-
Recurring Profit YoY	(67.9%)	+32.4%	+153.5%	(54.4%)	+112.0%	+77.1%	-
Net Profit YoY	-	-	+294.6%	+49.4%	(82.6%)	+112.3%	-
Gross Profit Margin	16.6%	17.0%	13.2%	11.3%	11.6%	11.7%	+0.1%
SG&A / Sales	15.3%	15.0%	10.3%	10.5%	10.6%	9.8%	(0.8%)
Operating Profit Margin	1.2%	2.1%	2.9%	0.8%	1.0%	1.8%	+0.8%
Recurring Profit Margin	1.2%	2.1%	2.8%	0.8%	1.5%	2.2%	+0.8%
Net Profit Margin	(1.0%)	2.0%	4.4%	4.3%	0.6%	1.1%	+0.5%
Tax Charges etc. / Pretax Profit	-	-	14.4%	2.8%	20.6%	-	-

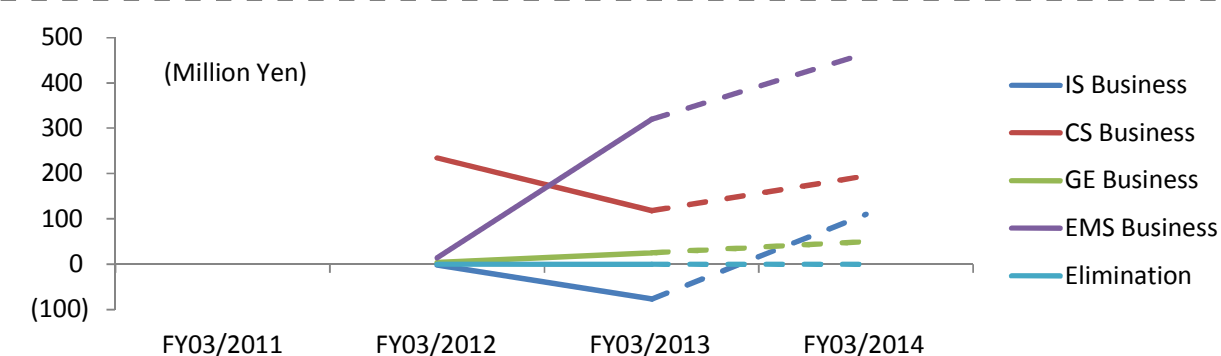
Source: Company Data, WRJ Calculation

Performance by Business Segment

Sales



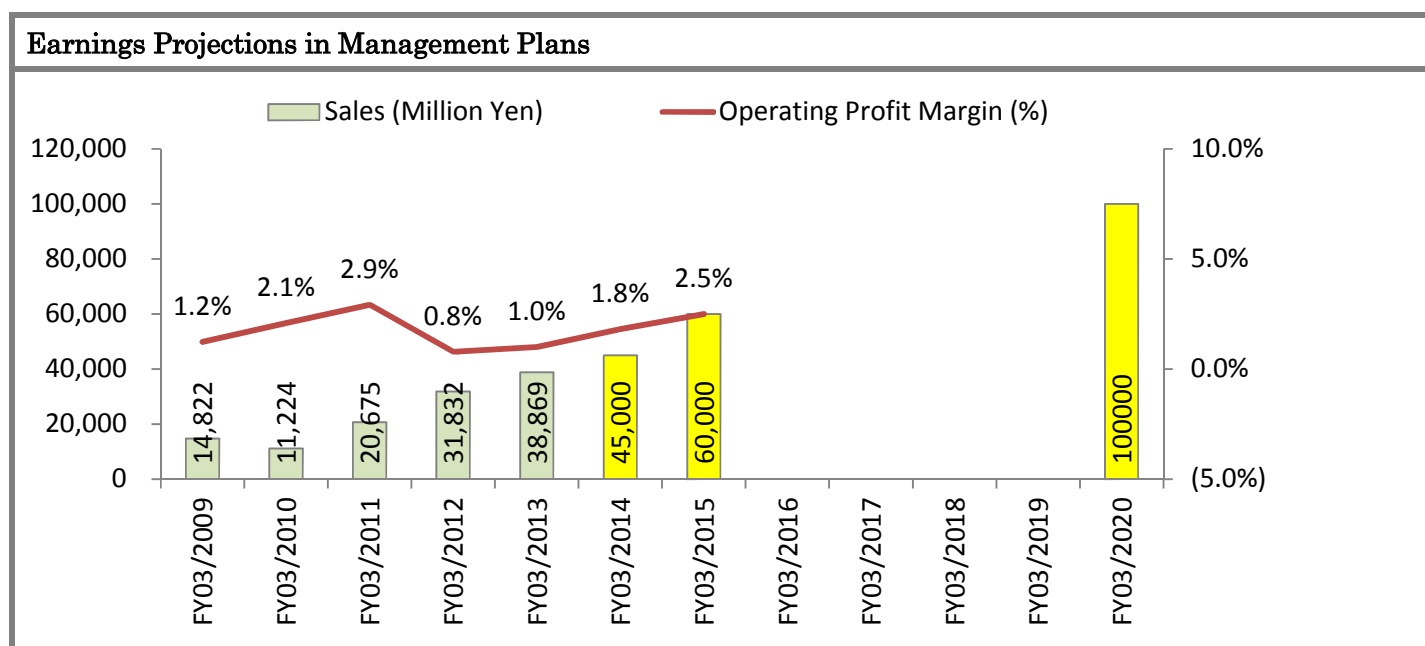
Operating Profit



Source: Company Data, WRJ Calculation

Long-Term Prospects

According to mid-term and long-term management plan, the Company calls for prospective sales ¥60,000m in FY03/2015 and ¥100,000m in FY03/2020, respectively. The Company's announcement, made on 2 July 2013, disclosed that TKR Corporation, one of the Company's consolidated subsidiaries, was to succeed a part of businesses in a second-generation subsidiary of Hitachi Ltd. while the Company is to make corporate efforts to persistently do the same for upcoming new issues so that the Company should be able to boost sales in a long-term view. In regards to operating profit margin, the Company goes for some 2.5%, going forward.



Source: Company Data, WRJ Calculation

The Company revealed that TKR Corporation was going to succeed a part of businesses with Hitachi Media Electronics Co., Ltd. (capital ¥50m, 100% owned by Hitachi Consumer Electronics Co., Ltd.), while the contract for this deal was signed up on 1 July 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.

Meanwhile, the issues of reorganization by the domestic leading consumer electronics makers, the key customer base with the Company, 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", meaning 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 issue is expected to make add-ons some ¥5,000m in terms of annual turnover, comprising Power Supply Business, Transformer Business, In-Car Tuner Business and Video Board Business. The levels of the turnover come from estimates based on management plan by Hitachi Media Electronics Co., Ltd. etc., while the Company is to scrutinize the issue by itself. 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 particular, LED power supply, one of constituents for Power Supply Business, could be very promising. LED lighting, the final product that requires power supply, is currently seeing steady growth, essentially driving demand for LED power supply.

As far as FY03/2014 is concerned, the issue will have a limited impact to consolidated income statements with the Company, in a respect that the impact will feed though for only three months in Q4. This is because the deal will not be effective by 1 October 2013, while fiscal yearend with TKR Corporation is December. 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 succeeded. On top this, the Company is to succeed effectively all the headcounts in there.

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, contents of the 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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