

Nippon Manufacturing Service (2162)

| Consolidated Fiscal Year (Million Yen) | | Sales | OP | RP | NP | EPS (Yen) | DPS (Yen) | BPS (Yen) |
|---|-----|--------|-------|-------|---------|--------------|--------------|--------------|
| FY03/2013 | | 38,869 | 387 | 564 | 235 | 23.0 | 3.0 | 367.5 |
| FY03/2014 | | 41,905 | (643) | (175) | 648 | 63.4 | 3.0 | 451.8 |
| FY03/2015CoE | | 48,800 | 490 | 510 | 320 | 34.5 | 3.0 | - |
| FY03/2014 | YoY | 7.8% | - | - | 175.4% | - | - | - |
| FY03/2015CoE | YoY | 16.5% | - | - | (50.7%) | - | - | - |
| Consolidated Half Year (Million Yen) | | Sales | OP | RP | NP | EPS (Yen) | DPS (Yen) | BPS (Yen) |
| Q1 to Q2 FY03/2014 | | 20,823 | (345) | (68) | (197) | - | - | - |
| Q3 to Q4 FY03/2014 | | 21,082 | (298) | (107) | 845 | - | - | - |
| Q1 to Q2 FY03/2015 | | 23,787 | 236 | 146 | 82 | - | - | - |
| Q3 to Q4 FY03/2015CoE | | 25,012 | 253 | 363 | 237 | - | - | - |
| Q1 to Q2 FY03/2015 | YoY | 14.2% | - | - | - | - | - | - |
| Q3 to Q4 FY03/2015CoE | YoY | 18.6% | - | - | (72.0%) | - | - | - |

Source: Company Data, WRJ Calculation

1.0 Executive Summary (25 December 2014)

Size of Business to Expand

Nippon Manufacturing Service, heavily involved with EMS Business for major Japanese manufacturers (mainly those of consumer electronics), is seeing improvements in its operating balance. The Company moved into profit at the operating level in China where one-off expenses were gone, while seeing reducing operating loss in Japan where some projects carrying high profit margin have started to contribute. On the HS (Human Solution) Business side, improving profit margin of contracted manufacturing in Japan is driving improvements as a whole for this business segment. On top of this, the Company is to benefit from purchase of General Power Supply Business from Panasonic Corporation, starting in Q4 FY03/2015. According to the Company, incorporation of the new operations to have been purchased will increase the size of the business up to ¥65,000m in terms of sales as a whole for the group, versus ¥48,000 in FY03/2015 Company forecasts. The Company is planning to purchase more new operations in the same way, going forward, while trying to beef up overseas human resources business, e.g., contracted manufacturing, in China, etc. Looking to future progress in all those issues, the Company is calling for prospective sales ¥100,000m in FY03/2020 as its long-term target.


In Q1 to Q2 FY03/2015, sales came in at ¥23,787m (up 14.2% YoY) and operating profit ¥236m (versus operating loss ¥345m over the year). On the EMS Business side, sales came in at ¥17,179m (up 14.8%) and operating profit ¥249m (versus operating loss ¥271m over the year), while sales ¥6,608m (up 12.8%) and operating loss ¥16m (versus operating loss ¥74m over the year) on the HS Business side. Operating profit of

the Company ¥236m comprised collective operating profit of the two business segments and elimination ¥4m. On the EMS Business side, having accounted for 107.2% of operating profit of the Company before elimination, operations in Malaysia have continued making money with stability. More importantly, in China, the Company succeeded in reviewing forex agreement with customer while one-off expenses were all gone, having had stemmed from lowering productivity as a result of early redundancies and increasing volume of low-profit-margin project. Thus, the Company moved into profit at the operating level in China, which accounted for more than 70% of improvements of operating balance on the EMS Business side. In Japan, progressing reorganization measures and improving contents of projects were two main positive factors, but sales associated with purchase of power supply business from Hitachi Group were delayed, when compared with initial expectations.

Initial Company forecasts for FY03/2015 have remained unchanged, calling for prospective sales ¥48,800m (up 16.5% YoY) and operating profit ¥490m (versus operating loss ¥643m over the year). In a sense, H2 prospects were revised down, given better-than-expected earnings in Q1 to Q2. As far as we could gather, above-mentioned issue that sales are delayed is of a concern. On the other hand, initial Company forecasts do not assume any net add-ons from General Power Supply Business to have been purchased from Panasonic Corporation, although net add-ons are to be generated in reality, starting in Q4. Thus, the Company is to see some net add-ons, unexpected in Company forecasts, in sales and earnings. One of the reasons why all those net add-ons have not been incorporated is that it has been too early to come up with reasonable expectations on the earnings side in particular. Still, the purchase includes that of highly competitive technology associated with high voltage (adopted in power supply of copiers and medical equipment) and thus net add-ons at some meaningful levels should be generated in terms of earnings.

2.0 Company Profile

“neo EMS”, the Business Concept

| | |
|-------------------------|---|
| Company Name | Nippon Manufacturing Service Corporation Company Website IR Information Share Price  |
| Established | 18 September 1985 |
| Listing | 25 October 2007 : Tokyo Stock Exchange JASDAQ Standard (Ticker: 2162) |
| Capital | ¥500m (As of the end of September 2014) |
| No. of Shares | 10,805,500 shares, including 2,008,000 treasury shares (As of the end of Sep. 2014) |
| Main Features | <ul style="list-style-type: none"> ● Involved with EMS operations and human resources business (HS Business) in Japan, China and Malaysia ● To benefit from reorganization of major domestic manufacturers based in Japan ● Targeting to lead manufacturing-oriented outsourcing in Asia |
| Businesses | <ul style="list-style-type: none"> . HS (Human Solution) Business . EMS (Electronics Manufacturing Services) Business |
| Top Management | President & CEO: Fumiaki Ono |
| Shareholders | Treasury Shares 18.6%, Fumiaki Ono 16.6%, Kazumitsu Shiozawa 13.2% (As of the end of September 2014) |
| Headquarters | Shinjuku-ku, Tokyo JAPAN |
| No. of Employees | Consolidated: 6,590, Unconsolidated: 3,367 (As of the end of September 2014) |

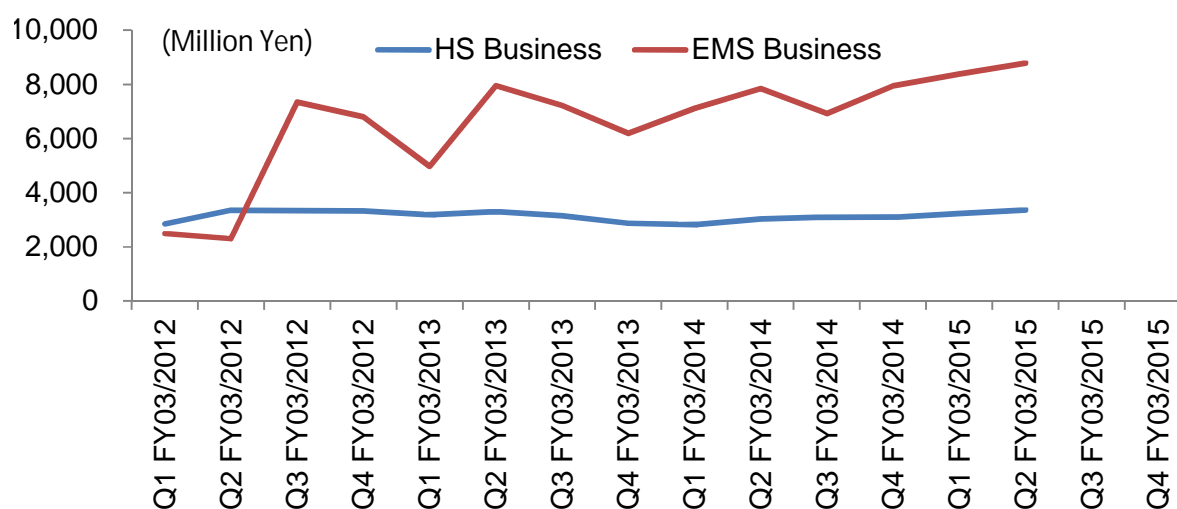
Source: Company Data

3.0 Recent Trading & Prospects

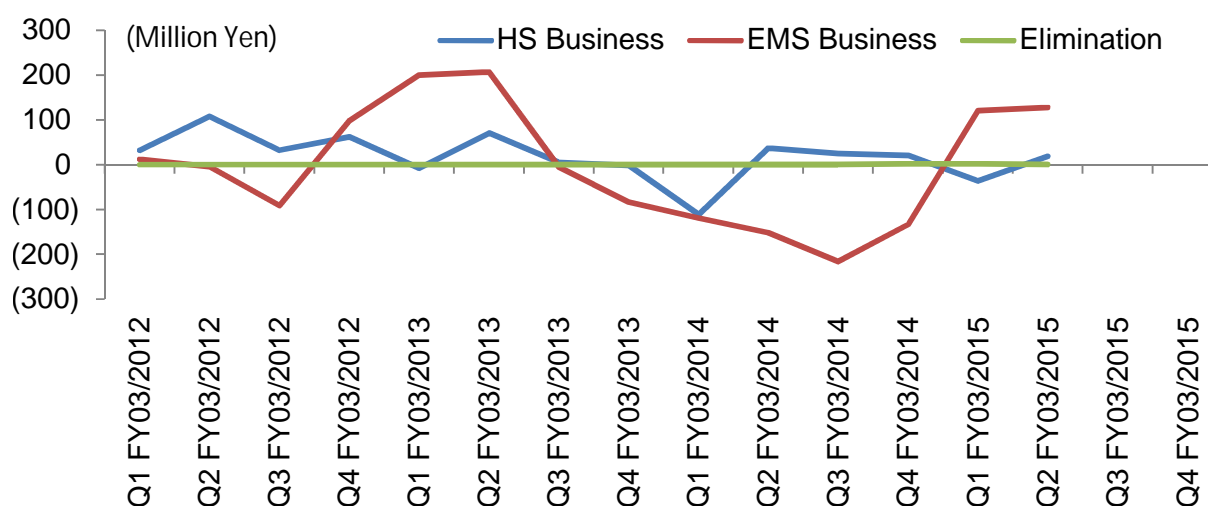
Q1 to Q2 FY03/2015 Results

In Q1 to Q2 FY03/2015, sales came in at ¥23,787m (up 14.2% YoY), operating profit ¥236m (versus operating loss ¥345m over the year), recurring profit ¥146m (versus recurring loss ¥68m over the year) and net profit ¥82m (versus net loss ¥197m over the year). Compared with initial Company forecasts, sales fell short ¥213m (0.9%), but operating profit was better ¥106m (81.5%). Based on contents of the Company's release, on 20 October 2014, we presume review of forex rate with customer and effects from reorganization on the EMS Business side contributed to earnings more substantially than initially expected.

Quarterly Sales by Business Segment



Quarterly Operating Balance by Business Segment



Source: Company Data,

Operating balance of the Company heavily hinges on business performance on the EMS Business side. For example, the Company saw operating profit (before elimination) ¥232m in Q1 to Q2 versus operating loss ¥345m over the year (net increases ¥578m), while operating profit ¥249m versus operating loss ¥271m (net increases ¥521m) on the EMS Business side. Thus, 90.0% of net increases of operating balance as a whole for the Company came from the EMS Business side.

EMS Business is run by two consolidated subsidiaries to have been merged by the Company, i.e., Shima Electronic Industry Co., Ltd. (accounting for some 30% of sales on the EMS Business side) and TKR Corporation (remaining 70%). At the moment, the former sees substantial benefits from improving earnings in China, while the latter sees operating profit margin relatively lower, due mainly to increased expenses, e.g., personnel expenses, in line with purchase of power supply business from Hitachi Group.

Shima Electronic Industry Co., Ltd. has been a 100% consolidated subsidiary since the merger. In regards to TKR Corporation, meanwhile, the Company raised its holding ratio up to 87.0% from initial holding ratio 53.0% at the merger, in line with additional share procurement made in November 2013. According to the Company, this additional procurement of the shares is now starting to contribute to quick decision-making, etc. on the EMS Business side which is the key driver for overall business performance of the Company.

In July 2010, the Company started up its involvements with EMS Business, having merged with Shima Electronic Industry Co., Ltd. that was running manufacturing facilities in China, Malaysia, etc. Roughly at the same time, the Company obtained a business license for “on-premises contracted manufacturing” in Vietnam as the first Japanese company in there. On top of this, in December 2010, the Company obtained a business license for worker dispatch in China as the first Japanese company in there, having established a comprehensive structure for own services, even overseas, including developments, mounting and manufacturing, combined with existing operations. This is so-called “neo EMS (advanced EMS)”, advocated by the Company.

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

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

Nevertheless, EMS Business almost collapsed in the following year, i.e., FY03/2014. Sales came in at ¥29,838m from ¥26,333 in FY03/2013, having risen 13.3% due mainly to yen's depreciation, but operating loss ¥621m from operating profit ¥320m (net decreases ¥941m), comprising operating loss ¥451m from operating profit ¥5m in Japan (net decreases ¥456m), operating loss ¥391m from operating profit ¥59m (net decreases ¥450m) in China and operating profit ¥327m from operating profit ¥238m (net increases ¥89m) in Malaysia by region. Collective operating balance of all those regions, combined with consolidated adjustments negative ¥106m from positive ¥41m (net decreases ¥147m) accounted for the net changes of operating balance on the EMS Business side as a whole.

In regards to the net decreases ¥456m in operating balance in Japan, the Company mentions negative factors that R&D expenses increased in TKR Corporation and that sales stemming from purchase of business from Hitachi Group were delayed while add-on SG&A expenses did incur as initially planned. In regards to the net decreases ¥450m in operating balance in China, negative impacts from one-off issues (collective ¥320m) are mentioned as the reasons, comprising forex agreement with customer (¥145m), lowering productivity as a result of early redundancies (¥70m) and increasing volume of low-profit-margin project (¥105m).

On top of EMS Business, the Company is also involved with HS Business. At present, HS Business has limited impacts for overall earnings of the Company, but this business segment is expected to be increasingly important in a long-term view, as a result of future progress in enhancement of overseas human resources business, e.g., contracted manufacturing in Chan, etc.

HS Business comprises ex-IS Business (worker dispatch and contracted manufacturing), ex-CS Business (repair services for mainly for game consoles and mobile phones) and ex-GE Business (engineer dispatch). The largest contributor to operating loss reduced over the year in Q1 to Q2 was improving profit margin of worker dispatch project in Japan.

| Changes of Shareholding Ratio by Major Shareholders | | |
|--|-------------------------|-------------------------|
| Holding Ratio to The Number of Shares Outstanding (%) | FY03/2014 (As of Q4) | FY03/2015 (As of Q2) |
| Nippon Manufacturing Service Corporation | 5.4 | 18.6 |
| Fumiaki Ono | 16.8 | 16.6 |
| Kazumitsu Shiozawa | - | 13.2 |
| JAFCO Buyout No.2 Investment Limited Partnership | 35.8 | - |
| JAFCO Buyout No.2 Investment Limited Partnership (Cayman) L.P. | 1.5 | - |

Source: Company Data,

The other thing to be spotted is that there was a change of the largest shareholder for the Company, during the period of Q1 to Q2 FY03/2015. The largest shareholder used to be JAFCO Buyout No.2 Investment Limited Partnership versus Fumiaki Ono, president & CEO of the Company, now, when treasury shares held by the Company are excluded. Holding ratio of the shares held by Ono has hardly changed to 16.6% as of the end of Q2 FY03/2015 from 16.8% as of the end of Q4 FY03/2014.

Meanwhile, the Company purchased own shares from collective two funds run by JAFECO Co., Ltd., on 12 August 2014, and so did Kazumitsu Shiozawa, director of the Company, on 14 August 2014, each having equated to 13.2% of the shares outstanding. Meanwhile, the Company mentions the holdings of the shares by the two funds have been all gone to date.

Income Statement (Cumulative, Quarterly)

| Income Statement | Cons.Act | Cons.Act | Cons.Act | Cons.Act | Cons.Act | Cons.Act | Cons.Act | Cons.Act | Cons.Act | YoY |
|----------------------------------|--------------|---------------|---------------|---------------|---------------|---------------|----------|----------|----------|---------------|
| (Million Yen) | Q1 | Q1 to Q2 | Q1 to Q3 | Q1 to Q4 | Q1 | Q1 to Q2 | Q1 to Q3 | Q1 to Q4 | | Net Chg. |
| | 03/2014 | 03/2014 | 03/2014 | 03/2014 | 03/2015 | 03/2015 | 03/2015 | 03/2015 | | |
| Sales | 9,941 | 20,823 | 30,855 | 41,905 | 11,630 | 23,787 | - | - | - | +2,963 |
| Cost of Sales | 9,122 | 19,047 | 28,185 | 38,223 | 10,349 | 21,158 | - | - | - | +2,111 |
| Gross Profit | 818 | 1,775 | 2,670 | 3,682 | 1,281 | 2,628 | - | - | - | +852 |
| SG&A Expenses | 1,049 | 2,121 | 3,204 | 4,326 | 1,193 | 2,391 | - | - | - | +269 |
| Operating Profit | (230) | (345) | (534) | (643) | 87 | 236 | - | - | - | +582 |
| Non Operating Balance | 201 | 277 | 305 | 468 | (57) | (90) | - | - | - | (367) |
| Recurring Profit | (29) | (68) | (228) | (175) | 29 | 146 | - | - | - | +215 |
| Extraordinary Balance | (97) | (78) | 1,101 | 733 | 19 | 6 | - | - | - | +85 |
| Pretax Profit | (126) | (146) | 872 | 557 | 49 | 153 | - | - | - | +300 |
| Tax Charges etc. | 3 | 28 | 58 | 100 | 43 | 72 | - | - | - | +43 |
| Minorities' Interests | 25 | 21 | (35) | (191) | 1 | (1) | - | - | - | (23) |
| Net Profit | (155) | (197) | 849 | 648 | 4 | 82 | - | - | - | +279 |
| Sales YoY | +21.7% | +7.1% | +3.5% | +7.8% | +17.0% | +14.2% | - | - | - | - |
| Operating Profit YoY | - | - | - | - | - | - | - | - | - | - |
| Recurring Profit YoY | - | - | - | - | - | - | - | - | - | - |
| Net Profit YoY | - | - | +432.1% | +175.4% | - | - | - | - | - | - |
| Gross Profit Margin | 8.2% | 8.5% | 8.7% | 8.8% | 11.0% | 11.0% | - | - | - | +2.5% |
| SG&A / Sales | 10.6% | 10.2% | 10.4% | 10.3% | 10.3% | 10.1% | - | - | - | (0.1%) |
| Operating Profit Margin | (2.3%) | (1.7%) | (1.7%) | (1.5%) | 0.8% | 1.0% | - | - | - | +2.7% |
| Recurring Profit Margin | (0.3%) | (0.3%) | (0.7%) | (0.4%) | 0.3% | 0.6% | - | - | - | +0.9% |
| Net Profit Margin | (1.6%) | (0.9%) | 2.8% | 1.5% | 0.0% | 0.3% | - | - | - | +1.3% |
| Tax Charges etc. / Pretax Profit | - | - | 6.7% | 18.0% | 88.0% | 46.9% | - | - | - | - |

| Income Statement | Cons.Act | Cons.Act | Cons.Act | Cons.Act | Cons.Act | Cons.Act | Cons.Act | Cons.Act | Cons.Act | YoY |
|----------------------------------|--------------|---------------|---------------|---------------|---------------|---------------|----------|----------|----------|---------------|
| (Million Yen) | Q1 | Q2 | Q3 | Q4 | Q1 | Q2 | Q3 | Q4 | | Net Chg. |
| | 03/2014 | 03/2014 | 03/2014 | 03/2014 | 03/2015 | 03/2015 | 03/2015 | 03/2015 | | |
| Sales | 9,941 | 10,881 | 10,032 | 11,050 | 11,630 | 12,156 | - | - | - | +1,275 |
| Cost of Sales | 9,122 | 9,925 | 9,137 | 10,038 | 10,349 | 10,809 | - | - | - | +884 |
| Gross Profit | 818 | 956 | 894 | 1,011 | 1,281 | 1,347 | - | - | - | +390 |
| SG&A Expenses | 1,049 | 1,071 | 1,083 | 1,121 | 1,193 | 1,197 | - | - | - | +125 |
| Operating Profit | (230) | (115) | (188) | (109) | 87 | 149 | - | - | - | +264 |
| Non Operating Balance | 201 | 75 | 28 | 162 | (57) | (32) | - | - | - | (108) |
| Recurring Profit | (29) | (39) | (160) | 53 | 29 | 117 | - | - | - | +156 |
| Extraordinary Balance | (97) | 19 | 1,179 | (368) | 19 | (12) | - | - | - | (32) |
| Pretax Profit | (126) | (19) | 1,019 | (314) | 49 | 104 | - | - | - | +124 |
| Tax Charges etc. | 3 | 25 | 29 | 42 | 43 | 28 | - | - | - | +3 |
| Minorities' Interests | 25 | (3) | (57) | (155) | 1 | (3) | - | - | - | - |
| Net Profit | (155) | (41) | 1,046 | (201) | 4 | 78 | - | - | - | +119 |
| Sales YoY | +21.7% | (3.4%) | (3.3%) | +22.0% | +17.0% | +11.7% | - | - | - | - |
| Operating Profit YoY | - | - | - | - | - | - | - | - | - | - |
| Recurring Profit YoY | - | - | - | (63.7%) | - | - | - | - | - | - |
| Net Profit YoY | - | - | - | - | - | - | - | - | - | - |
| Gross Profit Margin | 8.2% | 8.8% | 8.9% | 9.2% | 11.0% | 11.1% | - | - | - | +2.3% |
| SG&A / Sales | 10.6% | 9.8% | 10.8% | 10.1% | 10.3% | 9.9% | - | - | - | +0.0% |
| Operating Profit Margin | (2.3%) | (1.1%) | (1.9%) | (1.0%) | 0.8% | 1.2% | - | - | - | +2.3% |
| Recurring Profit Margin | (0.3%) | (0.4%) | (1.6%) | 0.5% | 0.3% | 1.0% | - | - | - | +1.3% |
| Net Profit Margin | (1.6%) | (0.4%) | 10.4% | (1.8%) | 0.0% | 0.6% | - | - | - | +1.0% |
| Tax Charges etc. / Pretax Profit | - | - | 2.9% | - | 88.0% | 27.4% | - | - | - | - |

Source: Company Data, WRJ Calculation

Segmented Information (Cumulative, Quarterly)

| Segmented Information | Cons.Act Q1 | Cons.Act Q1 to Q2 | Cons.Act Q1 to Q3 | Cons.Act Q1 to Q4 | Cons.Act Q1 | Cons.Act Q1 to Q2 | Cons.Act Q1 to Q3 | Cons.Act Q1 to Q4 | YoY |
|--|----------------|----------------------|----------------------|----------------------|----------------|----------------------|----------------------|----------------------|---------------|
| (Million Yen) | 03/2014 | 03/2014 | 03/2014 | 03/2014 | 03/2015 | 03/2015 | 03/2015 | 03/2015 | Net Chg. |
| HS Business | 2,826 | 5,859 | 8,964 | 12,067 | 3,241 | 6,608 | - | - | +748 |
| EMS Business | 7,115 | 14,963 | 21,890 | 29,838 | 8,389 | 17,179 | - | - | +2,215 |
| Sales | 9,941 | 20,823 | 30,855 | 41,905 | 11,630 | 23,787 | - | - | +2,963 |
| HS Business | (11.5%) | (10.0%) | (7.3%) | (3.7%) | +14.7% | +12.8% | - | - | - |
| EMS Business | +43.0% | +15.7% | +8.7% | +13.3% | +17.9% | +14.8% | - | - | - |
| Sales (YoY) | +21.7% | +7.1% | +3.5% | +7.8% | +17.0% | +14.2% | - | - | - |
| HS Business | 28.4% | 28.1% | 29.1% | 28.8% | 27.9% | 27.8% | - | - | - |
| EMS Business | 71.6% | 71.9% | 70.9% | 71.2% | 72.1% | 72.2% | - | - | - |
| Sales (Composition) | 100.0% | 100.0% | 100.0% | 100.0% | 100.0% | 100.0% | - | - | - |
| HS Business | (111) | (74) | (48) | (27) | (36) | (16) | - | - | +57 |
| EMS Business | (119) | (271) | (487) | (621) | 121 | 249 | - | - | +521 |
| Operating Profit (Before Elimination) | (230) | (346) | (536) | (648) | 84 | 232 | - | - | +578 |
| Elimination | - | - | 2 | 4 | 2 | 4 | - | - | +3 |
| Operating Profit | (230) | (345) | (534) | (643) | 87 | 236 | - | - | +582 |
| HS Business | - | - | - | - | - | - | - | - | - |
| EMS Business | - | - | - | - | - | - | - | - | - |
| Operating Profit (YoY) | - | - | - | - | - | - | - | - | - |
| HS Business | - | - | - | - | (43.0%) | (7.2%) | - | - | - |
| EMS Business | - | - | - | - | 143.1% | 107.2% | - | - | - |
| Operating Profit (Composition) | - | - | - | - | 100.0% | 100.0% | - | - | - |
| HS Business | (3.9%) | (1.3%) | (0.5%) | (0.2%) | (1.1%) | (0.3%) | - | - | +1.0% |
| EMS Business | (1.7%) | (1.8%) | (2.2%) | (2.1%) | 1.4% | 1.5% | - | - | +3.3% |
| HS Business | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% | - | - | +0.0% |
| Operating Profit Margin | (2.3%) | (1.7%) | (1.7%) | (1.5%) | 0.8% | 1.0% | - | - | +2.7% |

| 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 |
|--|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|---------------|
| (Million Yen) | 03/2014 | 03/2014 | 03/2014 | 03/2014 | 03/2015 | 03/2015 | 03/2015 | 03/2015 | Net Chg. |
| HS Business | 2,826 | 3,033 | 3,104 | 3,102 | 3,241 | 3,366 | - | - | +333 |
| EMS Business | 7,115 | 7,847 | 6,927 | 7,947 | 8,389 | 8,789 | - | - | +942 |
| Sales | 9,941 | 10,881 | 10,032 | 11,050 | 11,630 | 12,156 | - | - | +1,275 |
| HS Business | (11.5%) | (8.4%) | (1.7%) | +8.2% | +14.7% | +11.0% | - | - | - |
| EMS Business | +43.0% | (1.3%) | (4.0%) | +28.4% | +17.9% | +12.0% | - | - | - |
| Sales (YoY) | +21.7% | (3.4%) | (3.3%) | +22.0% | +17.0% | +11.7% | - | - | - |
| HS Business | 28.4% | 27.9% | 30.9% | 28.1% | 27.9% | 27.7% | - | - | - |
| EMS Business | 71.6% | 72.1% | 69.1% | 71.9% | 72.1% | 72.3% | - | - | - |
| Sales (Composition) | 100.0% | 100.0% | 100.0% | 100.0% | 100.0% | 100.0% | - | - | - |
| HS Business | (111) | 37 | 25 | 21 | (36) | 19 | - | - | (17) |
| EMS Business | (119) | (152) | (216) | (133) | 121 | 128 | - | - | +280 |
| Operating Profit (Before Elimination) | (230) | (115) | (190) | (112) | 84 | 148 | - | - | +263 |
| Elimination | - | - | 1 | 2 | 2 | 1 | - | - | +1 |
| Operating Profit | (230) | (115) | (188) | (109) | 87 | 149 | - | - | +264 |
| HS Business | - | (47.9%) | +339.8% | - | - | (46.8%) | - | - | - |
| EMS Business | - | - | - | - | - | - | - | - | - |
| Operating Profit (YoY) | - | - | - | - | - | - | - | - | - |
| HS Business | - | - | - | - | (43.0%) | 13.3% | - | - | - |
| EMS Business | - | - | - | - | 143.1% | 86.7% | - | - | - |
| Operating Profit (Composition) | - | - | - | - | 100.0% | 100.0% | - | - | - |
| HS Business | (3.9%) | 1.2% | 0.8% | 0.7% | (1.1%) | 0.6% | - | - | (0.6%) |
| EMS Business | (1.7%) | (1.9%) | (3.1%) | (1.7%) | 1.4% | 1.5% | - | - | +3.4% |
| HS Business | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% | - | - | +0.0% |
| Operating Profit Margin | (2.3%) | (1.1%) | (1.9%) | (1.0%) | 0.8% | 1.2% | - | - | +2.3% |

Source: Company Data, WRJ Calculation

Balance Sheet (Quarterly)

| Balance Sheet | Cons.Act | Cons.Act | Cons.Act | Cons.Act | Cons.Act | Cons.Act | Cons.Act | Cons.Act | Cons.Act | YoY |
|---|---------------|---------------|---------------|---------------|---------------|---------------|----------|----------|----------|----------------|
| (Million Yen) | Q1 | Q2 | Q3 | Q4 | Q1 | Q2 | Q3 | Q4 | | Net Chg. |
| | 03/2014 | 03/2014 | 03/2014 | 03/2014 | 03/2015 | 03/2015 | 03/2015 | 03/2015 | | |
| Cash & Deposit | 3,986 | 3,703 | 3,656 | 3,209 | 3,000 | 4,267 | - | - | | +564 |
| Accounts Receivables | 6,516 | 6,680 | 5,955 | 6,912 | 7,577 | 7,757 | - | - | | +1,076 |
| Inventory | 2,983 | 2,913 | 2,565 | 3,035 | 3,385 | 3,016 | - | - | | +102 |
| Other | 639 | 523 | 549 | 551 | 497 | 481 | - | - | | (41) |
| Current Assets | 14,126 | 13,821 | 12,727 | 13,708 | 14,460 | 15,523 | - | - | | +1,702 |
| Tangible Assets | 4,179 | 4,219 | 4,387 | 4,292 | 4,254 | 4,194 | - | - | | (24) |
| Intangible Assets | 444 | 437 | 432 | 406 | 406 | 388 | - | - | | (49) |
| Investments & Other Assets | 1,060 | 1,092 | 1,159 | 1,055 | 1,060 | 1,051 | - | - | | (40) |
| Fixed Assets | 5,684 | 5,748 | 5,979 | 5,753 | 5,721 | 5,634 | - | - | | (114) |
| Total Assets | 19,810 | 19,570 | 18,707 | 19,462 | 20,182 | 21,157 | - | - | | +1,587 |
| Accounts Payable | 3,676 | 3,744 | 2,910 | 3,934 | 3,917 | 3,615 | - | - | | (129) |
| Short Term Debt | 4,868 | 4,988 | 6,021 | 5,981 | 6,726 | 7,902 | - | - | | +2,914 |
| Corporate Bond (Less than 1 year) | 100 | 50 | 50 | - | - | - | - | - | | (50) |
| Other | 2,361 | 2,058 | 2,121 | 2,077 | 2,304 | 2,458 | - | - | | +400 |
| Current Liabilities | 11,006 | 10,841 | 11,102 | 11,994 | 12,947 | 13,976 | - | - | | +3,135 |
| Corporate Bond | - | - | - | - | - | - | - | - | | - |
| Long Term Debt | 1,542 | 1,419 | 1,395 | 1,345 | 1,210 | 1,725 | - | - | | +305 |
| Other | 691 | 703 | 713 | 738 | 727 | 712 | - | - | | +9 |
| Fixed Liabilities | 2,234 | 2,123 | 2,109 | 2,084 | 1,937 | 2,438 | - | - | | +314 |
| Total Liabilities | 13,240 | 12,964 | 13,212 | 14,078 | 14,885 | 16,415 | - | - | | +3,450 |
| Shareholders' Equity | 3,476 | 3,435 | 4,482 | 4,280 | 4,254 | 3,734 | - | - | | +298 |
| Other | 3,093 | 3,170 | 1,013 | 1,103 | 1,042 | 1,008 | - | - | | (2,161) |
| Total Assets | 6,569 | 6,605 | 5,495 | 5,384 | 5,296 | 4,742 | - | - | | (1,862) |
| Total Liabilities & net Assets | 19,810 | 19,570 | 18,707 | 19,462 | 20,182 | 21,157 | - | - | | +1,587 |
| Equity Capital | 3,695 | 3,717 | 4,699 | 4,619 | 4,551 | 4,002 | - | - | | +285 |
| Interest Bearing Debt | 6,511 | 6,458 | 7,466 | 7,327 | 7,937 | 9,628 | - | - | | +3,169 |
| Net Debt | 2,524 | 2,754 | 3,810 | 4,117 | 4,936 | 5,360 | - | - | | +2,605 |
| Equity Capital Ratio | 18.7% | 19.0% | 25.1% | 23.7% | 22.6% | 18.9% | - | - | | (0.1%) |
| Net-Debt-Equity Ratio | 72.6% | 80.2% | 85.0% | 96.2% | 116.0% | 143.6% | - | - | | +63.4% |
| ROE | (16.7%) | (10.5%) | 26.8% | 15.5% | 0.4% | 3.8% | - | - | | +14.4% |
| ROA | (0.6%) | (0.7%) | (1.6%) | (0.9%) | 0.6% | 1.4% | - | - | | +2.2% |
| Days for Inventory Turnover | 30 | 27 | 26 | 28 | 30 | 25 | - | - | | - |
| Inventory Turnover | 12.2 | 13.6 | 14.2 | 13.2 | 12.2 | 14.3 | - | - | | - |
| Quick Ratio | 95% | 96% | 87% | 84% | 82% | 86% | - | - | | - |
| Current Ratio | 128% | 127% | 115% | 114% | 112% | 111% | - | - | | - |

Source: Company Data, WRJ Calculation

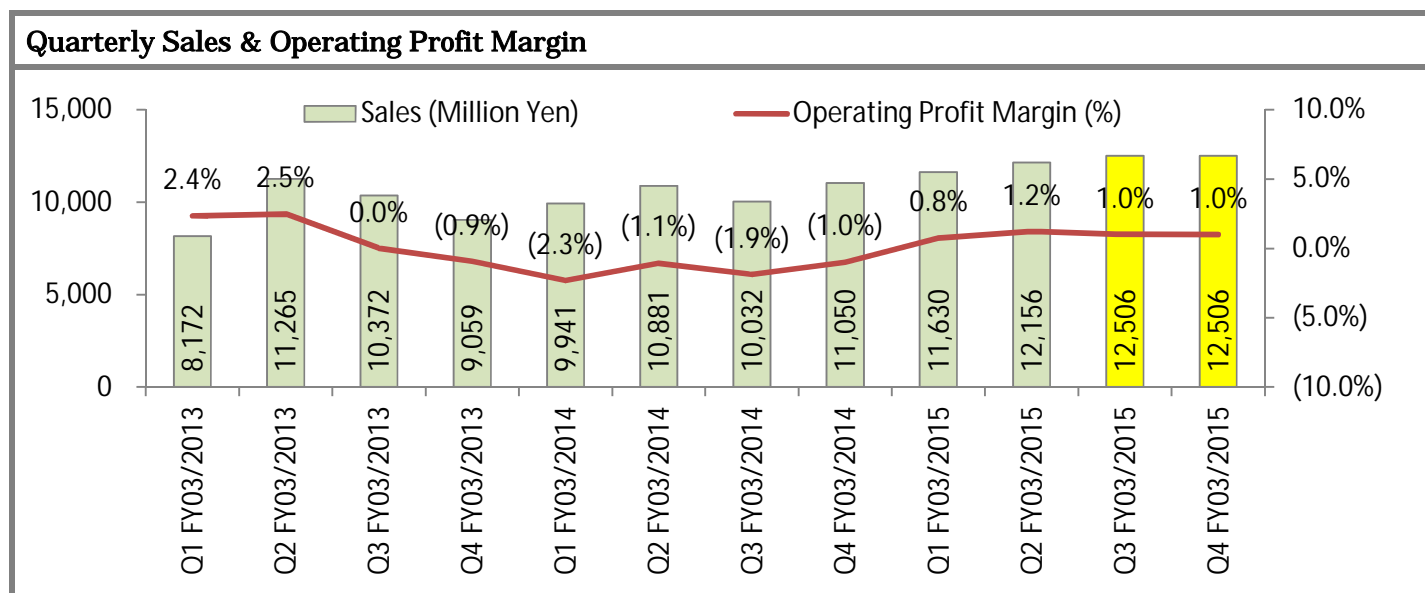
Cash flow Statement (Cumulative)

| Cash Flow Statement | Cons.Act | Cons.Act | Cons.Act | Cons.Act | Cons.Act | Cons.Act | Cons.Act | Cons.Act | Cons.Act | YoY |
|-------------------------------------|-----------|--------------|-----------|----------------|-----------|--------------|----------|----------|----------|-------------|
| (Million Yen) | Q1 | Q1 to Q2 | Q1 to Q3 | Q1 to Q4 | Q1 | Q1 to Q2 | Q1 to Q3 | Q1 to Q4 | | Net Chg. |
| | 03/2014 | 03/2014 | 03/2014 | 03/2014 | 03/2015 | 03/2015 | 03/2015 | 03/2015 | | |
| Operating Cash Flow | na | (317) | na | (464) | na | (365) | - | - | | (48) |
| Investing Cash Flow | na | (194) | na | (1,347) | na | (216) | - | - | | (21) |
| Operating CF + Investment CF | na | (512) | na | (1,812) | na | (582) | - | - | | (69) |
| Financing Cash Flow | na | 281 | na | 1,020 | na | 1,696 | - | - | | +1,414 |

Source: Company Data, WRJ Calculation

FY03/2015 Company Forecasts

Initial Company forecasts for FY03/2015 have remained unchanged, calling for prospective sales ¥48,800m (up 16.5% YoY), operating profit ¥490m (versus operating loss ¥643m over the year), recurring profit ¥510m (versus recurring loss ¥175m over the year) and net profit ¥320m (down 50.7%). Meanwhile, prospective dividend per share has also remained unchanged at ¥3.0 and no change from FY03/2014, implying payout ratio 8.7%.



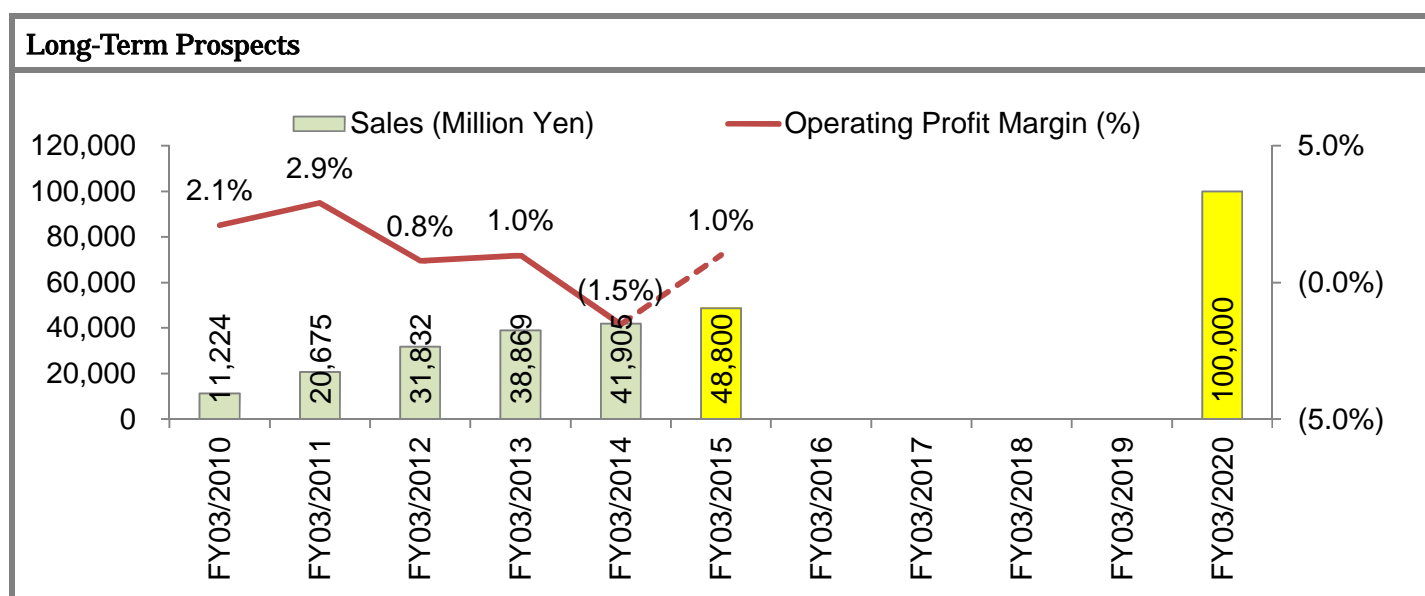
Source: Company Data, WRJ Calculation(forecasts in Q3 and Q4 FY03/2015, based on half year Company forecasts pro rata)

Given better than expected earnings in Q1 to Q2, Company forecasts in H2 are assumed to have been downgraded. In terms of operating profit, the downgrade equates to ¥107m (29.7%) to ¥253m from ¥360m. As far as we could gather, the Company needs to ascertain timing for power supply business to have purchased from Hitachi Group by TKR Corporation to obtain project, etc.

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

Long-Term Prospects

As a long-term target, the Company suggests prospective sales ¥100,000m in FY03/2020. On the EMS Business side, while it is considered to increase exposure to operations in South East Asian countries or “One” of “China Plus One”, the Company is trying to get at obtaining more deals to purchase business from leading domestic manufacturers based in Japan, as a result of progress in their reorganization, in order to beef up sales, going forward.



Source: Company Data, WRJ Calculation

On 2 July 2013, it was revealed that TKR Corporation, one of the Company’s consolidated subsidiaries, was going to purchase a part of business of a sub-subsubsidiary of Hitachi, Ltd. The said business to have been purchased comprises Power Supply Business, Transformer Business, In-Car Tuner Business and Video Board Business. All of them represent to operations incorporating important technology in the field of digital consumer electronics, while the Company obtained knowhow on developments, designing and manufacturing (assembling) for boards (modules) and units to be adopted in diverse final products in here.

On top of this, on 26 June 2014, the Company made an IR disclosure to notify that the Company entered into basic agreement to purchase General Power Supply Business (high-voltage power supply, low-voltage power supply, magnet roll, transformer, etc.) but for in-car applications from Panasonic Corporation through TKR Corporation. Meanwhile, the business transfer started up on 1 October 2014 as initially planned. The Company has been involved with power supply domain in line with purchase of business from Hitachi Group for the first time and this new deal is to further deepen own involvements with power supply domain for the Company.

To date, the Company has defined power supply and related domains as those of own key technology. For example, Panasonic Corporation is so competitive in regards to technology of high-voltage power supply (to be mainly adopted in copiers and medical equipment), and thus is estimated to command some 40% of the domestic market in Japan as the leader, as far as power supply incorporating this technology.

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

4.0 Business Model

“neo EMS”, the Business Concept

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

Image Pictures (Inside of Overseas EMS Factory)



Source: Company Data

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

Disclaimer

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

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