

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	5.0	-
FY03/2014	YoY	7.8%	-	-	175.4%	-	-	-
FY03/2015CoE	YoY	16.5%	-	-	(50.7%)	-	-	-
Consolidated Q1 to Q3 (Million Yen)		Sales	OP	RP	NP	EPS (Yen)	DPS (Yen)	BPS (Yen)
Q1 to Q3 FY03/2014		30,855	(534)	(228)	849	-	-	-
Q1 to Q3 FY03/2015		34,602	126	189	40	-	-	-
Q1 to Q3 FY03/2015	YoY	12.1%	-	-	(95.3%)	-	-	-

Source: Company Data, WRJ Calculation

1.0 Executive Summary (24 March 2015)

Returning to Profit

Nippon Manufacturing Service, heavily involved with EMS Business for major Japanese manufacturers, mainly those of consumer electronics, is to see operating balance swinging back into the black through FY03/2014 to FY03/2015. While the mainstay EMS Business has been seeing improving operating balance over the year in Q1, Q2 and Q3, the Company is to start up seeing net add-ons in sales and earnings in Q4, stemming from purchase of business from Panasonic Corporation. Sales and earnings of the business to have been purchased will be disclosed as those of Power Supply (PS) Business, which is a business segment to be newly set up. The Company suggests sales ¥3,000m to ¥4,000m and segment profit some ¥200m to be booked for this new business segment in Q4. Meanwhile, this new business segment is to generate add-ons on a full-year basis in FY03/2016. On top of this, the Company is looking to contract manufacturing in China as major growth driver for long-term earnings, which is expected to start up in the foreseeable future and demand to rise substantially after the startup. At the moment, contract manufacturing does not exist as a scheme in China, while existing scheme of worker dispatch may collapse, judging from directions of recent revisions of labor contract act in China. The Company is well prepared in offering contract manufacturing to replace worker dispatch when it does collapse.

In Q1 to Q3 FY03/2015, sales came in at ¥34,602m (up 12.1% YoY) and operating profit ¥126m (versus operating loss ¥534m over the year). On the EMS Business side, sales came in at ¥24,606m (up 12.4%) and segment profit ¥170m (versus segment loss ¥487m over the year), while sales ¥9,996m (up 11.5%) and segment loss ¥52m (versus segment loss ¥48m over the year) on the HS Business side. Thus, earnings of the Company improved over the year, all attributable to EMS Business. Although the improvements in Q3 were chronologically adjusted, the improvements over the year all through Q1 to Q3 were substantial. In regards

to operations in China where the improvements were particularly substantial, 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 projects. In Japan, progressing reorganization measures and improving contents of projects were two main positive factors. Nevertheless, sales associated with purchase of power supply business from Hitachi Group are rather delayed in line with delayed timing for the Company to acquire projects from customers, while expenses like personnel expenses have been generated as expected.

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). As far as we could gather, earnings in Q3 were below expectations, but full-year prospective operating profit is to be almost achievable, according to the Company. This is due to generations of unexpected add-ons, stemming from PS Business to be newly set up in Q4. The operations in here are those of General Power Supply Business to have been purchased from Panasonic Corporation, including highly competitive technology associated with high voltage (adopted in power supply of copiers and medical equipment) and thus net add-ons are to be impactful in terms of earnings. Meanwhile, prospective recurring profit could be exceeded due to unexpected forex profit at the non-operating level in line with yen's depreciation. In regards to prospective dividend, the Company announced, on 19 March 2015, to pay out ¥5.0 per share, implying payout ratio 14.5%, up ¥2.0 from ¥3.0, implying payout ratio 8.7%, initially expected. This is because the Company has decided to pay out commemorative dividend ¥2.0 per share, celebrating its 30th anniversary.

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2.0 Company Profile

“neo EMS”, the Business Concept

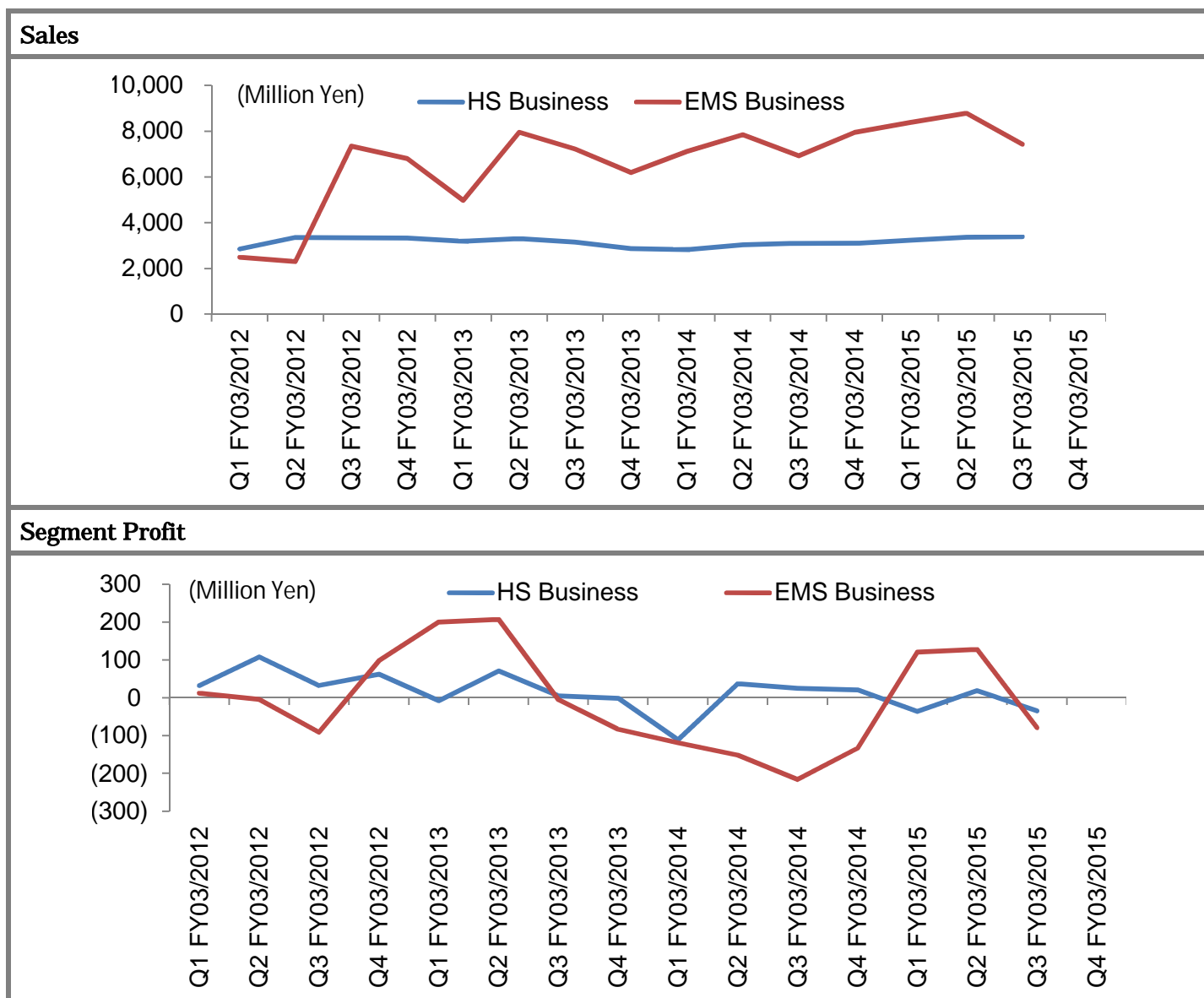
Company Name	Nippon Manufacturing Service Corporation Company Website IR Information Share Price 
Incorporation	September 1990 (inaugurated in September 1985)
Listing	25 October 2007 : Tokyo Stock Exchange JASDAQ Standard (Ticker: 2162)
Capital	¥500m (As of the end of December 2014)
No. of Shares	10,805,500 shares, including 2,008,000 treasury shares (As of the end of Dec. 2014)
Main Features	<ul style="list-style-type: none"> ● Involved with EMS Business in Japan, China and Malaysia, while HS Business (personnel business) in Japan and China ● Expectations to start up contract manufacturing in China ● Targeting to lead manufacturing-oriented outsourcing in Asia
Businesses	<ul style="list-style-type: none"> . HS (Human Solution) Business . EMS (Electronics Manufacturing Service) 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 December 2014)
Headquarters	Shinjuku-ku, Tokyo JAPAN
No. of Employees	Consolidated: 6,508, Unconsolidated: 3,432 (As of the end of December 2014)

Source: Company Data

3.0 Recent Trading & Prospects

Q1 to Q3 FY03/2015 Results

In Q1 to Q3 FY03/2015, sales came in at ¥34,602m (up 12.1% YoY), operating profit ¥126m (versus operating loss ¥534m over the year), recurring profit ¥189m (versus recurring loss ¥228m over the year) and net profit ¥40m (down 95.3% YoY). Out of full-year prospective figures, the Company achieved 70.9% in sales, 25.7% in operating profit, 37.1% in recurring profit and 12.5% in net profit, suggesting the progress rates are disappointing in terms of earnings.

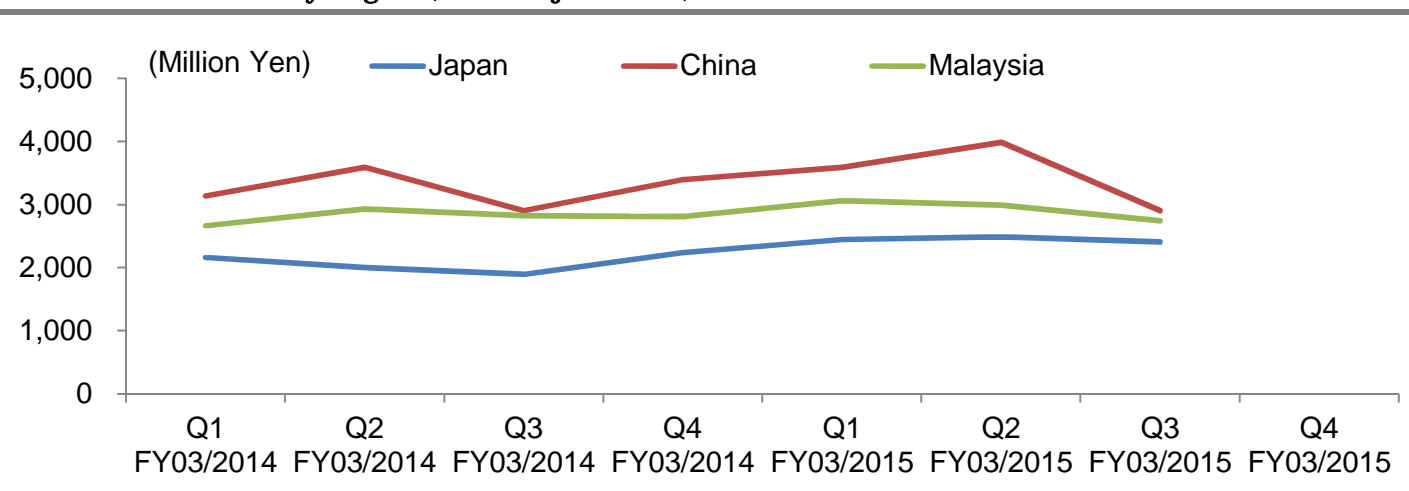


Source: Company Data,

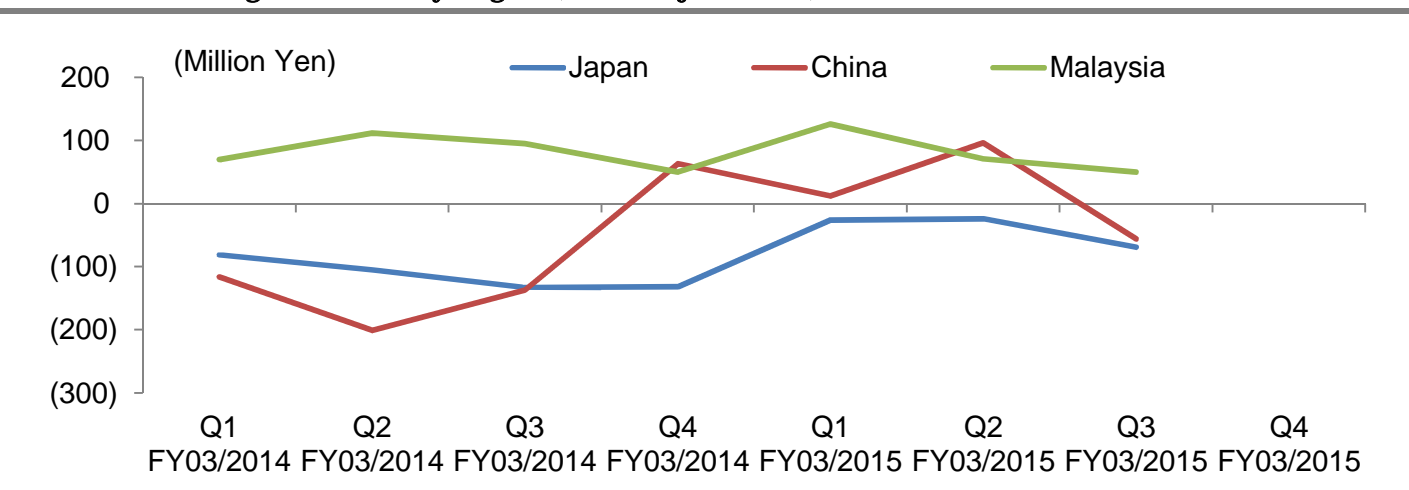
In H1 (Q1 to Q2), prospective sales were almost achieved, while earnings were far better than expected. In terms of operating profit, the Company saw operating profit ¥236m, exceeding ¥106m (81.5%) compared with ¥130m in Company forecasts.

Meanwhile, earnings of the Company were adjusted in Q3 and this was in line with adjustments on the EMS Business side, having driven earnings as a whole for the Company overwhelmingly. By region, the Company saw chronological adjustments, across the board, in Japan, China and Malaysia, while those of China were most substantial.

EMS Business: Sales by Region (before adjustments)



EMS Business: Segment Profit by Region (before adjustments)



Source: Company Data

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%). In Q1 to Q3, the former benefited from improving earnings in China to a large extent, while the latter appears to have made loss as sales were not buoyant enough to fully compensate for increasing expenses, for example, those of personnel expenses to have stemmed from 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 shareholding ratio up to 87.0% from 53.0% at the merger, in line with additional share procurement made in November 2013. According to the Company, this additional share procurement is now starting to contribute to quick decision-making, etc. on the EMS Business side which is the key driver for overall earnings 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 business license for “on-premises contract manufacturing” in Vietnam as the first Japanese company. On top of this, in December 2010, the Company obtained business license for worker dispatch in China as the first Japanese company, 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, in Japan, while running some overseas manufacturing facilities as well. However, it was the case that TKR Corporation was lacking in marketing capability, etc. as in Shima Electronic Industry Co., Ltd.

Due mainly to this problem, both were seeing unfavorable business performance, while the Company, having acquired their shares at prices lower than their net asset values, immediately wrote off negative goodwill to have been generated for each deal and then pursued synergy by means of applying own marketing capability, etc.

As a result, the Company saw substantial improvements on the EMS Business side in FY03/2013, having generated add-ons 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 segment profit ¥320m (versus ¥14m over the year) on the EMS Business side, having accounted for 67.7% of sales and 82.8% of segment profit out of the Company as a whole. This business became overwhelming earnings source for the Company.

Nevertheless, EMS Business almost collapsed in the following year, i.e., FY03/2014. Although sales came in at ¥29,838m from ¥26,333 in FY03/2013, having risen 13.3% due mainly to yen's depreciation, but segment loss ¥621m from segment profit ¥320m, having come down ¥941m. By region, the Company saw segment loss ¥451m from segment profit ¥5m in Japan, having come down ¥456m, segment loss ¥391m from segment profit ¥59m, having come down ¥450m in China and segment profit ¥327m from segment profit ¥238m, having come down ¥89m in Malaysia.

In regards to the net decreases ¥456m in segment profit/loss 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 personnel expenses, etc. from here did incur as initially planned. In regards to the net decreases ¥450m in segment profit/loss 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). Meanwhile, earnings have recovered in FY03/2015, as discussed.

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, due to future progresses in enhancement of overseas personnel business in China, etc. In particular, the Company is looking to startup and increasing demand to be followed for contract manufacturing in China.

HS Business represents comprehensive operations, comprising ex-IS Business (worker dispatch and contract manufacturing in Japan and China), ex-CS Business (repair services mainly for game consoles and mobile phones) and ex-GE Business (engineer dispatch). In Q1 to Q3, sales came down sharply in ex-CS Business in line with lowering demand, having resulted in earnings adjusted over the year and thus HS Business as a whole as well.

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. 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. The shareholding ratio by Ono had 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, it has been revealed that the shareholding ratio by Ono has remained unchanged at 16.6% as of the end of Q3.

Changes of Shareholding Ratio by Major Shareholders		
Holding Ratio out of The Number of Shares Outstanding (%)	FY03/2014 (End of Q4)	FY03/2015 (End 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,

Meanwhile, the Company purchased own shares from aforementioned two funds run by JAFCO Co., Ltd.,(collective shareholding ratio 37.3% as of the end of FY03/2014), 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 and thus collectively 26.4%. To date, JAFCO Co., Ltd. has sold all the remaining shares equating to 10.9% of the shares outstanding in the stock market, etc.

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	03/2015	
Sales	9,941	20,823	30,855	41,905	11,630	23,787	34,602	-	-	+3,747
Cost of Sales	9,122	19,047	28,185	38,223	10,349	21,158	30,846	-	-	+2,660
Gross Profit	818	1,775	2,670	3,682	1,281	2,628	3,756	-	-	+1,086
SG&A Expenses	1,049	2,121	3,204	4,326	1,193	2,391	3,630	-	-	+425
Operating Profit	(230)	(345)	(534)	(643)	87	236	126	-	-	+660
Non Operating Balance	201	277	305	468	(57)	(90)	63	-	-	(242)
Recurring Profit	(29)	(68)	(228)	(175)	29	146	189	-	-	+418
Extraordinary Balance	(97)	(78)	1,101	733	19	6	(8)	-	-	(1,110)
Pretax Profit	(126)	(146)	872	557	49	153	180	-	-	(691)
Tax Charges, etc.	3	28	58	100	43	72	145	-	-	+87
Minorities' Interests	25	21	(35)	(191)	1	(1)	(5)	-	-	+30
Net Profit	(155)	(197)	849	648	4	82	40	-	-	(809)
Sales YoY	+21.7%	+7.1%	+3.5%	+7.8%	+17.0%	+14.2%	+12.1%	-	-	-
Operating Profit YoY	-	-	-	-	-	-	-	-	-	-
Recurring Profit YoY	-	-	-	-	-	-	-	-	-	-
Net Profit YoY	-	-	+432.1%	+175.4%	-	-	(95.3%)	-	-	-
Gross Profit Margin	8.2%	8.5%	8.7%	8.8%	11.0%	11.0%	10.9%	-	-	+2.2%
SG&A / Sales	10.6%	10.2%	10.4%	10.3%	10.3%	10.1%	10.5%	-	-	+0.1%
Operating Profit Margin	(2.3%)	(1.7%)	(1.7%)	(1.5%)	0.8%	1.0%	0.4%	-	-	+2.1%
Recurring Profit Margin	(0.3%)	(0.3%)	(0.7%)	(0.4%)	0.3%	0.6%	0.5%	-	-	+1.3%
Net Profit Margin	(1.6%)	(0.9%)	2.8%	1.5%	0.0%	0.3%	0.1%	-	-	(2.6%)
Tax Charges, etc. / Pretax Profit	-	-	6.7%	18.0%	88.0%	46.9%	80.9%	-	-	+74.2%

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	03/2015	
Sales	9,941	10,881	10,032	11,050	11,630	12,156	10,815	-	-	+783
Cost of Sales	9,122	9,925	9,137	10,038	10,349	10,809	9,687	-	-	+549
Gross Profit	818	956	894	1,011	1,281	1,347	1,128	-	-	+233
SG&A Expenses	1,049	1,071	1,083	1,121	1,193	1,197	1,239	-	-	+155
Operating Profit	(230)	(115)	(188)	(109)	87	149	(110)	-	-	+78
Non Operating Balance	201	75	28	162	(57)	(32)	153	-	-	+124
Recurring Profit	(29)	(39)	(160)	53	29	117	42	-	-	+203
Extraordinary Balance	(97)	19	1,179	(368)	19	(12)	(15)	-	-	(1,195)
Pretax Profit	(126)	(19)	1,019	(314)	49	104	26	-	-	(992)
Tax Charges, etc.	3	25	29	42	43	28	73	-	-	+43
Minorities' Interests	25	(3)	(57)	(155)	1	(3)	(4)	-	-	+53
Net Profit	(155)	(41)	1,046	(201)	4	78	(42)	-	-	(1,089)
Sales YoY	+21.7%	(3.4%)	(3.3%)	+22.0%	+17.0%	+11.7%	+7.8%	-	-	-
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%	10.4%	-	-	+1.5%
SG&A / Sales	10.6%	9.8%	10.8%	10.1%	10.3%	9.9%	11.5%	-	-	+0.7%
Operating Profit Margin	(2.3%)	(1.1%)	(1.9%)	(1.0%)	0.8%	1.2%	(1.0%)	-	-	+0.9%
Recurring Profit Margin	(0.3%)	(0.4%)	(1.6%)	0.5%	0.3%	1.0%	0.4%	-	-	+2.0%
Net Profit Margin	(1.6%)	(0.4%)	10.4%	(1.8%)	0.0%	0.6%	(0.4%)	-	-	(10.8%)
Tax Charges, etc. / Pretax Profit	-	-	2.9%	-	88.0%	27.4%	275.8%	-	-	+272.9%

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)	03/2014	03/2014	03/2014	03/2014	03/2015	03/2015	03/2015	03/2015	
HS Business	2,826	5,859	8,964	12,067	3,241	6,608	9,996	-	+1,031
EMS Business	7,115	14,963	21,890	29,838	8,389	17,179	24,606	-	+2,715
Sales	9,941	20,823	30,855	41,905	11,630	23,787	34,602	-	+3,747
HS Business	(11.5%)	(10.0%)	(7.3%)	(3.7%)	+14.7%	+12.8%	+11.5%	-	-
EMS Business	+43.0%	+15.7%	+8.7%	+13.3%	+17.9%	+14.8%	+12.4%	-	-
Sales (YoY)	+21.7%	+7.1%	+3.5%	+7.8%	+17.0%	+14.2%	+12.1%	-	-
HS Business	28.4%	28.1%	29.1%	28.8%	27.9%	27.8%	28.9%	-	-
EMS Business	71.6%	71.9%	70.9%	71.2%	72.1%	72.2%	71.1%	-	-
Sales (Composition)	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	-	-
HS Business	(111)	(74)	(48)	(27)	(36)	(16)	(52)	-	(3)
EMS Business	(119)	(271)	(487)	(621)	121	249	170	-	+658
Segment Profit	(230)	(346)	(536)	(648)	84	232	118	-	+654
Adjustments	-	-	2	4	2	4	7	-	+5
Operating Profit	(230)	(345)	(534)	(643)	87	236	126	-	+660
HS Business	-	-	-	-	-	-	-	-	-
EMS Business	-	-	-	-	-	-	-	-	-
Segment Profit (YoY)	-	-	-	-	-	-	-	-	-
HS Business	-	-	-	-	(43.0%)	(7.2%)	(44.1%)	-	-
EMS Business	-	-	-	-	143.1%	107.2%	144.1%	-	-
Segment Profit (Composition)	-	-	-	-	100.0%	100.0%	100.0%	-	-

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)	03/2014	03/2014	03/2014	03/2014	03/2015	03/2015	03/2015	03/2015	
HS Business	2,826	3,033	3,104	3,102	3,241	3,366	3,387	-	+283
EMS Business	7,115	7,847	6,927	7,947	8,389	8,789	7,427	-	+499
Sales	9,941	10,881	10,032	11,050	11,630	12,156	10,815	-	+783
HS Business	(11.5%)	(8.4%)	(1.7%)	+8.2%	+14.7%	+11.0%	+9.1%	-	-
EMS Business	+43.0%	(1.3%)	(4.0%)	+28.4%	+17.9%	+12.0%	+7.2%	-	-
Sales (YoY)	+21.7%	(3.4%)	(3.3%)	+22.0%	+17.0%	+11.7%	+7.8%	-	-
HS Business	28.4%	27.9%	30.9%	28.1%	27.9%	27.7%	31.3%	-	-
EMS Business	71.6%	72.1%	69.1%	71.9%	72.1%	72.3%	68.7%	-	-
Sales (Composition)	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	-	-
HS Business	(111)	37	25	21	(36)	19	(35)	-	(60)
EMS Business	(119)	(152)	(216)	(133)	121	128	(79)	-	+136
Segment Profit	(230)	(115)	(190)	(112)	84	148	(114)	-	+76
Adjustments	-	-	1	2	2	1	3	-	+2
Operating Profit	(230)	(115)	(188)	(109)	87	149	(110)	-	+78
HS Business	-	(47.9%)	+339.8%	-	-	(46.8%)	-	-	-
EMS Business	-	-	-	-	-	-	-	-	-
Segment Profit (YoY)	-	-	-	-	-	-	-	-	-
HS Business	-	-	-	-	(43.0%)	13.3%	-	-	-
EMS Business	-	-	-	-	143.1%	86.7%	-	-	-
Segment Profit (Composition)	-	-	-	-	100.0%	100.0%	-	-	-

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		
	03/2014	03/2014	03/2014	03/2014	03/2015	03/2015	03/2015	03/2015	03/2015	Net Chg.
Cash & Deposit	3,986	3,703	3,656	3,209	3,000	4,267	5,681	-	-	+2,024
Accounts Receivables	6,516	6,680	5,955	6,912	7,577	7,757	7,231	-	-	+1,276
Inventory	2,983	2,913	2,565	3,035	3,385	3,016	3,295	-	-	+729
Other	639	523	549	551	497	481	685	-	-	+135
Current Assets	14,126	13,821	12,727	13,708	14,460	15,523	16,893	-	-	+4,165
Tangible Assets	4,179	4,219	4,387	4,292	4,254	4,194	4,199	-	-	(187)
Intangible Assets	444	437	432	406	406	388	386	-	-	(45)
Investments & Other Assets	1,060	1,092	1,159	1,055	1,060	1,051	1,146	-	-	(12)
Fixed Assets	5,684	5,748	5,979	5,753	5,721	5,634	5,733	-	-	(245)
Total Assets	19,810	19,570	18,707	19,462	20,182	21,157	22,626	-	-	+3,919
Accounts Payables	3,676	3,744	2,910	3,934	3,917	3,615	3,312	-	-	+402
Short Term Debt	4,868	4,988	6,021	5,981	6,726	7,902	8,411	-	-	+2,390
Corporate Bond (Less than 1 year)	100	50	50	-	-	-	-	-	-	(50)
Other	2,361	2,058	2,121	2,077	2,304	2,458	2,836	-	-	+715
Current Liabilities	11,006	10,841	11,102	11,994	12,947	13,976	14,560	-	-	+3,457
Long Term Debt	1,542	1,419	1,395	1,345	1,210	1,725	2,458	-	-	+1,062
Other	691	703	713	738	727	712	715	-	-	+2
Fixed Liabilities	2,234	2,123	2,109	2,084	1,937	2,438	3,174	-	-	+1,064
Total Liabilities	13,240	12,964	13,212	14,078	14,885	16,415	17,734	-	-	+4,522
Shareholders' Equity	3,476	3,435	4,482	4,280	4,254	3,734	3,691	-	-	(790)
Other	3,093	3,170	1,013	1,103	1,042	1,008	1,200	-	-	+187
Total Assets	6,569	6,605	5,495	5,384	5,296	4,742	4,892	-	-	(603)
Total Liabilities & net Assets	19,810	19,570	18,707	19,462	20,182	21,157	22,626	-	-	+3,919
Equity Capital	3,695	3,717	4,699	4,619	4,551	4,002	4,139	-	-	(560)
Interest Bearing Debt	6,511	6,458	7,466	7,327	7,937	9,628	10,869	-	-	+3,402
Net Debt	2,524	2,754	3,810	4,117	4,936	5,360	5,188	-	-	+1,378
Equity Capital Ratio	18.7%	19.0%	25.1%	23.7%	22.6%	18.9%	18.3%	-	-	(6.8%)
Net-Debt-Equity Ratio	72.6%	80.2%	85.0%	96.2%	116.0%	143.6%	140.6%	-	-	+55.5%
ROE (12 months)	(0.8%)	(4.5%)	22.6%	15.5%	19.6%	24.1%	(3.6%)	-	-	(26.3%)
ROA (12 months)	1.5%	0.2%	(0.4%)	(0.9%)	(0.6%)	0.2%	1.2%	-	-	+1.6%
Days for Inventory Turnover	30	27	26	28	30	25	31	-	-	-
Inventory Turnover	12.2	13.6	14.2	13.2	12.2	14.3	11.8	-	-	-
Quick Ratio	95%	96%	87%	84%	82%	86%	89%	-	-	-
Current Ratio	128%	127%	115%	114%	112%	111%	116%	-	-	-

Source: Company Data, WRJ Calculation

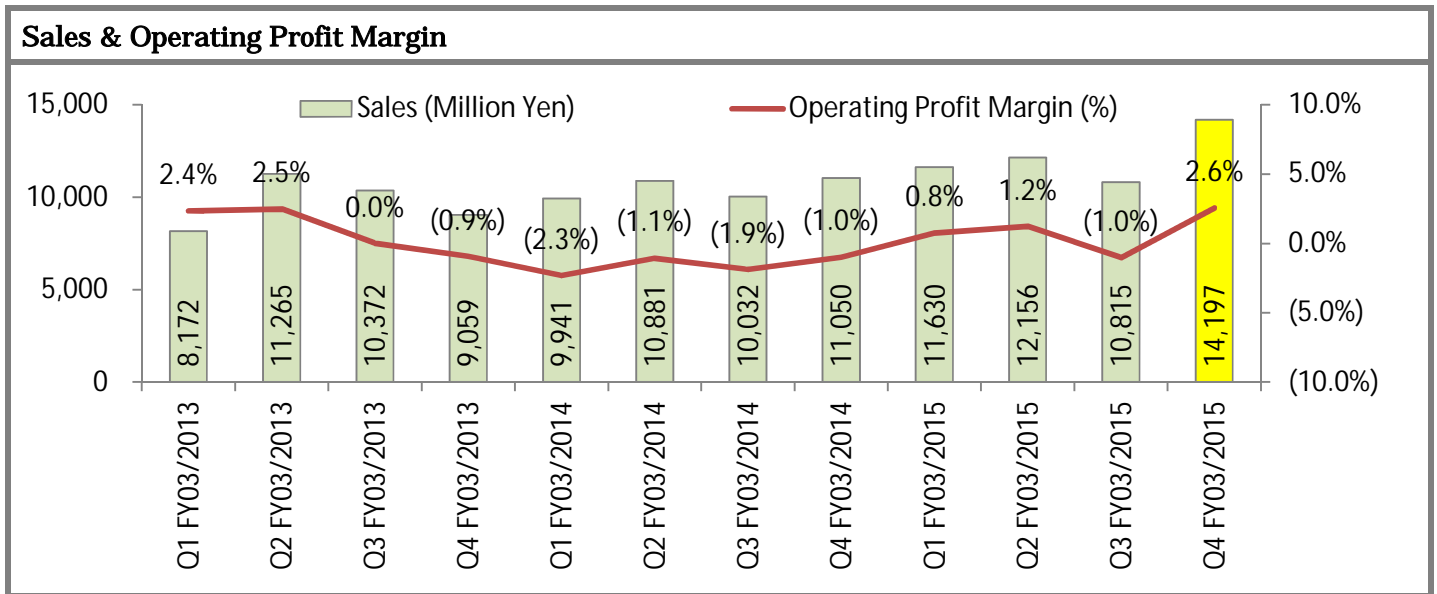
Cash flow Statement (Cumulative)

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		
	03/2014	03/2014	03/2014	03/2014	03/2015	03/2015	03/2015	03/2015	03/2015	Net Chg.
Operating Cash Flow	na	(317)	na	(464)	na	(365)	na	-	-	-
Investing Cash Flow	na	(194)	na	(1,347)	na	(216)	na	-	-	-
Operating CF + Investment CF	na	(512)	na	(1,812)	na	(582)	na	-	-	-
Financing Cash Flow	na	281	na	1,020	na	1,696	na	-	-	-

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%). In regards to prospective dividend, the Company announced, on 19 March 2015, to pay out ¥5.0 per share, implying payout ratio 14.5%, up ¥2.0 from ¥3.0, implying payout ratio 8.7%, initially expected. This is because the Company has decided to pay out commemorative dividend ¥2.0 per share, celebrating its 30th anniversary.



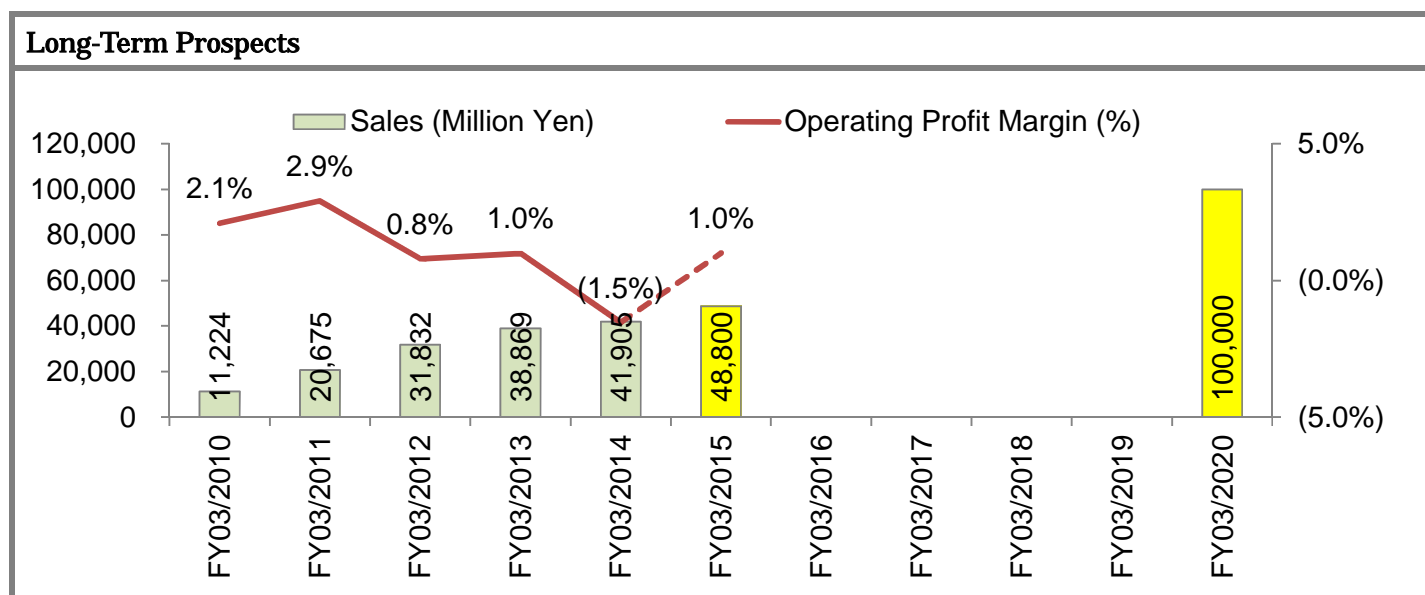
Source: Company Data, WRJ Calculation

When based on above-mentioned full-year Company forecasts and Q1 to Q3 results worse than expectations, it is the case that sales are to chronologically rise sharply in Q4 as well as operating profit margin. This has a lot to do with unexpected add-ons due to advent of PS Business, i.e., business segment to be newly set up where sales ¥3,000m to ¥4,000m and segment profit some ¥200m are to be booked, as discussed.

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 gains from negative goodwill write-off ¥1,093m stemming from additional procurement of TKR Corporation shares. Both of them are not to reappear in the assumptions of FY03/2015 Company forecasts. However, the negative impacts on the forex side in here will be smaller, as yen gets further depreciated.

Long-Term Prospects

As a long-term target, the Company suggests prospective sales ¥100,000m in FY03/2020. Starting in FY03/2016, the Company is to benefit from add-ons of PS Business on a full-year basis, while progresses in overseas personnel business are to be made with a major anticipation for contract manufacturing in China. In regards to PS Business, the Company suggests profit margin far above that of existing operations as a whole, likely being a factor to improve sales mix and thus prospective operating profit margin for the Company.



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 sub-subsidiary 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 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.

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 those of in-car applications from Panasonic Corporation through TKR Corporation. Meanwhile, the business transfer started up on 1 October 2014 as initially planned.

In regards to sales and earnings of above-mentioned business, it is planned to be disclosed as those of PS Business which is a business segment to be newly set up in Q4 FY03/2015. The Company is going for high profit margin in here as the deal includes technology of high-voltage power supply (mainly adopted in copiers and medical equipment), which is highly competitive. As far as power supply adopting this technology is concerned, Panasonic Corporation used to command some 40% of the domestic market in Japan as the leader.

4.0 Business Model

“neo EMS”, the Business Concept

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

Image Pictures (Inside of Overseas EMS Factory)



Source: Company Data

In FY03/2014, sales associated with electrical & electronics accounted for more than 80% of sales of the Company, by customer category, comprising electrical machine 71%, electronic components & devices 6%, precision machinery 2% and telecom equipment 2%. On top of this, the Company was exposed to rubber, plastic and chemicals 7% as well as to other customer categories 12%. Meanwhile, the contents of business in the top 10 customers, having accounted for collective 48% of sales of the Company, suggest that major final products to be dealt with by 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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