

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 | 31.3 | 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 FY03/2015CoE | | 24,000 | 130 | 115 | 45 | - | - | - |
| Q3 to Q4 FY03/2015CoE | | 24,800 | 360 | 395 | 275 | - | - | - |
| Q1 to Q2 FY03/2015CoE | YoY | 15.3% | - | - | - | - | - | - |
| Q3 to Q4 FY03/2015CoE | YoY | 17.6% | - | - | (67.5%) | - | - | - |

Source: Company Data, WRJ Calculation

1.0 Executive Summary (27 June 2014)

V-Shaped Recovery at Operating Level

Nippon Manufacturing Service, heavily involved with EMS Business for major Japanese manufacturers, mainly those of consumer electronics, is on the verge of seeing V-shaped recovery at operating level. Compared with operating loss ¥643m in FY03/2014, the Company is going for operating profit ¥490m in FY03/2015. Thus, the net improvements at the operating level are to be ¥1,133m, out of which more than 80% is accounted for by the mainstay EMS Business. While the operations in China are to move into profit from substantial loss in FY03/2014 due mainly to one-off negative factors, the domestic operations in Japan are to see substantially decreasing loss over the year. In regards to the former, disadvantageous setting of forex rates with some customers, deterioration of labor productivity due to personnel adjustments and increasing volume of unprofitable products are all not to reappear two years in a row, significantly contributing to the improvements over the year. Meanwhile, increasing benefits from acquisition of businesses from Hitachi Group will contribute to both the former and the latter. Going forward, the Company is to benefit from another acquisition of businesses from Panasonic Group in FY03/2016 (the deal to do so was signed up yesterday, i.e., 26 June 2014), just like the case of Hitachi Group. On top of this, the Company is looking to high growth potentials for its human resources business in China in a long-term view.

In FY03/2014, sales came in at ¥41,905m (up 7.8% YoY) and operating loss ¥643m (versus operating profit ¥387m in the previous year). In regards to the mainstay EMS Business, sales came in at ¥29,838m (up 13.3%) and operating loss ¥621m (operating profit ¥320m), having accounted for almost all of the net decreases in operating balance with the Company. In this business segment, yen's weakness was a major


driving force for sales. Sales in Japan came down due mainly to an issue that the Company failed to acquire new projects to compensate for the loss of volume by projects terminated, while sales in China and Malaysia, driven by yen's weakness, increased as much as more than compensating for the adjustments in Japan. In terms of earnings, the operations in Malaysia saw steady increases in operating profit, but those in Japan and China tumbled to massive operating loss. In Japan, on top of above-stated sluggishness in sales, expenses associated with acquisition of businesses from Hitachi Group have been generated while sales stemming from here were delayed. In China, all those above-stated one-off negative factors directly impacted to short-term operating balance.

In FY03/2015, Company forecasts are going for prospective sales ¥48,800m (up 16.5% YoY) and operating profit ¥490m (versus operating loss ¥643m in the previous year). In regards to the mainstay EMS Business, prospective sales are ¥34,280m (up 14.9%), operating profit ¥340m (operating loss ¥621m) and thus accounting for more than 80% of the turnaround of operating balance as mentioned earlier. In this business segment, the key positive factor comes from net sales increases in Japan and China, stemming from acquisition of businesses from Hitachi Group. Meanwhile, earnings in Malaysia are to further rise, due to ongoing volume increases. On top of all those increases in sales, the Company is to benefit from that all those one-off negative factors associated with operations in China are to be gone, eventually enabling this business segment turn into profit at the operating level. In regards to human resources business, comprising IS Business (domestic and overseas), CS Business and GE Business, the Company goes for improving operating balance across the board.

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2.0 Company Profile

“neo EMS”, the Business Concept

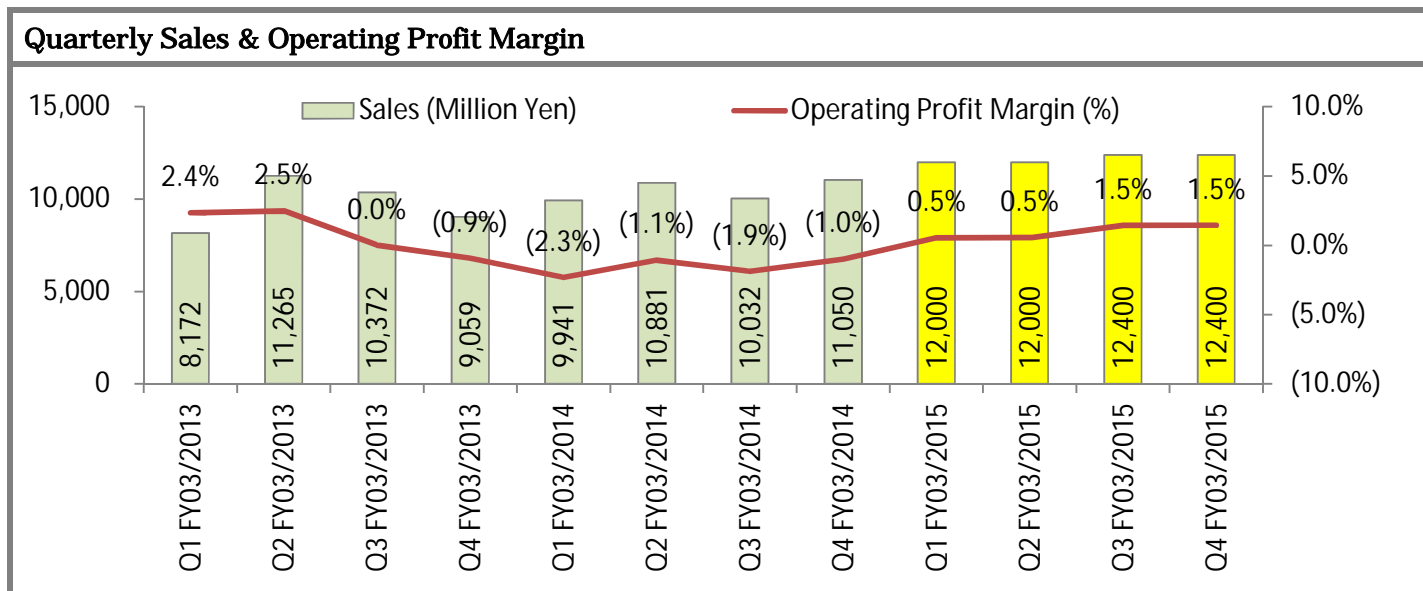
| | |
|-------------------------|--|
| Company Name | Nippon Manufacturing Service Corporation Company Website IR Information Share Price  |
| Established | 18 September 1985 |
| Listing | 25 October 2007 (Tokyo Stock Exchange JASDAQ Standard: 2162) |
| Capital | ¥500m (As of the end of March 2014) |
| No. of Shares | 10,805,500 shares, including 581,500 treasury shares (As of the end of March 2014) |
| Main Features | <ul style="list-style-type: none">● EMS & human resources business in Japan, China and Malaysia● To benefit from reorganization by domestic manufacturers in Japan● Targeting to lead manufacturing-oriented outsourcing in Asia |
| Businesses | <ul style="list-style-type: none">. In-Line Solutions (IS) Business. Customer Service (CS) Business. Global Engineering (GE) Business. Electronics Manufacturing Service (EMS) Business |
| Top Management | President & CEO: Fumiaki Ono |
| Shareholders | JAFECO Buyout No.2 Investment Limited Partnership 35.8%, Fumiaki Ono 16.8% (As of the end of March 2014) |
| Headquarters | Shinjuku-ku, Tokyo JAPAN |
| No. of Employees | Consolidated: 6,319, Unconsolidated :3,251 (As of the end of March 2014) |

Source: Company Data

3.0 Recent Trading & Prospects

FY03/2014 Results

In FY03/2014, sales came in at ¥41,905m (up 7.8% YoY), operating loss ¥643m (versus operating profit ¥387m in the previous year), recurring loss ¥175m (recurring profit ¥564m) and net profit ¥648m (up 175.4%). The results were worse than initially expected by ¥3,095m (6.9%) in sales and by ¥1,463m in operating balance. The substantial shortfalls in operating balance basically came from those of the mainstay EMS Business. Meanwhile, the Company saw chronological improvements for operating balance on a quarterly basis towards Q4, which was also basically attributable to those of the mainstay EMS Business.



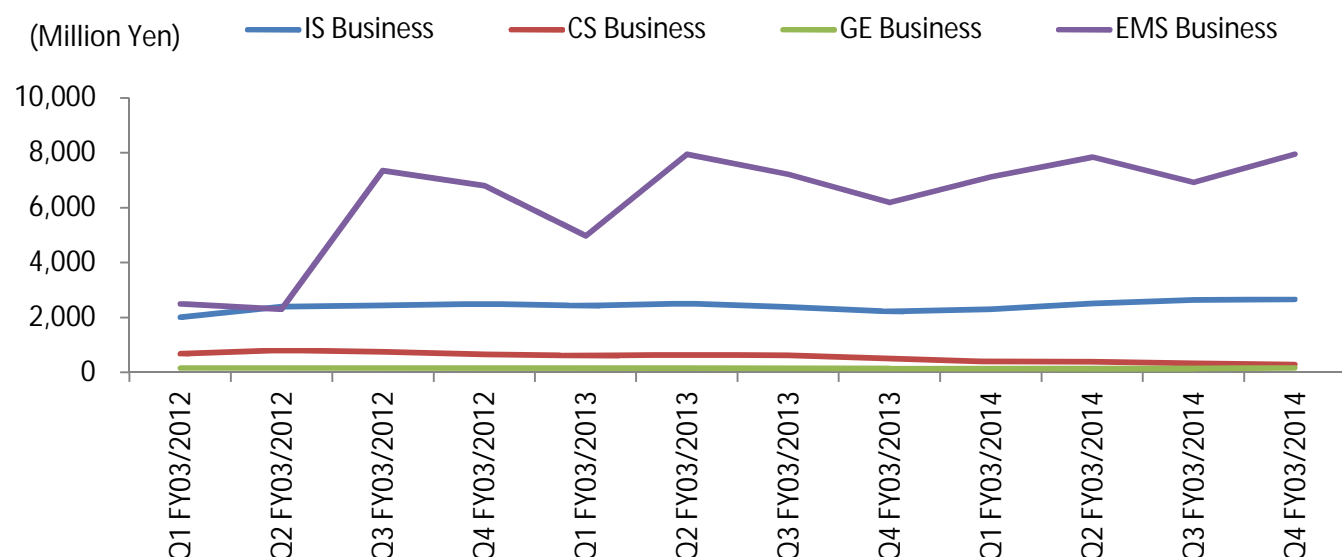
Source: Company Data, WRJ Calculation (Quarterly forecasts in FY03/2015, based on half year Company forecasts pro rata)

Meanwhile, the Company saw net add-ons ¥469m and ¥736m, respectively, at non-operating level and at extraordinary level. The former was mainly attributable to forex profit ¥359m and the latter to negative goodwill write-off ¥1,093m, booked as extraordinary profit, stemming from additional procurement of TKR Corporation shares. Together with another consolidated subsidiary Shima Electronic Industry Co., Ltd., TKR Corporation is in charge of the Company's operations in EMS Business. While the Company has been holding 100% of the shares in regards to the former, the deal this time increased the ratio up to 87.01% from 53.01% in regards to the latter. According to the Company, the deal this time should strengthen the overall management of EMS Business, the key determinant for the overall business performance with the Company, e.g., by promoting faster decision-making, etc.

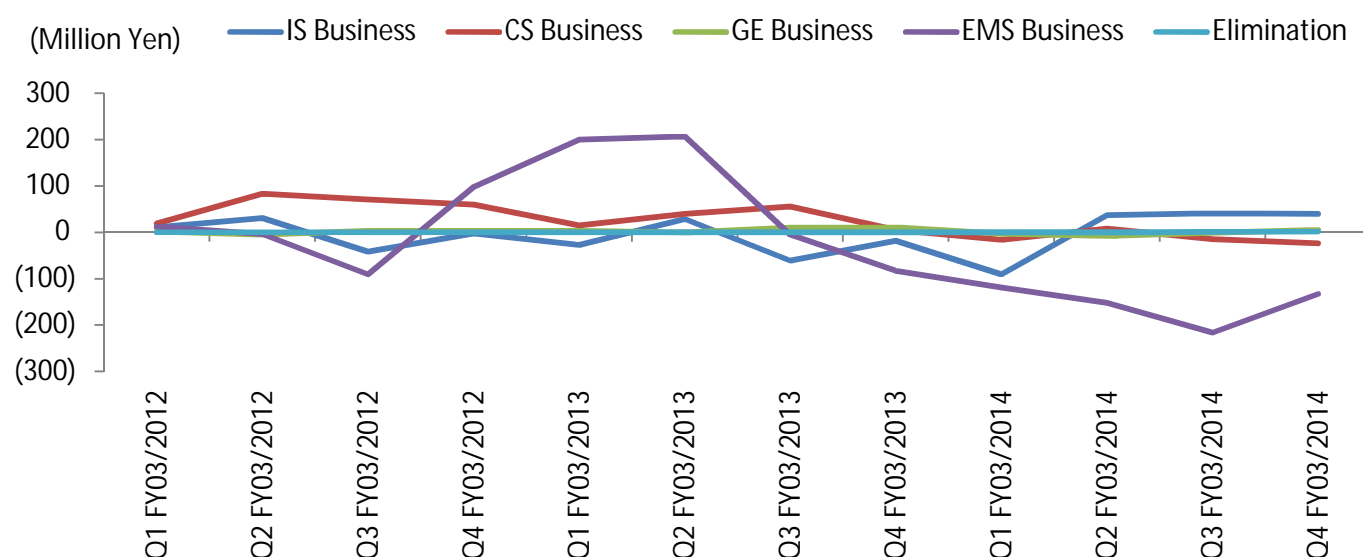
In regards to mainstay EMS Business, sales came in at ¥29,838m (up 13.3%) and operating loss ¥621m (versus operating profit ¥320m in the previous year). Meanwhile, remainders were accounted for by human resources business, comprising IS Business (domestic and overseas), CS Business and GE Business, where, collectively, sales came in at ¥12,067m (down 3.7%) and operating loss ¥27m (operating profit ¥67m in the previous year). Operating loss ¥643m with the Company comprised all those operating balances and elimination ¥4m.

By region, the mainstay EMS Business performed through FY03/2013 to FY03/2014 as follows: operating profit ¥5m to operating loss ¥451m in Japan, operating profit ¥59m to operating loss ¥391m in China and operating profit ¥238m to operating profit ¥327m in Malaysia, while operating profit ¥320m to operating loss ¥621m for this business segment as a whole, after adjusting for elimination negative ¥18m to positive ¥106m for changes during the same period.

Sales by Business Segment (on a Quarterly Basis)



Operating Balance by Segment (on a Quarterly Basis)



Source: Company Data,

In EMS Business, operating balance in China came down ¥450m over the year, which was largely attributable to one-off negative factors, comprising disadvantageous setting of forex rates with some customers, deterioration of labor productivity due to personnel adjustments and increasing volume of unprofitable products, equating to collective ¥320m, according to the Company and ¥145m, ¥70m and ¥105m, respectively. Meanwhile, all of them are to be gone in FY03/2015.

As stated above, business performance of the Company is to heavily hinge on that of the mainstay EMS Business. In July 2010, the Company started up its involvements with EMS Business, having merged with Shima Electronic Industry Co., Ltd. that was running manufacturing facilities in China, Malaysia, etc. Roughly at the same time, the Company obtained a business license for “on-premises production contract” in Vietnam as the first Japanese company in there. On top of this, in December 2010, the Company obtained a business license for production 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 refers to “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. While TKR Corporation was involved with designing & manufacturing for dies and molds, press processing, modules assembly including substrates mounting and ODM/OEM operations together with own advantageous capability for designing and developments, it was running overseas manufacturing facilities as well. However, it was the case that TKR Corporation was lacking in marketing capability, etc. as in Shima Electronic Industry Co., Ltd. Due mainly to this problem, both were seeing unfavorable business performance, while the Company, having acquired their shares at prices lower than their net assets 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 in EMS Business in FY03/2013, having contributed to sales and earnings with 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 in the previous year) for EMS Business, having accounted for 67.7% of sales and 82.8% of operating profit (before elimination) out of the Company as a whole or having become the overwhelming earnings source for the Company. Nevertheless, EMS Business almost collapsed in the following year, i.e., FY03/2014, as discussed earlier.

On the other hand, human resources business had rather limited impacts to overall business performance with the Company, when compared with EMS Business. Compared with operating profit ¥320m to operating loss ¥621m for EMS Business through FY03/2013 to FY03/2014, human resources business saw changes nothing but operating profit ¥67m to operating loss ¥27m, collectively.

Sales of CS Business to provide repair services mainly for game consoles and mobile phones came down in line with the decreasing volume of final products to be supplied with the services, having brought the major negative factor to net decreases in operating balance of human resources business. Meanwhile, IS Business to offer production contract and production dispatch in Japan turned into profit, driven by successful measures to suspend loss-making operations, but it was inevitable to suffer from initial costs in its operations of this business segment in China that have been consolidated since FY03/2014. In regards to GE Business to dispatch engineers remained too small to give meaningful impacts to overall business performance with the Company.

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. |
| | 03/2013 | 03/2013 | 03/2013 | 03/2013 | 03/2014 | 03/2014 | 03/2014 | 03/2014 | 03/2014 | |
| Sales | 8,172 | 19,438 | 29,810 | 38,869 | 9,941 | 20,823 | 30,855 | 41,905 | | +3,035 |
| Cost of Sales | 6,917 | 16,821 | 26,156 | 34,357 | 9,122 | 19,047 | 28,185 | 38,223 | | +3,865 |
| Gross Profit | 1,254 | 2,616 | 3,654 | 4,512 | 818 | 1,775 | 2,670 | 3,682 | | (830) |
| SG&A Expenses | 1,061 | 2,145 | 3,181 | 4,124 | 1,049 | 2,121 | 3,204 | 4,326 | | +201 |
| Operating Profit | 192 | 471 | 472 | 387 | (230) | (345) | (534) | (643) | | (1,031) |
| Non Operating Balance | 51 | (10) | (55) | 176 | 201 | 277 | 305 | 468 | | +291 |
| Recurring Profit | 243 | 461 | 417 | 564 | (29) | (68) | (228) | (175) | | (739) |
| Extraordinary Balance | (1) | (31) | (99) | (106) | (97) | (78) | 1,101 | 733 | | +839 |
| Pretax Profit | 242 | 429 | 317 | 458 | (126) | (146) | 872 | 557 | | +99 |
| Tax Charges etc. | 37 | 77 | 65 | 94 | 3 | 28 | 58 | 100 | | +6 |
| Minorities' Interests | 97 | 151 | 92 | 128 | 25 | 21 | (35) | (191) | | (319) |
| Net Profit | 107 | 200 | 159 | 235 | (155) | (197) | 849 | 648 | | +413 |
| Sales YoY | +52.8% | +76.6% | +37.3% | +22.1% | +21.7% | +7.1% | +3.5% | +7.8% | | - |
| 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%) | - | - | +432.1% | +175.4% | | - |
| Gross Profit Margin | 15.4% | 13.5% | 12.3% | 11.6% | 8.2% | 8.5% | 8.7% | 8.8% | | (2.8%) |
| SG&A / Sales | 13.0% | 11.0% | 10.7% | 10.6% | 10.6% | 10.2% | 10.4% | 10.3% | | (0.3%) |
| Operating Profit Margin | 2.4% | 2.4% | 1.6% | 1.0% | (2.3%) | (1.7%) | (1.7%) | (1.5%) | | (2.5%) |
| Recurring Profit Margin | 3.0% | 2.4% | 1.4% | 1.5% | (0.3%) | (0.3%) | (0.7%) | (0.4%) | | (1.9%) |
| Net Profit Margin | 1.3% | 1.0% | 0.5% | 0.6% | (1.6%) | (0.9%) | 2.8% | 1.5% | | +0.9% |
| Tax Charges etc. / Pretax Profit | 15.4% | 18.1% | 20.6% | 20.6% | - | - | 6.7% | 18.0% | | (2.6%) |

| 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 | | Net Chg. |
| | 03/2013 | 03/2013 | 03/2013 | 03/2013 | 03/2014 | 03/2014 | 03/2014 | 03/2014 | 03/2014 | |
| Sales | 8,172 | 11,265 | 10,372 | 9,059 | 9,941 | 10,881 | 10,032 | 11,050 | | +1,990 |
| Cost of Sales | 6,917 | 9,903 | 9,335 | 8,200 | 9,122 | 9,925 | 9,137 | 10,038 | | +1,837 |
| Gross Profit | 1,254 | 1,362 | 1,037 | 858 | 818 | 956 | 894 | 1,011 | | +153 |
| SG&A Expenses | 1,061 | 1,083 | 1,036 | 943 | 1,049 | 1,071 | 1,083 | 1,121 | | +178 |
| Operating Profit | 192 | 278 | 0 | (84) | (230) | (115) | (188) | (109) | | (24) |
| Non Operating Balance | 51 | (61) | (45) | 232 | 201 | 75 | 28 | 162 | | (69) |
| Recurring Profit | 243 | 217 | (44) | 147 | (29) | (39) | (160) | 53 | | (93) |
| Extraordinary Balance | (1) | (29) | (68) | (6) | (97) | 19 | 1,179 | (368) | | (361) |
| Pretax Profit | 242 | 187 | (112) | 140 | (126) | (19) | 1,019 | (314) | | (455) |
| Tax Charges etc. | 37 | 40 | (12) | 28 | 3 | 25 | 29 | 42 | | +13 |
| Minorities' Interests | 97 | 53 | (59) | 36 | 25 | (3) | (57) | (155) | | (191) |
| Net Profit | 107 | 93 | (40) | 75 | (155) | (41) | 1,046 | (201) | | (277) |
| Sales YoY | +52.8% | +99.0% | (3.0%) | (10.6%) | +21.7% | (3.4%) | (3.3%) | +22.0% | | - |
| Operating Profit YoY | +327.7% | +167.6% | - | - | - | - | - | - | | - |
| Recurring Profit YoY | - | +250.4% | - | (42.1%) | - | - | - | (63.7%) | | - |
| Net Profit YoY | - | (92.7%) | - | (33.3%) | - | - | - | - | | - |
| Gross Profit Margin | 15.4% | 12.1% | 10.0% | 9.5% | 8.2% | 8.8% | 8.9% | 9.2% | | (0.3%) |
| SG&A / Sales | 13.0% | 9.6% | 10.0% | 10.4% | 10.6% | 9.8% | 10.8% | 10.1% | | (0.3%) |
| Operating Profit Margin | 2.4% | 2.5% | 0.0% | (0.9%) | (2.3%) | (1.1%) | (1.9%) | (1.0%) | | (0.1%) |
| Recurring Profit Margin | 3.0% | 1.9% | (0.4%) | 1.6% | (0.3%) | (0.4%) | (1.6%) | 0.5% | | (1.1%) |
| Net Profit Margin | 1.3% | 0.8% | (0.4%) | 0.8% | (1.6%) | (0.4%) | 10.4% | (1.8%) | | (2.7%) |
| Tax Charges etc. / Pretax Profit | 15.4% | 21.5% | - | 20.5% | - | - | 2.9% | - | | - |

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 |
|--|----------------|----------------------|----------------------|----------------------|----------------|----------------------|----------------------|----------------------|----------------|
| (Million Yen) | 03/2013 | 03/2013 | 03/2013 | 03/2013 | 03/2014 | 03/2014 | 03/2014 | 03/2014 | Net Chg. |
| IS Business | 2,432 | 4,936 | 7,321 | 9,538 | 2,304 | 4,819 | 7,450 | 10,106 | +567 |
| CS Business | 606 | 1,258 | 1,884 | 2,386 | 392 | 777 | 1,107 | 1,389 | (997) |
| GE Business | 156 | 313 | 462 | 611 | 128 | 262 | 406 | 571 | (40) |
| EMS Business | 4,977 | 12,929 | 20,142 | 26,333 | 7,115 | 14,963 | 21,890 | 29,838 | +3,505 |
| Sales | 8,172 | 19,438 | 29,810 | 38,869 | 9,941 | 20,823 | 30,855 | 41,905 | +3,035 |
| IS Business | +21.1% | +12.0% | +6.9% | +2.0% | (5.2%) | (2.4%) | +1.8% | +6.0% | - |
| CS Business | (11.5%) | (15.6%) | (15.9%) | (17.8%) | (35.3%) | (38.2%) | (41.2%) | (41.8%) | - |
| GE Business | +0.7% | +1.7% | (0.5%) | (2.5%) | (17.5%) | (16.3%) | (12.1%) | (6.5%) | - |
| EMS Business | +99.3% | +169.4% | +65.8% | +39.0% | +43.0% | +15.7% | +8.7% | +13.3% | - |
| Sales (YoY) | +52.8% | +76.6% | +37.3% | +22.1% | +21.7% | +7.1% | +3.5% | +7.8% | - |
| IS Business | 29.8% | 25.4% | 24.6% | 24.5% | 23.2% | 23.1% | 24.1% | 24.1% | - |
| CS Business | 7.4% | 6.5% | 6.3% | 6.1% | 3.9% | 3.7% | 3.6% | 3.3% | - |
| GE Business | 1.9% | 1.6% | 1.6% | 1.6% | 1.3% | 1.3% | 1.3% | 1.4% | - |
| EMS Business | 60.9% | 66.5% | 67.6% | 67.7% | 71.6% | 71.9% | 70.9% | 71.2% | - |
| Sales (Composition) | 100.0% | 100.0% | 100.0% | 100.0% | 100.0% | 100.0% | 100.0% | 100.0% | - |
| IS Business | (27) | 2 | (58) | (77) | (91) | (54) | (13) | 27 | +105 |
| CS Business | 15 | 56 | 113 | 118 | (16) | (7) | (23) | (48) | (166) |
| GE Business | 3 | 3 | 14 | 25 | (3) | (11) | (12) | (7) | (32) |
| EMS Business | 200 | 408 | 403 | 320 | (119) | (271) | (487) | (621) | (941) |
| Operating Profit (Before Elimination) | 192 | 471 | 471 | 386 | (230) | (346) | (536) | (648) | (1,035) |
| Elimination | - | - | - | - | - | - | 2 | 4 | +3 |
| Operating Profit | 192 | 471 | 472 | 387 | (230) | (345) | (534) | (643) | (1,031) |
| IS Business | (1.1%) | 0.1% | (0.8%) | (0.8%) | (4.0%) | (1.1%) | (0.2%) | 0.3% | +1.1% |
| CS Business | 2.6% | 4.5% | 6.0% | 5.0% | (4.1%) | (1.0%) | (2.1%) | (3.5%) | (8.4%) |
| GE Business | 1.9% | 1.2% | 3.1% | 4.2% | (2.8%) | (4.5%) | (3.1%) | (1.3%) | (5.4%) |
| EMS Business | 4.0% | 3.2% | 2.0% | 1.2% | (1.7%) | (1.8%) | (2.2%) | (2.1%) | (3.3%) |
| Elimination | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% | +0.0% |
| Operating Profit Margin | 2.4% | 2.4% | 1.6% | 1.0% | (2.3%) | (1.7%) | (1.7%) | (1.5%) | (2.5%) |

| 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) | 03/2013 | 03/2013 | 03/2013 | 03/2013 | 03/2014 | 03/2014 | 03/2014 | 03/2014 | Net Chg. |
| IS Business | 2,432 | 2,504 | 2,384 | 2,217 | 2,304 | 2,514 | 2,631 | 2,655 | +438 |
| CS Business | 606 | 651 | 626 | 501 | 392 | 385 | 329 | 281 | (219) |
| GE Business | 156 | 157 | 148 | 149 | 128 | 133 | 143 | 165 | +15 |
| EMS Business | 4,977 | 7,952 | 7,213 | 6,190 | 7,115 | 7,847 | 6,927 | 7,947 | +1,756 |
| Sales | 8,172 | 11,265 | 10,372 | 9,059 | 9,941 | 10,881 | 10,032 | 11,050 | +1,990 |
| IS Business | +21.1% | +4.4% | (2.4%) | (11.3%) | (5.2%) | +0.4% | +10.3% | +19.8% | - |
| CS Business | (11.5%) | (19.1%) | (16.3%) | (24.4%) | (35.3%) | (40.9%) | (47.4%) | (43.9%) | - |
| GE Business | +0.7% | +2.8% | (4.9%) | (8.4%) | (17.5%) | (15.2%) | (3.2%) | +10.7% | - |
| EMS Business | +99.3% | +245.4% | (1.9%) | (9.0%) | +43.0% | (1.3%) | (4.0%) | +28.4% | - |
| Sales (YoY) | +52.8% | +99.0% | (3.0%) | (10.6%) | +21.7% | (3.4%) | (3.3%) | +22.0% | - |
| IS Business | 29.8% | 22.2% | 23.0% | 24.5% | 23.2% | 23.1% | 26.2% | 24.0% | - |
| CS Business | 7.4% | 5.8% | 6.0% | 5.5% | 3.9% | 3.5% | 3.3% | 2.5% | - |
| GE Business | 1.9% | 1.4% | 1.4% | 1.7% | 1.3% | 1.2% | 1.4% | 1.5% | - |
| EMS Business | 60.9% | 70.6% | 69.5% | 68.3% | 71.6% | 72.1% | 69.1% | 71.9% | - |
| Sales (Composition) | 100.0% | 100.0% | 100.0% | 100.0% | 100.0% | 100.0% | 100.0% | 100.0% | - |
| IS Business | (27) | 29 | (61) | (18) | (91) | 37 | 41 | 40 | +59 |
| CS Business | 15 | 40 | 56 | 5 | (16) | 8 | (15) | (24) | (30) |
| GE Business | 3 | 0 | 10 | 11 | (3) | (8) | (1) | 5 | (5) |
| EMS Business | 200 | 207 | (5) | (83) | (119) | (152) | (216) | (133) | (50) |
| Operating Profit (Before Elimination) | 192 | 278 | 0 | (85) | (230) | (115) | (190) | (112) | (26) |
| Elimination | - | - | - | - | - | - | 1 | 2 | +2 |
| Operating Profit | 192 | 278 | 0 | (84) | (230) | (115) | (188) | (109) | (24) |
| IS Business | (1.1%) | 1.2% | (2.6%) | (0.8%) | (4.0%) | 1.5% | 1.6% | 1.5% | +2.4% |
| CS Business | 2.6% | 6.2% | 9.1% | 1.1% | (4.1%) | 2.1% | (4.6%) | (8.8%) | (10.0%) |
| GE Business | 1.9% | 0.5% | 7.0% | 7.4% | (2.8%) | (6.0%) | (0.8%) | 3.3% | (4.1%) |
| EMS Business | 4.0% | 2.6% | (0.1%) | (1.3%) | (1.7%) | (1.9%) | (3.1%) | (1.7%) | (0.3%) |
| Elimination | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% | +0.0% |
| Operating Profit Margin | 2.4% | 2.5% | 0.0% | (0.9%) | (2.3%) | (1.1%) | (1.9%) | (1.0%) | (0.1%) |

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 | YoY |
|---|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|----------------|
| (Million Yen) | Q1 | Q2 | Q3 | Q4 | Q1 | Q2 | Q3 | Q4 | Net Chg. |
| | 03/2013 | 03/2013 | 03/2013 | 03/2013 | 03/2014 | 03/2014 | 03/2014 | 03/2014 | |
| Cash & Deposit | 3,915 | 4,255 | 3,710 | 3,635 | 3,986 | 3,703 | 3,656 | 3,209 | (426) |
| Accounts Receivables | 6,192 | 6,868 | 6,285 | 6,332 | 6,516 | 6,680 | 5,955 | 6,912 | +580 |
| Inventory | 2,426 | 2,246 | 2,288 | 2,729 | 2,983 | 2,913 | 2,565 | 3,035 | +305 |
| Other | 881 | 393 | 488 | 631 | 639 | 523 | 549 | 551 | (79) |
| Current Assets | 13,416 | 13,764 | 12,773 | 13,328 | 14,126 | 13,821 | 12,727 | 13,708 | +379 |
| Tangible Assets | 4,012 | 3,908 | 3,923 | 4,203 | 4,179 | 4,219 | 4,387 | 4,292 | +88 |
| Intangible Assets | 462 | 463 | 451 | 448 | 444 | 437 | 432 | 406 | (42) |
| LT Investment Securities etc. | 1,434 | 1,206 | 1,060 | 1,080 | 1,060 | 1,092 | 1,159 | 1,055 | (25) |
| Fixed Assets | 5,909 | 5,578 | 5,435 | 5,732 | 5,684 | 5,748 | 5,979 | 5,753 | +20 |
| Total Assets | 19,325 | 19,342 | 18,208 | 19,061 | 19,810 | 19,570 | 18,707 | 19,462 | +400 |
| Accounts Payable | 3,464 | 3,820 | 3,107 | 3,571 | 3,676 | 3,744 | 2,910 | 3,934 | +363 |
| Short Term Debt | 4,669 | 4,761 | 4,895 | 4,264 | 4,868 | 4,988 | 6,021 | 5,981 | +1,716 |
| Corporate Bond (Less than 1 year) | 100 | 100 | 100 | 100 | 100 | 50 | 50 | - | (100) |
| Other | 2,475 | 2,502 | 2,310 | 2,213 | 2,361 | 2,058 | 2,121 | 2,077 | (135) |
| Current Liabilities | 10,709 | 11,184 | 10,413 | 10,149 | 11,006 | 10,841 | 11,102 | 11,994 | +1,844 |
| Corporate Bond | 100 | 50 | 50 | - | - | - | - | - | - |
| Long Term Debt | 1,552 | 1,250 | 905 | 1,701 | 1,542 | 1,419 | 1,395 | 1,345 | (355) |
| Other | 727 | 713 | 706 | 686 | 691 | 703 | 713 | 738 | +52 |
| Fixed Liabilities | 2,379 | 2,013 | 1,661 | 2,387 | 2,234 | 2,123 | 2,109 | 2,084 | (303) |
| Total Liabilities | 13,089 | 13,197 | 12,074 | 12,537 | 13,240 | 12,964 | 13,212 | 14,078 | +1,540 |
| Shareholders' Equity | 3,596 | 3,689 | 3,648 | 3,724 | 3,476 | 3,435 | 4,482 | 4,280 | +556 |
| Other | 2,639 | 2,454 | 2,484 | 2,799 | 3,093 | 3,170 | 1,013 | 1,103 | (1,695) |
| Total Assets | 6,236 | 6,144 | 6,133 | 6,523 | 6,569 | 6,605 | 5,495 | 5,384 | (1,139) |
| Total Liabilities & net Assets | 19,325 | 19,342 | 18,208 | 19,061 | 19,810 | 19,570 | 18,707 | 19,462 | +400 |
| Equity Capital | 3,543 | 3,473 | 3,476 | 3,756 | 3,695 | 3,717 | 4,699 | 4,619 | +863 |
| Interest Bearing Debt | 6,421 | 6,161 | 5,951 | 6,066 | 6,511 | 6,458 | 7,466 | 7,327 | +1,260 |
| Net Debt | 2,506 | 1,905 | 2,240 | 2,430 | 2,524 | 2,754 | 3,810 | 4,117 | +1,687 |
| Equity Capital Ratio | 18.3% | 18.0% | 19.1% | 19.7% | 18.7% | 19.0% | 25.1% | 23.7% | +4.0% |
| Net-Debt-Equity Ratio | 69.7% | 51.6% | 61.4% | 65.2% | 72.6% | 80.2% | 85.0% | 96.2% | +30.9% |
| ROE | 12.4% | 11.8% | 6.2% | 6.6% | (16.7%) | (10.5%) | 26.8% | 15.5% | +8.9% |
| ROA | 5.1% | 4.8% | 3.0% | 3.0% | (0.6%) | (0.7%) | (1.6%) | (0.9%) | (3.9%) |
| Days for Inventory Turnover | 32 | 21 | 22 | 30 | 30 | 27 | 26 | 28 | - |
| Inventory Turnover | 11.4 | 17.6 | 16.3 | 12.0 | 12.2 | 13.6 | 14.2 | 13.2 | - |
| Quick Ratio | 94% | 99% | 96% | 98% | 95% | 96% | 87% | 84% | - |
| Current Ratio | 125% | 123% | 123% | 131% | 128% | 127% | 115% | 114% | - |

Source: Company Data, WRJ Calculation

Cash flow Statement (Cumulative)

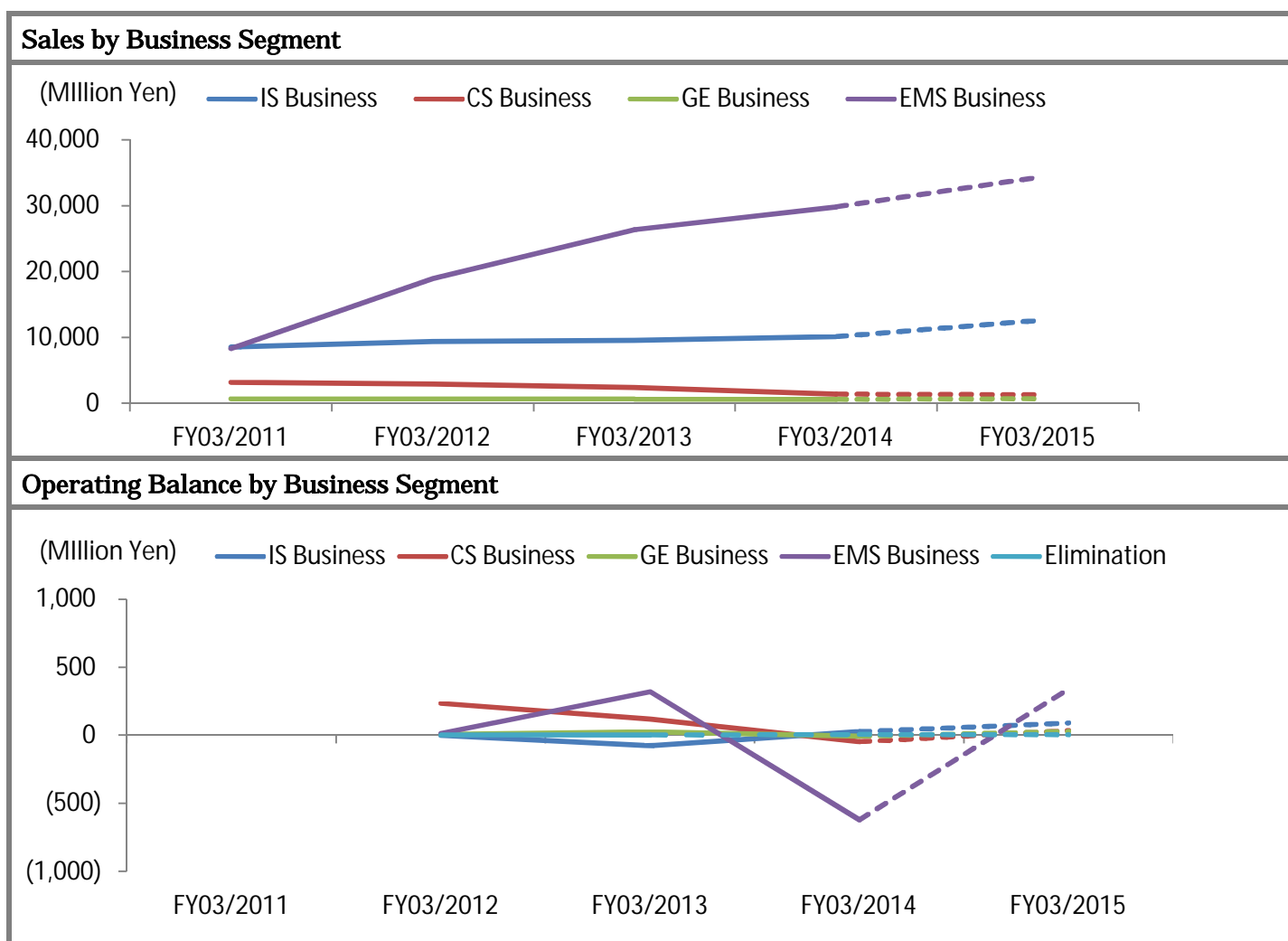
| Cash Flow Statement | Cons.Act | Cons.Act | Cons.Act | Cons.Act | Cons.Act | Cons.Act | Cons.Act | Cons.Act | YoY |
|-------------------------------------|-----------|------------|-----------|-------------|-----------|--------------|-----------|----------------|----------------|
| (Million Yen) | Q1 | Q1 to Q2 | Q1 to Q3 | Q1 to Q4 | Q1 | Q1 to Q2 | Q1 to Q3 | Q1 to Q4 | Net Chg. |
| | 03/2013 | 03/2013 | 03/2013 | 03/2013 | 03/2014 | 03/2014 | 03/2014 | 03/2014 | |
| Operating Cash Flow | na | 230 | na | 145 | na | (317) | na | (464) | (610) |
| Investing Cash Flow | na | 88 | na | (222) | na | (194) | na | (1,347) | (1,125) |
| Operating CF + Investment CF | na | 319 | na | (77) | na | (512) | na | (1,812) | (1,735) |
| Financing Cash Flow | na | (227) | na | (382) | na | 281 | na | 1,020 | +1,402 |

Source: Company Data, WRJ Calculation

FY03/2015 Company Forecasts

In FY03/2015, Company forecasts are going for prospective sales ¥48,800m (up 16.5% YoY), operating profit ¥490m (versus operating loss ¥643m in the previous year), recurring profit ¥510m (recurring loss ¥175m) and net profit ¥320m (down 50.7%). Meanwhile, prospective dividend per share is set at ¥3.0, unchanged from that of FY03/2014, implying payout ratio 9.6%.

In regards to EMS Business, sales ¥29,838m to ¥34,280m through FY03/2014 to FY03/2015 are expected, while sales ¥12,067m to ¥14,520m for human resources business. In terms of operating balance, Company forecasts are respectively going for operating loss ¥621m to operating profit ¥340m and operating loss ¥27m to operating profit ¥150m. Thus, more than 80% of improvements at the operating level are to come from EMS Business. In regards to human resources business, comprising IS Business (domestic and overseas), CS Business and GE Business, Company forecasts are going for improvements in operating balance, across the board.



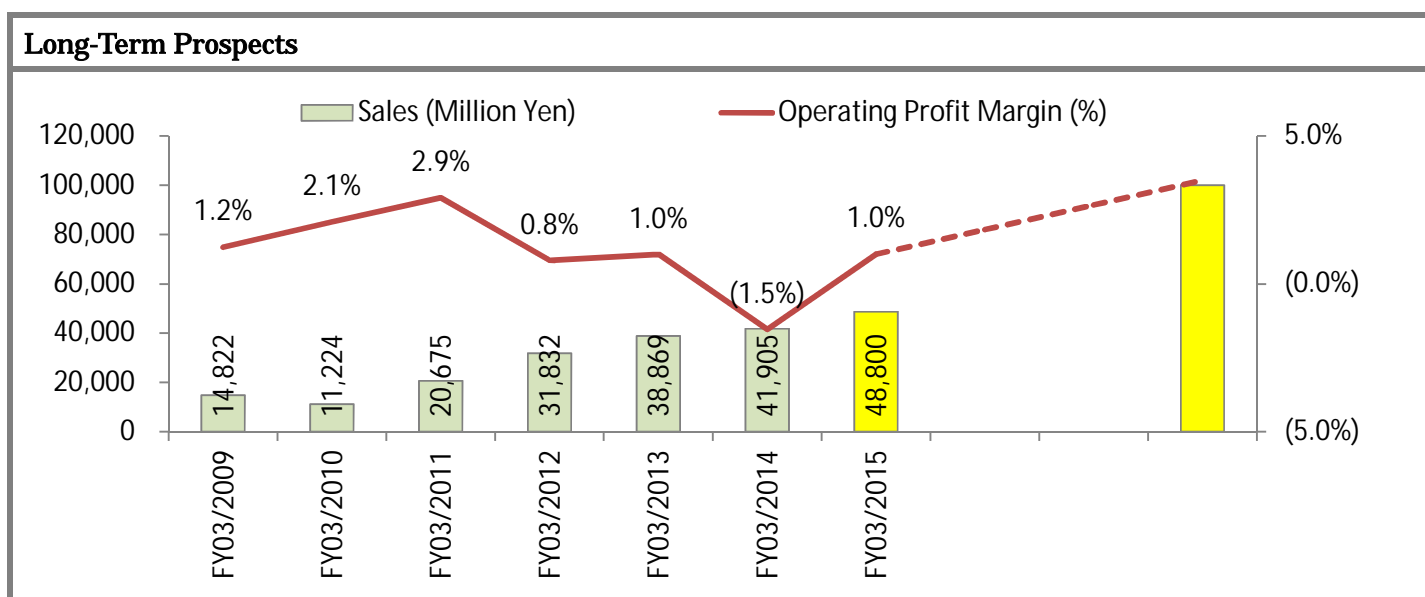
Source: Company Data, WRJ Calculation

Prospective sales of EMS Business are to rise 14.9% over the year, while operating balance improving as much as ¥961m. Through FY03/2014 to FY03/2015, operating balance by region is to be as follows: operating loss ¥451m to operating loss ¥100m in Japan, operating loss ¥391m to operating profit ¥51m in China and operating profit ¥327m to operating profit ¥386m in Malaysia. When changes of elimination ¥106m to negative ¥2m are added to all those above-stated figures, they account for changes of overall operating balance in this business segment.

In Japan and China, major contributions come from acquisition of businesses from Hitachi Group, making net increases of sales for operations of both. On top of this, non-reappearance of one-off negative factors, collectively equating to ¥320m in FY03/2014, will have direct impacts to make improvements in operating balance as much as this. In Malaysia, ongoing increases of volume are to further drive operating profit upwards.

Long-Term Prospects

The Company is going for ongoing increases in sales, combined with chronologically improving operating profit margin, in a long-term view. While it is considered to increase exposure to operations in South East Asian countries or “one” of “China plus one”, the Company suggests that there are great opportunities for human resources business in China to massively expand in a long-term view. For example, the Company is going for substantial increases in the number of headcounts enrolled for IS Business in China, up to 2,906 as of the end of FY03/2015 versus 1,168 as of the end of FY03/2014.



Source: Company Data, WRJ Calculation

Most recently, the Company is on the verge of benefiting from acquisition of businesses from major domestic manufacturers, stemming from their implementations of strategy to reorganize contents of their own operations. This will be a major driving force for prospective earnings with the Company over the long-term.

On 2 July 2013, it was revealed that TKR Corporation, one of the Company’s consolidated subsidiaries, was going to succeed a part of businesses with a sub-subsidiary of Hitachi, Ltd. In FY03/2015, this deal is to start contributing to the Company’s business performance on a full-fledged basis. After it was disclosed 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.) which is a sub-subsubsidiary of Hitachi, Ltd., this deal to succeed was signed up, on 1 July 2013, and then the Company acquired the said operations, on 1 October 2013.

The said operations to have been acquired comprise Power Supply Business, Transformer Business, In-Car Tuner Business and Video Board Business by category. All those businesses refer to those incorporating the key technologies in the field of digital consumer electronics, while the Company succeeded knowhow on developments, designing and manufacturing (assembling) for boards (modules) and units to be adopted in diverse final products in here. In line with the signing up for the deal, the Company also acquired 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.

Meanwhile, on 27 March 2014, the Company made an IR disclosure to notify that the Company entered into basic agreement to acquire General Power Supply Business from Panasonic Corporation. That is to say, in board of directors' meeting, held on the same day, has the Company decided to sign up basic agreement to acquire Panasonic Corporation's General Power Supply Business to develop, manufacture and sell power supply and power-supply-related components, i.e., high-voltage power supply, low-voltage power supply, magnet roll, transformer, etc. but for those of in-car-related by application. More recently, it was revealed that the deal to do so was signed up on 26 June 2014.

The Company started up its involvements with power supply domain in line with acquisition of businesses from Hitachi Group and the above-stated deal is to further deepen the involvements with power supply domain for the Company. To date, the Company has set it as the key technology domain.

The Company suggests that the domestic market for power supply equates to some ¥384,000m pa (CY2011) in amounts, out of which some 6.0% is accounted for by Panasonic Corporation. We have an impression that more than half of trading over here is related to in-car application, while the acquisition this time to trading other than that. Meanwhile, by product, Panasonic Corporation appears to being exposed some 20% to high-voltage power supply that has relatively high opportunities to create value in its business operations. In regards to high-voltage power supply, mainly applied in copiers, medical equipment, etc., Panasonic Corporation is estimated to account for some 40% of the domestic market as the market leader. It is true, generally speaking, that almost all the players in the market for power supply and its peripherals have difficulties to differentiate among themselves, but the Company is getting at the pursuit of earnings by means of focusing on high-voltage power supply in the future developments of business to be acquired

Panasonic Corporation has been developing and designing products for General Power Supply Business to be acquired this time in Matsuzaka-city, Mie-prefecture. One of the reasons why the business was making loss was that operations over here had excess headcounts. To date, however, the number of headcounts has roughly halved and the operations are making money most recently, were it not for loss associated with bad inventory write-off, etc. On top of this, the Company is to acquire operations of the businesses in Hong Kong and China, collectively having seen sales ¥15,473m in FY03/2014, according to the Company.

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 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 Oversea EMS Factory)



Source: Company Data

In terms of sales by customer category 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%. On top of those customer categories, the Company was exposed to rubber, plastic and chemicals 7% as well as to other customer categories collectively 12%. Meanwhile, the contents of businesses with top 10 customers, having accounted for collective 48% of sales with the Company, suggest that major final products for the Company include control units for air-conditioners, MFPs (multifunctional printers), mobile phones and MFPs for home use. On top of all those ones, it is presumed that the Company was 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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