

RYOYO



Connect Everything. With Technology. With Ideas.

ANNUAL REVIEW 2021

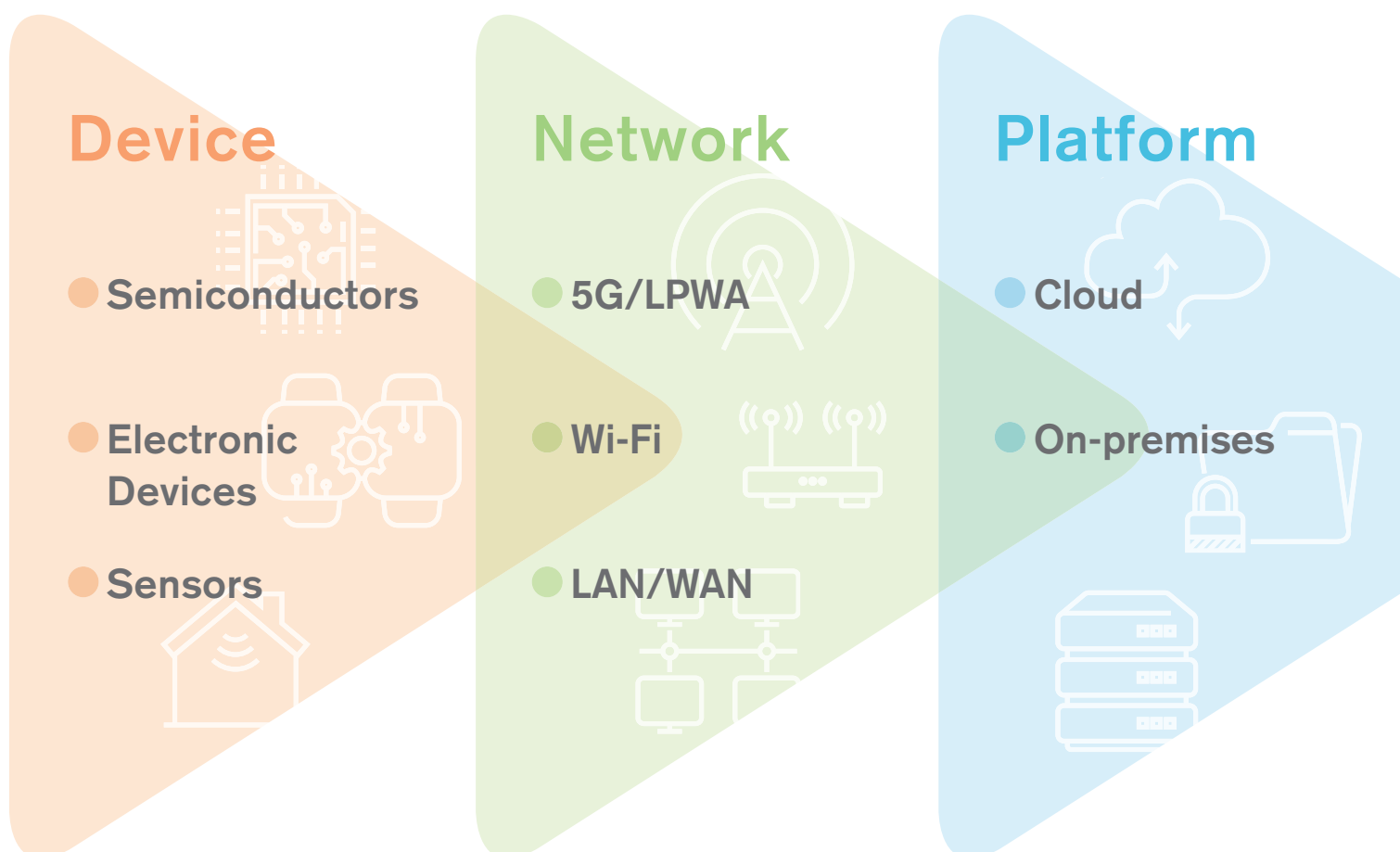
Fiscal year ended
January 31, 2021



About the RYOYO Group

Connect Everything. With Technology. With Ideas.

End-to-end business domain covering the entire supply chain, from upstream to downstream



Only RYOYO

Ryoyo Electro Corporation was founded as a semiconductor distributor of Mitsubishi Electric Corporation in 1961, at the dawn of the semiconductor industry. Since our establishment, we have expanded our business in tandem with the growth of the electronics industry, guided by a management philosophy of “Creating value in tune with the times,” coupled with the slogan “Connect everything. With technology. With ideas.” Today, as an electronics trading company engaged in both the Semiconductors & Devices and ICT & Solutions businesses, the Ryoyo Group leverages the knowledge we have gained in both fields to propose value-adding solutions that help address customers' needs, incorporating products and technologies ranging from edge devices to cloud computing. Regardless of the times, our Company's purpose lies in realizing satisfaction that exceeds stakeholders' expectations, and providing “Only RYOYO” unique, added-value solutions that leave a lasting impression.

Solution

● IoT



● AI



● Business Management Tools



Helping to Solve the Social Issues Faced by Customers

As 5G, IoT, AI, cloud services and other cutting-edge technologies begin to connect a wide range of things in the world, the processing and use of information are dramatically accelerating and becoming more advanced. Ryoyo Electro, as an electronics trading company engaged in both the Semiconductors & Devices and ICT & Solutions businesses, boasts technology and ideas that will help build this new information-based world. As a solution partner that can incorporate various technologies ranging from edge devices to cloud computing, we support our customers' manufacturing and value creation. We will continue to develop and provide solutions that can identify and solve the issues and challenges facing both our customers and their end users.



Only RYOYO

“Only RYOYO” indicates the unique value that only the Ryoyo Group can provide. We do not simply procure existing products, but also customize products optimally suited to customer requirements, as well as offering products and services based on our proprietary technology to address specific customer needs. We also create new value by clarifying the issues our customers face and supporting them all the way through to a swift solution.

Semiconductors & Devices

In the constantly changing semiconductor market, we have evolved into a trusted business partner with a long track-record of achievements. Drawing on solid relationships with the world’s leading suppliers, we offer optimal proposals to customers.

Strength #1

We propose solutions that leverage the latest information we gain by working closely with the world’s leading vendors.

Strength #2

Beyond just selling individual products, we propose optimal solutions for customer and market needs by combining multiple products and developing original solutions.

Strength #3

We actively seek out and supply cutting-edge, high-added-value products from in and outside of Japan.

ICT & Solutions

We are drawing on knowledge cultivated in the Semiconductors & Devices and ICT & Solutions businesses not only to bring various ICT products to market, but also to expand the business by integrating consulting, deployment, maintenance, and operation functions. We support the creation of business solutions and innovative business models that reflect the needs not only of our customers but also their end users.

Strength #1

Our sector and domain-specific specialists can provide broad product and technology solutions, from edge to cloud.

Strength #2

We propose optimal solutions by combining the world’s leading products and services to solve the customer’s issues.

Strength #3

We bring proven experience and expertise to support our customers’ IT life cycle (planning, development, operation).

Consolidated Financial Highlights

Ryoyo Electro Corporation and Consolidated Subsidiaries
For the years ended January 31, 2021, 2020, 2019, 2018, and 2017

	Millions of yen					Thousands of U.S. dollars*
	2021.1	2020.1	2019.1	2018.1	2017.1	2021.1
For the Year						
Net sales	¥ 95,792	¥ 108,538	¥ 93,799	¥ 92,234	¥ 98,417	\$ 916,851
Gross profit	9,194	10,361	8,925	7,591	8,099	88,000
Selling, general and administrative expenses	7,927	8,206	7,667	7,339	6,726	75,874
Operating profit	1,266	2,154	1,257	251	1,373	12,126
Profit attributable to owners of parent	806	1,303	1,020	212	822	7,716
Free cash flows	13,434	697	1,132	(4,162)	6,874	128,582
At Year-End						
Total assets	¥ 59,336	¥ 78,117	¥ 75,538	¥ 78,111	¥ 77,973	\$ 567,923
Total net assets	37,992	62,135	62,208	64,404	64,859	363,630
Per Share of Common Stock (Yen / U.S. dollars)						
Net income	¥ 35.19	¥ 53.06	¥ 41.62	¥ 8.68	¥ 33.54	\$ 0.337
Total net assets	2,188.90	2,524.47	2,531.90	2,625.66	2,644.10	20.95
Cash dividends	180.00	80.00	60.00	60.00	40.00	1.723
Ratios (%)						
Gross profit margin	9.6	9.5	9.5	8.2	8.2	
Operating margin	1.3	2.0	1.3	0.3	1.4	
Net income margin	0.8	1.2	1.1	0.2	0.8	
Equity ratio	64.0	79.4	82.2	82.4	83.1	
Return on equity	1.6	2.1	1.6	0.3	1.3	
Other Information						
Number of shares issued**	17,336,633	24,572,801	24,521,409	24,506,240	24,507,328	
Number of employees	711	561	526	510	498	

* U.S. dollar amounts have been translated from yen, for convenience only, at the rate of ¥104.48 = U.S.\$1.00, the exchange rate prevailing on January 31, 2021.

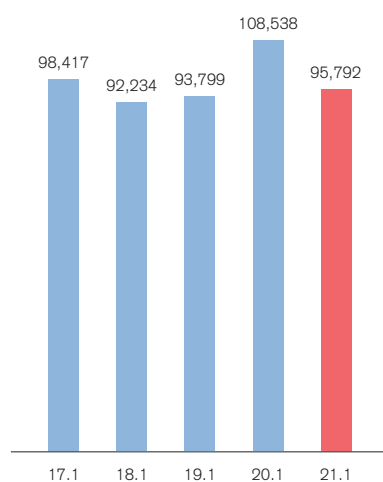
** Number of shares issued does not include treasury stock.

Notes: 1. The consolidated financial highlights are a translation of the Japanese financial statements. The Japanese version will be used for matters of a legal nature.

2. Unless otherwise noted, figures are rounded down to the nearest million.

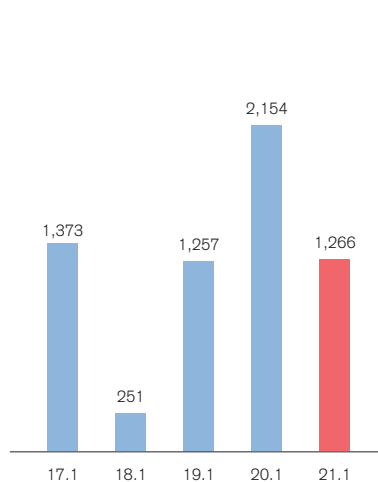
Net Sales

Millions of yen



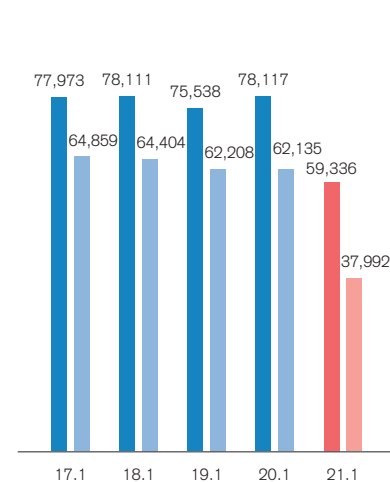
Operating profit

Millions of yen



Total Assets / Total Net Assets

Millions of yen



To Our Shareholders



Business Performance in the Fiscal Year Ended January 31, 2021

The Ryoyo Group marked our 60th anniversary in February 2021. We would like to thank our shareholders for your support and encouragement over the years.

The fiscal year ended January 2021 brought new opportunities, such as substantial growth in semiconductor businesses for digital consumer electronics and the contribution to performance from new commercial rights. In May 2020 we fully consolidated StyleZ Corp., which engages in IT solution service businesses, as part of our effort to reinforce our framework and functions for developing solution businesses to address customer and market issues. However, the global spread of the COVID-19 pandemic deeply impacted manufacturers' production activities, personal consumption, and corporate capital investment, and performance in our mainstay Semiconductors & Devices and ICT & Solutions businesses both fell below previous-year levels.

As a result, net sales for the consolidated fiscal year under review were ¥95,792 million (down 11.7% year on year) and operating profit was ¥1,266 million (down 41.2%). Moreover, due to expenses related to the buyback of treasury stock in line with our revised capitalization policy, ordinary profit was ¥905 million (down 58.6%), and profit attributable to owners of parent was ¥806 million (down 38.1%).

Our Response to the COVID-19 Pandemic and Changes to Our Businesses

The COVID-19 pandemic has had a tremendous impact on society, and our Group is no exception. In terms of business continuity, while working to gain the understanding of our customers and business partners, we set up a system for staggered commuting and working from home. We are also developing products related to the response to COVID-19.

For the electronics industry going forward, although concerns linger about the resurgence of COVID-19 cases as well as the problem of semiconductor supply shortages, against a backdrop of robust stay-at-home demand and growth in infrastructure investment, as well as the continued spread of 5G and DX (digital transformation) technologies, demand is expected to recover and remain firm.

Outlook for Fiscal Year Ending January 31, 2022 and Moves Toward a New Trading Company Image

Our top priority for the Group is to reinforce our ability to appeal to customers with our comprehensive solutions, not only to their needs, but also looking further ahead to the needs of their customers (B2B2C), and to put in place the infrastructure to support this. In this way, we are striving to become the No. 1 trading company providing added value that draws on our strengths as a solution provider that supports technologies ranging from edge devices to cloud computing.

In terms of the consolidated earnings forecast for the fiscal year ending January 2022, the final year of our current business plan, our initial targets were for net sales of ¥110,000 million and operating profit of ¥3,000 million. Given the prolonged impact of the COVID-19 crisis and other changes in business conditions, however, we opted to move the targets forward a year to the fiscal year ending January 2023, and redouble our efforts to achieve these targets in the inaugural year of our next business plan.

The COVID-19 crisis has brought to light structural issues in our Group's businesses and the things we need to do to deal with them. We see the current fiscal year as a time to revisit the true value of our Group, and to ask what is needed to realize our goal over the longer term of becoming "a reimagined trading company with unrivaled customer satisfaction." To put into action a "further upstream" approach that is sensitive to the various issues customers face and proposes early-stage solutions, we will continue to strengthen points of contact with customers and establish a mechanism for sharing information across the Group. We will deliver solutions from an even more customer-oriented perspective, so that doing business with us will lead to the success of our customers' businesses.



Shareholder Returns

Under our three-year business plan, which runs through the fiscal year ending January 2022, we are working to increase shareholder returns. For the fiscal year ended January 2021, under a basic policy targeting a 5% dividend on equity ratio (DOE), we elected to pay a total annual dividend of ¥180, which includes an ordinary dividend of ¥120 and a commemorative dividend of ¥60 to mark our 60th anniversary. In addition, in November 2020, as part of our fundamental revision of the company's capitalization policy, we bought back a total of ¥22 billion in treasury stock with the aim of speeding up the pace of improvement in our ROE and other indicators of capital efficiency. In terms of annual dividends, for the fiscal year ending January 2022, we will maintain the benchmark of a dividend on net assets ratio of 5.0%, and plan to pay a dividend of ¥120 per share.

We ask for the support and encouragement of our shareholders over the long term as we continue to strive to increase the Company's corporate value.

Representative Director, President & Chief Executive Officer

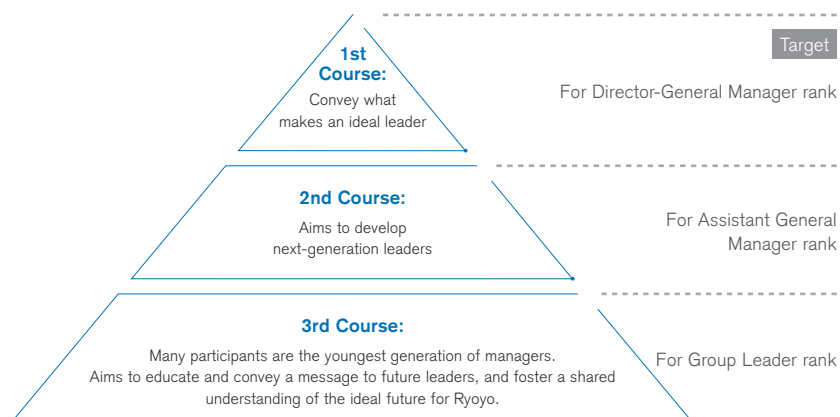
M. Nakamura

Topics

The latest news about the Ryoyo Group

President's Leadership Workshop

In the Ryoyo Group, the President himself serves as the lecturer for the Leadership Workshop, a training course to pass on leadership knowledge and wisdom to employees at various levels of responsibility, seeking to raise up the next generation of managers and potential leaders. We have also put in place an environment to enable employees at business offices throughout Japan and overseas to participate in classes, such as by means of video conferencing. In the workshops, based on his experience and insight, the president covers a wide range of topics, including the proper role of a leader, the methods and mindset needed to carry out that role, and effective goal setting, to support the development of human resources needed for each level of management.



Response to COVID-19 Crisis

The novel coronavirus outbreak caused a massive social disruption. To help meet the needs of society in dealing with this crisis, the Ryoyo Group is handling a range of products related to the pandemic response. In particular, we have leveraged the networks built up in our Semiconductors & Devices business to make available photocatalytic sterilization equipment, hands-free control devices using voice recognition, and thermal measurement systems, among other solutions. Going forward, we will continue to provide value in a flexible manner to meet the changing needs of society.

Contactless



No need for Internet connection, smart speakers, or a special app.

Environment

Supporting Academic Solutions to Environmental Issues

We are pursuing various initiatives to address environmental issues, which are indispensable to the sustainable increase in the Group's corporate value.

AI-related products provided by the Ryoyo Group have been adopted, delivered, and rolled out at the Marine AI Development and Evaluation Center (MAIDEC) of the Tokyo University of Marine Science and Technology, a world-class research institute in the field of marine research. At the Center, education and research programs have been launched to develop Marine Industry AI Professionals, people who will play leading roles in industries, not only university-level researchers but also leaders in marine industries, and who will be able to apply the fruits of their research to help address issues facing society. We are proud to be able to contribute to solving environmental issues through initiatives such as MAIDEC.



Products we have delivered

Working to Reduce Environmental Impact Through Our Business

Around the world, society is calling for industries to address environmental issues such as extreme weather and global warming. One major issue is power loss at the point of power generation and conversion. The power semiconductors we provide to customers are addressing the need to minimize power loss, enabling low-loss, high-speed operation. As a result, the products we offer are used in solar power generation systems that place high importance on the impact of power loss. They are also installed in electric equipment used in railway cars that consume high levels of electricity, contributing to greater efficiency. We will continue to tackle environmental issues by providing solutions for the environmental issues our customers face.



Society

Relationship with Japanese Foundation for Cancer Research (JFCR)

The Ryoyo Group is promoting initiatives in the healthcare field in an effort to bring about improvements in society. We will create corporate value through growth in healthcare applications that can balance business feasibility and contribution to social well-being.

We have positioned the healthcare field as a pillar of growth, and believe our activities in this area are crucial to achieving sustainable growth in corporate value going forward. At the same time, we believe these activities offer high value in terms of social well-being. Reflecting this belief, we made a donation to the Cancer Institute Hospital of JFCR, a private institution specializing in cancer, which is among the leading hospitals in Japan in terms of the number of cancer operations. We hope to contribute to the healthcare field in a new way through a strengthened relationship with the hospital.

Going forward, we will further reinforce our initiatives in the healthcare field by providing IT systems that can be closely integrated into the work processes of healthcare professionals, contributing to solutions on the ground in medical settings and helping to realize a sustainable society.



Left : Dr. Masahiko Oguchi, Deputy
Hospital Director and Department
Director of the AI Medical Center,
at the Cancer Institute Hospital
of JFCR

Right : Representative Director, President
& Chief Executive Officer Moritaka
Nakamura, Ryoyo Electro

Online Eligibility Verification Service

From March 2021, an online eligibility verification system will begin in Japan, in which an insured person's eligibility can be confirmed online at the counter of a hospital or pharmacy, using the IC chip of the person's Individual Number Card or their health insurance card number. We will start offering a support service to help implement the verification system. Our service is geared toward healthcare-related system vendors, providing them with authentication systems to enable Individual Number Card-based eligibility verification at hospital or pharmacy counters. In addition, we will provide a comprehensive lineup of related services, such as peripheral equipment, installation, and maintenance.

Our support service for introducing online checking of qualifications

- ▶ Our proposal for a PC that meets the requirements for online checking of qualifications
- ▶ Selection of appropriate peripheral equipment
- ▶ Setup and configuration service to provide all the equipment needed for immediate utilization
- ▶ On-site installation at medical treatment facilities and pharmacies
- ▶ Connection of telecommunication lines
- ▶ Maintenance service

Medical treatment facilities
and pharmacies



Introduction as a single package available

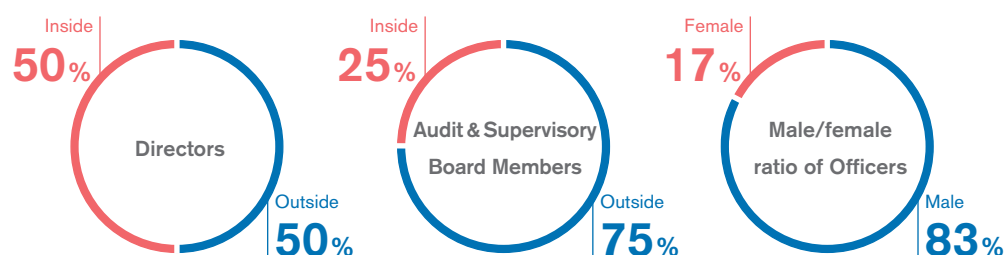
Corporate Governance

The Ryoyo Group has been working to enhance corporate governance in order to achieve its sustainable growth and create medium- to long-term corporate value.

At the Company, we recognize enhancing corporate governance as an important task for management. Therefore, in order to continue to guarantee the soundness, transparency, and effectiveness of management, as well as increase corporate value and fulfill our responsibilities to society, we are striving to develop internal systems that ensure the functionality of corporate governance.

Ryoyo Electro has taken several steps to enhance our corporate governance. For example, we established a Nomination and Compensation Committee, a voluntary advisory body to the Board of Directors, as well as appointing an outside Director as Chairman of the Board, increasing the ratio of outside board members, and reducing our cross-shareholdings. In 2021, with the aim of enabling decision-making that can respond more rapidly to changes in the business environment and strengthening oversight functions, we introduced a delegated executive officer system, while also reducing the number of Directors on the Board and shortening Director terms to one year.

Corporate Governance Highlights



Organizational structure of the Company

Chairman of the Board of Directors

Directors

Audit & Supervisory Board Members

Independent officers

Voluntarily established advisory committees for the Board of Directors

Structure of compensation for Directors

Company with Audit & Supervisory Board

Outside Director

8 (including 4 outside Directors)

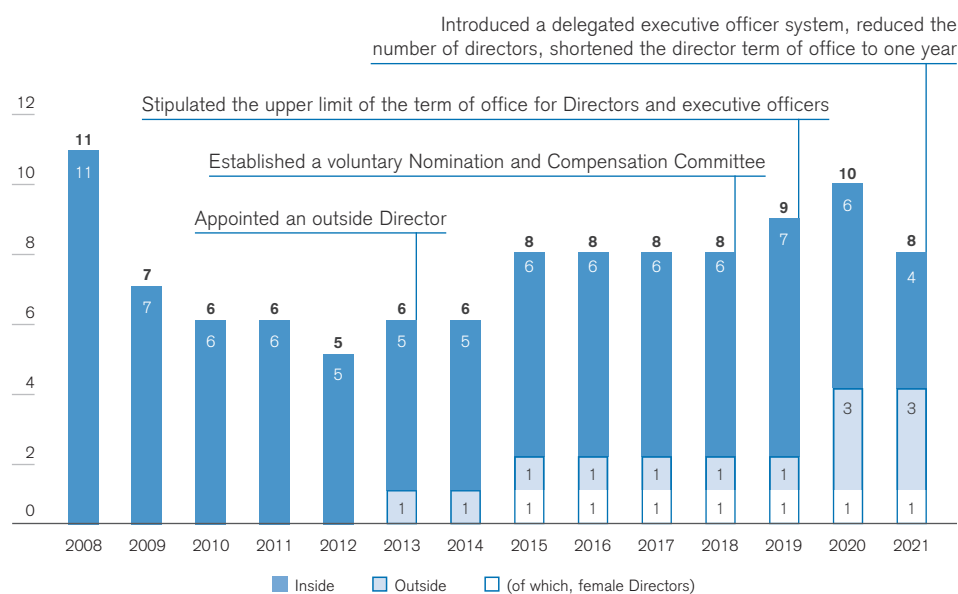
4 (including 3 outside Audit & Supervisory Board Members)

4 outside Directors and 3 outside Audit & Supervisory Board Members

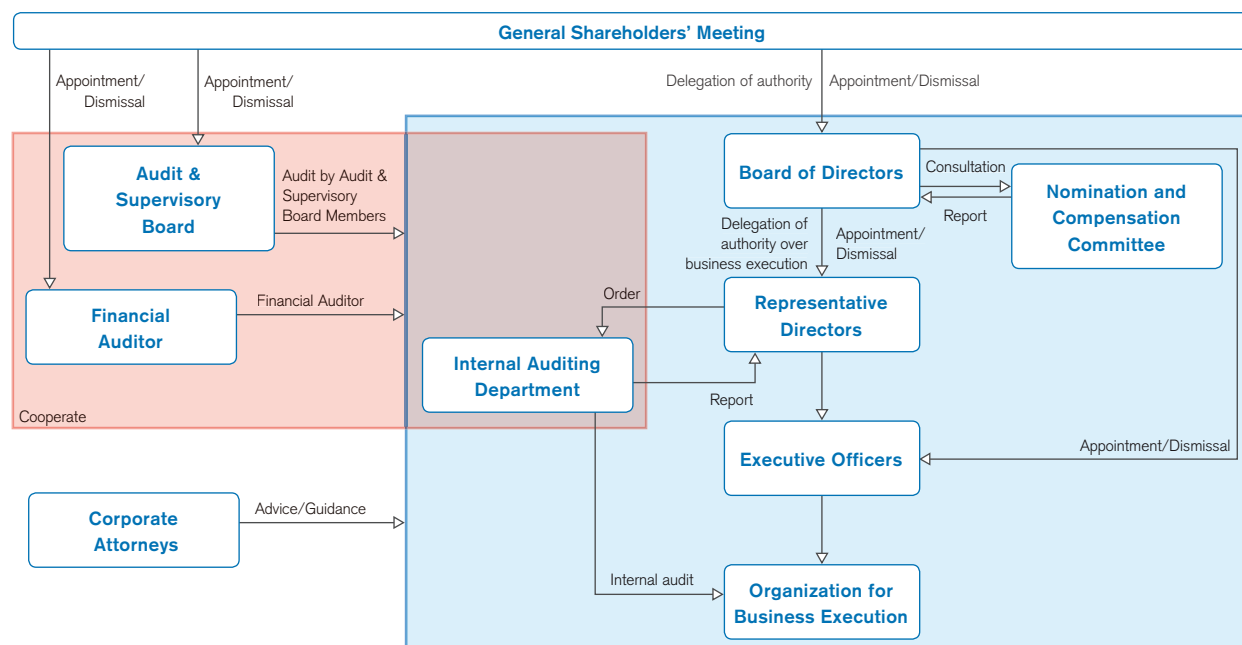
Nomination and Compensation Committee

Fixed compensation (basic compensation) Medium- to long-term performance-based compensation (restricted stock compensation)

History of Improvements in Governance and Trend of Composition of the Board of Directors



Corporate Governance System



Board of Directors

The Board of Directors, which consists of eight Directors, of whom four are outside Directors, is responsible for making decisions as stipulated in laws, regulations, and the articles of incorporation; making important decisions; and the Directors mutually oversee their execution of operations.

In principle, the Board of Directors meets once a month and met a total of 12 times during the fiscal year under review.

Audit & Supervisory Board

The Company is a Company with an Audit & Supervisory Board as defined by the Companies Act of Japan, whereby Audit & Supervisory Board Members act independently of Directors and oversee Directors' execution of operations. The Audit & Supervisory Board consists of four Audit & Supervisory Board Members, of whom three are outside Audit & Supervisory Board Members.

In principle, the Audit & Supervisory Board meets once a month and met a total of 12 times during the fiscal year under review.

Nomination and Compensation Committee

In November 2018, aiming to further enhance our corporate governance by strengthening the independence, objectivity, and accountability of the Board of Directors with regard to the nomination of directors and executive officers and related matters such as compensation, we established the Nomination and Compensation Committee as a voluntary advisory body to the Board of Directors.

The Nomination and Compensation Committee must include three or more Directors, the majority of whom must be outside Directors; it currently consists of six members, including four outside Directors, with an outside Director serving as Chair.

The Committee met six times during the fiscal year under review, deliberating and reporting to the Board on matters related to: (1) the appointment, dismissal, and transfer of Directors and executive officers, (2) individual compensation for Directors and executive officers, and (3) changes in the executive officer system.

List of Officers (As of April 28, 2021)

Board of Directors

Directors



Representative Director,
President & Chief Executive Officer

Moritaka Nakamura

Term of office: 3 years *12/12

Nomination and Compensation
Committee Member



Representative Director & Senior
Managing Executive Officer

Kiyoshi Waki

Term of office: 5 years *12/12

In charge of Corporate Planning Division
In charge of Corporate Administration Division
Nomination and Compensation
Committee Member



Director &
Managing Executive Officer

Yasushi Okazaki

Term of office: 2 years *12/12

In charge of Semiconductors &
Devices Division



Director &
Managing Executive Officer

Seiju Yasuda

Term of office: 2 years *12/12

In charge of Solutions Division

Outside Directors



Independent Officer

Yoshiharu Hayakawa

Term of office: 8 years *12/12

Chairman of the Board of Directors
Nomination and Compensation
Committee Member



Independent Officer

Masumi Shiraishi

Term of office: 2 years *12/12

Nomination and Compensation
Committee Member



Independent Officer

Shinya Takada

Term of office: 1 year *10/10

Nomination and Compensation
Committee Member



Independent Officer

Masashi Oba

Term of office: 1 year *10/10

Nomination and Compensation
Committee Member

Audit & Supervisory Board

Audit & Supervisory
Board Member

Hiroyuki Kanno

Term of office: 1 year *10/10
**10/10



Independent Officer

Ryoji Kimura

Term of office: 9 years *12/12
**12/12



Independent Officer

Kazumi Akiyama

Term of office: 5 years *12/12
**12/12



Independent Officer

Motomi Oi

Term of office: 1 year *10/10
**10/10

Outside Audit & Supervisory
Board Members

* Attendance at meetings of the Board of Directors

** Attendance at meetings of the Board of Audit & Supervisory Board Members

Criteria for the Selection of Outside Officers

In order to ensure the independence of the candidates it recommends for outside officer (outside Director and outside Audit & Supervisory Board Member), the Company has formulated criteria for the selection of outside officers.

Please see the following website for more details: <https://www.ryoyo.co.jp/en/csr>

Compensation for Directors and Audit & Supervisory Board Members

(i) Organization to Deliberate and Decide on Compensation for Directors

The Company established a Nomination and Compensation Committee in November 2018 as a voluntary advisory body to the Board of Directors to further enhance corporate governance by strengthening the independence, objectivity, and accountability of the Board of Directors' functions related to compensation. The Committee consists of four outside Directors, one of whom serves as the Committee chairman, and two Representative Directors, totaling six members. Decisions on compensation for Directors and Audit & Supervisory Board Members are made upon deliberation by the Committee and subsequent report on the total amount to the Board of Directors.

(ii) Structure and Determining Method of Compensation for Directors

(1) Compensation Policy

Our aim with Director compensation is to attract highly qualified people who can help realize Ryoyo Electro's Management Philosophy and improve our business performance in line with our Management Policy, as well as giving Directors an incentive to play an active role in enhancing our corporate value over the longer term. The Compensation Policy seeks to set out a suitable compensation system, including basic compensation and stock compensation (restricted stock). Moreover, individual compensation is based on the relevant aspects of the compensation system, while taking into account specific job description and level of responsibility.

(2) Policy for Determining the Amount, Award Period, and Terms of Basic Compensation for Individuals

Basic compensation is fixed monthly compensation paid in cash while the Director is in office. For Directors who also serve as executive officers, the basic compensation amount is determined annually at a certain period, based on the Compensation Table for each rank, and reflecting the previous year performance of the Company, the degree of contribution of each Director to the Company, and other factors. Compensation plans for outside Directors not also serving as executive officers are determined annually at a certain period, taking into account a range of factors, including Company performance, compensation levels at other companies, and the current social context.

(3) Policy for Determining the Content, Amount, Calculation Method, Award Period, and Terms of Stock-Based Compensation

Directors who also serve as executive officers are awarded restricted stock annually at a certain period while in office. Restricted stock indicates common shares of Ryoyo Electro stock which carry a clause restricting transfer of the stock from the date of issue throughout the duration of the tenure as Director or in another position specified by the Board of Directors, until the Director retires or resigns. The number of shares awarded is determined based on the Compensation Table for each rank.

(4) Policy on Compensation Table

In setting the Compensation Table, the Nomination and Compensation Committee uses as a reference objective survey data on compensation amounts of firms listed on the Japanese stock market,

compiled by outside specialists, and takes into consideration a range of factors, including the business performance and scale of our Company and the current social context. After making a relative comparison, the Committee then revises the Table appropriately, in line with the Compensation Policy.

(5) Policy on Determining the Ratio between Basic and Stock Compensation Amounts for Individual Director Compensation

The Committee determines the ratio of types of compensation for Directors who also serve as executive officers based on individual positions and responsibilities, as well as trends among other companies. As a rule of thumb, basic compensation accounts for 80% and stock compensation accounts for 20% of the overall compensation plan.

(6) Method of Determining Individual Director Compensation

All Director compensation plans are determined by a resolution of the Board of Directors, reflecting deliberation and reporting from the Nomination and Compensation Committee, the majority of whose members are independent outside Directors.

(iii) Total Compensation by Class of Directors and Audit & Supervisory Board Members, Total Compensation by Type, and the Number of Applicable Individuals

Class of Directors and Audit & Supervisory Board Members	Total compensation (millions of yen)	Compensation by type (millions of yen)		Number of applicable individuals
		Fixed compensation	Restricted stock compensation	
Directors	206	160	45	11
Of which, outside Directors	36	36	0	4
Audit & Supervisory Board Members	35	35	0	6
Of which, outside Audit & Supervisory Board Members	20	20	0	4
Total	241	196	45	17
Of which, outside Directors and outside Audit & Supervisory Board Members	57	57	0	8

(iv) Total Compensation for Individuals Whose Total Amount of Compensation is ¥100 Million or More

The statement is omitted, since there is no individual whose total amount of consolidated compensation is ¥100 million or more.

Analysis of Board of Directors' Effectiveness and Results of Evaluation

We conduct an annual self-evaluation to gauge the effectiveness of our Board of Directors. The most recent survey looked at such areas as the composition and administration of Board meetings and the content of discussions. The results indicated that the Directors, including outside Directors, are generally functioning appropriately, and that the effectiveness of the Board of Directors is being safeguarded.

Suggestions from various Directors included the idea that there is room for improvement in providing training opportunities to help Directors fulfill their duties, as well as for better mutual communication between outside and inside Directors and other executives. Others expressed their opinion that fuller discussions were needed around topics such as management strategies from a medium- and long-term perspective, new business creation, and SDGs and ESG.

The Board of Directors will continue to discuss these suggestions as we strive to improve the Board's effectiveness to help build an optimal corporate governance structure.

Internal Control Systems

The following are our basic principles for establishing internal control systems. These principles help us maintain systems for sound internal control.

<Content of Policy>

1. System for ensuring that the execution of duties by Group Directors and employees is in compliance with all laws, regulations, and the articles of incorporation
2. System for the storage and management of information related to the execution of duties by Directors
3. Rules and other systems for containing the risk of damages to the Group
4. System for ensuring the efficient execution of duties by Group Directors
5. System for ensuring the appropriateness of operations undertaken by the corporate group consisting of Ryoyo Electro and its subsidiaries and for facilitating reporting to the Company with regard to the execution of duties by directors and other individuals at subsidiaries
6. Items concerning employees requested by the Audit & Supervisory Board Members to serve as assistants, the independence of these employees from Directors, and ensuring the effectiveness of the orders issued to such employees by Audit & Supervisory Board Members
7. System concerning reports submitted by Directors and employees of the Company and by Directors, Audit & Supervisory Board Members, and employees of subsidiaries to the Audit & Supervisory Board Members of the Company; other systems concerning reports submitted to the Audit & Supervisory Board Members; and systems for ensuring that individuals issuing such reports do not suffer disadvantageous treatment due to reporting
8. Items related to policies concerning the procedures through which Audit & Supervisory Board Members may receive reimbursement, prior to or after the fact, for expenses incurred during the execution of their duties as well as the treatment of other expenses and liabilities incurred as part of the execution of duties
9. Other systems for ensuring effective auditing by the Audit & Supervisory Board Members

Risk Management Systems

For more information on business risks, please refer to the following section of the Company's corporate website.

<https://www.ryoyo.co.jp/en/ir-library/business-risk>

Risks that may affect our operations include those related to compliance, the environment, disasters, information security, product quality, foreign exchange rates, and financial reporting. Each department maintains effective risk management systems managed by employees that are responsible for risk management. In the event that any risk occurs, these employees will guide their department in responding quickly and effectively to those risks in order to minimize damages.

Policy for Proactive Communication with Shareholders

Note:
The Company strives to ensure timely and appropriate disclosure of management information through its corporate website and other venues.

<https://www.ryoyo.co.jp/en>

The Company endeavors to ensure that disclosure of management information is conducted accurately, impartially, and promptly. In addition, we recognize that facilitating mutual understanding through proactive communication with shareholders and incorporating feedback from shareholders into management decision-making are crucial to the Company's ongoing growth and to the medium- to long-term improvement of corporate value. Accordingly, the following provisions have been put in place to support proactive communications activities.

- (1) The Director in charge of the Corporate Planning Division oversees shareholder communications, with assistance from the General Manager of the Corporate Planning Division.
- (2) The Public Relations Department of the Corporate Planning Division functions as a venue for shareholder communications, while preparations for such communications are carried out jointly by the Corporate Planning, General Affairs, and Accounting departments.
- (3) Explanatory forums are held for institutional investors and analysts at which we report on and explain current business conditions and the future direction of the Company
- (4) Systems are in place to ensure that feedback received through shareholder communications activities is shared with management in a timely manner.
- (5) In-house workshops regarding insider information are held and other steps are taken to ensure the appropriate management of insider information.

Consolidated Financial Review

Operating Environment

During the fiscal year under review, the fiscal year ended January 31, 2021, Japan's economy was hard hit by the unprecedented global onset of the COVID-19 pandemic. While the economy is showing signs of gradual recovery, the pandemic is far from resolved, with a resurgence in new cases in Japan toward the end of 2020. Concerns remain about the prolonged impact of the crisis not only on economic activity but also on consumer spending and corporate capital investment.

The electronics industry in which the Group operates was impacted by COVID-19 in a wide range of areas, and although production has shown signs of picking up in the manufacturing sector, factors such as sluggish demand among end users and the tightening of export restrictions by the United States, as well as shortages in the semiconductor supply, have impeded a full-fledged recovery in the market, and the outlook remains uncertain. Capital spending by firms in the ICT area has also been soft: With the exception of IT spending related to teleworking demand and information security, much planned investment has been postponed or revised.

Results for the Fiscal Year Ended January 31, 2021

At the start of the fiscal year under review, we forecast lower full-year sales, taking into account the effect of projects that concluded in the previous fiscal year. The impact of COVID-19 subsequently became pronounced in both our Semiconductors & Devices and ICT & Solutions segments, however, and while substantial growth in semiconductor businesses for digital consumer electronics and new commercial rights contributed to performance, this was not sufficient to offset the negative impact of the pandemic.

In May 2020, we fully consolidated Stylez Corp., which engages in IT solution service businesses, as part of our effort to reinforce our framework and functions for developing solution businesses to address customer and market issues. The following November, in line with a fundamental revision of the company's capitalization policy, we took steps to boost profitability and improve capital efficiency going forward, such as buying back a total of ¥22 billion in treasury stock.

As a result, consolidated net sales for the fiscal year under review were down 11.7% year on year to ¥95,792 million; operating profit was down 41.2% to ¥1,266 million; ordinary profit decreased 58.6% to ¥905 million; and profit attributable to owners of parent decreased 38.1% to ¥806 million.

Sales by Products

Semiconductors & Devices

Net sales were down ¥4,484 million, or 8.3%, year on year, to ¥49,854 million.

Major sales by segment are as follows:

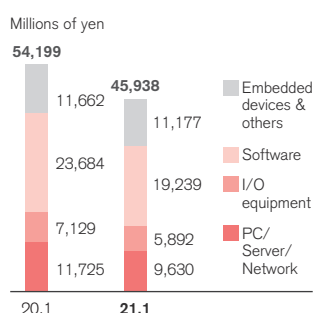
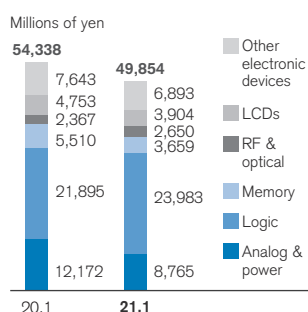
- Analog & power semiconductors: Sales of products to the industrial fields decreased due to the heavy impact of COVID-19.
- Logic semiconductors: There was large-scale growth for products for TVs, while there were declines in sales of products for PCs and peripherals.
- Memory semiconductors: Sluggish sales in general centering on products for PC peripherals.
- RF & optical semiconductors: Fell short of initial expectations, but the launch of new products made a positive contribution.

ICT & Solutions

Net sales were down ¥8,261 million, or 15.2%, year on year, to ¥45,938 million.

Major sales by segment are as follows:

- PCs/Server/Network: The number of large-scale projects decreased year on year, and restraints on investment due to the impact of COVID-19 continued, mainly in medical fields.
- I/O equipment: Display-related products recovered starting from the second half, reaching almost the same level as the previous year, but the impact on printers of business that concluded in the previous year remains.
- Software: Performed favorably year on year in the first half but fell into negative territory as replacement demand following the termination of support for Windows 7 diminished in the latter part of the second half.
- Embedded devices and others: Development of new contracts was sluggish due to the cancellation of trade shows and other events; the impact was caused by lower volume and postponement in development contracts in the factory automation and medical fields.



Sales by Region

Japan

A downturn in sales of software for PCs led to a year-on-year decrease in sales to external customers in Japan of ¥19,027 million, or 21.7%, to ¥68,565 million. Operating profit in this regional segment was down ¥801 million, or 42.3%, to ¥1,093 million.

Asia

Sales to external customers in Asia increased ¥6,281 million year on year, or 30.0%, to ¥27,227 million, buoyed by higher sales of semiconductors for digital consumer electronics. Operating profit in this regional segment was up ¥17 million, or 8.6%, to ¥221 million.

The figure for operating profit presented in the consolidated statements of profit includes operating profit from each segment as well as from intersegment transactions.

Financial Position

Total assets at the end of the fiscal year under review amounted to ¥59,336 million, a decrease of ¥18,781 million from the previous fiscal year-end. This was mainly due to a decrease in investment securities.

Total liabilities were up ¥5,362 million from the previous fiscal year-end to ¥21,344 million, mainly due to an increase in short-term borrowing.

Total net assets decreased ¥24,143 million year on year to ¥37,992 million. This was mainly attributable to our buyback of treasury stock, which increased total treasury stock holdings.

Cash Flows

Cash and cash equivalents totaled ¥7,644 million at fiscal year-end, a year-on-year decrease of ¥4,772 million. This was mainly due to expenditures for the repurchase of treasury stock.

Net cash provided by operating activities was ¥3,003 million, an increase of ¥1,539 million from the previous fiscal year-end. This mainly reflects a ¥2,860 million decrease in notes and accounts receivable-trade, in addition to the recording of ¥1,028 million in profit before income taxes.

Net cash provided by investing activities was ¥10,431 million for the year under review, a year-on-year increase of ¥11,197 million. This reflects factors such as proceeds of ¥13,407 million from sales of investment securities.

Net cash used in financing activities amounted to ¥18,327 million, a year-on-year increase of ¥16,584 million. This primarily reflects expenditures of ¥22,451 million for the purchase of treasury stock.

Returning Profits to Shareholders

Basic Policy Regarding the Distribution of Profit

Our basic policy regarding dividend payments is to return profits to shareholders while considering the Company's financial position and the operating environment, as we seek to maintain a stable operating foundation and pursue future business expansion. We have set a dividend on equity ratio (DOE) of 5% as our target for shareholder returns.

		Dividend per share (Yen)		Full Year	Payout Ratio	DOE
		Interim	Year-End			
FY2022/1	Forecast	60	60	120	154.1%	5.5%
FY2021/1	Result	60 (Ordinary dividend: 60)	120 (Ordinary dividend: 60) (Commemorative dividend: 60)	180 (Ordinary dividend: 120) (Commemorative dividend: 60)	511.5%	7.6%
FY2020/1	Result	40	40	80	150.8%	3.2%

Consolidated Balance Sheets

Ryoyo Electro Corporation and Consolidated Subsidiaries At January 31, 2021 and 2020

	Millions of yen		Thousands of U.S. dollars
	As of January 31, 2020	As of January 31, 2021	As of January 31, 2021
Assets			
Current assets			
Cash and deposits	¥ 12,417	¥ 7,644	\$ 73,169
Notes and accounts receivable-trade	28,152	25,484	243,919
Securities	—	999	9,566
Merchandise and finished goods	12,598	11,614	111,161
Work in process	—	150	1,442
Other	1,288	1,535	14,697
Allowance for doubtful accounts	(2)	(6)	(58)
Total current assets	54,453	47,423	453,897
Non-current assets			
Property, plant and equipment			
Tools, furniture and fixtures, net	96	84	808
Land	5	5	55
Construction in progress	—	4	38
Other, net	126	120	1,150
Total property, plant and equipment	229	214	2,051
Intangible assets			
Goodwill	—	599	5,741
Other	311	245	2,347
Total Intangible assets	311	844	8,088
Investments and other assets			
Investment securities	20,334	8,143	77,944
Deferred tax assets	—	39	378
Retirement benefit asset	1,627	1,520	14,549
Other	1,481	1,804	17,270
Allowance for doubtful accounts	(320)	(653)	(6,253)
Total Investments and other assets	23,122	10,854	103,888
Total noncurrent assets	23,664	11,913	114,026
Total Assets	¥ 78,117	¥ 59,336	\$ 567,923

	Millions of yen		Thousands of U.S. dollars
	As of January 31, 2020	As of January 31, 2021	As of January 31, 2021
Liabilities			
Current liabilities			
Notes and accounts payable-trade	¥ 12,006	¥ 11,263	\$ 107,810
Short-term borrowings	—	6,637	63,530
Income taxes payable	730	92	883
Accrued consumption taxes	226	231	2,212
Provision for bonuses	467	264	2,536
Other	1,123	1,335	12,785
Total current liabilities	14,554	19,825	189,755
Non-current liabilities			
Long-term borrowings	—	79	759
Deferred tax liabilities	827	919	8,797
Retirement benefit liability	182	212	2,029
Other	418	308	2,953
Total noncurrent liabilities	1,427	1,518	14,538
Total liabilities	15,982	21,344	204,293
Net assets			
Shareholders' equity			
Share capital	13,672	13,672	130,858
Capital surplus	13,336	13,336	127,646
Retained earnings	35,337	33,460	320,254
Treasury shares	(2,630)	(24,461)	(234,130)
Total shareholders' equity	59,715	36,006	344,627
Accumulated other comprehensive income			
Valuation difference on available-for-sale securities	2,141	2,119	20,284
Deferred gains or losses on hedges	(0)	(0)	(4)
Foreign currency translation adjustment	79	(126)	(1,210)
Remeasurements of defined benefit plans	97	(50)	(488)
Total accumulated other comprehensive income	2,317	1,941	18,582
Share acquisition rights	102	43	420
Total Net assets	62,135	37,992	363,630
Total Liabilities and net assets	¥ 78,117	¥ 59,336	\$ 567,923

Consolidated Statements of Income and Consolidated Comprehensive Statements of Income

Ryoyo Electro Corporation and Consolidated Subsidiaries For the years ended January 31, 2021 and 2020

	Millions of yen		Thousands of U.S. dollars
	Fiscal year ended January 31, 2020	Fiscal year ended January 31, 2021	Fiscal year ended January 31, 2021
Consolidated Statement of Income			
Net sales	¥ 108,538	¥ 95,792	\$ 916,851
Cost of sales	98,177	86,598	828,851
Gross profit	10,361	9,194	88,000
Selling, general and administrative expenses			
Provision of allowance for doubtful accounts	(0)	(0)	(8)
Salaries and bonuses	3,191	3,286	31,460
Provision for bonuses	434	244	2,335
Retirement benefit expenses	57	87	838
Rent expenses	362	410	3,931
Depreciation	264	219	2,103
Other	3,896	3,679	35,215
Total selling, general and administrative expenses	8,206	7,927	75,874
Operating profit	2,154	1,266	12,126
Non-operating income			
Interest income	62	34	327
Dividend income	167	160	1,533
Purchase discounts	7	1	15
Gain on investments in investment partnerships	18	58	562
Other	16	81	779
Total non-operating income	272	335	3,216
Non-operating expenses			
Interest expenses	–	53	517
Sales discounts	5	37	356
Foreign exchange losses	181	61	587
Commission expenses	20	32	313
Loss on abandonment of non-current assets	4	0	8
Commission for purchase of treasury shares	–	490	4,698
Other	26	20	199
Total non-operating expenses	239	697	6,678
Ordinary profit	2,187	905	8,663
Extraordinary income			
Gain on sales of investment securities	430	597	5,717
Gain on contribution of securities to retirement benefit trust	700	47	451
Gain on liquidation of subsidiaries and associates	9	–	–
Total extraordinary income	1,140	644	6,168
Extraordinary losses			
Loss on sales of investment securities	–	175	1,678
Loss on valuation of investment securities	1,107	41	399
Loss on valuation of shares of subsidiaries and associates	–	136	1,310
Provision of allowance for doubtful accounts	–	47	456
Settlement package	–	119	1,141
Total extraordinary losses	1,107	520	4,984
Profit before income taxes	2,219	1,028	9,847
Income taxes - current	771	62	597
Income taxes - deferred	145	160	1,534
Total income taxes	916	222	2,131
Profit	1,303	806	7,716
Profit attributable to owners of parent	¥ 1,303	¥ 806	\$ 7,716
Consolidated Comprehensive Statement of Income			
Profit attributable to owners of parent	1,303	806	7,716
Other comprehensive income			
Valuation difference on available-for-sale securities	571	(21)	(208)
Deferred gains or losses on hedges	0	(0)	(2)
Foreign currency translation adjustment	(110)	(151)	(1,450)
Remeasurements of defined benefit plans, net of tax	(84)	(148)	(1,423)
Total other comprehensive income	377	(322)	(3,083)
Comprehensive income	1,680	484	4,632
(Details)			
Comprehensive income attributable to owners of parent	1,680	484	4,632
Comprehensive income attributable to non-controlling interests	–	–	–

Consolidated Statements of Changes in Net Assets

Ryoyo Electro Corporation and Consolidated Subsidiaries For the years ended January 31, 2021 and 2020

	Millions of yen										
	Shareholders' equity					Accumulated other comprehensive income					
	Share capital	Capital surplus	Retained earnings	Treasury shares	Total share-holders' equity	Valuation difference on available -for sale securities	Deferred gains or losses on hedges	Foreign currency translation adjustment	Remea-surements of defined benefit plans	Share acquisition rights	Total net assets
From February 1, 2019 to January 31, 2020											
Balance at the beginning of current period	¥13,672	¥13,336	¥35,827	¥(2,690)	¥60,145	¥1,569	¥(0)	¥189	¥182	¥123	¥62,208
Changes during period											
Dividends of surplus			(1,718)		(1,718)						(1,718)
Profit attributable to owners of parent			1,303		1,303						1,303
Purchase of treasury shares				(1)	(1)						(1)
Exercise of share acquisition rights		(15)		36	20						20
Restricted stock payment		10		24	35						35
Increasing and decreasing by consolidated subsidiaries merging with unconsolidated subsidiaries			(69)		(69)						(69)
Transfer from retained earnings to capital surplus		4	(4)		—						—
Net changes in items other than shareholders' equity					—	571	0	(110)	(84)	(20)	356
Total changes during period	—	—	(490)	60	(429)	571	0	(110)	(84)	(20)	(73)
Balance at end of period	¥13,672	¥13,336	¥35,337	¥(2,630)	¥59,715	¥2,141	¥(0)	¥79	¥97	¥102	¥62,135

Millions of yen											
	Shareholders' equity					Accumulated other comprehensive income					
	Share capital	Capital surplus	Retained earnings	Treasury shares	Total share-holders' equity	Valuation difference on available -for sale securities	Deferred gains or losses on hedges	Foreign currency translation adjustment	Remea-surements of defined benefit plans	Share acquisition rights	Total net assets
From February 1, 2020 to January 31, 2021											
Balance at the beginning of current period	¥13,672	¥13,336	¥35,337	¥(2,630)	¥59,715	¥2,141	¥(0)	¥79	¥97	¥102	¥62,135
Changes during period											
Dividends of surplus			(2,463)		(2,463)						(2,463)
Profit attributable to owners of parent			806		806						806
Purchase of treasury shares				(21,960)	(21,960)						(21,960)
Disposal of treasury shares		0		0	0						0
Exercise of share acquisition rights		(43)		101	58						58
Restricted stock payment		29		27	56						56
Change in scope of consolidation			(205)		(205)			(53)			(259)
Transfer from retained earnings to capital surplus		13	(13)		—						—
Net changes in items other than shareholders' equity					—	(21)	(0)	(151)	(148)	(58)	(380)
Total changes during period	—	—	(1,877)	(21,831)	(23,709)	(21)	(0)	(205)	(148)	(58)	(24,143)
Balance at end of period	¥13,672	¥13,336	¥33,460	¥(24,461)	¥36,006	¥2,119	¥(0)	¥(126)	¥(50)	¥43	¥37,992

Thousands of U.S. Dollars											
	Shareholders' equity					Accumulated other comprehensive income					
	Share capital	Capital surplus	Retained earnings	Treasury shares	Total share-holders' equity	Valuation difference on available -for sale securities	Deferred gains or losses on hedges	Foreign currency translation adjustment	Remea-surements of defined benefit plans	Share acquisition rights	Total net assets
From February 1, 2020 to January 31, 2021											
Balance at the beginning of current period	\$130,858	\$127,646	\$338,221	\$(25,173)	\$571,553	\$20,492	\$(2)	\$757	\$935	\$977	\$594,712
Changes during period											
Dividends of surplus			(23,582)		(23,582)						(23,582)
Profit attributable to owners of parent			7,716		7,716						7,716
Purchase of treasury shares				(210,190)	(210,190)						(210,190)
Disposal of treasury shares		0		0	0						0
Exercise of share acquisition rights		(414)		972	558						558
Restricted stock payment		281		260	541						541
Change in scope of consolidation			(1,969)		(1,969)			(516)			(2,485)
Transfer from retained earnings to capital surplus		133	(133)		—						—
Net changes of items other than shareholders' equity					—	(208)	(2)	(1,450)	(1,423)	(557)	(3,640)
Total changes during period	—	—	(17,968)	(208,958)	(226,925)	(208)	(2)	(1,966)	(1,423)	(557)	(231,082)
Balance at end of period	\$130,858	\$127,646	\$320,254	\$(234,130)	\$344,627	\$20,284	\$(4)	\$(1,210)	\$(488)	\$420	\$363,630

Consolidated Statements of Cash Flows

Ryoyo Electro Corporation and Consolidated Subsidiaries For the years ended January 31, 2021 and 2020

	Millions of yen		Thousands of U.S. dollars
Consolidated Statement of Income	Fiscal year ended January 31, 2020	Fiscal year ended January 31, 2021	Fiscal year ended January 31, 2021
Cash flows from operating activities			
Profit before income taxes	¥ 2,219	¥ 1,028	\$ 9,847
Depreciation	275	241	2,310
Amortization of goodwill	–	42	410
Loss (gain) on sales and retirement of non-current assets	6	0	5
Share-based remuneration expenses	27	51	493
Expenses for treasury shares	–	490	4,698
Loss (gain) on investments in investment partnerships	(18)	(58)	(562)
Foreign exchange losses (gains)	0	(26)	(254)
Increase (decrease) in provisions	203	(216)	(2,076)
Increase (decrease) in retirement benefit liability	(742)	(58)	(564)
Interest and dividend income	(229)	(194)	(1,860)
Interest expenses	–	53	517
Loss (gain) on sales of investment securities	(429)	(422)	(4,039)
Loss (gain) on valuation of investment securities	1,107	41	399
Loss on valuation of shares of subsidiaries and associates	–	136	1,310
Settlement package	–	119	1,141
Decrease (increase) in trade receivables	(2,630)	2,860	27,380
Decrease (increase) in inventories	(506)	990	9,481
Increase (decrease) in trade payables	1,949	(991)	(9,489)
Increase (decrease) in accrued consumption taxes	(20)	(27)	(265)
Other, net	231	(153)	(1,470)
Subtotal	1,444	3,908	37,412
Interest and dividends received	230	201	1,930
Interest paid	(1)	(53)	(511)
Settlement package paid	–	(38)	(368)
Income taxes (paid) refund	(208)	(1,015)	(9,719)
Net cash provided by (used in) operating activities	1,463	3,003	28,744
Cash flows from investing activities			
Payments into time deposits	(100)	(21)	(205)
Proceeds from withdrawal of time deposits	100	21	205
Proceeds from sales of securities	500	–	–
Purchase of property, plant and equipment and intangible assets	(164)	(107)	(1,026)
Proceeds from sales of property, plant and equipment and intangible assets	1	1	14
Purchase of investment securities	(7,168)	(2,484)	(23,776)
Proceeds from sales of investment securities	5,740	13,407	128,330
Proceeds from redemption of investment securities	500	–	–
Purchase of shares of subsidiaries and associates	(59)	(98)	(946)
Proceeds from liquidation of affiliates	66	–	–
Loan advances to subsidiaries and associates	(220)	–	–
Proceeds from distributions from investment in partnerships	23	86	827
Purchase of insurance funds	(60)	(75)	(723)
Purchase of shares of subsidiaries resulting in change in scope of consolidation	–	(383)	(3,667)
Other, net	73	84	804
Net cash provided by (used in) investing activities	(766)	10,431	99,838
Cash flows from financing activities			
Proceeds from short-term borrowings	–	33,986	325,293
Repayments of short-term borrowings	–	(27,353)	(261,807)
Dividends paid	(1,716)	(2,458)	(23,533)
Purchase of treasury shares	(1)	(22,451)	(214,888)
Proceeds from sales of treasury shares	–	0	0
Repayments of lease obligations	(26)	(36)	(350)
Other, net	–	(14)	(136)
Net cash provided by (used in) financing activities	(1,743)	(18,327)	(175,421)
Effect of exchange rate change on cash and cash equivalents	(47)	(64)	(619)
Net increase (decrease) in cash and cash equivalents	(1,093)	(4,958)	(47,458)
Cash and cash equivalents at beginning of period	13,416	12,417	118,846
Increase in cash and cash equivalents resulting from inclusion of subsidiaries in consolidation	–	186	1,782
Increase in cash and cash equivalents resulting from merger with unconsolidated subsidiaries	94	–	–
Cash and cash equivalents at end of period	¥ 12,417	¥ 7,644	\$ 73,169

Corporate Data / Investor Information

As of January 31, 2021

Company Name

Ryoyo Electro Corporation

Head Office

1-12-22 Tsukiji, Chuo-ku,
Tokyo 104-8408, Japan

Telephone

+81-3-3543-7711

FAX

+81-3-3545-3507

Website

<https://www.ryoyo.co.jp/en>

Establishment

February 27, 1961

Capital

¥13,672 million

Authorized Shares

119,628,800

Shares Issued

26,800,000

Shareholders

11,827

Stock Trading Unit

100 shares

Stock Listing

Tokyo Stock Exchange,
First Section

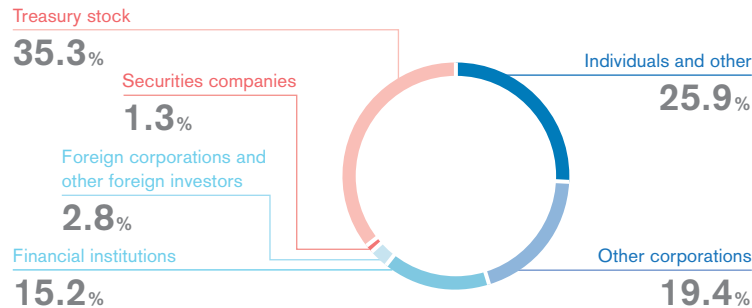
Ticker Code

8068

Transfer Agent

Mitsubishi UFJ Trust and
Banking Corporation

Composition of Shareholders

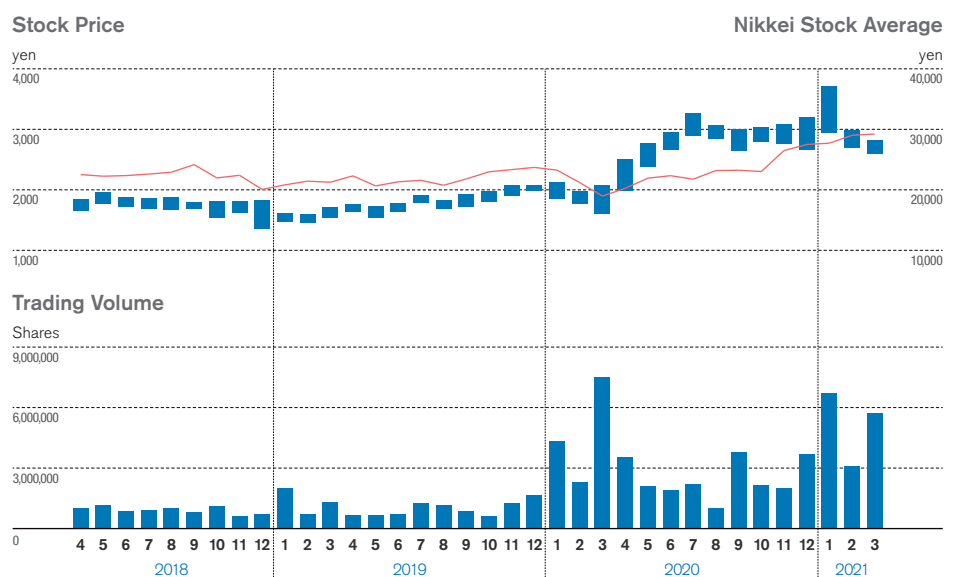


Major Shareholders

	Thousands of shares	%
Mitsubishi Electric Corporation	2,246	12.96
SHC Corporation	2,118	12.22
The Master Trust Bank of Japan (Trust account)	1,414	8.16
Sheep Shokai Co.	523	3.02
Custody Bank of Japan (Trust account)	509	2.94
Nippon Life Insurance Company	409	2.36
Custody Bank of Japan (Trust account 6)	283	1.63
Ryoyo Electro Employee Stockholder Association	267	1.54
Custody Bank of Japan (Trust account 1)	245	1.42
Custody Bank of Japan (Trust account 5)	237	1.37

Note: Calculations for the ownership percentages above do not account for the 9,463,367 shares of treasury stock.

Stock Price Chart



Caution on Forward-Looking Statements

The contents of this annual review that are not historical fact represent projections based on expectations and plans for the future. These projections contain elements of risk and uncertainty. As a result, forward-looking statements made in this annual review may differ from actual results and performance.

Notes on Performance Figures in This Annual Review

The performance figures used in this annual review, including those from previous fiscal years, are based on Ryoyo Electro Corporation's audited Japanese financial reviews.



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