

FY 2019/H1
Results Briefing Material for six months
ended July 31, 2019 (February-July)

August 30, 2019

Ryoyo Electro Corporation

[Tokyo Stock Exchange 1st Section, Ticker Code: 8068]

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

H1/FY 2019 Business Results

FY 2019 Business Plan

Three-year Business Plan

H1/FY 2019 Business Results

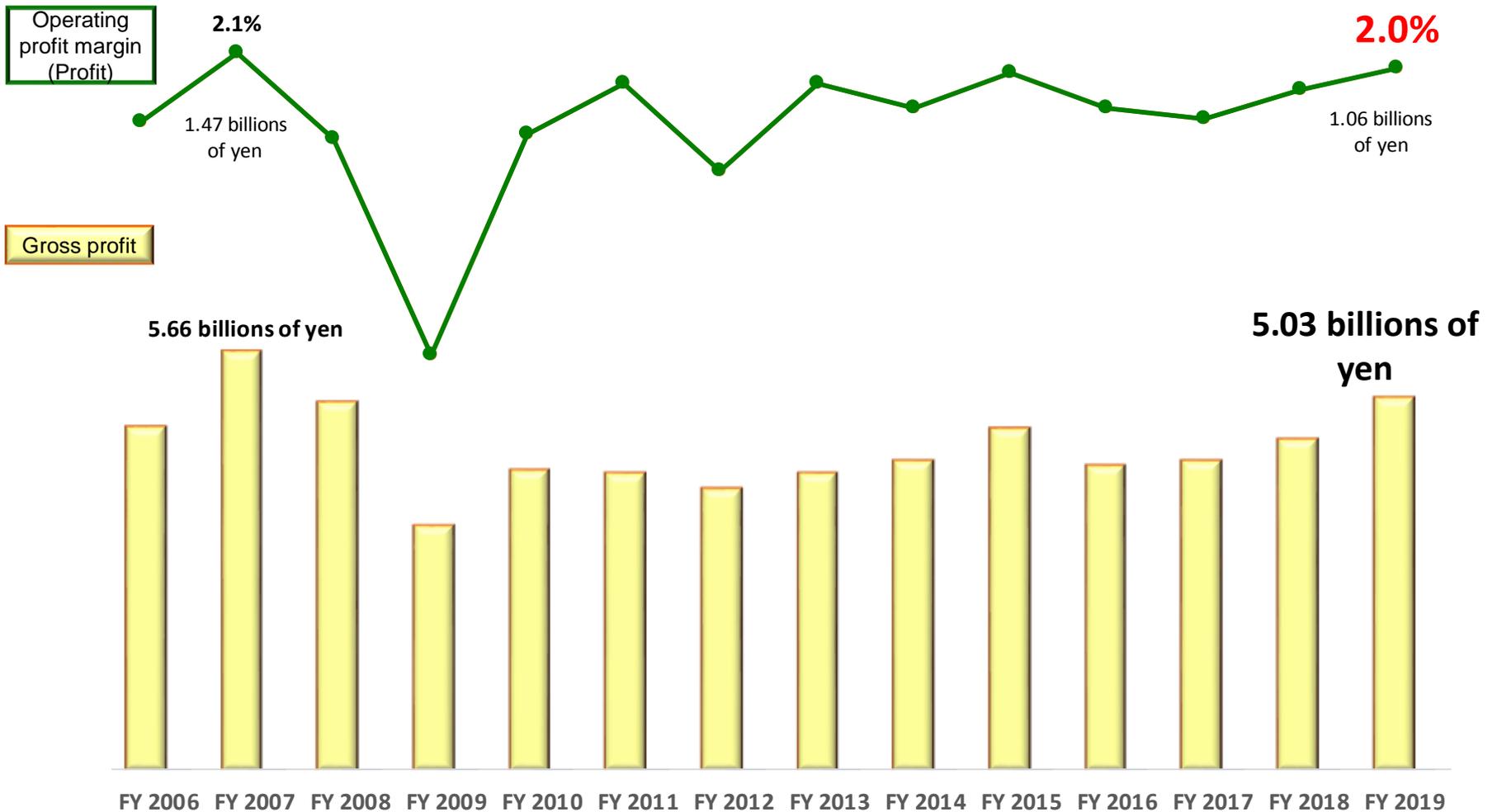
- **Net sales:** Substantial growth in both semiconductor devices and ICT solutions
- **Gross profit:** Although profit margin was affected by changes to the sales structure and exchange-rate fluctuations, profit is up substantially both YOY and vs. initial plans

(Unit: 100 millions of yen)

	FY 2018 Results	FY 2019		YOY		vs. initial plan	
		Initial plan	Results	Diff	%	Diff	%
Net sales	451	485	542	+ 91	+ 20.2%	+ 57	+ 11.8%
Gross profit	44.8 9.9%	47.5 9.8%	50.3 9.3%	+ 5.5	+ 12.2%	+ 2.8	+ 5.8%
Selling, general and administrative expenses	36.9	39.0	39.7	+ 2.8	+ 7.5%	+ 0.7	+ 1.7%
Operating income	7.9 1.8%	8.5 1.8%	10.6 2.0%	+ 2.7	+ 34.1%	+ 2.1	+ 24.8%
Ordinary income	8.9 2.0%	9.0 1.9%	11.4 2.1%	+ 2.5	+ 27.8%	+ 2.4	+ 26.7%
Profit attributable to owners of parent	6.2 1.4%	6.4 1.3%	8.0 1.5%	+ 1.8	+ 28.5%	+ 1.6	+ 24.4%

H1 results are at their highest level in 12 years

- H1 results are at their highest level in 12 years (since FY 2007), with gross profit at 5 billion yen and the operating margin at 2.0%.
- Finally returning to the level from prior to the Global Financial Crisis



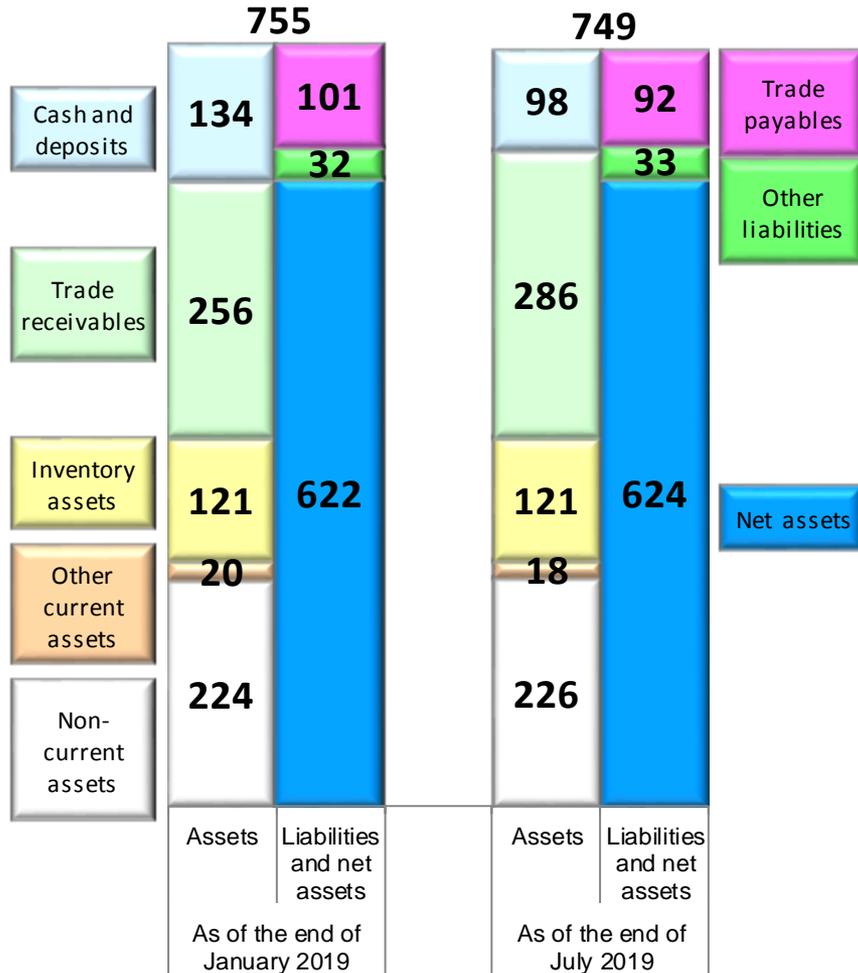
Sales by product: Substantial growth in products for PC and TV use **RYOYO**

(Unit: 100 millions of yen)

	FY 2018 Results	FY 2019 Results	Increase (decrease)	%	Comment	
Total net sales	451	542	+ 91	+ 20.2%		
Semiconductors/Devices	243	276	+ 33	+ 13.5%		
By use	Communications	32	37	+ 5	+ 14.2%	Even as the smartphone business shrinks, the infrastructure-related business is growing
	Digital consumer electronics	21	43	+ 22	+ 105.8%	Sales for TV use are growing more than expected
	Vehicle installation	14	15	+ 2	+ 12.1%	Expansion of commercial rights contributed
	PC and peripherals	91	96	+ 5	+ 5.0%	Strong performance of products for both PC and peripheral use
	Industrials and others	85	85	△ 0	△ 0.1%	The level of performance remains high with no major change from the previous period in which large-scale deals contributed
ICT/Solutions	209	267	+ 58	+ 27.9%		
By product	PC/Server/Network	46	59	+ 13	+ 28.4%	Growth in server-related businesses, thanks to the contributions of large-scale deals
	I/O equipment	37	38	+ 1	+ 3.0%	Through revising the policies of some businesses and securing a level similar to that of last year, thanks to increased sales of display-related products despite decreasing printer-related sales
	Software	75	106	+ 30	+ 40.3%	PC demand is much higher than initially anticipated in the run-up to the Windows 7 EOS and the increase in consumption tax
	Embedded devices and others	51	64	+ 14	+ 27.0%	The growth trend in products related to AI and deep learning technologies continues

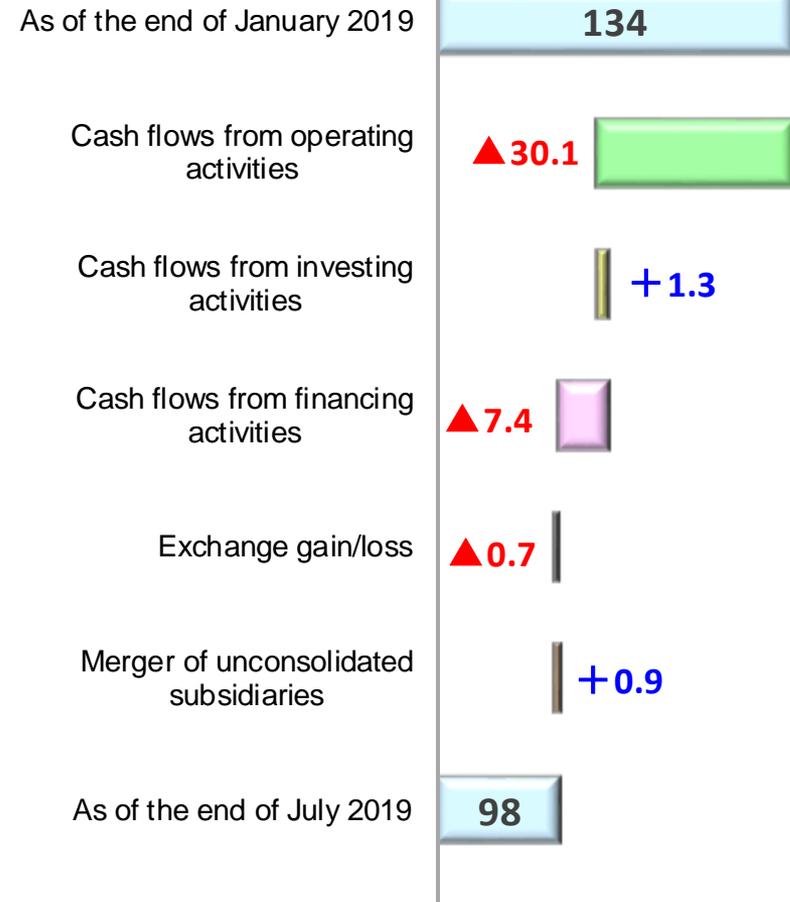
State of the Balance Sheet

(Unit: 100 millions of yen)



State of Cash Flows

(Unit: 100 millions of yen)



FY 2019 Business Plan

Although forecasts of gross profit margin and SG&A will be revised in light of H1 results, since there is uncertainty in the business environment in Q3 and later the outlook for sales, operating income, ordinary income, and net income will remain unchanged from initial plans.

(Unit: 100 millions of yen)

	FY 2018 Whole year Results	FY 2019				YOY		vs. initial plan	
		H1 Results	H2 (Revised plan)	Whole year (Revised plan)	Whole year Initial plan	Increase (decrease)	%	Increase (decrease)	%
Net sales	938	542	438	980	980	+ 42	+ 4.5%	—	—
Gross profit	89.3 9.5%	50.3 9.3%	43.5 9.9%	93.8 9.6%	96.0 9.8%	+ 4.5	+ 5.1%	▲ 2.2	▲ 2.3%
Selling, general and administrative expenses	76.7	39.7	39.1	78.8	81.0	+ 2.1	+ 2.8%	▲ 2.2	▲ 2.7%
Operating income	12.6 1.3%	10.6 2.0%	4.4 1.0%	15.0 1.5%	15.0 1.5%	+ 2.4	+ 19.3%	—	—
Ordinary income	14.7 1.6%	11.4 2.1%	4.6 1.0%	16.0 1.6%	16.0 1.6%	+ 1.3	+ 8.5%	—	—
Profit attributable to owners of parent	10.2 1.1%	8.0 1.5%	3.4 0.8%	11.4 1.2%	11.4 1.2%	+ 1.2	+ 11.7%	—	—

(Unit: 100 millions of yen)

	FY 2018 Results	FY 2019		YOY Increase (decrease)	vs. initial plan Increase (decrease)	Comment	
		Initial plan	Revised plan				
Total net sales	938	980	980	+ 42	—		
Semiconductors/Devices	499	525	525	+ 26	—		
By use	Communications	68	65	72	+ 4	+ 7	Plans call for launching new products for smartphone use in addition to our strong infrastructure-related products
	Digital consumer electronics	47	65	83	+ 36	+ 18	Sales of products for TV use, which we initially expected to grow, are much higher than anticipated
	Vehicle installation	29	30	30	+ 1	—	Roughly unchanged YOY, with no change from initial plans
	PC and peripherals	195	195	165	▲ 30	▲ 30	H2 forecasts revised due to some PC-related projects coming to an end
	Industrials and others	160	170	175	+ 15	+ 5	Revenues up YOY in light of strong H1 trends in solar power-related products and products for railway companies
ICT/Solutions	439	455	455	+ 16	—		
By product	PC/Server/Network	98	98	98	▲ 0	—	Roughly unchanged YOY, with no change from initial plans
	I/O equipment	78	79	68	▲ 10	▲ 11	H2 forecasts revised because of some printer-related projects coming to an end
	Software	150	155	180	+ 30	+ 25	H2 forecasts unchanged from initial plans (Reflecting only upward revision during H1)
	Embedded devices and others	113	123	109	▲ 4	▲ 14	Plans revised downward because of unclear prospects for the launch of a project that had been expected to contribute starting in H2

➤ Basic dividend policy

We consider allocation of profit earned through our business activities to be one of the most important subjects of management. While we seek to maintain the stable management base and expand future business, we also seek to ensure returns for shareholders based on our financial condition and business environment.

Beginning in FY 2019, our basic policy is one of paying stable dividends aiming for a dividends to owners' equity (DOE) ratio of 3%.

		Dividend per share			Payout ratio	DOE
		Interim (Q2)	Year-end	Whole year		
FY 2019	(Forecast)	-	40 yen	80 yen	172.1%	3.2%
	Results	40 yen	-	-	-	-
FY 2018	Results	30 yen	30 yen	60 yen	144.2%	2.3%

Three-Year Business Plan

February 2019 to January 2022

"Succeeding against the competition through customer satisfaction"

Three strategic frameworks of the business plan

Restructuring Trading Functions

Challenge to "Only RYOYO"

Enhancing Business Infrastructure

While restructuring our essential roles as an electronics trading company, advancing new initiatives suited to our changing world.

- Taking maximum advantage of our existing customer base by thoroughly uncovering customer needs (pursuing anew the trade fundamentals demanded of a trading company)
- Pursuing business growth through development and expansion of new customers, products, and areas

(i) Maximizing business for existing models and existing customers

- Increasing sales by thoroughly rediscovering the needs of our asset of existing customers

(ii) Expanding sales of new products to existing customers

- Developing new products in China, Europe, and elsewhere, and growing their sales to our asset of existing customers

(iii) Expanding new customers and areas for existing models

- Accelerating efforts to secure trading rights to existing models
- Expanding areas served through setting up new overseas facilities for the future

Basic strategic framework

		Models	
		Existing	New
Custo mers	Existing	(1)	(2)
	New	(3)	Growth through an Only RYOYO approach

(ii) Expanding sales of new products to existing customers

■ Sitronix Technology

Beginning handling of display devices such as display driver ICs

■ Hakaru Plus

Beginning handling of private LoRa products with functions optimized for specific uses



■ Quectel Wireless Solutions

Concluding sales-agent agreements with the world's leading communication module makers

Basic strategic framework

		Models	
		Existing	New
Custo mers	Existing	(1)	(2)
	New	(3)	Growth through an Only RYOYO approach

(iii) Expanding new customers and areas for existing models

■ Opening a subsidiary in Germany

Beginning operations as the Group's first facility in Europe (April)



■ Opening a subsidiary in Malaysia

Converting the representative office that opened in 2011 to a subsidiary

Enhancing its organization as a base for sales activities in not only Malaysia but other ASEAN markets as well (sales began in October)

■ Participation in the 5G Open Partner Program

Together with aiming to develop services suited to the 5G age, aiming to realize business matching with other participants

Basic strategic framework

		Models	
		Existing	New
Custo mers	Existing	(1)	(2)
	New	(3)	Growth through an Only RYOYO approach

■ Expanding the wireless communication portfolio

Wireless communication											
LPWA Low Speed								Network High Speed		Near distance Communication	
LoRaWAN System	LoRaWAN Module	LoRaWAN Chip	Private LoRa	ZETA System	ELTRES	NB-IoT Modure	Cat M	4G / LTE	5G	Wi-Fi	BLE
○	○	○	○	○	○	QUECTEL	QUECTEL	QUECTEL	QUECTEL	QUECTEL	○
								<Channel Partner> 5G Open Partner Program			
Until now . . .											



In addition



In advance of service introduction and infrastructure development
Accelerating initiatives in the 5G field



■ Proactively promoting LPWA and 5G initiatives at trade shows, seminars, etc.

[Exhibiting at trade shows]

- 5G IoT Network Expo (July 17-19 @ Tokyo)
- Customer previews (held from time to time)
Held at seven companies (over nine days) in H1

(Exhibitions planned for the future)

- CEATEC (October 15-18 @ Makuhari)
- ET & IoT Technology (November 20-22 @ Yokohama)



[Holding seminars]

- LPWA Study Meeting Plus (March 15 @ Tokyo)

The venue was very lively for this sold-out seminar (attendees: 120)

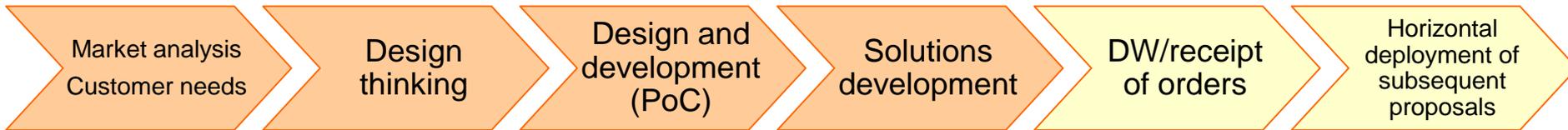
Leading players from across various competitive fields took the podium, fully demonstrating the value that only a trading company can deliver

(Planned to be held in the future)

- LPWA/5G Study Meeting Plus (November 29 @ Tokyo)



Business development in which our solid strengths, created from fusing business strategies with IP strategies, are the pillars for improving earnings



Business strategies

(Creating value to supply to users)

How to respond to users' topics and needs (who, what, how)

&

IP strategy

(Sublimation into value that only we can provide)

Forming differentiation, individuality, and uniqueness

Turning into pillars of earnings

- Only RYOYO → High gross profit margin
- To the level of several billion yen after two years

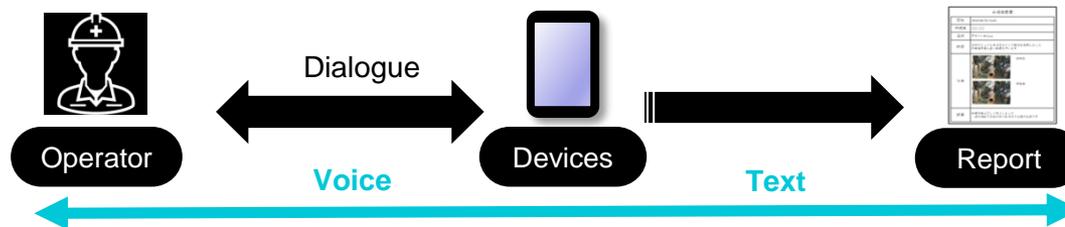
Toward the next stage for our voice-recognition technology for which we have secured our first patent

- Expanding business discussions on use of voice-recognition technology in switches and remote controls for various home electronics devices
→ Toward a stage at which our initiatives will lead to results
- Currently requesting overseas patent examination of the patents we have secured with an eye toward deploying them overseas
- We have developed demonstration units for sales-expansion purposes and currently are developing high-performance embedded solutions. Broadening of applications in ship steering etc.
- Now developing a system to convert the details of operations to text through an operator (subject to having both hands full) dialoguing with the device (chat bot).

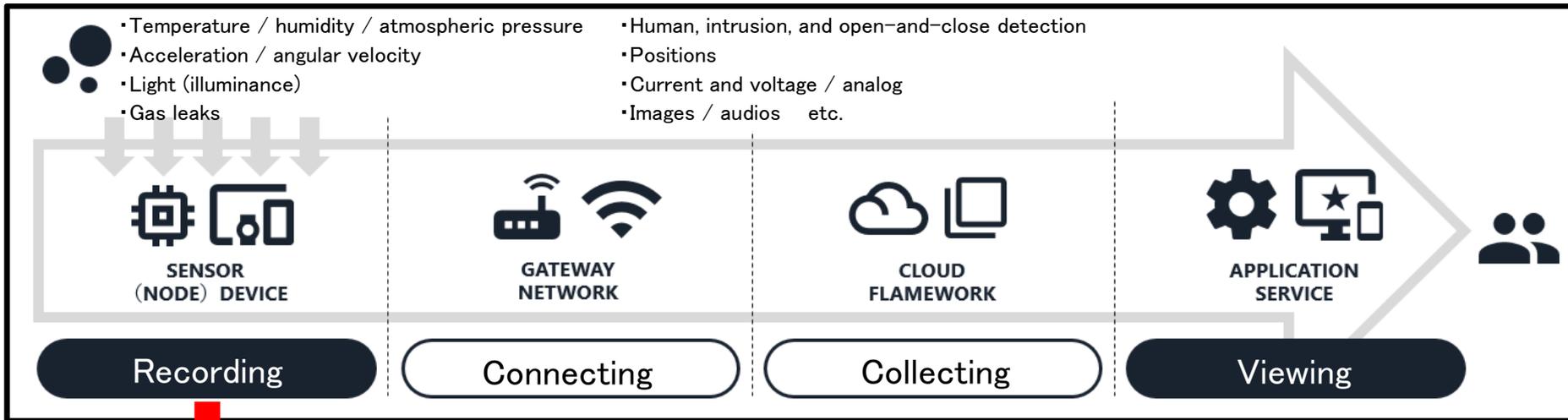
Replacement of remote controls



Demo units for growing sales of embedded devices



IoT platform conceptual diagram



Development of modules for verification of the IoT system concept

- Providing an environment to enable smooth adoption of edge IoT
- Applying to register the product's trademark Ex-Node (trademark registration applied for pending)
- Plans call for full-fledged introduction of this product to the market next year



IoT platform

- Now developing a platform with quality and durability that can be used reliably under various conditions in preparation for linkage with 5G
- Now requesting patent examination regarding a system for information sharing on the platform



Enhancing the governance structure

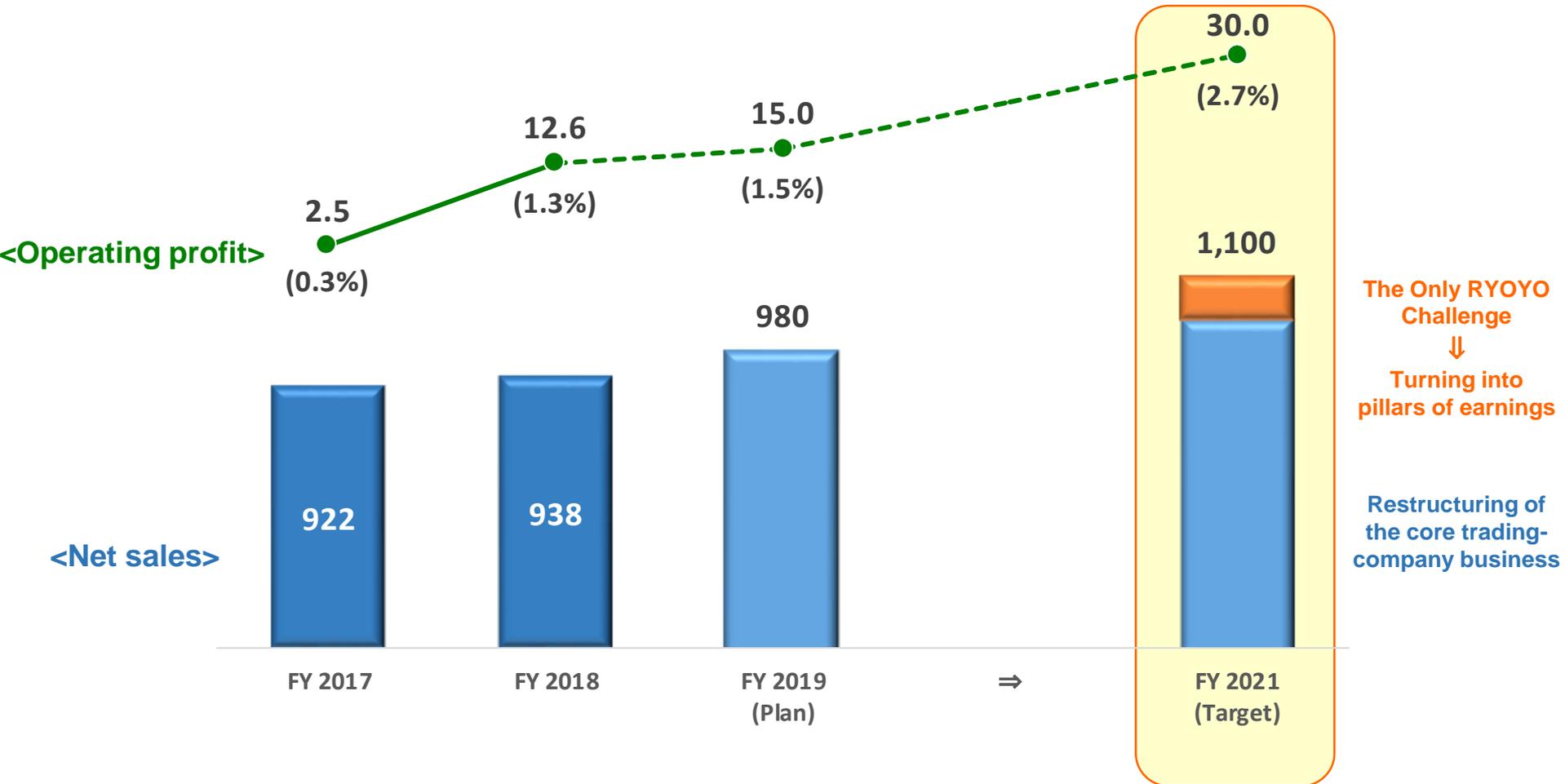
- Outside Director (Independent Director) appointed Chairperson of the Board → Further improving transparency in management through enhancing the functions of Outside Directors
- Change in Representative Directors

System and IT-infrastructure development

- Full-fledged adoption of new HR evaluation system and HR training program
- Commencing operation of attendance management system, internal HR communication tool, customer-information management tool, etc.

<Targets for final fiscal year (FY 2021)>

Sales: 110 billion yen; operating income: 3 billion yen



<H1/FY 2019 Business results>

- Both sales and each type of income were up considerably both YOY and vs. initial plans.
- Both gross profit (5 billion yen) and operating profit margin (2.0%) are at their highest levels in 12 years.
- Viewed by product, revenues were up YOY for both Semiconductors/Devices and ICT/Solutions

<FY 2019 full-year plans>

- Full-year forecasts will remain at their levels announced previously, due to an uncertain business environment in Q3 and later
- However, even while plans remain unchanged, we expect to be able to increase revenues and profits for the second consecutive year

<About the Three-Year Business Plan>

- Accelerating initiatives in the 5G field, through portfolio expansion and ecosystem advancement
- Toward a stage at which our initiatives related to voice-recognition technology, for which we have secured our first patent, will be linked to results
- Steady progress also is underway on efforts targeting areas such as strengthening of governance and improvement of business productivity

Note

The business results and forward-looking statements contained in this report are based on certain assumptions that we deemed reasonable at the time of release. Actual results may vary because of economic conditions and various other factors.

Contact

Ryoyo Electro Corporation
Corporate Strategy Div., Corporate Planning Dept.
Tel: +81-3-3546-5088 E-mail: irmanager@ryoyo.co.jp