

Financial Statements Briefing Session for 2019/03 Term

(From April 1, 2018 to March 31, 2019)



May 15, 2019

- I . Overview of Consolidated Financial Results for 2019/03 Term
- II . Business Outlook
- III . Forecast of Consolidated Financial Results for 2020/03 Term

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Consolidated Financial Statements for 2019/03 Term Highlights (Part1)

(¥ Million)	2019/03 Term	2018/03 Term	Year-on-year percentage Change	Estimated value of business results (November 9, 2018)
Sales Amount	15,502	13,547	14.4%	14,850
Precision Machinery	8,729	7,686	13.6%	8,350
Fiber Optic Components & Instrumental	6,773	5,860	15.6%	6,500
Operating Profit	1,619	930	73.9%	1,350
Ordinary Profit	1,754	1,053	66.5%	1,450
Net Profit	1,232	914	34.8%	1,000

Consolidated Financial Statements for 2019/03 Term Highlights (Part2)

(¥ Million)	2019/03 Term	2018/03 Term	Year-on-year percentage change
Orders Received	16,191	13,663	18.5%
Orders Backlog	2,449	1,759	39.2%
Equipment Investment	1,238	1,171	5.7%
Depreciation Expenses	1,390	1,238	12.3%
R & D Expenses	450	429	5.0%

Main products and technologies of the Precision Machinery Division

◆ Molds

Molds for data-archive discs
Other precision molds



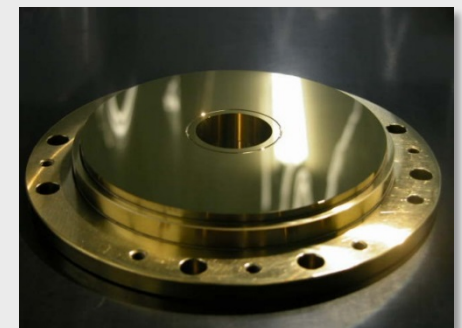
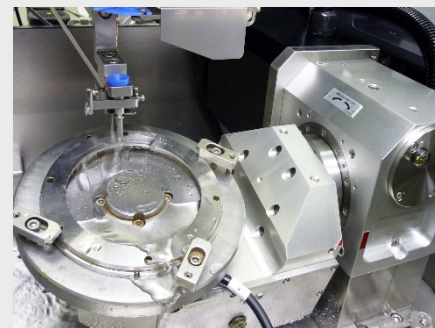
◆ Molded products

Automotive insert molded parts
Metal pressed molded parts
Resin injection molded parts, etc.



◆ Other

Precision processed metal parts, etc.



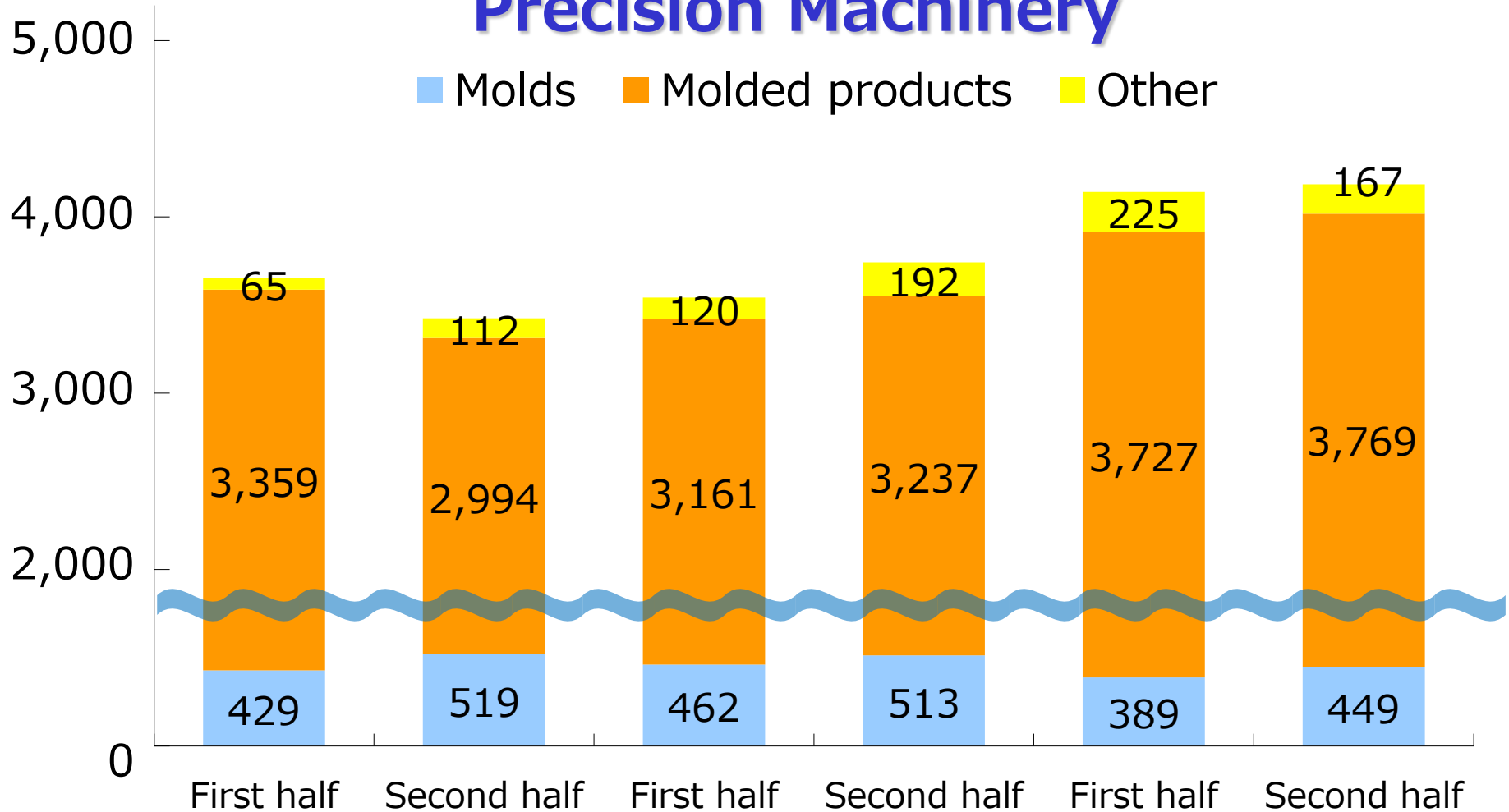
Business Results by Segment/ Precision Machinery

(¥ Million)	2019/03 Term	2018/03 Term	Year-on-year percentage change
Sales Amount	8,729	7,686	+ 13.6%
Operating Expenses	7,976	7,193	+ 10.9%
Operating Profit	753	493	+ 52.5%
Operating Profit Ratio	8.6%	6.4%	—

Sales Amounts by Product / Precision Machinery

■ Molds ■ Molded products ■ Other

¥ Million



2017/03 Term

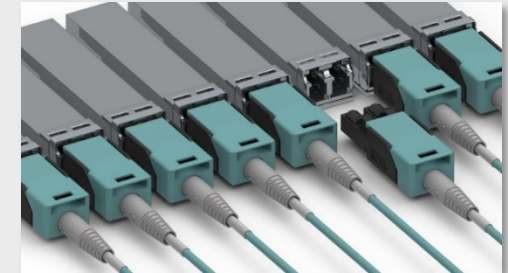
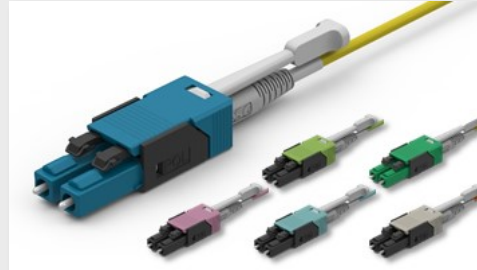
2018/03 Term

2019/03 Term

Main products and technologies of the Optical Products Division

◆ Optical communication network components

Optical connectors
Ferrules, etc.

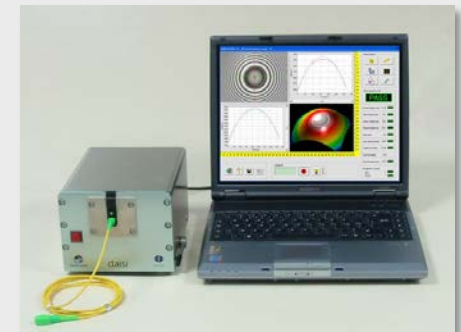


◆ Manufacturing machinery and equipment

Optical connector polishing machines

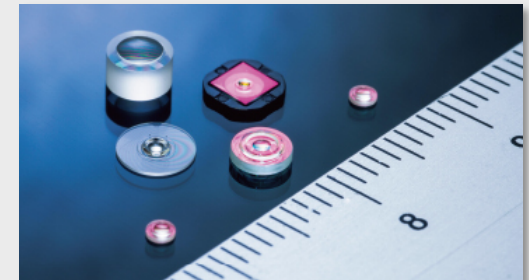
Inspection equipment for optical connector end faces

Optical electric field sensors, etc.



◆ Other

Micro lenses, etc.

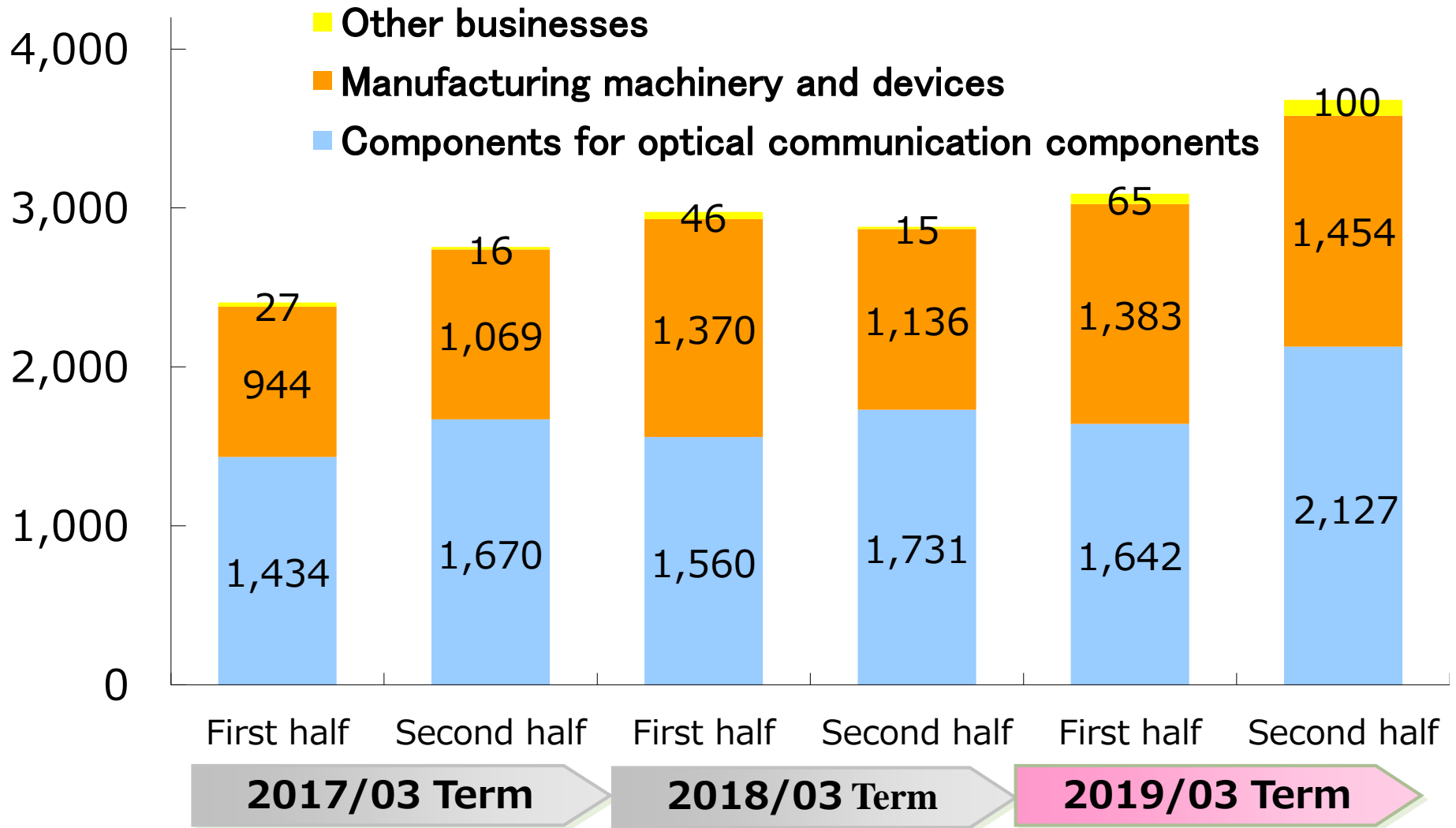


Business Results by Segment/ Fiber Optic Components & Instrumental

(¥ Million)	2019/03 Term	2018/03 Term	Year-on-year percentage change
Sales Amount	6,773	5,860	+ 15.6%
Operating Expenses	5,908	5,424	+ 8.9%
Operating Profit	865	436	+ 98.2%
Operating Profit Ratio	12.8%	7.4%	—

Sales Amounts by Product / Fiber Optic Components & Instrumental

¥ Million



Consolidated Balance Sheet

(¥ Million)

[Assets]	2019/03 Term	2018/03 Term	Amount (Increase/Decrease)
Current Assets	17,544	15,859	+ 1,684
Fixed Assets	10,141	10,337	△195
Total Assets	27,686	26,197	+ 1,488

[Liabilities and Net Assets]

Current Liabilities	3,378	2,688	+ 690
Fixed Liabilities	1,102	1,024	+ 77
Net Assets	23,204	22,484	+ 720
Total Liabilities/ Net Assets	27,686	26,197	+ 1,488

Consolidated Cash Flow Statement

(¥ Million)	2019/03 Term	2018/03 Term
CF - Operating	2,393	2,086
CF - Investing	(1,526)	(2,706)
CF- Financing	(254)	(185)
Increase in Cash	510	(761)
Balance at the beginning of term	3,305	4,066
Balance at the end of term	3,816	3,305

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Medium-Term Management Plan Master Plan 2016

- Six-year medium-term plan ending in FY 2021, the 50th business year of the Company

Master Plan 2016

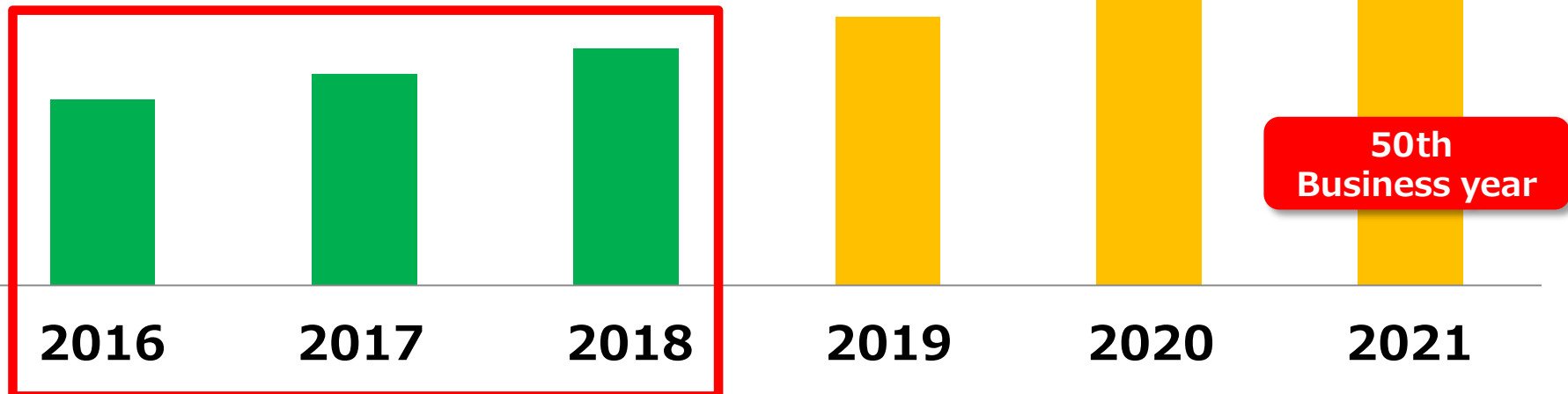
FY2016 - FY2021

1st phase
2016 - 2018

2nd phase
2019 - 2021

Consolidated sales: ¥25 billion

Consolidated operating income: More than ¥2.5 billion



**50th
Business year**

Fundamental Strategies for the 1st Phase

1. Strengthen earnings of existing businesses

- Strengthen sales capabilities
- Raise price-competitive strength
- Accelerate new product development and new technology development

2. Optimize business portfolio

- Create next generation businesses
- Streamline loss-making businesses

3. Strengthen business foundations

- Strengthen human resources capabilities
- Implement growth promoting investments
- Strengthen management administration

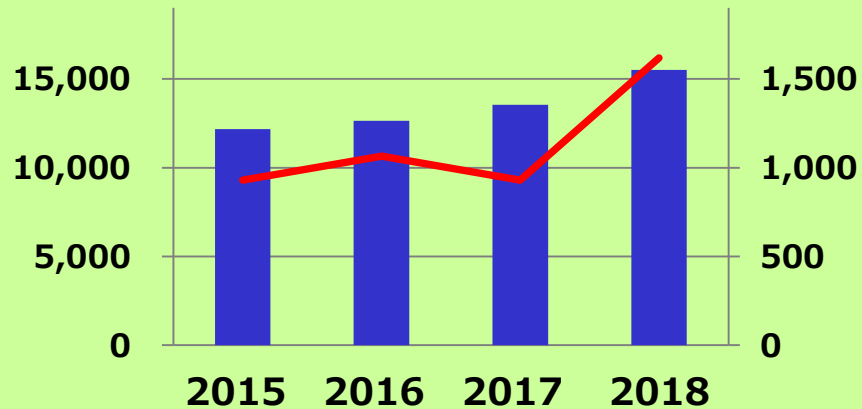
Action taken in the First Phase

Fundamental strategies	Action taken in the First Phase
1. Strengthen earnings of existing businesses	<ul style="list-style-type: none"> • New construction of the Chitose factory, production transfer of automotive molded products • Market launch of the new optical connector polishing machine (SFP-560A) • Sales growth in optical connectors for data centers (multi-core compatible connectors) • Establishment of a method for the volume production of small-size resin lenses (LIM lenses, wafer level lenses) • Improvement of automation (FA) technology, shift to in-house manufacturing of important parts
2. Optimize business portfolio	<ul style="list-style-type: none"> • Improvement of the profitability of optical communications components ⇒ From growth potential business to growth driver business • Integration of DATA PIXEL a consolidated subsidiary • Investment in Zhejiang Seikoh OFC Co., Ltd., China • Closure of Milestone International Japan Co., Ltd.
3. Strengthen business foundations	<ul style="list-style-type: none"> • Transition to a committee-based corporate governance structure (strengthening of management supervisory functions) • Introduction of an executive officer system (accelerated decision-making) • Introduction of an incentive system linked to business performance • Improvement in operational efficiency by promoting overtime reduction (head office) • Improvement of business continuity capabilities through BCP reviews (Head Office)

Business Performance in the First Phase

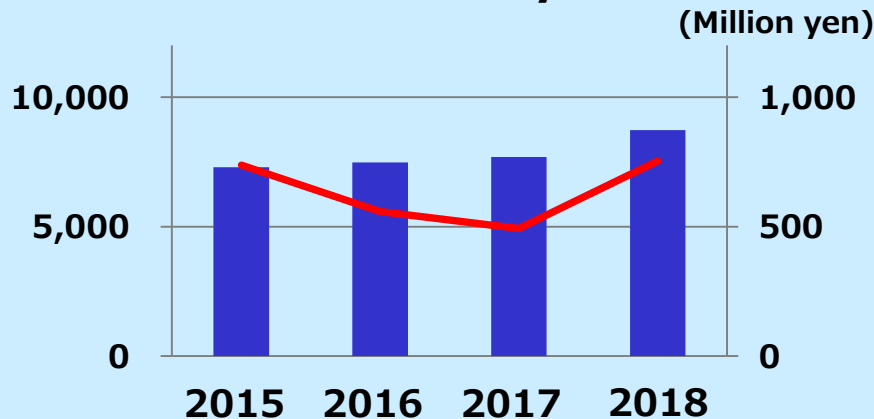
Bar chart ⇒ Sales: Left axis
 Line chart ⇒ Operating income: Right axis

Company-level total (Million yen)

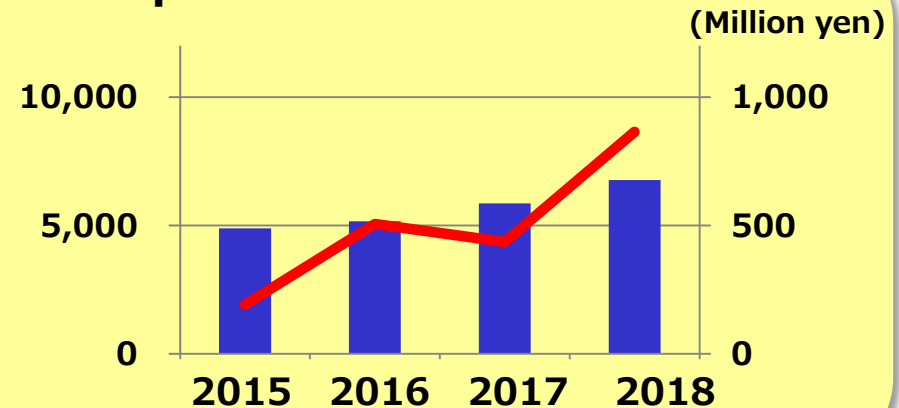


- Sales increase of **27%**
- Operating profit increase **1.7 times**
- Operating income margin at the **10% level**

Precision Machinery Business (Million yen)



Optical Products Business (Million yen)



Medium-Term Management Plan Master Plan 2016

- Six-year medium-term plan ending in FY 2021, the 50th business year of the Company

Master Plan 2016

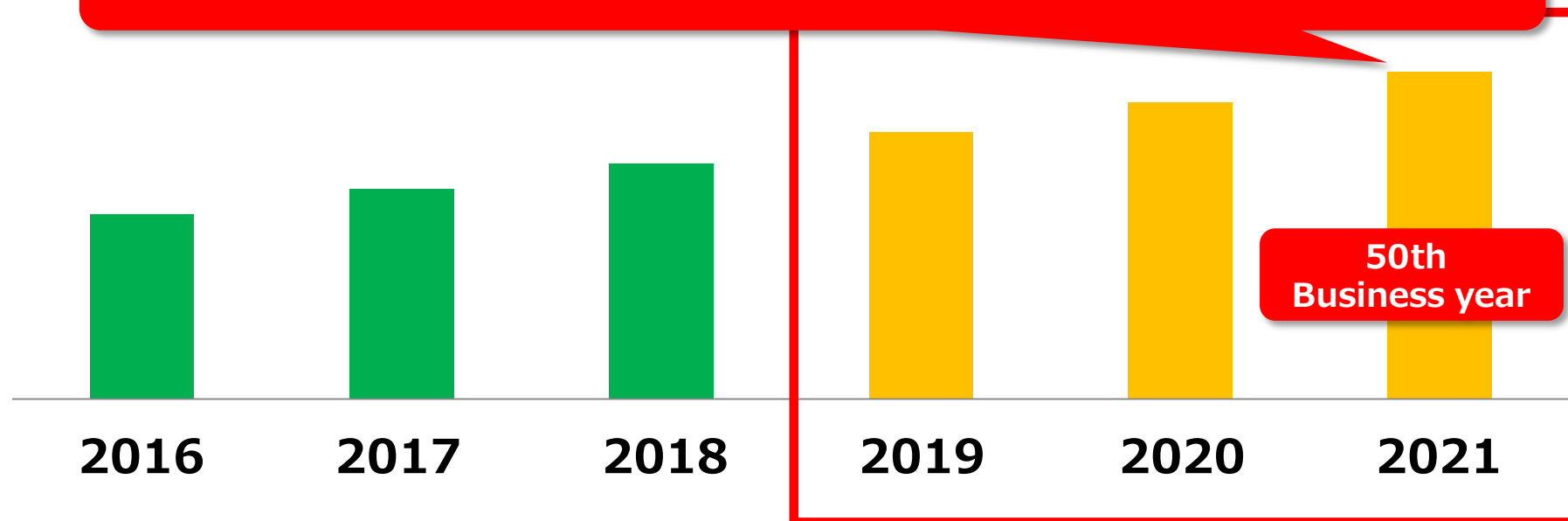
FY2016 - FY2021

1st phase
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2019 - 2021

Consolidated sales: ¥25 billion

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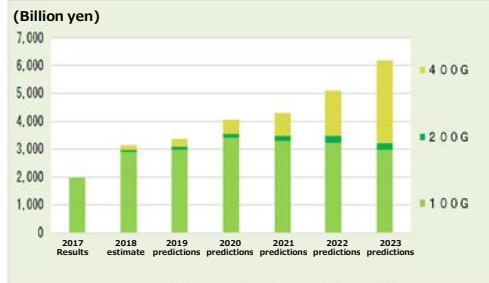
50th
Business year

Prospects for relevant markets (external environment)

■ 5G related market expansion

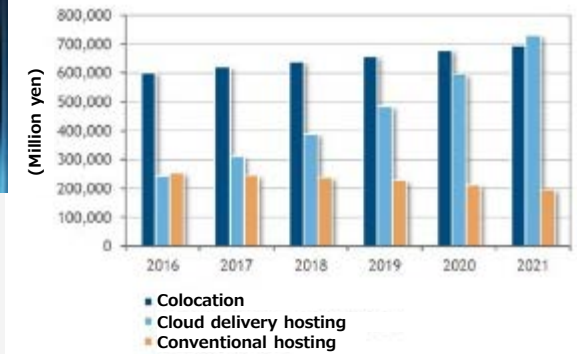


◆ 100G, 200G, 400G optical transceiver global market



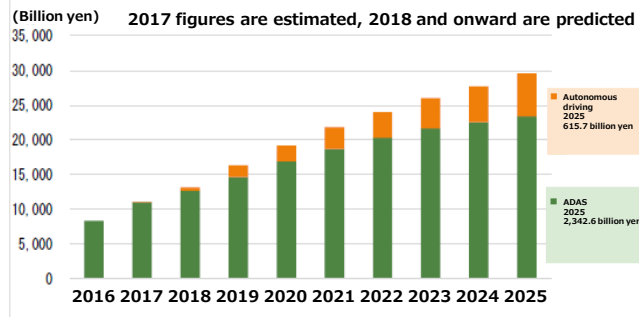
2018 Future prospects for core technology that enables 5G/high-speed, large volume data transmission (Source: Fuji Chimera Research Institute)

■ Expanded data centers and cloud services

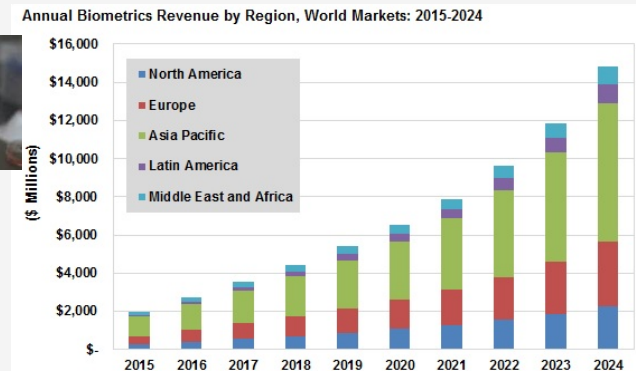


Predicted sales values for domestic data center services market from 2016 to 2021 (Figure for 2016 is actual value, 2017 and onward are predicted values, Source: IDC Japan)

■ Autonomous driving/ADAS market expansion



■ Bio science market expansion



(Source: Tractica)

Our technical resources (internal environment)

■ Precision processing, precision molding, and optical technology



- Information and communication
- Automobiles
- Medical and bio science



Second Phase fundamental strategies

1. Strengthen earnings of existing businesses

- Strengthen sales capabilities
- Raise price-competitive strength
- Accelerate new product development and new technology development

2. Optimize business portfolio

- Create next generation businesses
- Streamline loss-making businesses

3. Strengthen business foundations

- Strengthen corporate functions
- Implement growth promoting investments
- Strengthen quality control and patent strategy

1. Strengthening earnings of existing businesses

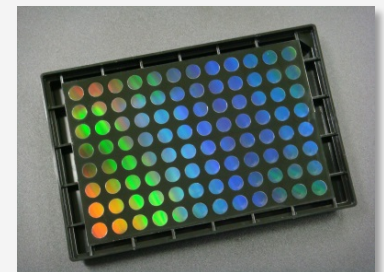
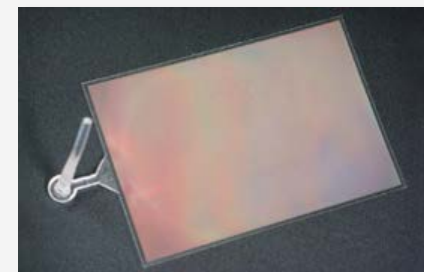
■ Precision Machinery Business

With precision molds and manufacturing technologies at the core, transition to high added-value business in molded products

■ Strengthen sales capabilities

· Raise price-competitive strength

- Extend the Chitose factory
- Strengthen relationships with major existing customers
- Reduce production lead times
- Boost molds for data-archive discs
- Develop repeat business



■ Accelerate new product development and new technology development

- Accelerate new business development for molded products → Automotive, medical, and bio science applications
- Enhance precision mold technology, thin-wall molding technology, and micro-transfer technology
- Improve production automation (FA) technology

1. Strengthening earnings of existing businesses

■ Optical products business

Take steps to expand market shares in the growing markets surrounding data centers and 5G technology

■ Strengthen sales capabilities ・Raise price-competitive strength

- Increase sales of connectors for data centers
- Increase sales of new models of optical connector polishing machines
- Increase sales of 4K and 8K compatible optical transmission units
- Increase sales of micro lenses

■ Accelerate new product development and new technology development

- Attain volume production of optical devices compatible with 100G and 400G large-volume, high-speed data transmission
- Develop production automation equipment for optical communications components
- Develop 5G compatible optical electric field sensors

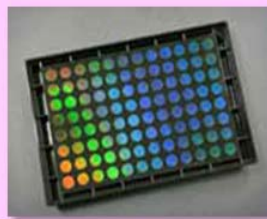


2. Optimization of the Business Portfolio

Problem businesses



Lenses



Molded products

Growth

Growth driving businesses



Optical communications products



Information / communication



Medical equipment / bio sciences



Car electronics

Next generation businesses

Cash

Promote lenses and precision molded products to growth driver businesses

Actively use financial resources to create next-generation businesses

3. Reinforcing the management base

■ Strengthen corporate functions - Establish a robust foundation supporting sustainable growth -

- Strengthen human resources ⇒ Develop human resources and recruit personnel for business expansion and globalization
- IT strategy ⇒ Invest in systems to maximize business efficiency, strengthen information security
- Financial strategy ⇒ Investment management for maximum returns, strengthen budget control and inventory management
- Strengthen communication ⇒ Raise the Company's name recognition by strengthening external public relations
Create synergies by strengthening collaboration within the Group
- Sustainability ⇒ Strengthen governance at the Group level, reduce business continuity risk through BCP

■ Investment for growth - 10 billion yen investment framework by fiscal 2021 -

- Strengthen M&A ⇒ Acquisition of new technologies, new products, and new trading areas
- Strengthen R&D ⇒ Accelerate product development by promoting alliances and industry-academia collaboration, etc.

■ Strengthen quality control and patent strategy - Differentiation through trusted quality and leverage of patents -

- Improve quality levels across the entire group ⇒ Strengthen efforts to attain zero defects
- Step up proactive patent strategies ⇒ Strategic use of patents respectively for protection and attack

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Forecast of Consolidated Business Results for 2020/03 Term

(¥ Million)	First half	Second half	Forecast of the 2020/03 Term	Results for the 2019/03 Term
Sales Amount	8,290	8,910	17,200	15,502
Operating Profit	950	850	1,800	1,619
Ordinary Profit	970	880	1,850	1,754
Net profit	670	580	1,250	1,232
Equipment Investment			2,246	1,238
Depreciation Expenses			1,635	1,390
R & D Expenses			500	450

Forecast of Consolidated Business Results (by Segment) for 2020/03 Term

(¥ Million)	First half	Second half	Forecast of the 2020/03 Term	Results for the 2019/03 Term
The Relation of Precision Machinery				
Sales Amount	4,590	4,890	9,480	8,729
Operating Expenses	4,220	4,600	8,820	7,976
Operating Profit	370	290	660	753
The Relation of Optical Communications				
Sales Amount	3,700	4,020	7,720	6,773
Operating Expenses	3,120	3,460	6,580	5,908
Operating Profit	580	560	1,140	865

Concerning shareholder returns

		Forecast of the 2020/03 Term	Results for the 2019/03 Term	Results for the 2018/03 Term
Net income	million yen	1,250	1,232	914
Dividend per share	yen	40	30	27
Payout ratio	%	29.6	22.5	27.3

