

SUN-WA TECHNOS CORPORATION

8137 Tokyo Stock Exchange First Section

1-Jul.-16

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FISCO Ltd. Analyst
Hiroyuki Asakawa**■ Focus on Full-Fledged Expansion of the Engineering Business Under the New Medium-Term Business Plan**

Sun-Wa Technos Corporation (8137) is an independent trading company that specializes in technology products. One of the strengths of the company is that it has three business divisions of electrical machinery, electronics, and general machinery. Another strength is the company's two-way trade in which it sells equipment and materials for manufacturers' production lines and then buys and sells the products made by these manufacturers to other companies. By utilizing these strengths, Sun-Wa Technos has expanded its businesses.

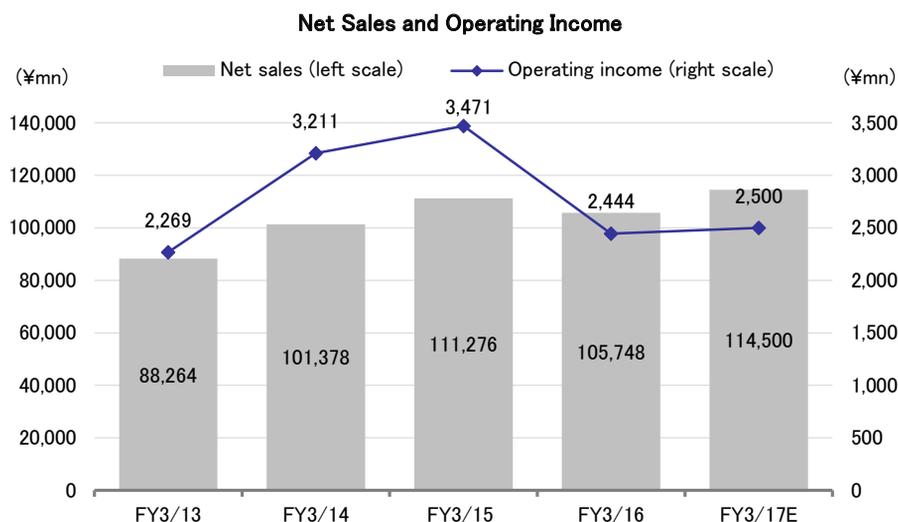
The company prepared the Challenge 1500 new medium-term business plan that covers FY3/17 to FY3/19. The new plan moves forward with policies from the previous JUMP 1200 medium-term plan. It aims to expand engineering business that had already been a key point and take on a new challenge with the global SCM (supply chain management) solutions business. It also seeks to strengthen sales agent business as previously. Based on these initiatives, the company sets final-year FY3/19 goals of ¥137,000mn in sales and ¥4,300mn in operating income.

We will be primarily focusing on progress in the engineering business as a high-margin area, compared to sales agent business. However, we think profitability is currently well off from the potential level owing to the small business scale and still being in the process of acquiring experience and knowhow. Yet we are not pessimistic about this point because the company has been obtaining related experience and knowhow by acquiring human resources and targeting negotiations in growth market areas. We will be focusing on whether the company can establish engineering business as not only a source of stronger sales but also a high-margin business.

Sales fell yoy in FY3/16 under pressure from sales declines in semiconductor and liquid crystal display (LCD) and amusement markets. Profits moved lower too, including the impact of upfront investments under costs. This was the final year of the previous medium-term business plan, but missed medium-term plan goals. While FY3/17 faces pressure from a stronger yen, compared to FY3/16, the company expects gross demand to exceed the previous year at the full-year level in FY3/17 thanks to a recovery in demand from the second half of the year. It guides for ¥114,500mn in sales (+8.3% yoy) and ¥2,500mn in operating income (+2.3%).

■ Check Point

- Announced the Challenge 1500 new medium-term business plan
- Strengthening the engineering business
- Aiming for sales and profit increases in FY3/17



Results Trends

Detailed review of the Challenge 1500 new medium-term business plan

(1) Overview of the new medium-term business plan

Sun-Wa Technos had been implementing the JUMP 1200 medium-term business plan with the final year in FY3/16 and prepared the three-year Challenge 1500 new medium-term business plan that covers FY3/17 to FY3/19 due to completion of the previous plan.

The Challenge 1500 new medium-term business plan lists four items as the basic policies, including “contributing to customers’ product manufacturing in the core businesses of electrical machinery, electronics, and general machinery,” and highlights “systems, equipment, and parts/components sales business,” “engineering business,” and “global SCM solutions business” in the business strategy to achieve plan goals. We look at the business strategy points in detail below.

Basic Policies in Challenge 1500

Contribute to customers’ product manufacturing with our core businesses of electrical machinery, electronics, and general machinery
Provide unique high value-added solutions
Provide the latest technology information as a technology trading company
Strengthen group capabilities by enhancing the global network

Source: FISCO Ltd. based on company materials

The company aims to reach the following results goals by steadily carrying out these business strategies. It is recalibrating in light of FY3/16 results and recent business conditions and targeting profit levels from the previous medium-term plan once again. It hopes to attain ¥150,000mn in sales in FY3/20, the 70th anniversary since its founding, and the final-year goal from the new medium-term plan of ¥137,000mn has an important role as the last step leading to the FY3/20 target.

Business Goals in Challenge 1500

(unit: ¥mn)

	FY3/16	Challenge 1500 medium-term business plan		
		FY3/17	FY3/18	FY3/19
	Results	Business goals	Business goals	Business goals
Net sales	105,748	117,000	126,000	137,000
Operating income	2,444	2,800	3,500	4,300
Operating income margin	2.3%	2.4%	2.8%	3.1%
Ordinary income	2,645	3,000	3,700	4,500
Ordinary income margin	2.5%	2.6%	2.9%	3.3%

Source: FISCO Ltd. based on company forecasts



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(2) Systems, equipment, and parts/components sales business details

The systems, equipment, and parts/components sales business aims to bolster sales in the respective areas by leveraging the company's strength of having three business divisions of electrical machinery, electronics, and general machinery. In some respects, this simply restates what the company is already doing and does not appear to offer anything fresh. However, closer inspection of the content indicates that it intends to go a step further beyond existing frameworks of "being a distributor for major manufacturers" to "building and strengthening new cooperative relationships" and "early identification of customer needs" to "discovering new products."

Although the company is not disclosing specific content on these efforts at this point, our sense in direct contact with management is that it is making steady progress in a number of cases. We think the company's advances with this business strategy point will ultimately lead to convergence with "engineering business," which is another business strategy point. This is still a future prospect. However, we will be paying close attention to this business strategy point from the perspective of strengthening the current income foundation.

(3) Engineering business details

We think reinforcement of engineering business is the top management priority, just as in the previous medium-term business plan. Engineering business at Sun-Wa Technos is a sales approach for "proposing products from the three business divisions of electrical machinery, electronics, and general machinery as system solutions, rather than standalone items." The company does not book sales as the engineering business and related income is allocated to the electrical machinery, electronics, and general machinery divisions (there is a possibility of revision to a business segment in the future, but we assume continuation of current segment allocation).

We can use the example of a food supermarket to help explain the positioning of engineering business. Up to now, the company has been selling ingredients, such as meat, fish, and vegetables, to customers. Engineering business, meanwhile, involves preparing these individual ingredients for delivery to customers. The extent of processing can vary from selling a prepared item to selling a meal box, providing a menu of multiple standard meals, or operating a separate restaurant. We think Sun-Wa Technos already started supplying "prepared items" in the previous medium-term business plan.

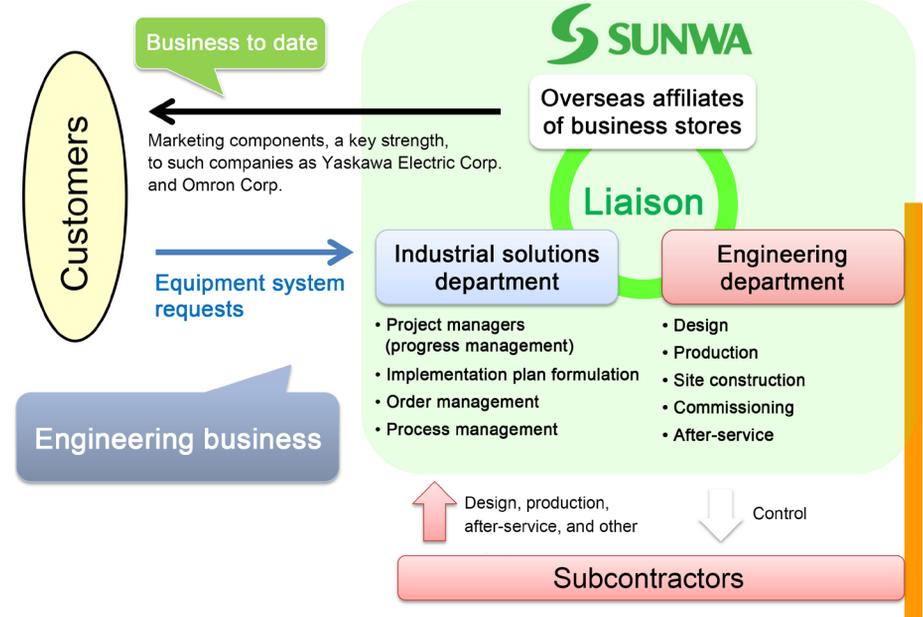
We see a good chance of full-fledged ramp-up of engineering business in the new medium-term business plan period for a number of reasons. The first is that Sun-Wa Technos Asia (Thailand) has been building a track record over the past 3-4 years, and management plans to begin the rollout of engineering business from overseas markets. We attribute this approach to the fact that the local market is not as well established and technology requirements are not as high as in Japan. The company plans to accumulate a track record in Thailand as the advance guard and then expand to China, North America, and other markets.

The other reason is that the company's engineering business corresponds to areas that its procurement sources and sales destinations want to "unload to realize smooth operations." In other words, it involves "recruitment of outsourcing needs." We think this aspect is very important. Engineering business has the potential to develop into a competitive relationship with procurement sources if pursued too far. Sun-Wa Technos, however, clearly rejects this notion and is highly aware of the need for a framework that provides benefits to procurement sources and sales destinations. We thus expect the company to expand engineering business by handling tasks with support from major manufacturers that are its suppliers.

Engineering Business

Engineering business of Sun-Wa Technos

Offer one-stop solutions from proposal to implementation



Source: Company materials

(4) Global SCM solutions business details

The concept for the global SCM (supply chain management) solutions business came out of the idea of utilizing logistics warehouses held by Sun-Wa Technos's 13 overseas local entities and logistics knowhow to generate income by providing paid services to customers and also expand business opportunities.

We think the global SCM solutions business can be implemented in a variety of ways. One example is described here. The company delivers other items required by the customer at the same time, unrelated to whether they are Sun-Wa Technos's catalog products or not, in addition to the ordered product when delivering products based on an order from the customer. The company intends to operate this service as an income-earning business, rather than a free service, obtaining margin on each of the products.

While it might seem as if the company suddenly presented the global SCM solutions business for the first time in the latest plan, this is not the case. Sun-Wa Technos prepared for launching a business from the previous medium-term plan, as explained in more detail below. We believe it clarified this area as a business strategy in the new plan in part because the operational framework is ready now.

The company has not indicated the potential size of the business. We advise against excess expectations because the current medium-term business plan covers the first three years after starting the business. However, Sun-Wa Technos expects growth by the business itself as well as synergies and indirect effects with other business strategies. Additionally, we think it is important to note that management plans to allocate income to the three existing business areas, similar to engineering business, and this structure lacks visibility. We believe investors need to carefully monitor trends in quarterly results announcements and other disclosure.

(5) Our view of the new medium-term business plan

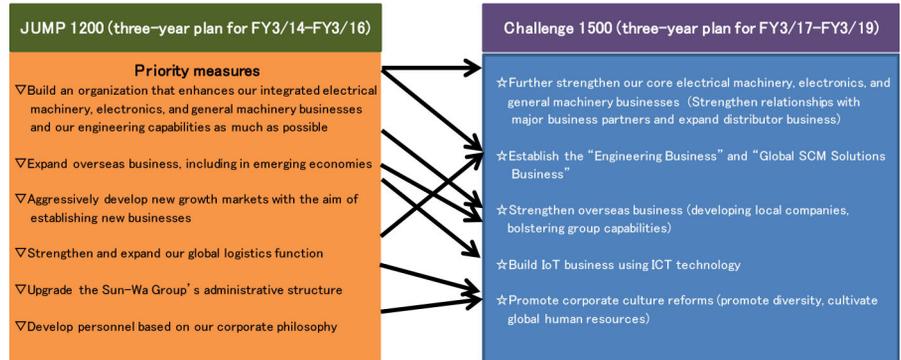
The new medium-term business plan has just begun, and it is still too early to offer an assessment due to a complete absence of evidence. In this context, we take the following view of the positioning of the Challenge 1500 plan.

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Normal progression from the JUMP 1200 previous medium-term plan

We think Challenge 1500 is a business plan that follows normal progression from the previous medium-term plan. We compared priority measures for realizing the above-mentioned business goals in the JUMP 1200 previous medium-term plan and Challenge 1500. Although similar items continue from the previous medium-term plan to the new medium-term plan, the company has clearly moved forward in the specific content. We could say that “organization building” was the main aim of JUMP 1200, and Challenge 1500 aims to generate income by “utilizing the organization.”

Comparison of “Priority Measures” in New and Previous Medium-Term Business Plans



Source: FISCO Ltd. based on company materials

In JUMP 1200, income results made relatively healthy progress in the first and second fiscal years, but FY3/16, the final year, ended up well below goals from the initial plan. Some observers might conclude from these results that the previous medium-term plan failed, but we disagree with this assessment. The company consistently focuses on reinforcement of engineering business in the previous and new medium-term business plans. During the previous medium-term plan period, the company created the engineering department for implementation and the industry solutions department to support smooth progress by these activities and made related revisions to the overall organizational chart. We view these changes as a “major reform” considering that Sun-Wa Technos is not a company with much leeway in personnel.

We think it is more accurate to see the Challenge 1500 new medium-term plan as part of an effective six-year medium-term plan, rather than being a standalone three-year plan, in light of trends from JUMP 1200 to Challenge 1500. We thus expect the new medium-term plan to deliver a certain level of results that include actual income.

Full-fledged ramp-up of engineering business and establishment as a high-margin area

We think assessment of whether Challenge 1500 succeeds or not depends on whether engineering business is successful or not. This is a natural outcome of taking the above-mentioned view of Challenge 1500 as part of a six-year medium-term business plan. The company has been consistently emphasizing reinforcement of engineering business for the six years.

Engineering business has been steadily booking sales at Sun-Wa Technos Asia (Thailand) over the past few years. While it was flat yoy at about ¥300mn in FY3/16, the company targets steady expansion of this business during the Challenge 1500 period and just over a billion yen in sales in FY3/19. It also depicts future sales growth in electrical machinery and general machinery divisions as the result of advances by engineering business as a longer-term view.



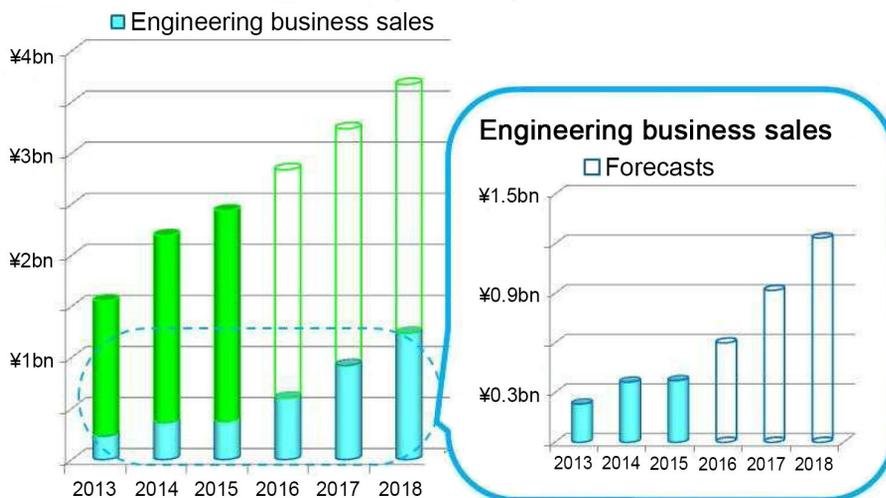
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Sales at Sun-Wa Technos Asia (Thailand)

Sales at Sun-Wa Technos Asia (Thailand)



Source: Company earnings presentation materials

We believe it will take some time to reach this level, and Sun-Wa Technos also needs to cultivate engineering business as a high-margin area at the same time. Using the example described above, engineering business should obtain added value from the processing portion and be capable of charging higher prices than in the case of just selling ingredients. It can obtain even higher prices if the taste is delicious. However, profitability has not changed much from when it was just selling ingredients at this point because the “recipe is fully known.” We think improvement of this point is almost equally as important as growth in engineering business. There is not much meaning to engineering business that is not profitable.

The company itself is highly aware of this importance, and we intend to closely monitor future trends. We find it positive for whether Sun-Wa Technos can improve profitability that it has been enhancing the depth of personnel with internal resources and people recruited from outside of the company.

Another positive trend is steady expansion of Sun-Wa Technos’s entry into areas with strong growth opportunities that it refers to as “negotiations targeting growth markets.” Sun-Wa Technos explained “negotiations targeting growth markets” as something separate from the engineering business story. However, these negotiations involve products from multiple areas across the company’s business divisions, including as a project with external business partners in some cases, and are truly engineering business activities. We expect expansion of “negotiations targeting growth markets” to boost Sun-Wa’s experience and contribute significantly to acquisition of technologies to make “profitable meals.” From this perspective, we think progress with “negotiations targeting growth markets” is also a key performance indicator (KPI) in assessing the company’s prospects.

Value of Transactions Negotiated in Four Growth Markets

Market	FY3/14 Amount	FY3/15 Amount	FY3/16 Amount	Negotiations in progress As of May 2016
New energy	About ¥4.5bn	About ¥ 7.8bn	About ¥ 4.5bn	About ¥ 5.8bn
Energy saving	About ¥1.7bn	About ¥ 3.0bn	About ¥ 6.6bn	About ¥11.3bn
Medical treatment and home care	About ¥0.3bn	About ¥ 1.1bn	About ¥ 1.4bn	About ¥ 0.9bn
Social infrastructure	About ¥0.1bn	About ¥ 0.8bn	About ¥ 1.0bn	About ¥ 1.6bn
Total	About ¥6.6bn	About ¥12.7bn	About ¥13.5bn	About ¥19.6bn

Source: FISCO Ltd. based on company materials

■ Business Trends

Upbeat momentum in business with the automotive industry, though sales and profit declined

(1) FY3/16 consolidated results

In FY3/16, consolidated net sales fell 5.0% yoy to ¥105,748mn, operating income decreased 29.6% yoy to ¥2,444mn, ordinary income decreased 29.7% yoy to ¥2,645mn, and net income attributable to parent company shareholders dropped 31.5% yoy to ¥1,690mn. Both sales and profits weakened. The company lowered guidance at the 2Q announcement, but actual results slightly missed these revised levels.

FY3/16 Results

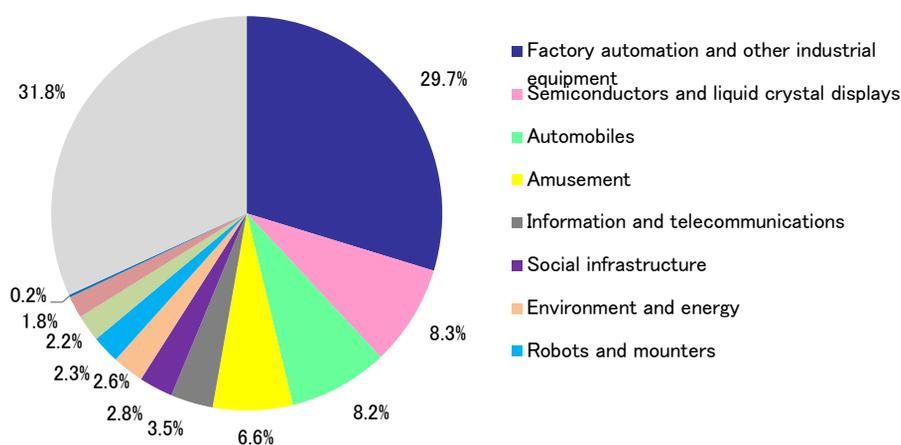
(unit: ¥mn)

	FY3/15			FY3/16					
	1H	2H	Full year	1H	2H	Full year			
	Results	Results	Results	Results	Results	Revised guidance	Results	YOY	vs. guidance
Net sales	50,784	60,492	111,276	54,457	51,291	112,000	105,748	-5.0%	-5.6%
Gross profit	6,500	7,488	13,988	6,748	6,508	-	13,256	-5.2%	-
Gross profit margin	12.8%	12.4%	12.6%	12.4%	12.7%	-	12.5%	-	-
SG&A expenses	4,948	5,568	10,516	5,331	5,481	-	10,812	2.8%	-
Ratio of SG&A expenses to sales	9.7%	9.2%	9.5%	9.8%	10.7%	-	10.2%	-	-
Operating income	1,552	1,919	3,471	1,417	1,027	2,800	2,444	-29.6%	-12.7%
Operating income margin	3.1%	3.2%	3.1%	2.6%	2.0%	2.5%	2.3%	-	-
Ordinary income	1,710	2,051	3,761	1,545	1,100	3,000	2,645	-29.7%	-11.8%
Net income attributable to parent shareholders	1,108	1,358	2,466	1,033	657	2,000	1,690	-31.5%	-15.5%
EPS (¥)	77.23	94.60	171.83	71.96	45.80	139.31	117.76	-31.5%	-15.5%

Source: FISCO Ltd. based on company materials

Viewed by customer industry, slumps in demand from semiconductor and LCD and amusement industries stood out, and the mainstay factory automation and industrial equipment industry provided stronger sales than a year earlier on an overall basis but some individual products incurred sales declines (from the previous year). While Sun-Wa Technos posted healthy sales to automotive, social infrastructure, and medical equipment industries, these additions were not enough to offset weak overall demand and sales declined as a whole.

Breakdown of FY3/16 Sales by Industry



Source: FISCAL Ltd. based on earnings presentation materials



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In the electrical machinery business, sales decreased 15.8% yoy to ¥19,069mn. This reflected lower sales of servo motors for industrial machinery and control equipment for solar power systems, which offset higher sales of electrical products for semiconductor manufacturing equipment. Sales in the electronics business fell 3.6% yoy to ¥77,593mn. While sales of electronic parts rose steadily for automotive and industrial equipment industries, they dropped for amusement equipment and this weighed on segment sales. Sales in the general machinery business climbed 11.6% yoy to ¥9,084mn. Increased sales of mounters to the home equipment industry and production equipment for the automotive industry offset a decline in sales of transport facilities and equipment used by the LCD industry.

Net Sales Trend by Business Segment (Quarterly Basis)

(unit: ¥mn)

	FY3/15					FY3/16				
	1Q	2Q	3Q	4Q	Full year	1Q	2Q	3Q	4Q	Full year
Electrical machinery	4,295	6,039	5,194	7,132	22,660	4,664	5,444	3,880	5,081	19,069
YOY	-33.5%	-2.3%	7.6%	-2.2%	-8.5%	8.6%	-9.9%	-25.3%	-28.8%	-15.8%
Electronics	17,235	19,210	20,338	23,690	80,473	19,609	20,860	16,938	20,186	77,593
YOY	18.1%	11.2%	19.1%	14.4%	15.6%	13.8%	8.6%	-16.7%	-14.8%	-3.6%
General machinery	1,787	2,216	1,394	2,744	8,141	1,204	2,676	1,935	3,269	9,084
YOY	67.4%	11.0%	8.5%	4.5%	16.7%	-32.6%	20.8%	38.8%	19.1%	11.6%
Total net sales	23,318	27,466	26,925	33,567	111,276	25,478	28,979	22,754	28,537	105,748
YOY	5.4%	7.9%	16.2%	9.6%	9.8%	9.3%	5.5%	-15.5%	-15.0%	-5.0%

Source: FISCO Ltd. From company materials

Regional sales results were Japan at ¥79,995mn (-2.1% yoy), Asia at ¥30,097mn (-8.8%), and the US and Europe at ¥3,685mn (+7.4%). Asian business clearly weakened. We think the forex rate impact from JPY gains against the CNY undercut Asian business with a roughly ¥1bn setback in sales. The sales-decline effect of an actual drop in Chinese demand worked out to about ¥2bn.

Regional profit results were Japan at ¥1,580mn (-25.8%), Asia at ¥853mn (-32.3%), and the US and Europe at ¥2mn (-96.6%). Profits declined in all regions. We attribute the larger decline in Japan's profit compared to sales mainly to aggressive investments and a rise in personnel costs ahead of the new medium-term business plan.

Results Trends by Geographical Market (details)

(unit: ¥mn)

		FY3/15			FY3/16			FY3/17(E)
		1H	2H	Full year	1H	2H	Full year	Full year
Japan	Net sales	39,622	42,127	81,749	40,093	39,902	79,995	88,500
	YOY	6.8%	4.2%	5.5%	1.2%	-5.3%	-2.1%	10.6%
	Operating income	975	1,153	2,128	925	655	1,580	1,600
	YOY	8.0%	-7.8%	-1.1%	-5.0%	-43.2%	-25.8%	1.3%
Asia	Operating income margin	2.5%	2.7%	2.6%	2.3%	1.6%	2.0%	1.8%
	Net sales	12,916	20,098	33,014	16,336	13,761	30,097	29,900
	YOY	7.6%	36.3%	23.4%	26.5%	-31.5%	-8.8%	-0.7%
	Operating income	553	707	1,260	500	353	853	860
US and Europe	YOY	28.9%	19.4%	23.5%	-9.7%	-50.1%	-32.3%	0.8%
	Operating income margin	4.3%	3.5%	3.8%	3.1%	2.6%	2.8%	2.9%
	Net sales	1,475	1,956	3,431	1,726	1,959	3,685	5,400
	YOY	11.5%	4.7%	7.5%	17.0%	0.2%	7.4%	46.5%
US and Europe	Operating income	36	51	87	7	-5	2	0
	YOY	122.0%	410.0%	225.3%	-79.1%	-	-96.6%	-
	Operating income margin	2.4%	2.6%	2.5%	0.4%	-0.3%	0.1%	0.0%

Source: FISCO Ltd. from briefing materials



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Projecting higher sales and profits in FY3/17

(2) FY3/17 consolidated outlook

The company guides for ¥114,500mn in net sales (+8.3% yoy), ¥2,500mn in operating income (+2.3%), ¥2,700mn in ordinary income (+2.1%), and ¥1,800mn in net income attributable to parent shareholders (+6.5%) in FY3/17.

FY3/17 is the first fiscal year of the Challenge 1500 new medium-term business plan. The main difference between goal values presented in the plan and the FY3/17 guidance values is the forex rate assumption. The new medium-term business plan uses ¥117/\$ for all of the fiscal years that it covers, while guidance adopts ¥110/\$ to reflect the recent rate.

Overview of FY3/17 Forecasts

(unit: ¥mn)

	FY3/16			FY3/17				
	1H	2H	Full year	1H	2H	Full year	YOY	Medium-term plan
	Results	Results	Results	Forecasts	Forecasts	Forecasts		
Net sales	54,457	51,291	105,748	55,000	59,500	114,500	8.3%	117,000
Operating income	1,417	1,027	2,444	1,050	1,450	2,500	2.3%	2,800
Operating income margin	2.6%	2.0%	2.3%	1.9%	2.4%	2.2%	-	2.4%
Ordinary income	1,545	1,100	2,645	1,150	1,550	2,700	2.1%	3,000
Net income attributable to parent shareholders	1,033	657	1,690	800	1,000	1,800	6.5%	-

Source: FISCO Ltd. from company materials

The company projects larger gross demand than in the previous year on an overall basis in FY3/17, and this explains the outlook for sales and profit gains. However, sales and profits are skewed toward 2H because of the prospect of needing some time for demand to recover. The plan forecasts continuation of an upward trend in sales to the automotive industry, but a decline in sales to the mainstay factory automation and industrial equipment industry. At the regional level, it counts on higher profits at overseas sites where it targeted aggressive expansion in FY3/16. Sun-Wa Technos projects a sharp increase in US and European segment sales from FY3/16's ¥3,685mn to ¥5,400mn in FY3/17.

We see a good chance of Sun-Wa Technos attaining its FY3/17 targets, though are not overly optimistic. The company has high sales ratios for products from Yaskawa Electric (6506) and Omron (6645) among the items that it handles and factors in rising sales for the products of both companies excluding the forex impact. We think this indicates that the business environment is not that weak in real term.

We believe trends in the engineering business are a key point in FY3/17. Sun-Wa Technos has put effort into the engineering business over the past few years, but this had a strong trial-and-error aspect through JUMP1200. We expect a full-fledged offensive aimed at switching to more lucrative business utilizing past experience under the new medium-term business plan. While the outcome of this offensive will obviously have a large impact on the company's earnings, we think it will provide an important investment perspective for investors too.



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Summary Income Statement and Major Indicators

(unit: ¥mn)

	FY3/13	FY3/14	FY3/15	FY3/16	FY3/17	
					1H(E)	Full year (E)
Net sales	88,264	101,378	111,276	105,748	55,000	114,500
YOY	-1.6%	14.9%	9.8%	-5.0%	1.0%	8.3%
Gross profit	10,968	12,680	13,988	13,256	-	-
Gross profit margin	12.4%	12.5%	12.6%	12.5%	-	-
SG&A expenses	8,699	9,469	10,516	10,812	-	-
YOY	2.4%	8.9%	11.1%	2.8%	-	-
Ratio of SG&A expenses to sales	9.9%	9.3%	9.5%	10.2%	-	-
Operating income	2,269	3,211	3,471	2,444	1,050	2,500
YOY	-31.0%	41.5%	8.1%	-29.6%	-25.9%	2.3%
Operating income margin	2.6%	3.2%	3.1%	2.3%	1.9%	2.2%
Ordinary income	2,519	3,438	3,761	2,645	1,150	2,700
YOY	-26.0%	36.5%	9.4%	-29.7%	-25.6%	2.1%
Net income attributable to parent shareholders	1,520	2,168	2,466	1,690	800	1,800
YOY	-23.0%	42.6%	13.8%	-31.5%	-22.6%	6.5%
EPS (¥)	118.71	162.98	171.83	117.76	55.72	125.38
Dividend (¥)	20.0	22.0	26.0	28.0	14.0	28.0

Summary Balance Sheet

(unit: ¥mn)

	End-FY3/12	End-FY3/13	End-FY3/14	End-FY3/15	End-FY3/16
Current assets	35,741	39,758	45,329	49,239	46,857
Cash and deposits	4,171	7,433	6,937	7,584	6,359
Accounts receivable	27,094	27,866	33,075	34,419	33,006
Non-current assets	6,798	7,497	8,369	9,509	8,581
Property, plant and equipment	3,808	4,074	4,038	3,879	3,788
Intangible assets	44	42	76	243	240
Investments and other assets	2,945	3,381	4,254	5,386	4,553
Total assets	42,539	47,256	53,698	58,748	55,439
Current liabilities	26,914	28,648	30,735	32,370	28,691
Notes and accounts payable - trade	22,132	24,784	25,917	27,496	24,732
Short-term loans payable, etc.	2,926	2,250	2,528	2,782	2,317
Non-current liabilities	3,053	4,258	4,309	4,426	4,484
Long-term loans payable	1,800	2,486	2,205	2,100	2,400
Shareholders' equity	12,396	13,660	16,807	18,929	20,217
Capital stock	1,935	1,935	2,553	2,553	2,553
Capital surplus	1,341	1,341	1,958	1,958	1,958
Retained earnings	9,173	10,437	12,350	14,472	15,761
Treasury shares	-53	-53	-53	-54	-54
Valuation gains or losses	137	646	1,847	3,022	2,045
Minority interest	37	41	-	-	-
Total net assets	12,571	14,349	18,654	21,951	22,263
Total liabilities and net assets	42,539	47,256	53,698	58,748	55,439

Cash Flow Statement

(unit: ¥mn)

	FY3/12	FY3/13	FY3/14	FY3/15	FY3/16
Cash flow from operating activities	1,297	3,652	-1,374	1,353	-60
Cash flow from investing activities	-215	-110	-127	-444	-384
Cash flow from financial activities	-472	-415	769	-470	-654
Effect of exchange rate change on cash and cash equivalents	-50	135	236	209	-125
Net change in cash and cash equivalents	560	3,262	-496	647	-1,225
Balance of cash and cash equivalents at term start	3,126	3,687	6,949	6,453	7,100
Balance of cash and cash equivalents at term end	3,687	6,949	6,453	7,100	5,875

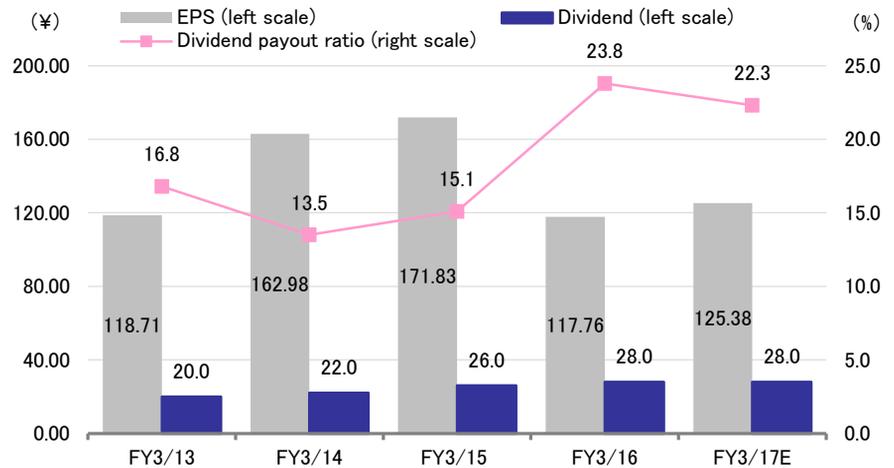
■ Shareholder Return Policy

Fundamentally provides shareholders return as dividends

The company's basic policy is to provide returns to shareholders in the form of dividends. Management prioritizes providing stable, continuous dividends, as demonstrated in its track record to date. While remaining very aware of the need for stable dividends, the company has also increased them in keeping with earnings growth.

For FY3/16, the company paid a dividend of ¥28 per share (+¥2 yoy) in line with the target from the start of the term. The dividend payout ratio based on ¥117.76 in net income per share was 23.8%. The company disclosed a target of ¥28 for FY3/17, unchanged from the previous year. Although Sun-Wa Technos decides the dividend in the context of paying a stable dividend and a dividend that reflects earnings (as noted above), we think it kept the dividend target at the existing level because it only expects a single-digit (6.5%) rise in net income attributable to parent shareholders in FY3/17. The dividend payout ratio based on estimated net income per share comes to 22.3%. We see a possibility of a dividend hike if earnings substantially overshoot due to paying an additional dividend to reflect higher earnings, but believe it is too early to expect this outcome.

EPS, Dividend, and Dividend Payout Ratio



Source: FISCO Ltd. from abbreviated financial statements

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