

# NIPPO LTD. (9913 JP)

A Technical Innovator that Offers  
Manufacturing and Trading Company Capabilities



**1+3** More than the sum



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NIPPON INVESTMENT BESPOKE RESEARCH UK LTD

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## Executive Summary

Nippo Ltd. (hereafter Nippo) is a specialised trading company with manufacturing capabilities. Nippo's core competence lies in 1) its marketing capabilities which showcase the firm's technological background in high-performance materials used in semiconductors and electronics components, and 2) its precision plastic moulding expertise, that can be applied to important security parts in automobiles, and precision equipment parts such as printer modules.

Founded in 1952 from the spinoff of Toho Carbon Manufacturing's (unlisted) sales division, Nippo started as an authorised distributor of carbon products manufactured by Hitachi Ltd.'s (6501 JP) chemical department (Showa Denko Materials [SDM] now part of Resonac Holdings (4004 JP), formerly known as Showa Denko). In 1968, Nippo opened a plastic moulding plant in Ichinomiya, Aichi Prefecture, to become a company with both trading and manufacturing functions. Nippo has established itself as a global solution provider to various manufacturing industries through its domestic (five factories) and overseas production (six factories) and sales (15 branches) bases. Currently, its business portfolio consists of three segments: 1) Electronics, 2) Mobility, and 3) Medical and Precision Equipment.

### Recent Earnings Results

Nippo reported FY22 Q3 results that were largely in line with the firm's expectations, with OP of ¥1,474mil (+63.4% YoY) on sales of ¥29,336mil (+11.3% YoY). Cumulative 9-months earnings reached 78.2% and 82.3% of FY22 sales and OP guidance, respectively, thanks to 1) a recovery in Mobility Segment sales, which resulted in an improved sales mix and 2) the post-COVID recovery in Thailand and Indonesia, which was also supported by the weaker yen. With the release of its 1H results, Nippo revised up its FY22 OP guidance from ¥1,550mil (+15.5% YoY) to another record of ¥1,790mil (+33.4% YoY) while maintaining the sales forecast of ¥37,500mil (+5.7% YoY), generating an OPM of 4.8%, up from 3.8% in FY21.

### Medium-term Management Plan

FY22 is the last year of the three-year medium-term management plan which started in FY20. Nippo aims to achieve the following three KPIs under the current plan as well as the revised target OP of ¥1,790mil (CAGR of +12.0%) on sales of ¥37,500mil (CAGR -4.8%) in FY22.:

1. **RoE of more than 9.0%:** Nippo surpassed this target in FY21 with a RoE of 10.7%.
2. **D/E ratio of less than 0.6x:** This goal was also achieved in FY21. As of FY22 Q3, the D/E ratio was 0.33x,
3. **Annual cash dividend of ¥15 or more:** This too was realised in FY20 with the annual cash dividend of ¥20/share, and subsequently in FY21 with ¥21/share. The firm has revised up its FY22 annual dividend from ¥28.00/share to ¥30.00/share with the release of the 1H results.

### Corporate Governance

Nippo's Board comprises the Audit and Supervisory Committee and the Nomination and Remuneration Committee, and 50% of the Board are independent external directors, including two female members. A corporate governance issue that can be viewed as negative by investors is the poison pill that was voted for at the AGM in June 2022. Countermeasures for a potential takeover bid were introduced to give the Board access to takeover proposals in a structured manner and to evaluate whether such proposals would enhance corporate value and shareholder interests.

### Capital Allocation Policy

Nippo plans to invest approx. ¥800mil on its existing business portfolio to either capture further growth or to identify future growth potential. The dividend pay-out ratio in FY22 is guided for 23.3%, or ¥30/share (+36.4% YoY). The firm does not have any other shareholder return policy, such as a share buyback, at the moment. Assuming required working capital of ¥4,000mil, growth investment of ¥800mil, and an estimated dividend payment of approx. ¥274mil versus FY22 Q3's retained earnings of ¥6,718mil, the theoretically estimated capital available for further shareholder return is some ¥1,600mil – approx. 22% of the market cap as of 27 March 2023.

## Business Model

Nippo has expertise in finding solutions to customers' needs with its combined capabilities as a trading house and as a manufacturer. The firm not only acts as a distributor of merchandise, but it also uses its manufacturing expertise to develop products – including proposing optimal materials – and processes for both existing and as yet unmet customer needs.

The firm's ability to provide customised recommendations to each customer's problems and supply optimal materials and processing solutions is the strength of Nippo's business model. With its core competence in precision plastic moulding technology, Nippo's expertise can be used in important security components such as for power train and electronic control units [ECU].



Source: Nippo Ltd. "Initiatives to Enhance Medium- to Long-Term Corporate Value and ESG Initiatives to Support Sustainable Growth." 21 December 2022

Nippo's three business segments are discussed below:

### Electronics Segment

The Electronics Segment includes both trading and manufacturing functions and generates approx. 45% of consolidated sales. Thanks to the variety of items traded, the segment performance has proved resilient against the weak macroeconomic environment, and it was not heavily affected during the COVID pandemic either. Some 55% of the segment is earned from an authorised dealership of Resonac Corporation, ex- Showa Denko Materials and currently a part of Resonac Holdings Corporation [SDM] and DuPont [DD NYSE].

Within the manufacturing aspect of its business, Nippo (1) procures functional materials (2) processes those materials on its own processing lines, and then (3) it sells the processed materials to R&D and procurement departments of electronics materials, semiconductor, and circuit board makers.

Furthermore, approx. 40% of segment earnings are from the sale of the firm's partner manufacturers' products, such as processing parts and components to electronics components, semiconductor, and circuit board makers as well as housing equipment makers.

The remaining 5% of the segment is earned from in-house developed products in its Okinawa factory such as wafer polishing jigs, and high-performance adhesives manufactured in the Akashi Branch, which the firm sells to R&D and procurement departments of electronics materials and semiconductor makers.

### Competitive Advantages

Nippo's competitive advantages in the Electronics Segment lie in the firm's following capabilities:

- To provide solutions to customers in cooperation with partner manufacturers and suppliers.
- To offer the same level of quality assurance system as a manufacturer, although the firm's origin is as a trading company.
- To provide high value-added products as a hybrid trading company and manufacturer.

The firm's competitor in this segment includes companies that supplies materials for semiconductor and circuit boards such as Sumitomo Bakelite [4203 JP], Asahi Kasei [3407 JP] and Panasonic [6752 JP].

### Business Risks

The segment's potential risks include:

- A change in the supply chain in case its customers change business structure / merge / consolidate etc.
- Surging procurement costs on the back of hike in costs of raw materials.
- Accelerated cost competition in commodity products.

### Business Opportunities

- Thanks to advanced communication technologies, demand for high-performance materials is increasing.
- High-precision semiconductor wafers require polishing jigs.
- Demand for materials used in hydrogen fuels is rising on the back of the rapid shift to carbon neutrality.
- Manufacturing activities have been returning to Japan due to geopolitical risks and the volatile FOREX market environment.

In the Electronics Segment, Nippo aims to improve profitability by increasing the mix of high value-added merchandise and reinforcing its manufacturing capabilities.

### Mobility Segment

Mobility comprises approx. 40% of consolidated sales. In this segment, Nippo manufactures resin moulded products and resin assembled products, primarily used in important security components such as for electronic control units [ECUs] and power train to Tier 1 auto parts makers.

According to the FY21 Annual Securities Report (*Yukashoken Hokokusho*), ¥5,980mil (+13.9% YoY), or 45.7% of the ¥13,092mil in segment sales of came from Denso (6902 JP) – one of Japan's leading autoparts manufacturers. The Mobility Segment earns almost 70% of the segment revenue from manufacturing activities. Due to its exposure to the auto sector, segment sales were negatively affected during the COVID pandemic, however, segment OPM improved thanks to strong orders for power train parts, which improved the utilisation of factories in Bangkok and Indonesia.

Through enhancing its unique technology such as coil parts and thin moulding and providing products that Nippo is trusted to supply by Tier 1 makers, the firm aims to transform from Tier 2 to Tier 1.5 maker.

### Competitive Advantage

Nippo identifies its competitive advantages of its Mobility Segment as follows:

- Mass production capability in coil products. Nippo has a technological advantage in thin moulding and coil technologies.
- Outstanding product quality control of important safety components.
- Production technology to facilitate high quality and efficient mass production, which was derived from precision resin processing technology.

Due to the importance of important safety parts, the firm receives technology license and is authorised to manufacture those parts by Tier 1 makers. Such a relationship provides a high barrier to entry in the Mobility Segment, thanks to the technology license and authorisation given by Tier 1 makers, and the fact that Tier 1 makers globally try to narrow down the list of trusted suppliers.

#### **Business Risks**

- Rapid shift to EVs
- Prolonged supply chain disruptions due to natural disasters and geopolitical risks.
- Prolonged production reduction by auto and Tier 1 makers on the back of lasting semiconductor shortage.
- Recalls of faulty products.
- Hikes in costs such as energy, shipping and personnel.

#### **Business Opportunities**

- Demand for electronic control units (ECU, PCU, motors, etc.) will increase along with the electrification of automobiles.
- A surge in demand for new parts and materials that meet the rising requirements in electrical properties and lightness.
- Increased demand for new materials and parts that assure safety as the automated drive technology progresses.

#### **Medical and Precision Equipment Segment**

Medical and Precision Equipment generated approx. 15% of consolidated sales in FY21. Over 80% of segment revenue is from OA equipment parts, such as ink jet and laser printer units. Precision equipment-related revenue has high seasonality in 2H. The firm is looking to expand its medical equipment-related business, although currently, it is only approx. 20% of segment revenue. To further boost business opportunities in the medical equipment field, Nippo plans to expand its domestic capabilities for manufacturing medical equipment parts.

#### **Competitive Advantage**

- The capability to meet the environmental, technological and authorisation standards required for highly managed medical equipment, and quality control technology.

#### **Business Risks**

- Changes in the supply chain due to business restructuring of clients.
- Declines in demand for printers due to the shift to paperless.
- Product recalls.

#### **Business Opportunities**

- Surges in demand for medical robots due to the severe shortage of labour in medical institutions.
- Increased online consultations and remote control of medical equipment due to labour shortages and to control infection at medical institutions.
- Rising demand for high quality and high-precision equipment to avoid litigation against medical malpractice.

## Recent Earnings

### FY22 Q3 Results Summary and FY22 Outlook

Nippo reported FY22 Q3 results that were largely in line with the firm's expectations, with OP of ¥1,474mil (+63.4% YoY) on sales of ¥29,336mil (+11.3% YoY). Cumulative 9-months earnings reached 78.2% and 82.3% of FY22 sales and OP guidance, respectively, thanks to 1) a recovery in Mobility Segment sales which led to an improved sales mix, and 2) the post-COVID recovery in Thailand and Indonesia, which was also supported by weaker yen.

Nippo revised up its FY22 OP guidance from ¥1,550mil (+15.5% YoY) to ¥1,790mil (+33.4% YoY) while maintaining its sales forecast of ¥37,500mil (+5.7% YoY) with the release of its 1H results. With guided FY22 OP of ¥1,790mil, the firm will have achieved another record OP and see its OPM improve from 3.8% in FY21 to 4.8%.

Nippo has maintained its FY22 forecasts based on the following factors:

1. Delays to Japan's auto production recovery. Although the supply chain disruption eased in Q3, the situation differs from customer to customer, so management remains cautious in their outlook. However, Nippo has not observed as much negative impact overseas.
2. Although the Electronics Segment proved resilient during COVID thanks to the diverse range of products the firm provides, inventory levels in the electronics parts markets have been building in recent months.
3. Prolonged surge in costs of raw materials and energy.
4. Volatility in FOREX.

Nippo Ltd. (9913 JP): Earnings Summary (Cumulative)						
¥mil	FY21		FY22			
	Q3	FY	Q3	YoY (%)	FYCE	Q3 progress (%)
Sales	26,354	35,491	29,336	11.3	37,500	78.2
COGS	22,052	29,592	24,248	10.0	N/A	N/A
Gross Profit	4,301	5,898	5,087	18.3	N/A	N/A
GPM (%)	16.3	16.6	17.3	+1.0pp	N/A	N/A
SG&A	3,399	4,556	3,613	6.3	N/A	N/A
SG&A / Sales (%)	12.9	12.8	12.3	-0.6pp	N/A	N/A
OP	902	1342	1,474	63.4	1,790	82.3
OPM (%)	3.4	3.8	5.0	+1.6pp	4.8	N/A
RP	983	1,423	1,448	47.3	1,710	84.7
NP*	732	1,031	991	35.4	1,170	84.7

Source: Nippon-IBR based on Nippo's FY21 and FY22 Q3 earnings materials  
\* Net profit attributed to the parent's shareholders

### Segment Performance and Outlook

#### Electronics Segment

The Electronics Segment FY22 Q3 OP rose +0.2% YoY to ¥969mil on sales of ¥12,729mil (+2.8% YoY), to achieve 75.8% of the full-year sales. In Q3 alone, segment OP was ¥300mil (-5.1% YoY / -17.4% QoQ) on sales of ¥4,278mil (-2.2% YoY / +3.5% QoQ). Approx 80% of segment are derived from Nippo acting as a specialist trading company, handling electronics components and parts for household equipment. During Q1~Q3, Nippo enjoyed solid demand for circuit board materials for base stations and servers.

Management is aiming to increase sales from manufacturing activities such as slitting process of photosensitive dry films in Vietnam, and wafer polishing jigs in Okinawa, both of which contributed to the segment earnings over the cumulative 9-month period. On the other hand, smartphone-related materials remained weak amid slow production recovery of Chinese smartphones. The segment also suffered supply chain disruptions from closures in China.

Nippo is guiding for FY22 segment OP of ¥1,200mil (-9.4% YoY) on sales of ¥16,800mil (+1.4% YoY). The firm assumes orders for circuit board materials, demand for its dry film slitting process business in Vietnam, and orders for semiconductor wafer polishing jigs will remain firm in Q4. However, given the lack of clarity in inventory adjustment levels for smartphone materials and the increase in costs associated with upfront investment in manufacturing businesses, segment forecasts remain unchanged, with the firm guiding for Q4 Electronics OP of ¥231mil (-35.3% YoY / -23.0% QoQ) on sales of ¥4,071mil (-2.8% YoY / -4.8% QoQ).

### Mobility Segment

Mobility Segment reported FY22 Q1~Q3 OP of ¥1,174mil (+56.5% YoY) on sales of ¥11,807mil (+20.4% YoY). Here, Nippo manufactures and sells moulded plastic parts and modules used mainly in auto-use electronic control components to OEMs and Tier 1 makers. The cumulative 9-month sales reached 82.0% of the full year FY22 segment sales forecast, thanks to solid orders for power train parts which the firm manufactures in Thailand and Indonesia. Although auto and auto parts makers in Japan reduced their production on the back of semiconductor shortages, production trends at some makers have shown signs of recovery.

At the same time, Nippo also made efforts to improve the segment's profitability by introducing automation and improving cost competitiveness. The firm also changed depreciation cost method from declining balance to straight method so as to better track cost management. In Q3 alone, segment OP was ¥362mil (+164.2% YoY / -16.6% QoQ) on sales of ¥4,507mil (+47.0% YoY / +22.5% QoQ), generating an OPM of 8.0%, up from FY21's Q3 OPM of 4.5%.

Nippo is eyeing FY22 OP of ¥1,490mil (+43.0% YoY) on sales of ¥14,400mil (+10.0% YoY), although Q1~Q3 segment sales and OP reached 82.0% and 78.8% of the full-year segment guidance, respectively. Orders to core factories in Thailand and Indonesia will likely remain solid in Q4. However, while the firm has been focusing on improving its cost competitiveness so as to enhance segment profitability, the situation surrounding auto production in Japan still remains uncertain amid prolonged semiconductor shortages. Therefore, management is expecting conservative order levels at Nippo's factories in Japan. For Q4, OP is forecast to reach ¥316mil (+8.2% YoY / -12.7% QoQ) on sales of ¥2,593mil (-21.0% YoY / -42.5% QoQ).

### Medical and Precision Devices Segment

More than 80% of segment sales is generated from precision equipment parts – the main product is ink jet and laser printer units – and some 10% is from components used in medical equipment. The segment has high seasonality in 2H, therefore, the 1H was in the red. However, Q3 earnings offset the 1H loss. In Q1~Q3, OP was ¥24mil (vs an operating loss of ¥46mil in FY21 Q3) on sales of ¥4,932mil (+16.7% YoY). Printer parts were also negatively affected by the shortage of semiconductor and electronic components, however, production started recovering in Q3. As a result, segment OP improved to ¥101mil (+114.9% YoY / loss of ¥63mil in FY22 Q2) on sales of ¥1,996mil (+30.6% YoY / +33.3% QoQ) in Q3 alone.

Nippo is guiding for FY22 segment OP of ¥100mil (vs FY21's operating loss of ¥17mil) on sales of ¥6,100mil (+2.7% YoY). Medical equipment parts that the firm manufactures in Thailand will likely remain solid. While demand for printer-related parts is recovering, the firm remains cautious. Although printer-related parts have high seasonality in Q4, and Q1~Q3 segment sales reached 80.9% of the full-year segment sales guidance, Nippo has maintained the full-year forecast. The firm aims to build a production base in Japan for medical equipment parts, which will incur upfront investment. Nippo aims to start mass production in FY25.



Nippo Sangyo (9913): Sales and OP by Segment (Cumulative)												
¥mil		FY21				FY22						
		Q1	Q2	Q3	Q4	Q1	Q2	Q3	YoY (%)	QoQ (%)	Q4CE	YoY (%)
Electronics	Sales	4,031	8,014	12,386	16,576	4,319	8,451	12,729	2.8	50.6	16,800	1.4
	OP	331	651	967	1,324	306	669	969	0.2	44.8	1,200	-9.4
	OPM (%)	8.2	8.1	7.8	8.0	7.1	7.9	7.6	-0.2ppt	-0.3ppt	7.1	-0.9ppt
Mobility	Sales	3,391	6,743	9,810	13,092	3,620	7,300	11,807	20.4	61.7	14,400	10.0
	OP	307	613	750	1,042	378	812	1,174	56.5	44.6	1,490	43.0
	OPM (%)	9.1	9.1	7.6	8.0	10.4	11.1	9.9	+2.3ppt	-1.2ppt	10.3	+2.3ppt
Medical and Precision Equipment	Sales	1,405	2,699	4,227	5,941	1,439	2,936	4,932	16.7	68.0	6,100	2.7
	OP	-12	-93	-46	-17	-14	-77	24	N/A	N/A	100	N/A
	OPM (%)	N/A	N/A	N/A	N/A	N/A	N/A	0.5	N/A	N/A	1.6	N/A

Source: Nippon-IBR based on Nippo's earnings presentation materials

Nippo Sangyo (9913): Sales and OP by Segment (Quarterly)													
¥mil		FY21				FY22							
		Q1	Q2	Q3	Q4	Q1	Q2	Q3	YoY (%)	QoQ (%)	Q4CE	YoY (%)	QoQ (%)
Electronics	Sales	4,031	3,983	4,372	4,190	4,319	4,132	4,278	-2.2	3.5	4,071	-2.8	-4.8
	OP	331	320	316	357	306	363	300	-5.1	-17.4	231	-35.3	-23.0
	OPM (%)	8.2	8.0	7.2	8.5	7.1	8.8	7.0	-0.2ppt	-1.8ppt	5.7	-2.8ppt	-1.3pp
Mobility	Sales	3,391	3,352	3,067	3,282	3,620	3,680	4,507	47.0	22.5	2,593	-21.0	-42.5
	OP	307	306	137	292	378	434	362	164.2	-16.6	316	8.2	-12.7
	OPM (%)	9.1	9.1	4.5	8.9	10.4	11.8	8.0	+3.5ppt	-3.8ppt	12.2	+3.3ppt	+4.2pp
Medical and Precision Equipment	Sales	1,405	1,294	1,528	1,714	1,439	1,497	1,996	30.6	33.3	1,168	-31.9	-41.5
	OP	-12	-81	47	29	-14	-63	101	114.9	N/A	76	162.1	-24.8
	OPM (%)	N/A	N/A	3.1	1.7	N/A	N/A	5.1	+2.0ppt	N/A	6.5	+4.8ppt	+1.4pp

Source: Nippon-IBR based on Nippo's earnings presentation materials

Q4 CE = FY CE minus Q3 results

## Medium-Term Management Plan

FY22 is the last year of the three-year medium-term management plan which started in FY20. Given the revenue recognition method changed since the launch of the plan, like-for-like comparison is only given for the last two years. During the previous medium-term plan (ending in FY19), the firm 1) established business segmentation to the current three segments, and 2) slimmed down and withdraw from unprofitable businesses, and rebalance the business portfolio. As a result, Nippo realised CAGR of 4.2% and 64.5% in sales and OP, respectively over the three years.

Following the successful completion of the previous plan, the current medium-term plan focuses on building a new business model, in particular, 1) develop the new business area, 2) cultivate new merchandises, develop new technology and in-house products. The firm aims to establish the fourth growth pillar that includes niche products for which it plans to allocate upfront investment. Nippo also continues to work on rebalance the existing business portfolio.

Nippo aims to achieve the three KPIs under the current plan, in addition to the earnings targets. Those are:

1. RoE of more than 9.0%. The firm already achieved 10.7% in FY21.
2. D/E ratio of less than 0.6x, which was also achieved in FY21. As of FY22 Q3, D/E ratio was 0.33x.
3. Cash dividend of ¥20+ was already realised in FY21. FY22 annual dividend was revised up from ¥28.00/share to ¥30.00/share with FY22 1H results.

## Corporate Governance Practice and Issues

### The Board Structure

Nippo's Board of Directors is formed with 12 directors, with four internal and eight external directors. The firm states that based on the independence criteria set out by the stock exchange, six of the eight external directors are defined as independent. The Board is further audited and supervised by the Audit and Supervisory Committee, which consists of five members including one internal director and four external directors and ensures that fiduciary duties to shareholders are carried out by the Board.

The firm also has a Nomination and Remuneration committee, which acts as an advisory body to the Board of Directors, reviewing the diversity of the Board of Directors and its policy on directors' skills, the adequacy of the criteria and processes for the appointment and reappointment of directors, the suitability of succession planning and operations, and the adequacy of the appointment of director candidates.

Director remunerations framework is as follows:

- Remuneration of the Representative Director (President / CEO) and executive directors is based on the previous year's remuneration and reflects the achievements measured by 1) consolidated OP and profit of the business segment in charge, and 2) the completion rate of key tasks in the business / segment they are in charge of. However, the YoY increase in annual remuneration will be capped at 20% in case of the President, and 15.8% in case of other executive directors.
- Remuneration of non-executive directors (including external directors) is decided by referencing the level of remuneration at other companies and the firm's own earnings results.

### Poison Pill

On 24 June 2022 at the Annual General Meeting [AGM], Nippo proposed the renewal of the Countermeasures to Large-scale Purchases of Company Shares (Takeover Defense Measures, the Plan), which was subsequently voted for. The Plan is effective until the end of the AGM scheduled for June 2023. Nippo introduced the poison pill and exercised the countermeasures on the back of ToB attempts by its largest shareholder, Freesia Macros Corporation [FMC] (6343 JP). However, the firm suspended the countermeasures when FMC withdrew from the TOB attempt.

Nippo states that the firm's Board does not categorically refuse takeovers. The Plan was introduced for the Board to carefully consider proposals placed on the company in its duty to enhance enterprise value and protect shareholders' interest. Due to the nature of the business which works closely with its clients' product development projects, and, in some case, manufactures under technological license agreements, the firm reckons that there is a measure needed to evaluate potential acquirers.

The Plan sets out prerequisites for the potential acquirers to submit 1) the Statement of Intention to the Company and 2) Provision of Necessary Information. Upon submission of the information, Nippo's Board will notify that it has received it and disclose the proposal by the acquirer to the company. Subsequently, the Board will set the Board Assessment Period, and then the Independent Advisory Committee will be established regardless of whether any countermeasures will be triggered or not.

## Capital Allocation Policy

The current capital allocation policy prioritizes investments for growth. For example, in FY22, the firm plans to invest approx. ¥800mil on following growth areas:

### Electronics Segment

- ¥350mil on dry film to enter the ASEAN markets and expanding slitting processing capacity.
- ¥250mil in expanding production capacity of wafer polishing jigs and improve profitability.
- ¥50mil on developing and testing capacity of high-performance adhesives.

### Medical and Precision Equipment Segment

- ¥150mil on building OEM capabilities for medical equipment parts in Japan.

The firm has not yet officially commented on any other possible measures to counter takeover attempts such as increasing dividends and share buyback. Therefore, CAPEX will remain within depreciation cost ¥1,260mil, hence free cash flow will not be affected.

As of FY22 Q3, the firm had retained earnings of ¥6,718mil, vs required working capital of approx. ¥4,000mil. Additionally, based on the aforementioned ¥800mil in CAPEX and estimated annual dividend payment of approx. ¥274mil, theoretically, the available capital that can be allocated for shareholder return as of FY22 Q3 is estimated at approx. ¥1,600mil, some 22% of the market cap as of 27 March 2023.

While Nippo has been reducing its holdings in investment securities, the firm still has ¥1,885mil in investment securities, of which ¥1,521mil is in FORTECHGRP. CO., LTD. (unlisted, Taiwan) with whom Nippo formed an alliance to expand manufacturing businesses in China, Taiwan, and Hong Kong. Approx. ¥315mil of the remaining is from strategic holdings such as Fujimi Incorporated (5384 JP), with whom the firm aims to expand wafer polishing jigs market.

## Financial Summary

<b>P&amp;L Summary</b>											
(¥mil / March yr-end)	FY13	FY14	FY15	FY16	FY17	FY18	FY19	FY20	FY21	FY22 CE	FY23 Est
Sales	42,913	42,710	42,313	38,431	43,791	44,479	43,494	39,985	35,491	37,500	39,600
YoY (%)	1.1	-0.5	-1.0	-9.2	13.9	1.5	-2.3	-8.1	-11.3	5.6	5.6
COGS	37,845	38,274	37,858	33,730	38,539	38,985	37,330	34,845	29,592	N/A	N/A
Gross Profit (GP)	5,068	4,436	4,455	4,700	5,251	5,493	6,164	5,140	5,898	N/A	N/A
GPM (%)	11.8	10.4	10.5	12.2	12.0	12.3	14.2	12.9	16.6	N/A	N/A
SG&A	4,602	4,615	4,841	4,414	4,754	4,847	4,889	4,504	4,556	N/A	N/A
Operating Profit (OP)	466	-179	-386	286	497	646	1,274	635	1,342	1,790	1,900
YoY (%)	-45.5	n/a	n/a	n/a	73.7	29.9	97.2	-50.2	111.3	33.3	6.1
OPM (%)	1.0	-0.5	-1.0	0.7	1.1	1.4	2.9	1.5	3.7	4.7	4.7
Interest & dividend received	23	98	60	54	72	79	35	34	46	N/A	N/A
Interest payment	145	141	138	137	138	207	228	153	94	N/A	N/A
Investment gains & losses	48	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Recurring Profit (RP)	828	358	-782	-167	496	452	1,149	505	1,423	1,710	1,800
YoY (%)	-20.7	-56.8	n/a	n/a	n/a	-8.9	154.2	-56.1	181.7	20.1	5.2
RPM (%)	1.9	0.8	-1.8	-0.4	1.1	1.0	2.6	1.3	4.0	4.6	4.5
Pre-tax Profit	807	278	-734	0	700	-1,032	811	-188	1,405	N/A	N/A
Tax costs	480	313	312	110	296	286	364	-200	374	N/A	N/A
Minority shareholder interest	0	-7	144	275	195	289	104	0	0	N/A	N/A
Net Profit (NP)	326	-42	-902	164	598	-1,029	550	12	1,031	1,170	1,230
YoY (%)	-45.0	N/A	N/A	N/A	264.6	N/A	N/A	-97.9	8491.6	13.4	5.1
Comprehensive Profit	984	1,360	-1,905	-276	1,267	-1,836	709	-725	1,459	N/A	N/A

Source: Nippon-IBR based on Nippo's presentation materials, YUHOs and Toyo Keizai estimate

<b>Cash Flow Summary</b>										
(¥mil / March yr-end)	FY13	FY14	FY15	FY16	FY17	FY18	FY19	FY20	FY21	
Operating Cash Flow	3,486	1,653	27	1,105	1,289	1,547	2,173	1,595	2,244	
Depreciation	1,212	1,314	1,524	1,311	1,399	1,704	1,389	1,377	1,231	
Goodwill Amortisation	-	-	-	-	-	-	-	-	-	
Change in Sales Receivables	440	549	486	-960	-494	213	74	-525	378	
Change in Inventories	-488	-276	400	-185	-196	78	49	-132	-301	
Change in Accounts Payable	1,856	468	-1,803	725	314	-691	-185	516	-290	
Investment Cash Flow	-1,322	-1,039	-1,061	-1,058	-1,160	-2,323	-1,235	-438	-291	
Free Cash Flow	2,164	614	-1,034	47	129	-776	938	1,157	1,953	
Finance Cash Flow	-794	-333	-573	775	141	1,123	-1,619	-2,272	-272	
Cash and Cash Equivalent	5,240	5,357	3,598	4,381	4,660	4,937	4,326	2,934	4,574	

Source: Nippon-IBR based on Nippo's presentation materials, YUHOs and Toyo Keizai estimate

Balance Sheet Summary									
(¥mil / March yr-end)	FY13	FY14	FY15	FY16	FY17	FY18	FY19	FY20	FY21
Current Asset	15,064	15,493	12,737	14,513	15,476	15,365	14,609	13,727	15,582
Fixed Asset	12,239	14,498	13,207	12,895	14,375	13,922	12,910	10,977	10,505
Tangible	9,351	10,907	10,188	9,771	11,125	11,011	10,236	8,239	7,452
Intangible	148	141	82	89	99	115	115	121	115
Investment and others	2,738	3,449	2,936	3,034	3,150	2,795	2,558	2,616	2,937
Total Asset	27,303	29,992	25,944	27,409	29,851	29,288	27,519	24,705	26,087
Current Liability	13,497	12,610	10,237	11,849	12,390	12,248	11,996	12,549	12,586
Fixed Liability	3,522	5,271	5,638	5,678	5,999	7,437	5,710	3,159	3,135
Net Asset	10,283	12,110	10,068	9,880	11,462	9,602	9,813	8,996	10,364
Capital	3,137	3,137	3,137	3,137	3,137	3,137	3,137	3,137	3,137
Capital Surplus	2,343	2,299	2,299	1,522	1,363	1,363	612	612	612
Retained Earnings	4,751	4,575	3,535	4,478	5,235	4,169	5,065	4,986	5,926
Treasury Shares	-155	-12	-12	-67	-53	-39	-12	-12	-12
Minority Interest	63	569	364	192	526	228	1	1	1
Shareholders' Equity	10,219	11,540	9,703	9,688	10,935	9,374	9,811	8,994	10,363
Shareholders' Equity Ratio (%)	37.4	38.4	37.3	35.3	36.6	32.0	35.6	36.4	39.7
Interest-bearing Debt	5,583	5,192	4,957	5,908	5,949	7,285	4,623	3,133	3,639

Source: Nippon-IBR based on Nippo's presentation materials, YUHOs and Toyo Keizai estimate

Historical Trend of Financial KPIs											
	FY13	FY14	FY15	FY16	FY17	FY18	FY19	FY20	FY21	FY22 EST	FY23 EST
ROE (%)	3.1	-0.3	-9.2	1.6	5.4	-10.9	5.6	0.1	9.9	11.2	11.8
ROA (%)	1.1	-0.1	-3.4	0.6	2.0	-3.5	1.9	0.0	3.9	4.4	4.7
EBITDA (¥mil)	1,678	1,135	1,138	1,597	1,896	2,350	2,663	2,012	2,573	-	-
Financial Leverage (x)	2.6	2.5	2.6	2.8	2.7	3.1	2.8	2.7	2.5	-	-
Net D/E Ratio (x)	0.0	-0.0	0.1	0.1	0.1	0.2	0.0	0.0	-0.0	-	-
Total Asset Turnover (x)	1.5	1.4	1.6	1.4	1.4	1.5	1.5	1.6	1.3	-	-

Source: Nippon-IBR summarised based on Nippo Sangyo's earnings release

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