COMPANY RESEARCH AND ANALYSIS REPORT

Helios Techno Holding Co., Ltd.

6927

Tokyo Stock Exchange First Section

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Summary

Strong progress on growth strategy, expect sales and profit growth in FY3/18 on rapid growth from new HRP products

Helios Techno Holding <6927> (hereinafter, also "the Company") is a holding company formed in 2009 as a result of a business integration and business acquisition, including a renaming, undertaken by the former PHOENIX Electric Co., Ltd. It is now a pure holding company following a corporate split. The Company has three businesses: the Lamp business, the Manufacturing equipment business, and the Human resources service business.

1. Growth in real sales and profit in FY3/17, steady growth in Manufacturing equipment business

Helios Techno (hereinafter, also "the Company") reported ¥17,117mn in net sales (down 33.6% YoY) and ¥1,386mn in operating income (up 17.3%) in FY3/17, posting lower sales, but significantly higher income. The decline in sales was attributable to a reactive decline from a large number of orders concentrated in FY3/16. Adjusted for this factor, sales rose by roughly 22% YoY. Growth in sales of high-margin products such as photolithography equipment light source units, alignment layer manufacturing equipment for LCD panels, and precision inkjet printers drove profit growth.

2. Basic medium- to long-term growth strategy: M&A and partnerships, and growth from new products

The Company's medium- to long-term growth strategy focuses on three areas: 1) M&A and partnerships, 2) development and growth of new products, and 3) growth in income from services in existing businesses. The Company's businesses are making steady progress in pursuing these strategic goals and many of these efforts have begun to contribute to earnings. Progress has been made in the semiconductor production equipment (SPE) business, which the Company views as its most promising business, and a basic agreement has been signed with a Chinese company and an investment fund.

3. Secured orders for over 60 precision inkjet printers

The most marked progress in terms of the Company's growth strategy has been in the Manufacturing equipment business with its new high-resolution printing equipment (HRP). In FY3/17, the company secured orders for over 60 HRPs. The company plans to post the sales of these printers in FY3/18. HRPs are used by many different customers for a variety of applications, but we understand that currently, most of the Company's HRPs are used for trial manufacturing. While we expect these printers to eventually be used in the mass production of organic EL display, this has not yet gotten off the ground. We therefore think this business has considerable growth potential.

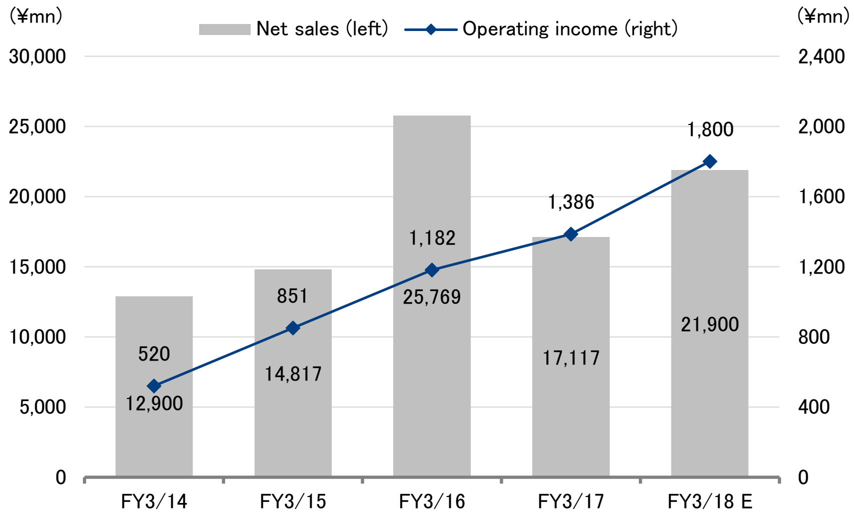
4. Forecasts profit growth again in FY3/18, could surpass forecast in mainstay Manufacturing equipment business

In FY3/18, Helios Techno forecasts growth in both sales and income, with net sales of ¥21,900mn (up 27.9% YoY) and operating income of ¥1,800mn (up 29.8%). All of the Company's products and services that it has positioned as strategic growth drivers are expected to show clear growth in FY3/18. Assuming that sales of HRPs and income from repair and maintenance reach the Company's targets, we believe its forecast looks conservative and we think the company could surpass its forecast.

Key Points

- Targets medium- to long-term growth based on three strategies: M&A and partnerships, and new products
- Secured orders for over 60 HRPs; rising expectations for infrared LEDs and power device testers
- Forecasts growth in sales and income in FY3/18; could surpass forecast in Manufacturing equipment business

Results trends



Source: Prepared by FISCO from the Company's financial results

Company profile

Started as lighting manufacturer; entered Manufacturing equipment business via acquisition in 2009

1. History

Helios Techno arose from PHOENIX Electric Co., Ltd., which had been established in 1976 by engineers spun-out from USHIO INC. <6925>. Initially, the company was involved in the manufacture and sale of halogen lamps for general lighting on the back of demand for replacement of the mainstream fluorescent lamps, the company steadily expanded its business.

However, the appreciation of the yen in the wake of the Plaza Accord and the price competition against cheap Chinese products brought about a decline in business conditions of the former PHOENIX Electric. In 1995, the company filed for reorganization under the Corporate Reorganization Act. Subsequently, Masaya Nakamura, founder of Namco Limited (currently BANDAI NAMCO Holdings, Inc. <7832>) became the turnaround supporter and Sadaichi Saitou was assigned from Namco to serve as the Company's current president and representative director and start the rehabilitation.

After undergoing corporate rehabilitation procedures, the company worked to achieve a recovery with a focus on projector lamps, also producing halogen lamps for general lighting applications, automotive halogen lamps, and metal halide lamps for general lighting applications (also known as mercury vapor lamps). In 2004, the company benefitted from the success in the North American market of rear-projection-type projector televisions and, in FY3/15, owing to rapid growth in sales of projector lamps, operating income soared by over 2.4x YoY. However, the boom in the projector market did not last long and this, combined with yen appreciation, resulted in the Company's earnings falling sharply after peaking in FY3/06.

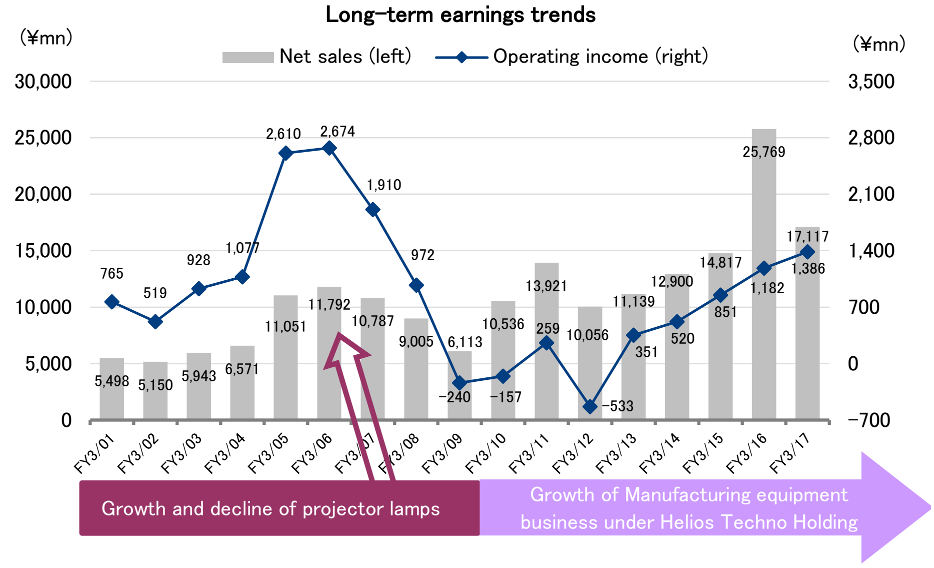
In 2009, the company merged its management with Nippon Gijutsu Center Co., Ltd. and adopted its current name. The company itself is a pure holding company, and a new PHOENIX Electric Co., Ltd. was established. Upon this management integration, enabled by an introduction from Mr. Nakamura, the subsidiary Nakan Techno Co., Ltd. was established and received transfer of the Manufacturing equipment business. These events have brought the company to its current state.

In the securities markets, the company's shares were first registered for OTC trading in 1989. The registration was removed in 1996 with the start of the reorganization proceedings, but in December 2002, it relisted on the JASDAQ market. In April 2005, the company was listed on the Second Section of the Tokyo Stock Exchange, and in May 2006, it was re-designated for the First Section of the Tokyo Stock Exchange.

History

October 1976	Phoenix Electric Co., Ltd. was established and started manufacture and sales of halogen lamps for general illumination
December 1989	Shares listed on the OTC market of the Japan Securities Dealers Association
November 1995	Applied for corporate reorganization under the Corporate Reorganization Act
December 1995	Acquired all the shares of Lux Co. (consolidated subsidiary)
April 1996	Corporate reorganization procedure commencement approved
May 1996	Removed registration from OTC market of the Japan Securities Dealers Association
July 1998	Completed corporate reorganization procedure
December 2002	Listed on the JASDAQ market
January 2003	Started production and sale of super high voltage mercury lamps for lamp-type rear projection TVs
April 2005	Listed on Second Section of the Tokyo Stock Exchange
May 2006	Listed on First Section of the Tokyo Stock Exchange
August 2007	Developed "Multi-Lamp System" for photolithography light source unit, and started sales
April 2009	Changed name to Helios Techno Holding Co., Ltd. Management integration with Nippon Gijutsu Center Co., Ltd. Established (new) Phoenix Electric Co., Ltd. through a corporate split
June 2009	Established Nakan Techno Co., Ltd.
July 2009	Nakan Techno Co., Ltd., received a transfer of Manufacturing equipment business from Nakan Corporation and commenced operations
October 2013	Made Techno Provider Co., Ltd. a wholly owned subsidiary
April 2015	Nippon Gijutsu Center Co., Ltd. absorbed Techno Provider Co., Ltd. in a merger
October 2016	Nakan Techno Co., Ltd. acquired Lead Tech Co., Ltd. as a subsidiary through purchase of stock

Source: Prepared by FISCO from the Company website



Source: Prepared by FISCO from the Company's financial results and results briefing materials

Manufacturing equipment business is core driver of sales and income

2. Business overview

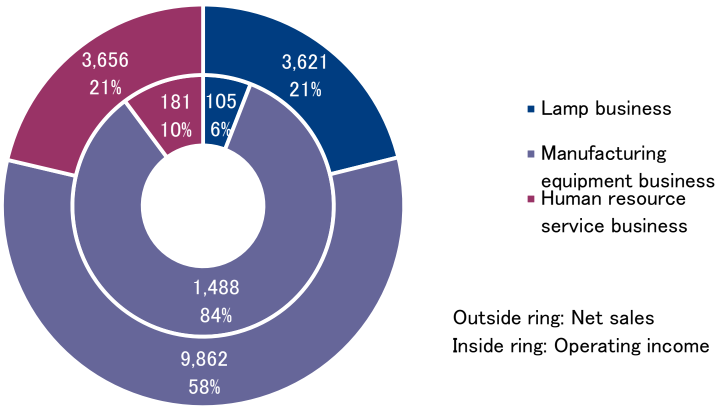
Helios Techno Holding is a holding company and the group is composed of five operating companies. The three main operating companies are PHOENIX Electric Co., Ltd., which handles the Lamp business, Nippon Gijutsu Center Co., Ltd., which handles the human resources business, and Nakan Techno Co., Ltd. which handles the Manufacturing equipment business. The Group conducts operations in three areas of business: the Lamp business, the Manufacturing equipment business, and the Human resource services business.

Division of Group companies and business segments

Company	History	Principle products and services	Business segment allocation
Helios Techno Holding	Changed name in 2009 from the former PHOENIX Electric, established in 1976.	Pure holding company	-
PHOENIX Electric	Established in April 2009 through a corporate split of Helios Techno Holding	Lamps for various applications, (projectors, automobiles, illumination, LED lamps, photolithography equipment light source units)	Lamp business Manufacturing equipment business
Lux	Established in 1991 as a sales company of PHOENIX Electric.	Sale of PHOENIX Electric products and various products of major Japanese lighting manufacturers, maintenance operations	Lamp business
Nippon Gijutsu Center	Established in 1967. Started with development and manufacture of industrial equipment and developed into human resources dispatch services. Merged with KANSAI GIKEN Co., Ltd. in 2013. Absorbed group-firm Techno Provider on April 1, 2015.	Industrial equipment (such as inspection equipment and photolithography equipment light-source units) manufacture, design contracting, IT business technician dispatch and human resources service, nursing care business	Human resources service business Manufacturing equipment business
Nakan Techno	Established in 1937 as Nakanishi Tekkojo Co., Ltd. Started from manufacture of printing machinery developed into LCD alignment layer coating equipment. Received the business in 2009.	Manufacture and sales of various printing equipment LCD alignment layer coating equipment, touch-screen panel insulation coating equipment; used manufacturing equipment transactions	Manufacturing equipment business
Leadtech	Converted to a subsidiary of Nakan Techno in October 2016	Engineering, manufacturing and installation of manufacturing equipment	Manufacturing equipment business

Source: Prepared by FISCO from the Company's results briefing materials

Net sales and operating income by business segment
(based on results for FY3/17)



Note: Both net sales and operating income are broken down from non-adjusted figures.

Source: Prepared by FISCO from the Company's financial results

(1) Overview of Lamp business

The Lamp business is handled by PHOENIX Electric and its subsidiary Lux. It has five product and application sub-segments – projector lamps, halogen lamps, products, LED lamps, and light sources for photolithography equipment.

Projector lamps serve as the light source for rear-projection projectors and now remains for a replacement demand. The share in the segment sales composition for this business has been gradually shrinking.

The main use of halogen lamps, products, and LED lamps is lighting for stores and similar locations. Demand is shifting to LED products that have longer lives and offer energy-saving benefits. Helios Techno is similarly experiencing growth in LED lamps paired with contraction of halogen lamps. The Company purchases LED chips from external suppliers and manufactures LED lighting products in-house.

Light sources for photolithography are light-source units used in photolithography equipment for manufacturing color filters, a key component of LCD panels. While specialty firms make photolithography equipment, the Company ships its “light source unit (multi-lamp system: MLS)” to photolithography equipment manufacturers. The Company currently makes exclusive deliveries to the top domestic equipment manufacturer. MLS products consist of a lamp and lamp chassis, and Helios Techno books lamp sales in the lamp business and the chassis in the machinery equipment business. While the chassis accounts for a larger portion of sales, it seems the lamp portion generates higher profitability.

(2) Overview of Manufacturing equipment business

Subsidiaries Nakan Techno Co., Ltd. and Leadtech Co., Ltd handle the Manufacturing equipment business. Sub-segments in this business include flexo printing, the plants business, HRPs, and the “others” sub-segment.

A leading product in this business is alignment layer manufacturing equipment for LCD panels using flexo printing technology. The two different formats utilized in alignment layer manufacturing equipment are flexo printing technology and inkjet printer technology, and Nakan Techno is the only manufacturer of flexo-printer alignment layer manufacturing equipment. However, it is thought that flexo printing equipment's applicability will only last until the 8.5G mother-glass size for LCD panels, and the Company currently primarily ships equipment for the 8.5G size. While LCD panel firms are already advancing to the 10.5G size at cutting-edge production sites, we think strong demand remains for the 8.5G size in China, which is Nakan Techno's main market. The Company is addressing this point by working on development of PI printing equipment using the inkjet method in order to accommodate the 10.5G size.

The plants business mediates, transports, and relocates used LCD manufacturing equipment. Strong demand exists in China to purchase production equipment from past generations inexpensively and use them to lower LCD panel manufacturing costs. Leadtech's strength is its wide range of technology and experience related to devices in areas other than equipment manufacturing.

The newest addition to the Manufacturing equipment business is HRPs. These products utilize a variety of printing technologies, such as inkjet and gravure methods, to realize high-resolution printing. Recently, orders for inkjet HRPs have been growing rapidly.

The "others" sub-segment includes supply of consumables for manufacturing equipment in the field, and maintenance, repairs, and upgrades of such equipment. Sub-segment sales have grown considerably in the past few years because cumulative sales of the Company's manufacturing equipment have risen to well above 60 units.

In FY3/17, the Company merged the inspection equipment business into the Manufacturing equipment business. The inspection equipment business mainly serves customers in the Nippon Gijutsu Center. It currently does not manufacture inspection equipment and primarily handles production of the chassis for light-source units (MLS) for photolithography equipment used in manufacturing LCD-panel color filters and assembly of light-source units by combining its chassis with different light-sources. In FY3/17, the Company completed development of a power device tester and has already sold these to many customers. This tester is the Company's catalog model and it plans to focus on further development of this product.

(3) Overview of Human resources service business

The Human resource service business is operated by Nippon Gijutsu Center. Helios Technology had multiple human resource service companies in its group until Nippon Gijutsu Center absorbed KANSAI GIKEN Co., Ltd. through a merger in October 2013 and also absorbed Techno Provider Co., Ltd. through a merger in April 2015. We think these initiatives aimed to lower management costs and raise business profitability.

Human resources services include dispatch of manufacturing engineers, dispatch of workers, design subcontracting, and nursing care. We believe dispatching services for manufacturing engineers and workers are the business' primary income sources. The sales strategy is based on a locality-centric business model. It emphasizes building operations that expand the customer base in areas nearby existing customers and facilitate concentrated supply of dispatched workers. The primary aim, of course, is improving efficiency.

The Company has clearly stated that it plans to pursue M&A opportunities in the Human resources service business. The dispatching industry is struggling to secure human resources, and the Company sees appeal in M&A-led expansion because of opportunities to acquire human resources and a sales base. In line with its locality-centric business model, the Company plans to seek M&A deals that target companies with a base in regions that can readily obtain synergies with existing customers.

Results trends

Income surpassed the Company's forecast in FY3/17; Adjusted for the impact of a one-time large-lot order in FY3/16, sales rose by roughly 22% YoY

1. Review of FY3/17 results

Helios Techno reported ¥17,117mn in net sales (-33.6% YoY), ¥1,386mn in operating income (+17.3%), ¥1,375mn in ordinary income (+17.7%), and ¥1,144mn in profit attributable to owners of parent (+41.7%) in FY3/17, posting sharply higher earnings despite lower sales.

The Company raised its earnings forecast in FY3/17, but sales fell slightly short of its revised forecast. However, the Company surpassed its revised forecast at every level of the income statement from operating income down to the bottom line.

Review of FY3/17 Results

(¥mn)

	FY3/16	FY3/17				
	Full-year results	Full-year initial forecast	Full-year revised forecast	Full-year results	YoY	Versus revised forecast
Net sales	25,769	17,700	17,400	17,117	-33.6%	-1.6%
Operating income	1,182	1,050	1,350	1,386	17.3%	2.7%
(Operating income margin)	4.5%	5.9%	7.7%	8.0%	-	-
Ordinary income	1,168	1,040	1,290	1,375	17.7%	6.7%
(Ordinary income ratio)	4.5%	5.8%	7.4%	8.0%	-	-
Profit attributable to owners of parent	807	680	850	1,144	41.7%	34.7%
(Net income ratio)	3.1%	3.8%	4.8%	6.6%	-	-

Source: Prepared by FISCO from the Company's financial results

Net sales declined sharply YoY owing to a one-time large-lot order for used equipment of approximately ¥11,700mn posted in the previous fiscal year. Adjusted for this factor, sales rose by roughly 22% YoY.

Details regarding segment earnings are shown below, but sales in the Lamp business and the Human resources service business rose YoY. Manufacturing equipment business sales declined by 47.4% YoY, but this was the result of a reactive decline from large-lot order of used equipment mentioned above. Adjusted for this factor, Manufacturing equipment business sales rose by roughly 40% YoY.

Because margins on the abovementioned large-lot order for used equipment were very narrow, on an adjusted basis, sales rose by approximately 22% YoY, but gross margin increased by only 3.1% (¥131mn). Also related to the abovementioned large-lot orders of used equipment, SG&A expenses declined by 2.3% (¥72mn) YoY on lower packaging and transport costs. As a result, operating income rose by 17.3% (¥204mn) YoY.

YoY income growth in mainstay Manufacturing equipment business and Human resources service business

2. Earnings by business segment

Details by business segment

(¥mn)

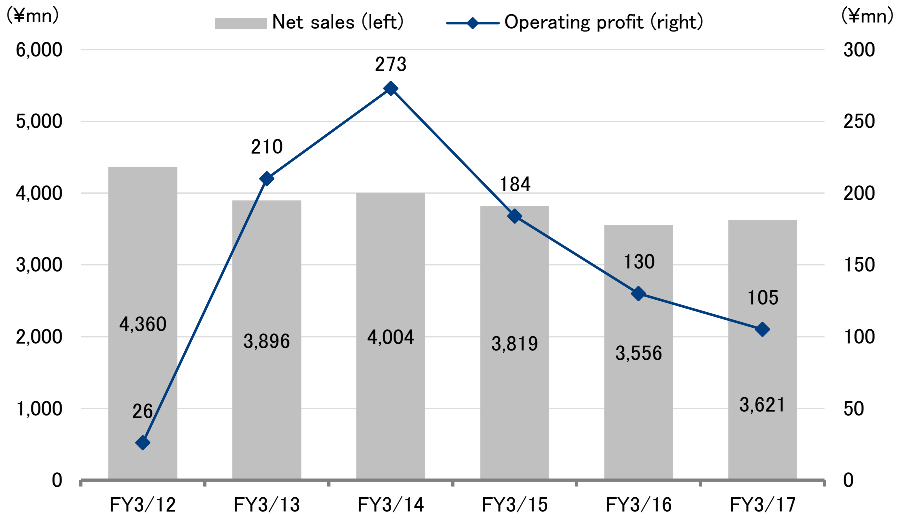
		FY3/16	FY3/17			
		Full year	1H	2H	FY3/16	YoY change
Net sales	Lamp business	3,556	1,571	2,050	3,621	1.8%
	Manufacturing equipment business	18,765	5,792	4,069	9,862	-47.4%
	Human resources service business	3,463	1,783	1,872	3,656	5.6%
	Subtotal	25,785	9,147	7,992	17,140	-33.5%
	Adjustment	-16	-9	-14	-23	-
	Total	25,769	9,138	7,978	17,117	-33.6%
Operating income	Lamp business	130	20	84	105	-19.7%
	Manufacturing equipment business	1,248	1,174	314	1,488	19.2%
	Human resources service business	125	90	91	181	44.9%
	Subtotal	1,505	1,284	491	1,775	18.0%
	Adjustment	-323	-203	-185	-389	-
	Total	1,182	1,081	305	1,386	17.3%

Source: Prepared by FISCO from the Company's financial results and results briefing materials

(1) Lamp business

Sales rose and income fell in the Lamp business as sales increased by 1.8% YoY to ¥3,621mn and operating income declined 19.7% to ¥105mn.

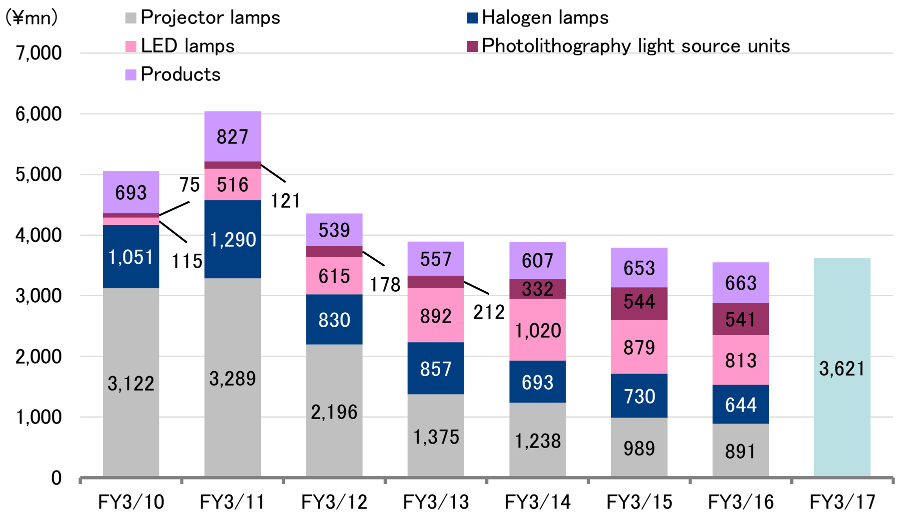
Results in the Lamp business



Source: Prepared by FISCO from Company materials

Sales of lamps for light-source units for photolithography equipment (MLS), a key source of income for the company, are rising steadily. Sales of lamps for general-purpose lighting (including LED lamps) held steady YoY. The main source of demand for projector lamps is replacement demand. However, owing to the declining number of rear-projection-type projectors in the field, sales have been on a downtrend and continued to decline YoY in FY3/17.

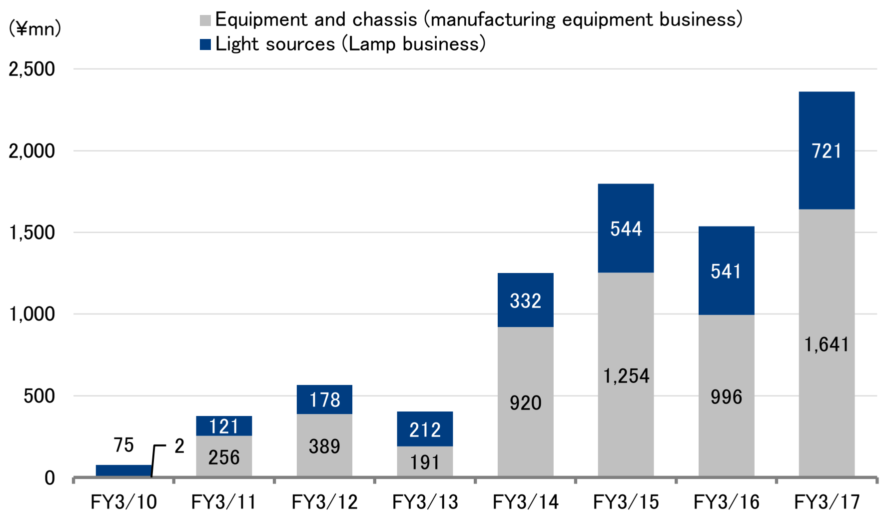
Sales trend in the Lamp business



Note: Breakdown of sales for FY3/17 not released.
Source: Prepared by FISCO from Company materials

Within the Lamp business, MLS light sources continue to grow, recording a 21.6% YoY increase in sales to ¥721mn in FY3/17. As explained above, the Company ships MLS light source units to leading photolithography equipment manufacturers in Japan, who deliver them to LCD panel manufacturers in Japan and overseas. MLS light sources are expected to continue growing because cumulative shipments of photolithography equipment are projected to grow and replacement demand to accelerate.

Sales trend in light-source units (MLS) for photolithography equipment

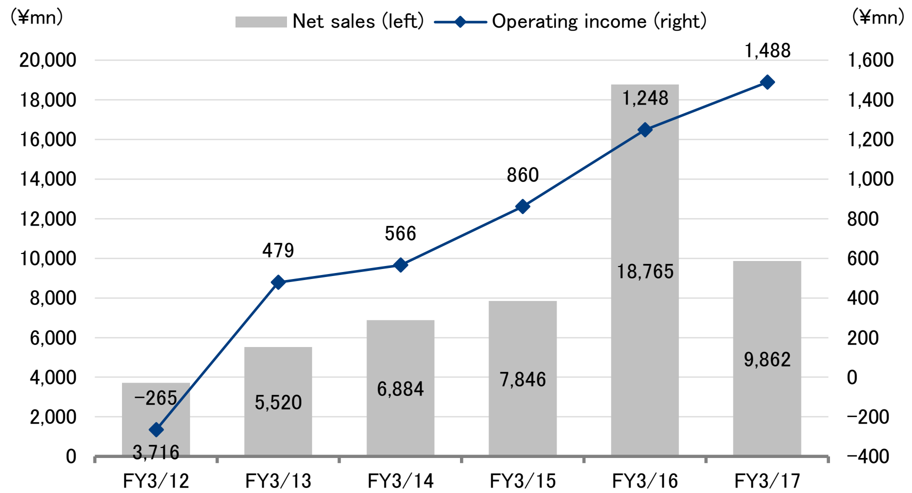


Source: Prepared by FISCO from Company materials

(2) Manufacturing equipment business

Sales declined sharply, but income rose in the Manufacturing equipment business as sales fell 47.4% YoY to ¥9,862mn and operating income declined 19.2% to ¥1,488mn.

Results in the Manufacturing equipment business

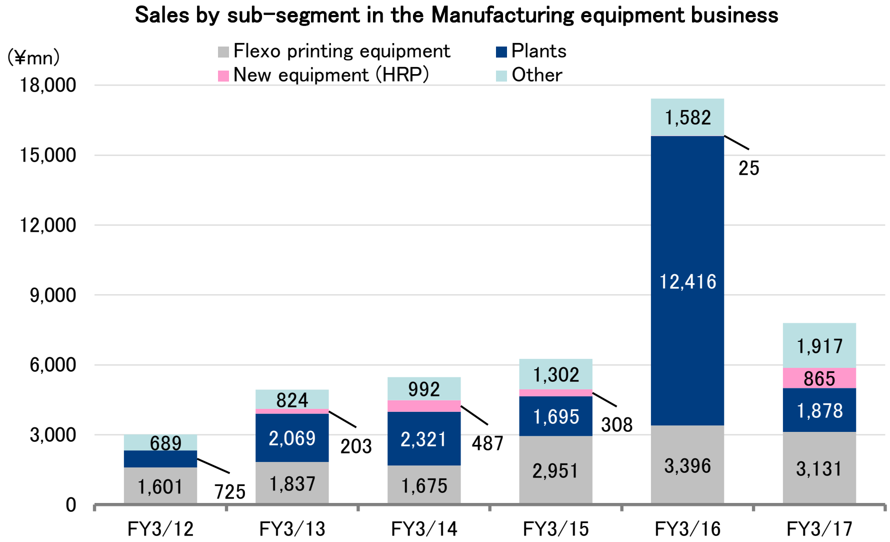


Note: Past results calculated by adding totals for Manufacturing equipment and inspection equipment businesses.
Source: Prepared by FISCO from the Company's financial results

Net sales declined sharply YoY mainly owing to a reactive decline from a one-time large-lot order of extraordinary size for a single project for relocation of used equipment of approximately ¥11,700mn posted in the previous fiscal year. Adjusted for this factor, sales rose by 39.6% YoY. However, because contribution to income from this order was very small, we believe it boosted FY3/16 operating income by a very small amount. Operating profit rose YoY in FY3/17 on sales growth from HRPs and alignment layer manufacturing equipment for LCDs, as well as printing plates (consumables) used with flexo printing equipment turning profitable.

Although sales of flexo printing equipment (including alignment layer manufacturing equipment) were high in FY3/17 at ¥3,131mn, they declined YoY. In the plant sub-segment, sales rose by a strong 1.6x YoY when adjusted for one-time factors. Looking at new equipment (HRP), the company shipped more than 10 high-precision inkjet printers and sales rose sharply from ¥25mn in FY3/16 to ¥865mn in FY3/17. In the “other” sub-segment, sales from repairs, maintenance, upgrades, and consumables rose 21.2% YoY.

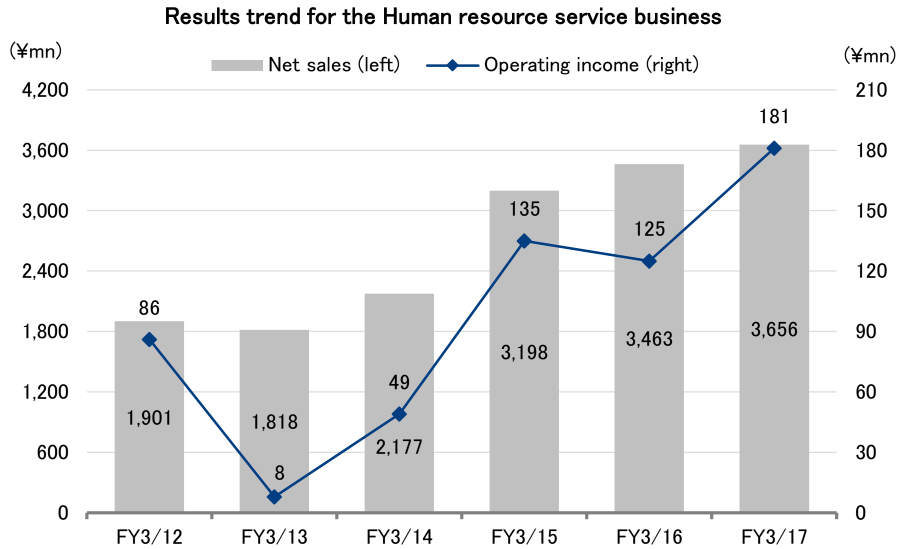
Results trends



Source: Prepared by FISCO from Company materials

(3) Human resources service business

Sales and income rose in the Human resources service business as sales increased by 5.6% YoY to ¥3,656mn and operating income rose 44.9% to ¥181mn.



Source: Prepared by FISCO from the Company's results briefing materials

In the areas of technician dispatch and design subcontracting, the Company was able to increase sales because it strengthened its sales capabilities by building a locality-centric business able to improve staff quality and respond to customers' needs. The Company also increased manufacturing engineer dispatch volume, which allowed it to achieve growth in operating income by offsetting rising costs resulting from high human resource acquisition costs.

Medium- to long-term growth strategy

Targeting medium- to long-term growth through M&A, partnerships, and new products

1. Overall growth strategy

The Group's basic strategy to achieve medium- to long-term growth consists of the following three strategies.

1) M&A and formation of strategic alliances with other companies
2) Development and growth of new products
3) Growth in income from services in existing businesses

Under the first strategy (M&A and formation of strategic alliances with other companies), the Company includes two sub-strategies: 1) expansion into new business fields such as SPE and 2) expansion of existing businesses.

Operating companies Nakan Techno Co., Ltd., PHOENIX Electric Co., Ltd., and Nippon Gijutsu Center Co., Ltd. will pursue medium- to long-term growth by following the three strategies outline above. However, in addition to the limited capacity of these companies, options may be limited by conditions at potential M&A targets. As a result, while Nakan Techno is currently simultaneously pursuing multiple options, the other two abovementioned companies have adopted more focused growth strategies.

Overview of measures targeting growth

			Operating company/business segment		
			Nakan Techno	PHOENIX Electric	Nippon Gijutsu Center
			Manufacturing equipment business	Lamp business Manufacturing equipment business	Human resources service business/Manufacturing equipment business
Basic growth plan	M&A and strategic alliances	Expansion into new business fields including SPE	Cooperation with Chinese manufacturer, investment fund		
		Expansion of existing businesses	Acquisition of Leadtech		New growth through M&A owing to Revised Temporary Staffing Services Law
	Development and growth of new products		Accelerate sales of HRPs	Ultraviolet LED, infrared LED	Completion of development of power device tester
	Growth in income from services in existing businesses		Growth in sales of used equipment, maintenance, consumables		

Source: Prepared by FISCO from the Company's results briefing materials

Planning to enter SPE field, contract signed with Chinese manufacturer

2. M&A and strategic partnerships, progress and outlook

The Company's efforts in terms of M&A and alliance formation are mainly focused on new business fields such as SPE. The company made progress on this issue in FY3/17, forming agreements with a Chinese testing equipment manufacturer and an investment fund. The agreement states that, if an appropriate target can be identified, the three partners will form a special purpose company (SPC) to make acquisitions and investments as a means to enter the SPE business. While the business has yet to be launched, we understand the Company has secured the services of an outside consultant and is making progress toward identifying and selecting a target company. As no concrete steps have yet to be taken, the impact of these efforts have not been factored into the Company's forecasts, but because the partners have agreed on a plan, we understand action can be taken quickly if a suitable target is identified.

Progress was made on expansion of existing businesses in October 2016 when Leadtech was converted into a subsidiary of Nakan Techno. One of Leadtech's strengths is installation of production equipment and it is expected to contribute to the expansion of the used equipment relocation and installation business. Leadtech also has manufacturing capabilities and is expected to contribute to the securing of large HRP orders (discussed below) by boosting the production capacity of the Group.

Nippon Gijutsu Center is also considering expanding existing businesses through M&A. The dispatching industry is struggling to secure human resources, and the Company sees appeal in M&A-led expansion because of opportunities to acquire human resources and a sales base. As it utilizes a locality-centric business model, the Company plans to seek M&A deals that target companies with a base in regions where synergies can be easily achieved.

Orders for over 60 HRPs secured; rising expectations regarding infrared LEDs and power device testers

3. Development and growth of new products: progress and outlook

Sales of the high-resolution inkjet printers (HRP) developed by Nakan Techno have been growing since 2H FY3/16 and, in FY3/17, the Company received orders for over 60 units. The Company expects to post sales related to these orders in FY3/18. In FY3/17, HRP unit sales were just over ten units and this order was therefore five to six times larger than the Company's annual sales volume. As mentioned above, newly acquired Leadtech will help fulfill these orders by adding to the Group's production capacity.

The orders for over 60 units were received from customers in many industries, even including shipbuilders. However, the majority of the orders were from the LCD panel and organic EL display industries. However, we understand the orders from customers in these industries were mainly for use in trial production and they came from a wide range of customers. The company therefore believes full-scale demand for HRP equipment has yet to emerge and expects FY3/18 order volume on a scale of several dozen units.

New products from PHOENIX Electric include ultraviolet LED lamps and infrared LED lamps. The Company aims to develop a new business based on ultraviolet LED lamps by using its new ultraviolet LED lamps to enable the use of LED lamps as light sources for MLS equipment. The Company is also making progress in the development of infrared LED lamps, but has yet to comment regarding target applications. Infrared light is useful in low-light conditions and we therefore think the Company may be intending to use its infrared LED lamps as light sources for night-vision equipment.

Nippon Gijutsu Center has completed development of a power device (power IC) tester and has already made deliveries to several power device manufacturers. Nippon Gijutsu Center has handled testing devices for many years, but until now has always had a build-to-order style production system. However, the company plans to aggressively market its new power device tester as a catalog model.

Repair and maintenance sales and used equipment business expected to show steady growth; consumables business to turn profitable

4. Growth in sales in existing businesses: progress and outlook

Nakan Techno is moving forward with the strategy of increasing sales in existing businesses. As shown by the large-lot orders received in the past, the company is establishing a presence in the used equipment market by using the personal connections of its President, Yoshihisa Sato. Production capacity has also increased owing to the conversion of Leadtech into a subsidiary. The company secured over ¥2,000mn in orders in FY3/17 which it expects to post as sales in FY3/18. Demand in the used equipment relocation and installation business is also expected to increase, especially for SPE.

Maintenance sales are also on a steady uptrend. The Company has over 60 pieces of alignment layer manufacturing equipment in the field and demand for repairs, maintenance, and upgrading this equipment is growing year by year. We understand that FY3/17 maintenance sales were roughly ¥1,100mn and the Company expects FY3/18 sales to reach approximately ¥1,500mn.

Most of the Company's manufacturing equipment is flexo printing equipment. The Company supplies flexo printing plates, which are consumables that are necessary for flexo printing. Until recently, flexo printing plates were not well suited to large-scale printing and this made it difficult to improve yields and resulted in the Company posting losses in this business. Recently, however, improvement in large-scale flexo plates have resulted in improved yields, thereby allowing the Company to make a profit in this business. Sales are on a smooth uptrend and the company expects sales to increase from approximately ¥600mn in FY3/17 to roughly ¥900mn in FY3/18.

Business outlook

Expecting growth in sales and income in FY3/18; manufacturing equipment earnings could surpass forecast

Helios Techno forecasts for ¥21,900mn in net sales (+27.9% YoY), ¥1,800mn in operating income (+29.8%), ¥1,700mn in ordinary income (+23.6%), and ¥1,200mn in Profit attributable to owners of parent (+4.8%) in FY3/18, projecting higher sales and profits.

While we believe it is too early to consider whether the Company will revise its forecast, our initial impression is that the Company's forecast looks low. As discussed in detail below, the sales forecast for the mainstay Manufacturing equipment business sales is lower than the sum of the forecasts for each business segment. While it will take some time before it becomes clear whether this will result in an upward forecast revision, we believe the market will focus on this issue in FY3/18.

Summary of the FY3/18 outlook

(¥mn)

	FY3/17				FY3/18			
	1H results	YoY	Full-year results	YoY	1HE	YoY	Full year E	YoY
Net sales	9,138	22.8%	17,117	-33.6%	11,000	20.4%	21,900	27.9%
Operating income	1,081	30.2%	1,386	17.3%	800	-26.0%	1,800	29.8%
(Operating income margin)	11.8%	-	8.0%	-	7.3%	-	8.2%	-
Ordinary income	1,031	24.7%	1,375	17.7%	800	-22.4%	1,700	23.6%
(Ordinary income margin)	11.3%	-	8.0%	-	7.3%	-	7.7%	-
Profit attributable to owners of the parent	713	26.4%	1,144	41.7%	500	-30.0%	1,200	4.8%
(Net income ratio)	7.8%	-	6.6%	-	4.5%	-	5.4%	-

Source: Prepared by FISCO from the Company's financial results

The Company forecasts FY3/18 Lamp business sales of ¥3,700mn, up 2.2% YoY. MLS light sources are also expected to show strong growth in FY3/18. However, projector lamp sales are on a downtrend and heading toward zero, which we see as a factor behind the Company's low sales forecast. We think repair and maintenance demand for MLS light sources will outstrip the Company's expectations based on the number of units in the field and rising production capacity utilization rates among LCD manufacturers.

The Company forecasts FY3/18 Manufacturing equipment business sales of ¥13,400mn, up 35.9% YoY. The Manufacturing equipment business consists of four sub-segments: 1) flexo printing equipment (mainly alignment layer manufacturing equipment), 2) plants (transportation and relocation of used manufacturing equipment), 3) HRP, and 4) the “others” sub-segment (repair, maintenance, etc.). As discussed in the section on the Company's growth strategy, it expects sales in the plants sub-segment to increase by approximately ¥400mn YoY. It also expects YoY sales growth of ¥500mn in maintenance, roughly ¥5,000mn in HRP, and approximately ¥500mn in testing equipment. However, sales of flexo printing equipment are expected to decline by roughly ¥600mn. These factors combine to make an overall increase in sub-segment sales of roughly ¥5,800mn. Even factoring in possible delayed posting of sales, we therefore believe the Company's forecast for YoY sales growth of ¥3,537mn looks excessively low.

The Company forecasts FY3/18 Human resource service business sales of ¥4,800mn, up 31.3% YoY. We believe it is reasonable to expect sales growth on the same scale as in FY3/17 owing to burgeoning demand for designer and manufacturing engineer dispatch. However, we believe it will be difficult to top last year's 30% YoY sales growth with organic growth alone. We think the Company may be planning to use M&A to achieve growth. If this is the case, we see a risk that the company could fall short of its target if a deal cannot be reached.

If the Company reaches its sales target, we believe it will also easily reach its profit target. The Company forecasts that its operating income margin will improve by 0.2 percentage points YoY to 8.2%. Considering that most of the sales growth is expected to come from the Manufacturing equipment business, which has a higher margin than the companywide average, we think the operating income margin will improve by more than the Company forecasts. If, as we expect, sales surpass the Company's forecast, we believe operating income would also surpass the Company's forecast.

Outlook by business segment

(¥mn)

		FY3/17		FY3/18	
		Full year	YoY	Full year	YoY
Net sales	Lamp business	3,621	1.8%	3,700	2.2%
	Manufacturing equipment business	9,862	-47.4%	13,400	35.9%
	Human resources service business	3,656	5.6%	4,800	31.3%
	Subtotal	17,140	-33.5%	21,900	27.8%
	Adjustment	-23	-	-	-
	Total	17,117	-33.6%	21,900	27.9%
Operating income	Lamp business	105	-19.7%	-	-
	Manufacturing equipment business	1,488	19.2%	-	-
	Human resources service business	181	44.9%	-	-
	Subtotal	1,775	18.0%	-	-
	Adjustment	-389	-	-	-
	Total	1,386	17.3%	-	-

Source: Prepared by FISCO from the Company's financial results and results briefing materials

Summary income statement and main indicators

(¥mn)

	FY3/14	FY3/15	FY3/16	FY3/17	FY3/18	
					1HE	Full year E
Net sales	12,900	14,817	25,769	17,117	11,000	21,900
YOY	15.8%	14.9%	73.9%	-33.6%	20.4%	27.9%
Gross profit	3,327	3,892	4,313	4,445	-	-
Gross profit margin	25.8%	26.3%	16.7%	26.0%	-	-
SG&A expenses	2,807	3,041	3,131	3,058	-	-
SG&A margin	21.8%	20.5%	12.2%	17.9%	-	-
Operating income	520	851	1,182	1,386	800	1,800
YOY	48.1%	63.7%	38.9%	17.3%	-26.0%	29.8%
Operating income margin	4.0%	5.7%	4.6%	8.1%	7.3%	8.2%
Ordinary income	621	780	1,168	1,375	800	1,700
YOY	44.1%	25.5%	49.7%	17.7%	-22.4%	23.6%
Profit attributable to owners of parent	889	757	807	1,144	500	1,200
YOY	100.7%	-14.8%	6.6%	41.7%	-30.0%	4.8%
EPS (¥)	53.10	43.97	45.25	63.67	27.72	66.53
Dividend (¥)	10.00	12.00	15.00	20.00	-	25.00
Net assets per share (¥)	427.63	450.22	480.79	530.46	-	-

Source: Prepared by FISCO from the Company's financial results

Summary balance sheet

(¥mn)

	FY3/13	FY3/14	FY3/15	FY3/16	FY3/17
Current assets	6,081	7,967	18,802	11,898	13,830
Cash and deposits with banks	1,632	2,663	1,836	3,158	4,181
Notes and accounts receivable	2,794	3,330	4,213	4,884	5,295
Inventory assets	1,548	1,610	12,144	2,553	3,422
Fixed assets	3,049	2,807	2,726	2,765	2,763
Tangible fixed assets	2,602	2,193	2,093	2,181	2,065
Intangible assets	150	162	149	109	113
Investments and other assets	296	451	483	474	584
Total assets	9,131	10,774	21,528	14,663	16,594
Current liabilities	2,141	2,824	12,629	5,400	6,573
Notes and accounts payable	910	1,420	1,271	1,417	2,053
Short-term borrowings	439	538	2,969	519	481
Long-term liabilities	649	688	857	617	449
Long-term borrowings	268	457	654	434	252
Shareholders' equity	6,291	7,124	7,911	8,532	9,421
Common stock	2,133	2,133	2,133	2,133	2,133
Capital surplus	2,563	2,563	2,563	2,563	2,563
Retained earnings	3,161	3,915	4,459	5,047	5,919
Treasury stock	-1,567	-1,488	-1,245	-1,211	-1,194
Accumulated other comprehensive income	26	86	117	106	146
Subscription rights to shares	22	50	12	6	2
Total net assets	6,340	7,261	8,041	8,645	9,571
Net liabilities and assets	9,131	10,774	21,528	14,663	16,594

Source: Prepared by FISCO from the Company's financial results

Cash flow statement

(¥mn)

	FY3/13	FY3/14	FY3/15	FY3/16	FY3/17
Cash flows from operating activities	840	747	-3,508	4,503	1,727
Cash flows from investing activities	-234	144	91	-317	-224
Cash flows from financing activities	-629	79	2,611	-2,863	-480
Net increase (decrease) in cash and cash equivalents	-23	971	-804	1,322	1,022
Cash and cash equivalents at the beginning of the period	1,608	1,585	2,585	1,780	3,102
Cash and cash equivalents at the end of the period	1,585	2,585	1,780	3,102	4,125

Source: Prepared by FISCO from the Company's financial results

Shareholder returns

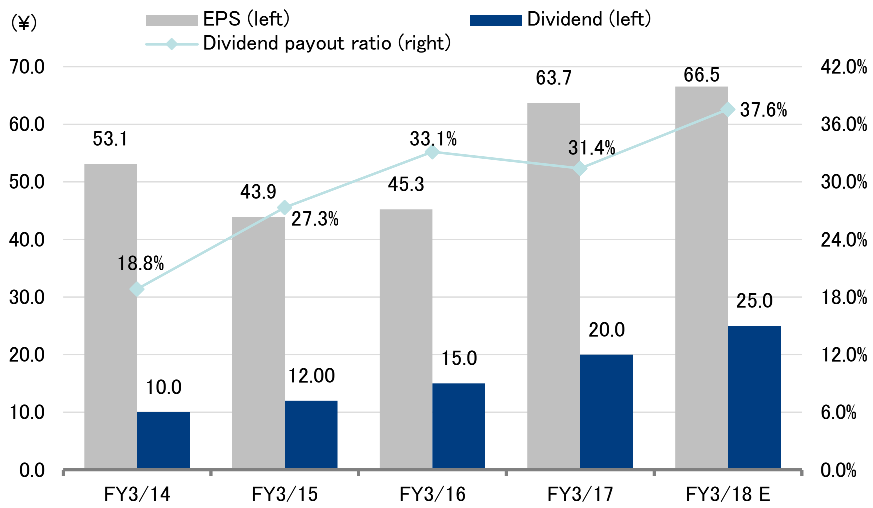
To increase FY3/17 dividend by ¥5 to ¥20 per share. We expect another dividend hike in FY3/18 to ¥25.

The Company's basic method of returning profits to shareholders is through dividends. The Company has not announced an official level for dividends. However, looking at past dividends, it is clear that the Company has basically paid a stable dividend, increasing it in line with growth in results.

The Company raised its annual dividend distributions by ¥5 to ¥20 per share in FY3/17. At its 1H results announcement, the Company raised its full-year earnings forecast but left its dividend forecast unchanged. After FY3/17 earnings surpassed the Company's revised forecast, it made the decision to raise annual dividends by ¥5 per share. The FY3/17 dividend payout ratio was 31.4%.

Based on our forecast that sales and income will increase in FY3/18, we expect the Company to increase annual dividends by ¥5 YoY to ¥25 per share in FY3/18. Based on our FY3/18 forecast of net income per share of ¥66.53, this would result in a dividend payout ratio of 37.6%. As noted above, although the Company has not committed to any particular dividend payout ratio level, we believe it is strongly focused on returning value to shareholders, as evidenced by the dividend hike implemented in FY3/17.

Earnings per share, dividend and dividend payout ratio



Source: Prepared by FISCO from the Company's financial results

Disclaimer