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On **July 30, 2020**, Oki Electric Industry Co., Ltd. (OKI) announced earnings results for Q1 FY03/21.

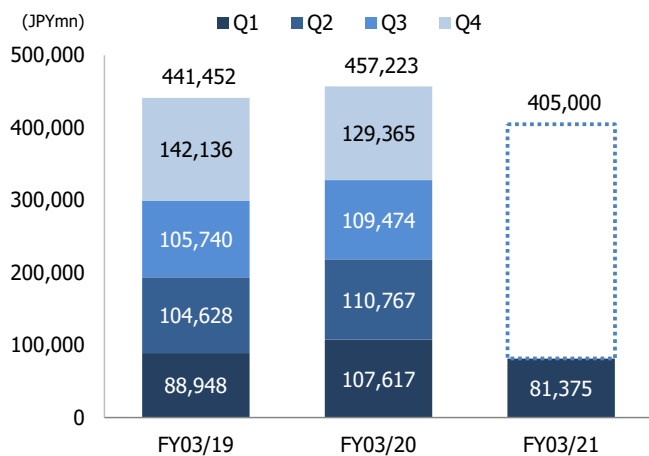
Cumulative (JPYmn)	FY03/19				FY03/20				FY03/21	FY03/21	
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	% of Est.	FY Est.
Sales	88,948	193,576	299,316	441,452	107,617	218,384	327,858	457,223	81,375	20.1%	405,000
YoY	-1.6%	-0.2%	-0.2%	0.8%	21.0%	12.8%	9.5%	3.6%	-24.4%		-8.3%
Gross profit	23,676	50,560	79,971	118,827	25,167	54,312	82,693	117,807	20,810		
YoY	12.4%	10.7%	9.3%	7.5%	6.3%	7.4%	3.4%	-0.9%	-17.3%		
Gross profit margin	26.6%	26.1%	26.7%	26.9%	23.4%	24.9%	25.2%	25.8%	25.6%		
SG&A expenses	24,490	49,754	74,983	101,305	24,091	49,110	73,561	100,978	21,931		
YoY	-1.8%	-0.1%	-1.3%	-1.5%	-1.6%	-1.3%	-1.9%	-0.3%	-9.0%		
SG&A ratio	27.5%	25.7%	25.1%	22.9%	22.4%	22.5%	22.4%	22.1%	27.0%		
Operating profit	-813	805	4,987	17,522	1,075	5,201	9,131	16,829	-1,121	-13.2%	8,500
YoY	-	-	-	126.9%	-	546.1%	83.1%	-4.0%	-		-51.5%
Operating profit margin	-	0.4%	1.7%	4.0%	1.0%	2.4%	2.8%	3.7%	-		2.1%
Recurring profit	-1,656	-849	2,802	15,477	149	2,937	7,290	13,804	-2,148		
YoY	-	-	-	81.8%	-	-	160.2%	-10.8%	-		
Recurring profit margin	-	-	0.9%	3.5%	0.1%	1.3%	2.2%	3.0%	-		
Net income	-1,824	-2,579	-1,558	8,405	-369	4,060	7,183	14,086	-3,326		
YoY	-	-	-	42.7%	-	-	-	67.6%	-		
Net margin	-	-	-	1.9%	-	1.9%	2.2%	3.1%	-		

Quarterly (JPYmn)	FY03/19				FY03/20				FY03/21
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1
Sales	88,948	104,628	105,740	142,136	107,617	110,767	109,474	129,365	81,375
YoY	-1.6%	1.0%	-0.2%	3.0%	21.0%	5.9%	3.5%	-9.0%	-24.4%
Gross profit	23,676	26,884	29,411	38,856	25,167	29,145	28,381	35,114	20,810
YoY	12.4%	9.2%	7.1%	3.8%	6.3%	8.4%	-3.5%	-9.6%	-17.3%
Gross profit margin	26.6%	25.7%	27.8%	27.3%	23.4%	26.3%	25.9%	27.1%	25.6%
SG&A expenses	24,490	25,264	25,229	26,322	24,091	25,019	24,451	27,417	21,931
YoY	-1.8%	1.5%	-3.6%	-2.1%	-1.6%	-1.0%	-3.1%	4.2%	-9.0%
SG&A ratio	27.5%	24.1%	23.9%	18.5%	22.4%	22.6%	22.3%	21.2%	27.0%
Operating profit	-813	1,618	4,182	12,535	1,075	4,126	3,930	7,698	-1,121
YoY	-	-	222.9%	18.8%	-	155.0%	-6.0%	-38.6%	-
Operating profit margin	-	1.5%	4.0%	8.8%	1.0%	3.7%	3.6%	6.0%	-
Recurring profit	-1,656	807	3,651	12,675	149	2,788	4,353	6,514	-2,148
YoY	-	480.6%	126.3%	23.7%	-	245.5%	19.2%	-48.6%	-
Recurring profit margin	-	0.8%	3.5%	8.9%	0.1%	2.5%	4.0%	5.0%	-
Net income	-1,824	-755	1,021	9,963	-369	4,429	3,123	6,903	-3,326
YoY	-	-	-	-13.2%	-	-	205.9%	-30.7%	-
Net margin	-	-	1.0%	7.0%	-	4.0%	2.9%	5.3%	-

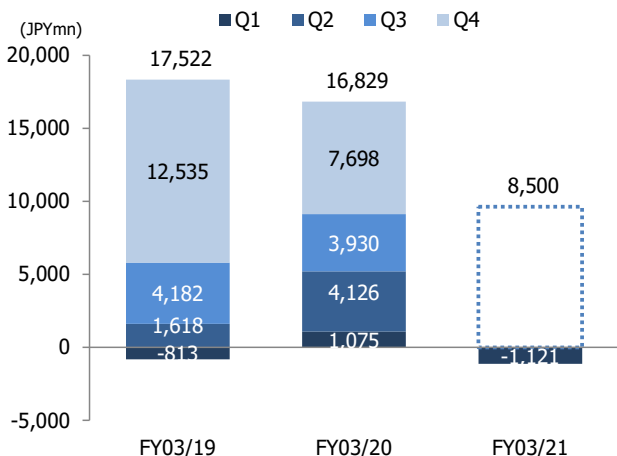
Source: Shared Research based on company data

Note: Quarterly data derived by subtracting cumulative results for previous quarter from relevant cumulative results (e.g. Q3 figures are 1H results subtracted from cumulative Q3 results).

Quarterly sales



Quarterly operating profit



Source: Shared Research based on company data

Q1 FY03/21 results (out July 30, 2020)

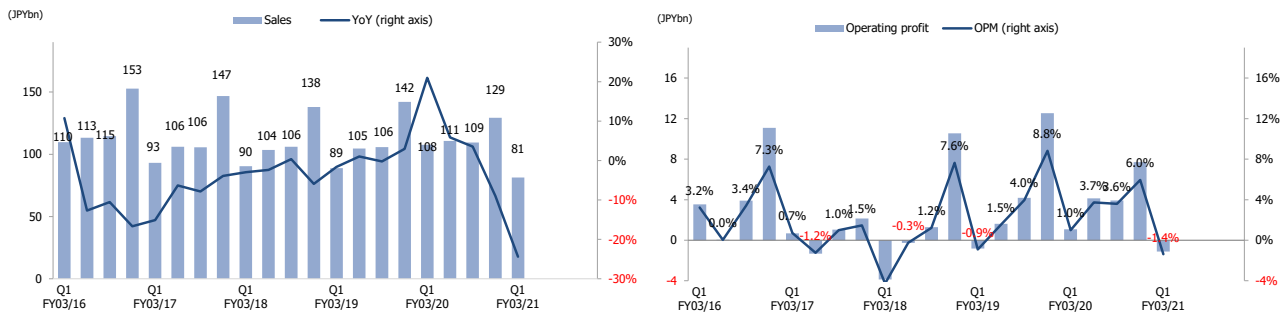
Q1 FY03/21 results (April–June 2020)

- ▷ Sales: JPY81.4bn (-24.4% YoY)
- ▷ Operating loss: JPY1.1bn (JPY1.1bn operating profit in Q1 FY03/20)
- ▷ Recurring loss: JPY2.1bn (JPY149mn recurring profit in Q1 FY03/20)
- ▷ Net loss*: JPY3.3bn (JPY369mn net loss in Q1 FY03/20)

*Net loss attributable to owners of the parent

- ▷ Background behind decrease in sales: The main contributing factors are a fallback in demand for large telecom network projects and major replacement projects for government agencies the company had in FY03/20. The sale of the Brazilian subsidiary and weak sales in overseas markets impacted by the COVID-19 pandemic also contributed to lower sales.
- ▷ Background behind decline in operating profit: The main reason for the slump in profit is the sharp sales decline. The estimated negative impact of the COVID-19 outbreak is roughly JPY11.0bn for sales and JPY2.0bn for operating profit.
- ▷ The company changed its reportable segments from Q1 FY03/21. The three new segments are Solution Systems, Components & Platforms, and Others.

Quarterly performance



Quarterly (JPYmn)	FY03/18				FY03/19				FY03/20				FY03/21
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1
Total sales	90,431	103,543	106,005	138,047	88,948	104,628	105,740	142,136	107,617	110,767	109,474	129,365	81,375
Total OP	-3,864	-261	1,295	10,551	-813	1,618	4,182	12,535	1,075	4,126	3,930	7,698	-1,121

Cumulative (JPYmn)	FY03/18				FY03/19				FY03/20				FY03/21
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1
Total sales	90,431	193,974	299,979	438,026	88,948	193,576	299,316	441,452	107,617	218,384	327,858	457,223	81,375
Total OP	-3,864	-4,125	-2,830	7,721	-813	805	4,987	17,522	1,075	5,201	9,131	16,829	-1,121

Source: Shared Research based on company data

Results by segment

Solution Systems segment

Earnings performance

Cumulative (JPYmn)	FY03/20				FY03/21			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4 Est.
Sales	52,801			229,100	40,042			195,000
YoY	-			-	-24.2%			-14.9%
% of total sales	49.1%			50.1%	49.2%			48.1%
Operating profit	2,544			20,800	1,743			15,000
YoY	-			-	-31.5%			-27.9%
OPM	4.8%			9.1%	4.4%			7.7%
Quarterly (JPYmn)	FY03/20				FY03/21			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Sales	52,801				40,042			
YoY	-				-24.2%			
% of total sales	49.1%				49.2%			
Operating profit	2,544				1,743			
OPM	4.8%				4.4%			

Source: Shared Research based on company data

- ▷ Q1 FY03/21 sales (sales to external clients; also applies to figures below): JPY40.0bn (-24.2% YoY)
- ▷ Segment profit: JPY1.7bn (-31.5% YoY)
- ▷ Sales declined due in part to FY03/21 being the first year impacted by the expanded scope of application of the percentage of completion method, and reactionary slump to a rush of telecom network projects and large projects for government agencies in FY03/20.

Components & Platforms segment

Performance

Cumulative (JPYmn)	FY03/20				FY03/21			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4 Est.
Sales	51,640			216,300	39,977			205,000
YoY	-			-	-22.6%			-5.2%
% of total sales	48.0%			47.3%	49.1%			50.6%
Operating profit	339			5,500	-1,703			1,000
YoY	-			-	-			-81.8%
OPM	0.7%			2.5%	-4.3%			0.5%
Quarterly (JPYmn)	FY03/20				FY03/21			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Sales	51,640				39,977			
YoY	-				-22.6%			
% of total sales	48.0%				49.1%			
Operating profit	339				-1,703			
OPM	0.7%				-			

Source: Shared Research based on company data

- ▷ Q1 FY03/21 sales: JPY40.0bn (-22.6% YoY)
- ▷ Segment loss: JPY1.7bn (JPY339mn profit in Q1 FY03/20)
- ▷ Factors contributing to sales decline: Although the domestic market was relatively stable, overseas markets were hard hit by the spread of COVID-19. Some tenders in Asian markets were interrupted and printer consumable sales were weak in European markets.
- ▷ Factors contributing to profit decline: Sales of profitable printer consumables fell in European markets, leading to a deterioration in sales mix and dragging down overall segment profit.

Others

Performance

Cumulative (JPYmn)	FY03/20				FY03/21			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4 Est.
Sales	3,175			11,900	1,356			5,000
YoY	-			-	-57.3%			-58.0%
% of total sales	3.0%			2.6%	1.7%			1.2%
Operating profit	-117			-600	46			0
YoY	-			-	-			-
OPM	-			-	3.4%			0.0%

Quarterly (JPYmn)	FY03/20				FY03/21			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Sales	3,175				1,356			
YoY	-				-57.3%			
% of total sales	3.0%				1.7%			
Operating profit	-117				46			
OPM	-				3.4%			

Source: Shared Research based on company data

- ▷ Q1 FY03/21 sales: JPY1.4bn (-57.3% YoY)
- ▷ Segment profit: JPY46mn (JPY117mn loss in Q1 FY03/20)

Full-year company forecast

Full-year company forecast announced with Q1 results

- ▷ The company's FY03/21 earnings forecast calls for sales of JPY405.0bn (-11.4% YoY) and operating profit of JPY8.5bn (-49.5% YoY). The company has announced no forecast for recurring profit and net income.
- ▷ As stated in the company's February 7, 2020 press release, OKI reorganized its former Mechatronics Systems, Printers, and Electronics Manufacturing Services (EMS) businesses, integrating them into the Components & Platforms segment and renaming the Information and Communication Technology (ICT) segment the Solution Systems segment. The company has three reportable segments (the two above and Others) from Q1 FY03/21.
- ▷ The FY03/21 segment forecasts are as follows: Solution Systems JPY195.0bn (-14.9% YoY) in sales and JPY15.0bn (-28.0% YoY) in operating profit, Components & Platforms JPY205.0bn (-5.2% YoY) in sales and JPY1.0bn (-81.8% YoY) in operating profit, and Others JPY5.0bn (-57.9% YoY) in sales and JPY0mn in operating profit (JPY600mn operating loss in FY03/20).
- ▷ OKI estimates the effects of the COVID-19 pandemic at around JPY20.0bn for sales and JPY6.0bn for operating profit, mostly affecting overseas markets.

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