Azbil / 6845

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Research Coverage Report by Shared Research Inc.

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How to read a Shared Research report: This report begins with the trends and outlook section, which discusses the company's most recent earnings. First-time readers should start at the business section later in the report.

Executive summary

Azbil Corporation provides automation services for buildings, factories, and plants and also offers subsistence-related automation services in the lifestyle area. The company provides these services using core technologies, which include technologies for measuring gas, liquids, and other substances and control technologies. In addition to new installations of the latest equipment, the company upgrades aged equipment and provides additional services such as remote monitoring. The company has a particularly extensive track record providing control systems for air conditioning equipment in large buildings and supplying equipment and services related to energy management, a category in which the company has secured the top share in Japan.

The company has three segments: Through its Building Automation segment (48% of sales in FY03/20), the company provides automation services for buildings. The company's Advanced Automation segment (36% of sales in FY03/20) covers automation services for factories and plants. Through its third and final segment, the Life Automation segment (17% of sales in FY03/20), the company provides automation services related to gas and water meters, as well as additional automation services for the life science industries. With its Building Automation segment, the company supplies air conditioning equipment and control systems primarily for use in large buildings such as office buildings, factories, data centers, hospitals, and schools. The company has secured a high operating profit margin of 12.0% (as of FY03/20), along with a high market share and stable demand for upgrades, services, and maintenance. Through its Advanced Automation segment, the company conducts process automation for customers in the petrochemical, pulp and paper, and iron and steel industries. Within the same segment, it also provides factory automation services primarily to customers in the automotive, electrical and electronic, and semiconductor manufacturing equipment industries, as well as to manufacturers of industrial furnaces and boilers. Under its Life Automation segment, the company provides gas and water meters, both devices for which upgrade demand is expected to be stable, and mainly services pharmaceutical companies and research institutions in the life science field. The operating profit margin in this segment is relatively low, at 4.2% (as of FY03/20).

The measurement and control field is highly compatible with applications of IoT, AI, and cloud technology, and the company is striving to utilize these new technologies and raise the added value of its services while optimizing its measurement technologies.

The company has a strong capacity for creating cash flow, in its Building Automation segment in particular, as well as a sound balance sheet. Azbil is securing the internal reserves it will need over the medium to long term and conducting research and development. At the same time, it is actively using surplus funds to provide shareholder return in the form of dividends and share buybacks.

Earnings trends

- Sales in FY03/20 were JPY259.4bn (-1.0% YoY) while operating profit was JPY27.3bn (+2.1% YoY) and net income was JPY19.8bn (+4.4% YoY). OPM rose to 10.5% (up from 10.2% in FY03/19) as the company recorded record high operating profit. In the core Building Automation segment, sales rose 3.6% YoY and operating profit soared upward by 19.9% YoY, acting as a driving force that covered for less than stellar performance in the Advanced Automation (sales down 6.3% and operating profit down 14.1% YoY) and Life Automation (sales down 1.8% and operating profit down 9.4% YoY) segments. The annual dividend in FY03/20 is JPY50 per share (payout ratio of 35.5%). In addition to dividends, the company purchased 3,718 thousand treasury shares for JPY9.9bn.
- The company's FY03/21 forecast is uncertain. Its business activities appear likely to be impacted by slowdown in global consumption and stagnating economic activity and production caused by the novel coronavirus, as well as lower capital investment in buildings, factories and plants and delayed construction of these facilities. Azbil will disclose its FY03/21 forecast once it has determined that it is capable of making rational estimates based on minute investigations concerning impact on

customer capital investment trends. However, the company will likely experience a measurable level of demand because it provides engineering and services that are critical to maintaining equipment and facilities that are vital to customers and conducting operations that are essential for sustaining stable social infrastructure. Thanks to its sound balance sheet, the company plans to maintain its annual dividend for FY03/21 at a level of JPY50 per share.

Strengths and weaknesses

Strengths: stable business platform in Building Automation due to large domestic market share, scope for overseas growth in Advanced Automation, and a solid balance sheet and abundant cash flows. Weaknesses: Building Automation not producing steady earnings overseas as in Japan, profitability of Life Automation, and Advanced Automation’s vulnerability to external factors.

Key financial data

Income statement (JPYmn)	FY03/12 Cons.	FY03/13 Cons.	FY03/14 Cons.	FY03/15 Cons.	FY03/16 Cons.	FY03/17 Cons.	FY03/18 Cons.	FY03/19 Cons.	FY03/20 Cons.	FY03/21 Est.
Sales	223,499	227,584	248,416	254,469	256,889	254,810	260,384	262,054	259,411	-
YoY	2.0%	1.8%	9.2%	2.4%	1.0%	-0.8%	2.2%	0.6%	-1.0%	-
Gross profit	80,840	77,871	86,549	89,883	91,088	91,491	97,480	102,338	103,642	-
YoY	1.4%	-3.7%	11.1%	3.9%	1.3%	0.4%	6.5%	5.0%	1.3%	-
Gross profit margin	36.2%	34.2%	34.8%	35.3%	35.5%	35.9%	37.4%	39.1%	40.0%	-
SG&A expenses	66,492	64,461	72,646	74,546	73,953	71,346	73,454	75,648	76,386	-
YoY	2.6%	-3.1%	12.7%	2.6%	-0.8%	-3.5%	3.0%	3.0%	1.0%	-
SG&A ratio	29.8%	28.3%	29.2%	29.3%	28.8%	28.0%	28.2%	28.9%	29.4%	-
Operating profit	14,348	13,410	13,903	15,337	17,135	20,145	24,026	26,690	27,255	-
YoY	-3.7%	-6.5%	3.7%	10.3%	11.7%	17.6%	19.3%	11.1%	2.1%	-
Operating profit margin	6.4%	5.9%	5.6%	6.0%	6.7%	7.9%	9.2%	10.2%	10.5%	-
Recurring profit	14,596	14,569	14,599	17,141	16,627	20,475	24,316	27,664	27,712	-
YoY	-2.0%	-0.2%	0.2%	17.4%	-3.0%	23.1%	18.8%	13.8%	0.2%	-
Recurring profit margin	6.5%	6.4%	5.9%	6.7%	6.5%	8.0%	9.3%	10.6%	10.7%	-
Net income	8,518	8,308	7,669	7,168	8,268	13,153	17,890	18,951	19,793	-
YoY	7.4%	-2.5%	-7.7%	-6.5%	15.3%	59.1%	36.0%	5.9%	4.4%	-
Net margin	3.8%	3.7%	3.1%	2.8%	3.2%	5.2%	6.9%	7.2%	7.6%	-
Per-share data (JPY)										
Shares outstanding (avg. ex. treasury shares; '000)	73,855	73,854	73,853	73,853	73,348	73,251	72,678	143,535	140,579	-
Shares outstanding (year-end, ex. treasury shares; '000)	73,855	73,854	75,115	75,115	73,251	73,250	72,537	143,209	139,502	-
Shares issued (year-end; '000)	75,116	75,116	75,116	75,116	75,116	75,116	74,250	148,501	145,201	-
Treasury shares ('000)	1,261	1,262	1	1	1,865	1,866	1,713	5,292	5,699	-
EPS (split-adjusted)	57.7	56.3	51.9	48.5	56.4	89.8	123.1	132.0	140.8	-
Dividend per share (split-adjusted)	31.5	31.5	31.5	31.5	33.5	38.5	41.0	46.0	50.0	50.0
Payout ratio	54.6%	56.0%	60.7%	64.9%	59.4%	42.9%	33.3%	34.8%	17.8%	-
Total dividends paid	4,652	4,652	4,652	4,652	4,907	5,640	6,029	6,679	7,084	-
DOE	3.5%	3.4%	3.3%	3.1%	3.1%	3.5%	3.5%	3.7%	3.9%	-
Book value per share (split-adjusted)	904	941	970	1,072	1,058	1,118	1,213	1,265	1,313	-
Shareholders' equity	133,564	139,041	143,316	158,273	155,005	163,822	175,995	181,142	183,189	-
Balance sheet (JPYmn)										
Cash and cash equivalents	57,461	61,662	67,339	72,442	69,716	79,547	82,534	82,862	89,950	
Accounts receivable	85,546	88,874	88,227	88,960	91,772	88,500	91,420	93,748	85,245	
Inventories	16,134	16,502	18,193	21,682	24,152	22,183	23,834	24,913	25,338	
Allowance for doubtful accounts	-295	-362	-494	-565	-621	-907	-596	-379	-375	
Total current assets	172,986	181,714	189,377	197,995	200,826	204,113	212,405	209,907	209,190	
Tangible fixed assets	24,146	24,677	24,501	25,698	24,371	23,223	25,479	26,965	28,217	
Software	721	740	787	789	4,291	3,847	4,411	4,529	4,165	
Goodwill and consolidation adjustments	2,604	9,662	8,083	5,601	158	73	-	-	-	
Intangible assets	4,405	12,625	12,950	11,524	5,687	5,392	5,279	5,147	5,234	
Investment securities	12,872	15,304	16,841	22,551	19,482	22,163	26,746	21,580	19,978	
Long-term loans	247	288	125	93	65	38	102	68	20	
Claims in bankruptcy and rehabilitation	71	68	84	57	99	75	268	275	7	
Allowance for doubtful accounts	-517	-438	-375	-373	-372	-311	-566	-455	-108	
Investments and other assets	21,937	24,401	26,618	30,499	28,242	30,587	35,465	33,497	31,915	
Total assets	223,476	243,418	253,448	265,718	259,127	263,317	278,629	275,518	274,559	
Notes and accounts payable	37,185	40,548	41,456	42,687	45,587	40,456	41,498	40,101	38,482	
Short-term debt	5,543	13,388	15,430	15,806	12,000	10,669	10,171	9,866	8,225	
Total current liabilities	69,290	82,828	87,356	89,694	88,944	84,066	87,529	86,972	82,676	
Long-term debt	4,686	4,531	2,254	866	605	505	514	161	350	
Provision and liabilities for retirement benefits	12,392	12,719	16,636	8,164	5,698	5,704	5,563	1,975	2,174	
Total fixed liabilities	19,109	19,393	21,112	15,729	13,217	13,499	13,136	5,448	6,581	
Total liabilities	88,399	102,221	108,469	105,424	102,161	97,565	100,666	92,421	89,257	
Total net assets	135,076	141,197	144,978	160,294	156,966	165,751	177,962	183,097	185,301	
Total interest-bearing debt	10,229	17,919	17,684	16,672	12,605	11,174	10,685	10,027	8,575	
Net cash	47,232	43,743	49,655	55,770	57,111	68,373	71,849	72,835	81,375	
Cash flow statement (JPYmn)										
Cash flows from operating activities	5,633	15,010	15,835	13,698	11,072	19,949	19,481	16,112	29,811	
Cash flows from investing activities	-3,549	-12,716	-10,669	-13,472	4,261	-9,060	-48	-4,075	-4,172	
Cash flows from financing activities	-6,393	-2,486	-6,939	-6,065	-10,536	-6,441	-10,851	-12,024	-18,767	
Financial Ratios										
ROA (RP-based)	6.6%	6.2%	5.9%	6.6%	6.3%	7.8%	9.0%	10.0%	10.1%	
ROE	6.5%	6.1%	5.4%	4.8%	5.3%	8.3%	10.5%	10.6%	10.9%	
Net asset ratio	60.4%	58.0%	57.2%	60.3%	60.6%	62.9%	63.9%	66.5%	67.5%	

Source: Shared Research based on company data
Note: Figures may differ from company materials due to differences in rounding methods. The company implemented a two-for-one share split on October 1, 2018; all per-share figures have been adjusted to account for this share split.

Recent updates

Highlights

On **June 11, 2020**, Shared Research updated the report following interviews with Azbil Corporation.

On **May 20, 2020**, the company announced earnings results for full-year FY03/20; see the results section for details.

On **April 20 2020**, the company announced the postponement of its full-year FY03/20 results announcement.

The company had planned to announce full-year FY03/20 results on May 13, but postponed until May 20. As the reason for the postponement, the company commented that it expects certain preparation of consolidated results and completion of auditing procedures to take longer than usual.

For previous releases and developments, please refer to the News and topics section.

Trends and outlook

Quarterly trends and results

Cumulative	FY03/18				FY03/19				FY03/20				FY03/21
(JPYmn)	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	FY Est.
Sales	54,799	117,890	183,103	260,384	54,803	119,754	185,359	262,054	54,358	118,652	183,048	259,411	-
YoY	-2.4%	0.2%	2.3%	2.2%	0.0%	1.6%	1.2%	0.6%	-0.8%	-0.9%	-1.2%	-1.0%	-
Gross profit	19,067	42,688	67,298	97,480	20,013	44,629	70,873	102,338	20,324	45,572	71,885	103,642	
YoY	5.3%	7.4%	7.6%	6.5%	5.0%	4.5%	5.3%	5.0%	1.6%	2.1%	1.4%	1.3%	
Gross profit margin	34.8%	36.2%	36.8%	37.4%	36.5%	37.3%	38.2%	39.1%	37.4%	38.4%	39.3%	40.0%	
SG&A expenses	17,334	34,952	53,472	73,454	18,236	36,463	55,613	75,648	18,031	36,709	56,229	76,386	
YoY	0.0%	0.4%	1.6%	3.0%	5.2%	4.3%	4.0%	3.0%	-1.1%	0.7%	1.1%	1.0%	
SG&A ratio	31.6%	29.6%	29.2%	28.2%	33.3%	30.4%	30.0%	28.9%	33.2%	30.9%	30.7%	29.4%	
Operating profit	1,732	7,735	13,825	24,026	1,777	8,166	15,260	26,690	2,292	8,862	15,656	27,255	-
YoY	124.4%	57.0%	39.5%	19.3%	2.6%	5.6%	10.4%	11.1%	29.0%	8.5%	2.6%	2.1%	-
Operating profit margin	3.2%	6.6%	7.6%	9.2%	3.2%	6.8%	8.2%	10.2%	4.2%	7.5%	8.6%	10.5%	-
Recurring profit	2,002	8,115	14,465	24,316	2,415	8,889	16,023	27,664	2,434	9,007	16,114	27,712	-
YoY	1064.0%	92.8%	36.7%	18.8%	20.6%	9.5%	10.8%	13.8%	0.8%	1.3%	0.6%	0.2%	-
Recurring profit margin	3.7%	6.9%	7.9%	9.3%	4.4%	7.4%	8.6%	10.6%	4.5%	7.6%	8.8%	10.7%	-
Net income	1,189	5,320	9,413	17,890	1,525	5,833	11,249	18,951	1,470	5,946	11,021	19,793	-
YoY	-	129.5%	41.2%	36.0%	28.3%	9.6%	19.5%	5.9%	-3.6%	1.9%	-2.0%	4.4%	-
Net margin	2.2%	4.5%	5.1%	6.9%	2.8%	4.9%	6.1%	7.2%	2.7%	5.0%	6.0%	7.6%	-

Quarterly	FY03/18				FY03/19				FY03/20			
(JPYmn)	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Sales	54,799	63,091	65,213	77,281	54,803	64,951	65,605	76,695	54,358	64,294	64,396	76,363
YoY	-2.4%	2.6%	6.3%	1.9%	0.0%	2.9%	0.6%	-0.8%	-0.8%	-1.0%	-1.8%	-0.4%
Gross profit	19,067	23,621	24,610	30,182	20,013	24,616	26,244	31,465	20,324	25,248	26,313	31,757
YoY	5.3%	9.2%	7.9%	4.2%	5.0%	4.2%	6.6%	4.3%	1.6%	2.6%	0.3%	0.9%
Gross profit margin	34.8%	37.4%	37.7%	39.1%	36.5%	37.9%	40.0%	41.0%	37.4%	39.3%	40.9%	41.6%
SG&A expenses	17,334	17,618	18,520	19,982	18,236	18,227	19,150	20,035	18,031	18,678	19,520	20,157
YoY	0.0%	0.8%	4.0%	6.7%	5.2%	3.5%	3.4%	0.3%	-1.1%	2.5%	1.9%	0.6%
SG&A ratio	31.6%	27.9%	28.4%	25.9%	33.3%	28.1%	29.2%	26.1%	33.2%	29.1%	30.3%	26.4%
Operating profit	1,732	6,003	6,090	10,201	1,777	6,389	7,094	11,430	2,292	6,570	6,794	11,599
YoY	124.4%	44.4%	22.2%	-0.3%	2.6%	6.4%	16.5%	12.0%	29.0%	2.8%	-4.2%	1.5%
Operating profit margin	3.2%	9.5%	9.3%	13.2%	3.2%	9.8%	10.8%	14.9%	4.2%	10.2%	10.6%	15.2%
Recurring profit	2,002	6,113	6,350	9,851	2,415	6,474	7,134	11,641	2,434	6,573	7,107	11,598
YoY	1064.0%	51.4%	-0.4%	-0.4%	20.6%	5.9%	12.3%	18.2%	0.8%	1.5%	-0.4%	-0.4%
Recurring profit margin	3.7%	9.7%	9.7%	12.7%	4.4%	10.0%	10.9%	15.2%	4.5%	10.2%	11.0%	15.2%
Net income	1,189	4,131	4,093	8,477	1,525	4,308	5,416	7,702	1,470	4,476	5,075	8,772
YoY	-	73.4%	-5.8%	30.7%	28.3%	4.3%	32.3%	-9.1%	-3.6%	3.9%	-6.3%	13.9%
Net margin	2.2%	6.5%	6.3%	11.0%	2.8%	6.6%	8.3%	10.0%	2.7%	7.0%	7.9%	11.5%

By segment	FY03/18				FY03/19				FY03/20				FY03/21
Quarterly (JPYmn)	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	FY Est.
Sales	54,799	63,091	65,213	77,281	54,803	64,951	65,605	76,695	54,358	64,294	64,396	76,363	-
YoY	-2.4%	2.6%	6.3%	1.9%	0.0%	2.9%	0.6%	-0.8%	-0.8%	-1.0%	-1.8%	-0.4%	-
Building Automation	23,374	27,520	30,840	38,499	21,828	27,703	30,292	39,677	22,451	29,662	31,882	39,799	-
YoY	-0.1%	5.6%	5.4%	2.1%	-6.6%	0.7%	-1.8%	3.1%	2.9%	7.1%	5.2%	0.3%	-
Advanced Automation	21,504	24,715	23,998	27,014	22,381	25,401	25,282	26,325	21,933	22,930	22,967	25,326	-
YoY	-5.1%	5.7%	6.7%	0.3%	4.1%	2.8%	5.4%	-2.6%	-2.0%	-9.7%	-9.2%	-3.8%	-
Life Automation	10,190	11,226	10,640	12,152	10,844	12,232	10,546	11,218	10,257	12,065	9,976	11,735	-
YoY	-1.3%	-8.8%	7.0%	5.3%	6.4%	9.0%	-0.9%	-7.7%	-5.4%	-1.4%	-5.4%	4.6%	-
Operating profit	1,732	6,003	6,090	10,201	1,777	6,389	7,094	11,430	2,292	6,570	6,794	11,599	-
YoY	124.4%	44.4%	22.2%	-0.3%	2.6%	6.4%	16.5%	12.0%	29.0%	2.8%	-4.2%	1.5%	-
Operating profit margin	3.2%	9.5%	9.3%	13.2%	3.2%	9.8%	10.8%	14.9%	4.2%	10.2%	10.6%	15.2%	-
Building Automation	-161	2,468	3,691	6,585	-920	2,116	3,706	7,519	-262	3,253	4,055	7,844	-
YoY	-	24.5%	20.0%	-2.6%	-	-14.3%	0.4%	14.2%	-	53.7%	9.4%	4.3%	-
OPM	-0.7%	9.0%	12.0%	17.1%	-4.2%	7.6%	12.2%	19.0%	-1.2%	11.0%	12.7%	19.7%	-
Advanced Automation	1,734	2,787	2,325	3,085	2,290	3,525	3,057	3,339	2,317	2,586	2,516	3,067	-
YoY	71.3%	75.9%	24.7%	12.4%	32.1%	26.5%	31.5%	8.2%	1.2%	-26.6%	-17.7%	-8.1%	-
OPM	8.1%	11.3%	9.7%	11.4%	10.2%	13.9%	12.1%	12.7%	10.6%	11.3%	11.0%	12.1%	-
Life Automation	144	744	81	532	403	757	329	571	231	729	228	678	-
YoY	166.7%	25.5%	42.1%	-25.7%	179.9%	1.7%	306.2%	7.3%	-42.7%	-3.7%	-30.7%	18.7%	-
OPM	1.4%	6.6%	0.8%	4.4%	3.7%	6.2%	3.1%	5.1%	2.3%	6.0%	2.3%	5.8%	-

Source: Shared Research based on company data
Note: Figures may differ from company materials due to differences in rounding methods.

Orders	FY03/18				FY03/19				FY03/20			
Quarterly (JPYmn)	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Orders	83,560	65,866	59,480	57,356	80,265	64,818	59,061	60,108	81,447	63,664	55,767	57,201
YoY	-	-	-	-	-3.9%	-1.6%	-0.7%	4.8%	1.5%	-1.8%	-5.6%	-4.8%
Building Automation	44,738	28,559	24,659	19,855	45,044	30,183	25,810	22,729	47,588	28,924	22,020	24,373
YoY	-	-	-	-	0.7%	5.7%	4.7%	14.5%	5.6%	-4.2%	-14.7%	7.2%
Advanced Automation	26,568	25,665	24,594	24,910	24,900	25,422	24,472	23,537	22,586	22,490	24,670	22,169
YoY	-	-	-	-	-6.3%	-0.9%	-0.5%	-5.5%	-9.3%	-11.5%	0.8%	-5.8%
Life Automation	12,576	11,983	10,543	12,911	10,647	9,550	9,261	14,409	11,599	12,634	9,500	11,073
YoY	-	-	-	-	-15.3%	-20.3%	-12.2%	11.6%	8.9%	32.3%	2.6%	-23.2%

Sales by overseas area	FY03/18				FY03/19				FY03/20			
Quarterly (JPYbn)	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Overseas	10.2	10.9	11.4	13.2	10.6	13.1	10.9	12.1	10.2	10.4	10.8	12.8
YoY	2.0%	-2.7%	14.0%	9.1%	3.9%	20.2%	-4.4%	-8.3%	-3.8%	-20.6%	-0.9%	5.7%
Asia	4.5	4.8	5.1	5.6	4.3	5.6	4.9	5.6	4.2	4.4	4.5	5.7
YoY	9.8%	-4.0%	8.5%	-0.9%	-4.4%	16.7%	-3.9%	-0.6%	-2.3%	-21.4%	-8.2%	1.2%
China	2.0	2.1	2.4	2.9	2.1	3.1	2.1	2.5	2.7	2.0	2.5	2.6
YoY	0.0%	-12.5%	20.0%	31.8%	5.0%	47.6%	-12.5%	-14.0%	28.6%	-35.5%	19.0%	6.6%
North America	1.0	1.2	0.9	1.1	1.1	1.7	1.4	1.2	0.8	0.8	0.9	1.3
YoY	0.0%	33.3%	-10.0%	1.7%	10.0%	41.7%	55.6%	8.8%	-27.3%	-52.9%	-35.7%	7.0%
Europe	1.8	2.1	2.3	2.9	2.3	2.0	2.0	2.2	1.8	2.5	2.1	2.8
YoY	-14.3%	0.0%	27.8%	19.3%	27.8%	-4.8%	-13.0%	-23.4%	-21.7%	25.0%	5.0%	25.6%
Other	0.6	0.9	0.7	0.9	0.6	0.7	0.5	0.8	0.5	0.8	0.6	0.7
YoY	0.0%	12.5%	40.0%	-10.7%	0.0%	-22.2%	-28.6%	-8.1%	-16.7%	14.3%	20.0%	-11.8%

Source: Shared Research based on company data
Note: Figures may differ from company materials due to differences in rounding methods.

Quarterly results trends: Sales tend be on the low side in Q1, rise over the course of the year, and be at their highest level in Q4. However, fixed expenses are incurred at a fairly constant rate, which means earnings tend to be low in Q1 relative to other quarters.

Full-year FY03/20 results (out May 20, 2020)

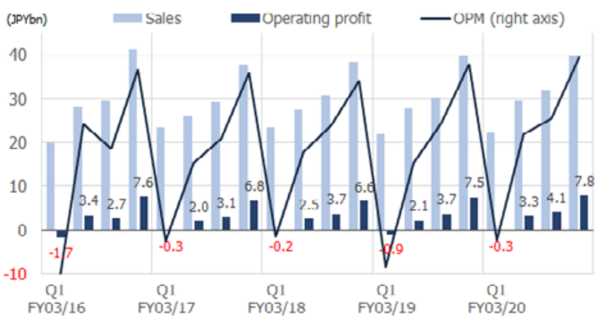
Results summary

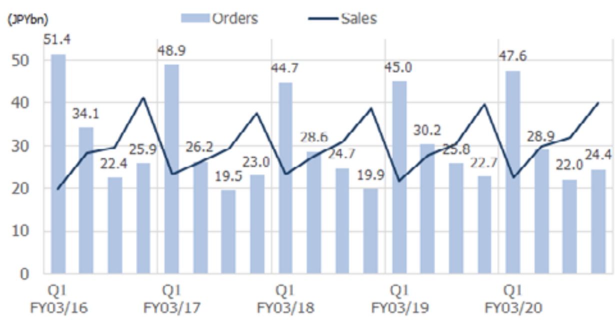
- FY03/20 full year results: For FY03/20, the company reported sales of JPY259.4bn (-1.0% YoY), operating profit of JPY27.3bn (+2.1% YoY) and net income of JPY19.8bn (+4.4% YoY). The operating profit margin rose to 10.5%, from 10.2% in FY03/19, a new record high for the company. The mainstay Building Automation business achieved YoY 3.6% growth in sales and 19.9% in operating profit, offsetting declines in Advanced Automation (sales -6.3% YoY, operating profit -14.1% YoY) and Life Automation (sales -1.8% YoY, operating profit -9.4% YoY) businesses. For Q4, the company reported sales of JPY76.4bn (-0.4% YoY) and operating profit of JPY11.6n (+1.5% YoY). The company's annual dividend for FY03/20 is JPY50 per share (payout ratio of 35.5%). In addition to dividends, the company purchased 3,718 thousand treasury shares for JPY9.9bn.
- The company has not released a forecast for FY03/21. As a result of the novel coronavirus pandemic, global consumption has dropped, economic activities and production have stagnated, capital investment in buildings, plants and factories has declined, and construction work has been delayed. This is expected to have a negative effect on the company's earnings. The company plans to release its FY03/21 outlook following a review of the coronavirus impact on customer capital investment plans and when a reasonable assessment of the outlook becomes possible. However, the company anticipates that demand will be underpinned to some extent by the company's provision of engineering capabilities and services for the maintenance of key customer facilities and its involvement with businesses that maintain the safety and security of social infrastructure. In addition, the company has indicated that, as society adapts to the coexistence with the new virus, there will be new sources of demand such as automation of buildings and production controls, increased autonomy and the acceleration of labor-saving initiatives. One example is pressure control in hospitals, enabling alternation between pressurized and depressurized rooms. Although its FY03/21 earnings forecast is undetermined, the company plans to maintain its annual dividend for FY03/21 at its FY03/20 level of JPY50 per share.

Business names: Building Automation (BA), Advanced Automation (AA), and Life Automation (LA)

Building Automation (BA)

Building Automation	FY03/18				FY03/19				FY03/20				FY03/21
Quarterly (JPYmn)	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	FY Est.
Orders	44,738	28,559	24,659	19,855	45,044	30,183	25,810	22,729	47,588	28,924	22,020	24,373	
YoY	-	-	-	-	0.7%	5.7%	4.7%	14.5%	5.6%	-4.2%	-14.7%	7.2%	
Sales	23,374	27,520	30,840	38,499	21,828	27,703	30,292	39,677	22,451	29,662	31,882	39,799	-
YoY	-0.1%	5.6%	5.4%	2.1%	-6.6%	0.7%	-1.8%	3.1%	2.9%	7.1%	5.2%	0.3%	-
Operating profit	-161	2,468	3,691	6,585	-920	2,116	3,706	7,519	-262	3,253	4,055	7,844	-
YoY	-	24.5%	20.0%	-2.6%	-	-14.3%	0.4%	14.2%	-	53.7%	9.4%	4.3%	-
Operating profit margin	-0.7%	9.0%	12.0%	17.1%	-4.2%	7.6%	12.2%	19.0%	-1.2%	11.0%	12.7%	19.7%	-





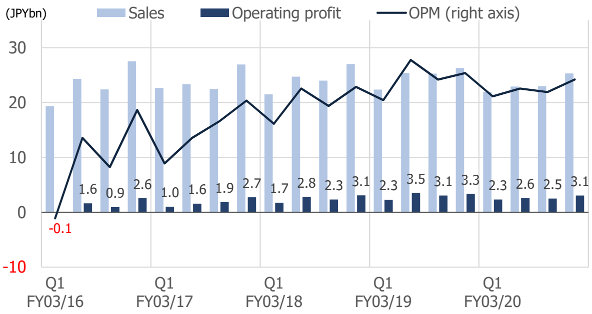
Source: Shared Research based on company data

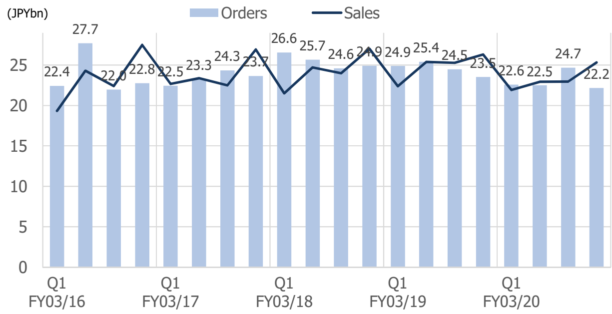
In FY03/20, orders in the Building Automation segment were JPY123.0bn (-0.7% YoY) while sales were JPY123.8bn (+3.6% YoY) and operating profit was JPY14.9bn (+19.9% YoY). Orders declined slightly YoY because the company received orders for large-scale projects spanning several years in FY03/19. Despite this decline, it would be fair to say that orders were strong because they rose 4.3% compared to FY03/18. The company recorded expansion in orders related to the sale and construction of components for new large-scale buildings. Sales rose YoY, boosted primarily by growth in sales for new large-scale buildings. Although upgrades and other services for existing buildings are generally regarded as more profitable, the company found success through thorough and profit-focused marketing of products and services for new buildings and efforts aimed at enhancing job performance and efficiency at construction sites and elsewhere. Under these conditions, OPM improved to 12.0% (versus 10.4% in FY03/19).

In Q4, orders were JPY24.4bn (+7.2% YoY), sales were JPY39.8bn (+0.3% YoY), and operating profit was JPY7.8bn (+4.3% YoY). Orders increased YoY in Q4 after falling 4.2% and 14.7% in Q2 and Q3, respectively. The company indicates that sales fell slightly short of forecast due in part to delays to an additional construction for which the company had anticipated recording sales during Q4. Through its Building Automation segment, the company handles many projects for which sales are posted in Q4, so profits also tend to be higher during Q4. Segment OPM rose to 19.7% in Q4, compared to 19.0% in FY03/19.

Advanced Automation (AA)

Advance Automation	FY03/18				FY03/19				FY03/20				FY03/21
Quarterly (JPYmn)	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	FY Est.
Orders	26,568	25,665	24,594	24,910	24,900	25,422	24,472	23,537	22,586	22,490	24,670	22,169	
YoY	-	-	-	-	-6.3%	-0.9%	-0.5%	-5.5%	-9.3%	-11.5%	0.8%	-5.8%	
Sales	21,504	24,715	23,998	27,014	22,381	25,401	25,282	26,325	21,933	22,930	22,967	25,326	-
YoY	-5.1%	5.7%	6.7%	0.3%	4.1%	2.8%	5.4%	-2.6%	-2.0%	-9.7%	-9.2%	-3.8%	-
Operating profit	1,734	2,787	2,325	3,085	2,290	3,525	3,057	3,339	2,317	2,586	2,516	3,067	-
YoY	71.3%	75.9%	24.7%	12.4%	32.1%	26.5%	31.5%	8.2%	1.2%	-26.6%	-17.7%	-8.1%	-
Operating profit margin	8.1%	11.3%	9.7%	11.4%	10.2%	13.9%	12.1%	12.7%	10.6%	11.3%	11.0%	12.1%	-





Source: Shared Research based on company data

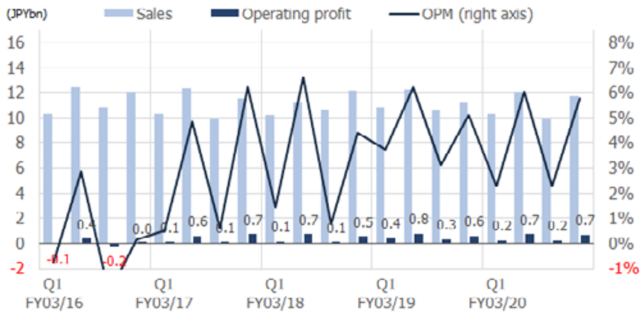
In FY03/20, Advanced Automation segment orders were JPY91.9bn (-6.5% YoY) while sales were JPY93.2bn (-6.3% YoY) and operating profit was JPY10.5bn (-14.1% YoY). Orders in the Industrial Automation Product (IAP) and Solution & Service (SS) businesses held firm, with particular strength in process automation-related orders. However, orders declined in the Control Product (CP) business, through which the company conducts factory automation, including automation related to semiconductor manufacturing equipment. Orders were particularly slow in 1H, coming in at JPY45.1bn (-10.4% YoY), due mainly to a decrease in orders related to semiconductor manufacturing equipment. However, the rate of YoY decline was substantially lower in 2H as orders amounted to JPY46.8bn (-2.4% YoY). The company explains that orders related to semiconductor manufacturing equipment improved continuously in Q3 and Q4 after bottoming out in 1H. Meanwhile, in terms of other manufacturing equipment (industrial furnaces, machine tools, etc.), the company incurred some impact from weakened demand for capital investment in areas such as the automotive industry and connecting supply chains.

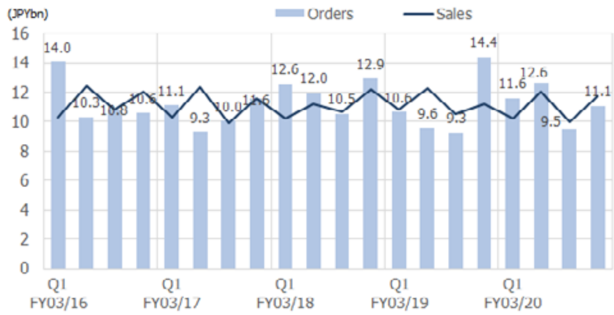
With regard to profitability, it is notable that the company maintained OPM of above 10.0% at 11.3%, even as sales decreased due to cyclical factors. The company has divided its Advanced Automation segment into the CP, IAP, and SS businesses and has conducted thorough management of order profitability (raising prices for some products) while striving to improve the productivity of its factories by restructuring its manufacturing bases and utilizing its overseas bases. It is fair to say that these efforts had a positive impact in FY03/20.

In Q4, orders were JPY22.2bn (-5.8% YoY), while sales were JPY25.3bn (-3.8% YoY), operating profit was JPY3.1bn (-8.1% YoY), and OPM was 12.1%. The company indicates that it experienced last-minute demand related to procurement concerns in some markets.

Life Automation (LA)

Life Automation Quarterly (JPYmn)	FY03/18 Q1	FY03/18 Q2	FY03/18 Q3	FY03/18 Q4	FY03/19 Q1	FY03/19 Q2	FY03/19 Q3	FY03/19 Q4	FY03/20 Q1	FY03/20 Q2	FY03/20 Q3	FY03/20 Q4	FY03/21 FY Est.
Orders	12,576	11,983	10,543	12,911	10,647	9,550	9,261	14,409	11,599	12,634	9,500	11,073	
YoY	-	-	-	-	-15.3%	-20.3%	-12.2%	11.6%	8.9%	32.3%	2.6%	-23.2%	
Sales	10,190	11,226	10,640	12,152	10,844	12,232	10,546	11,218	10,257	12,065	9,976	11,735	-
YoY	-1.3%	-8.8%	7.0%	5.3%	6.4%	9.0%	-0.9%	-7.7%	-5.4%	-1.4%	-5.4%	4.6%	-
Operating profit	144	744	81	532	403	757	329	571	231	729	228	678	-
YoY	166.7%	25.5%	42.1%	-25.7%	179.9%	1.7%	306.2%	7.3%	-42.7%	-3.7%	-30.7%	18.7%	-
Operating profit margin	1.4%	6.6%	0.8%	4.4%	3.7%	6.2%	3.1%	5.1%	2.3%	6.0%	2.3%	5.8%	-



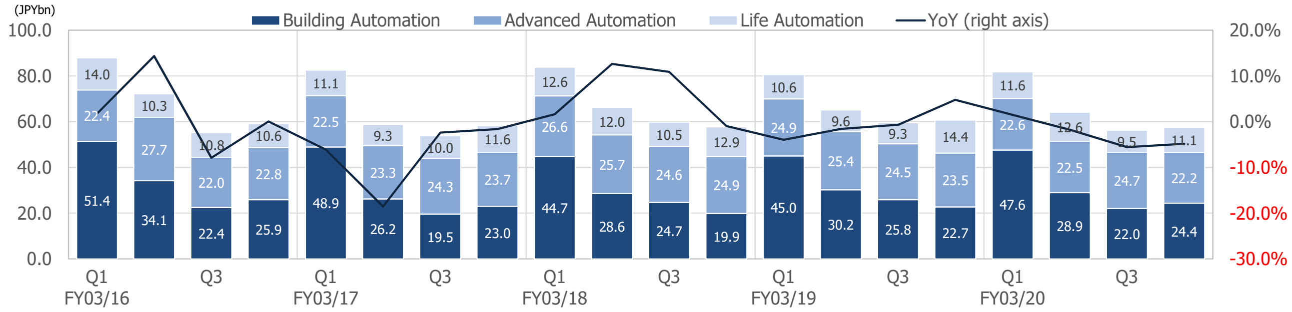


Source: Shared Research based on company data

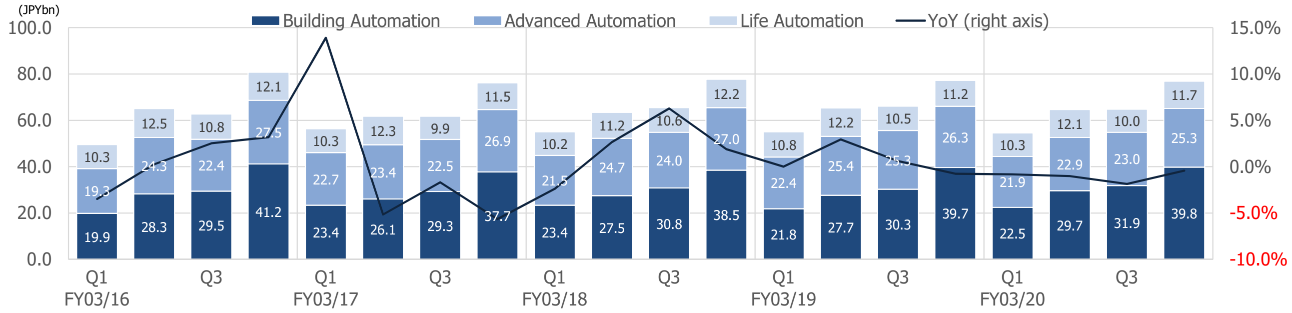
In the Life Automation segment, orders were JPY44.8bn (+2.1% YoY), sales were JPY44.0bn (-1.8% YoY), and operating profit was JPY1.9bn (-9.4% YoY). Acquisition of orders related to gas and water meters were stable, and the YoY increase in orders was due to order growth in the life science engineering (LSE) field (order in this field were low from Q1–Q3 FY03/19). The declines in sales and operating profit were primarily due to low order acquisition in the LSE field during FY03/19. Performance related to gas and water meters held firm.

In Q4, orders were JPY11.1bn (-23.2% YoY), sales were JPY11.7bn (+4.6% YoY), and operating profit was JPY678mn (+18.7% YoY). The company secured roughly the same value of orders in the LSE field as it did in Q3, but orders fell YoY anyway due to large-scale orders recorded in Q4 FY03/19. Orders related to gas and water meters were level YoY.

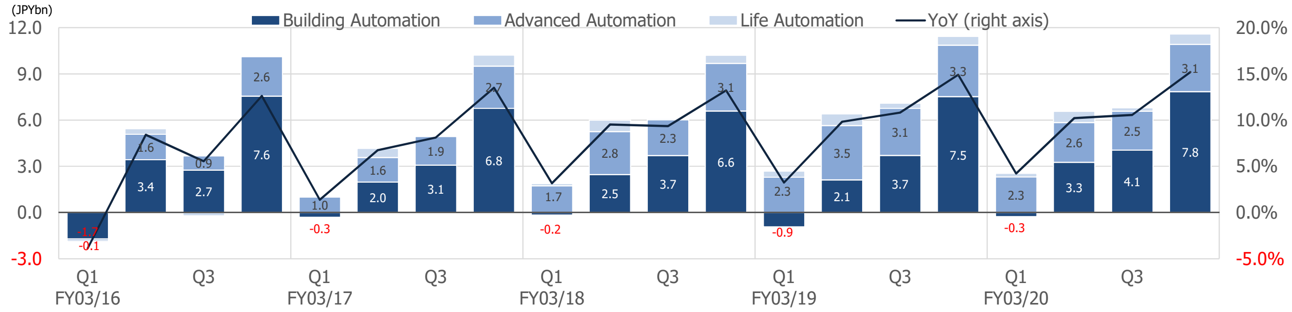
Breakdown of orders by segment (under old standards)



Breakdown of sales by segment

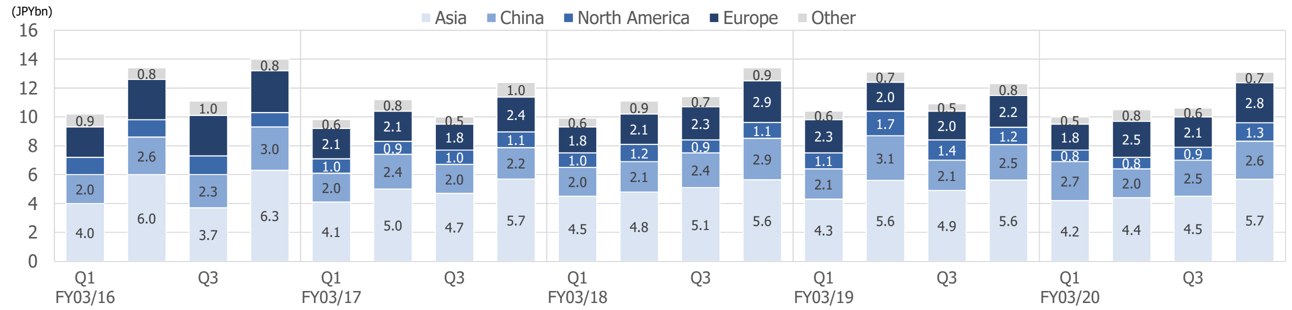


Breakdown of operating profit by segment



Source: Shared Research based on company data

Overseas sales by region



Source: Shared Research based on company data

For details on previous results, please refer to the Historical performance section.

FY03/21 forecast

FY03/21 forecast overview

	FY03/19			FY03/20			FY03/21		
(JPYmn)	1H	2H	FY	1H	2H	FY	1H Est.	2H Est.	FY Est.
Sales	**119,754**	**142,300**	**262,054**	**118,652**	**140,759**	**259,411**		**-**	**-**
YoY	1.6%	-0.1%	0.6%	-0.9%	-1.1%	-1.0%	-	-	-
Gross profit	**44,629**	**57,709**	**102,338**	**45,572**	**58,070**	**103,642**		**-**	**-**
YoY	4.5%	5.3%	5.0%	2.1%	0.6%	1.3%	-	-	-
Gross profit margin	37.3%	40.6%	39.1%	38.4%	41.3%	40.0%	-	-	-
SG&A expenses	36,463	39,185	75,648	36,709	39,677	76,386		-	-
YoY	4.3%	1.8%	3.0%	0.7%	1.3%	1.0%	-	-	-
SG&A ratio	30.4%	27.5%	28.9%	30.9%	28.2%	29.4%	-	-	-
Operating profit	**8,166**	**18,524**	**26,690**	**8,862**	**18,393**	**27,255**		**-**	**-**
YoY	5.6%	13.7%	11.1%	8.5%	-0.7%	2.1%	-	-	-
Operating profit margin	6.8%	13.0%	10.2%	7.5%	13.1%	10.5%	-	-	-
Recurring profit	**8,889**	**18,775**	**27,664**	**9,007**	**18,705**	**27,712**		**-**	**-**
YoY	9.5%	15.9%	13.8%	1.3%	-0.4%	0.2%	-	-	-
Recurring profit margin	7.4%	13.2%	10.6%	7.6%	13.3%	10.7%	-	-	-
Net income	**5,833**	**13,118**	**18,951**	**5,946**	**13,847**	**19,793**		**-**	**-**
YoY	9.6%	4.4%	5.9%	1.9%	5.6%	4.4%	-	-	-
Net margin	4.9%	9.2%	7.2%	5.0%	9.8%	7.6%	-	-	-

By segment	FY03/19			FY03/20			FY03/21		
(JPYmn)	1H	2H	FY	1H	2H	FY	1H Est.	2H Est.	FY Est.
Sales	119,754	142,300	262,054	118,652	140,759	259,411	-	-	-
YoY	1.6%	-0.1%	0.6%	-0.9%	-1.1%	-1.0%	-	-	-
Building Automation	49,531	69,969	119,500	52,113	71,681	123,794	-	-	-
YoY	-2.7%	0.9%	-0.6%	5.2%	2.4%	3.6%	-	-	-
Advanced Automation	47,782	51,607	99,389	44,863	48,293	93,156	-	-	-
YoY	3.4%	1.2%	2.2%	-6.1%	-6.4%	-6.3%	-	-	-
Life Automation	23,076	21,764	44,840	22,322	21,711	44,033	-	-	-
YoY	7.8%	-4.5%	1.4%	-3.3%	-0.2%	-1.8%	-	-	-
Operating profit	8,166	18,524	26,690	8,862	18,393	27,255	-	-	-
YoY	5.6%	13.7%	11.1%	8.5%	-0.7%	2.1%	-	-	-
Operating profit margin	6.8%	13.0%	10.2%	7.5%	13.1%	10.5%	-	-	-
Building Automation	1,196	11,225	12,421	2,991	11,899	14,890	-	-	-
YoY	-48.2%	9.2%	-1.3%	150.1%	6.0%	19.9%	-	-	-
OPM	2.5%	21.8%	12.5%	6.7%	24.6%	16.0%	-	-	-
Advanced Automation	5,815	6,396	12,211	4,903	5,583	10,486	-	-	-
YoY	28.6%	18.2%	23.0%	-15.7%	-12.7%	-14.1%	-	-	-
OPM	12.2%	12.4%	12.3%	10.9%	11.6%	11.3%	-	-	-
Life Automation	1,160	900	2,060	960	906	1,866	-	-	-
YoY	30.6%	46.8%	37.2%	-17.2%	0.7%	-9.4%	-	-	-
OPM	5.0%	4.1%	4.6%	4.3%	4.2%	4.2%	-	-	-

Source: Shared Research based on company data

The company has designated its FY03/21 forecast as undetermined due to current difficulties in producing rational estimates so far. The company will promptly disclose its consolidated forecast when estimates become possible. However, Azbil indicated that it will pay an annual dividend of JPY50 per share in FY03/21. The company indicates that it decides upon levels of shareholder return while comprehensively considering factors such as consolidated results, ROE and DOE levels, and internal reserves for future business expansion and corporate structure enhancement. Although its forecast is uncertain, the company made the decision to announce its dividend forecast ahead of its earnings forecast based on its stable financial structure (equity ratio of 66.7%, cash and cash equivalents of JPY74.7bn, committed credit line of JPY10.0bn, corporate bond issuance limit of JPY20.0bn, etc.).

The company acknowledges that activities in its Building Automation, Advanced Automation, and Life Automation segments may be impacted by lower capital investment in, and delayed or suspended construction of, buildings, plants, and factories caused by reduced global consumption and stagnating economic activity and production caused by the novel coronavirus pandemic. Azbil has faced a rapidly deteriorating economic environment before; During this period, order bookings and sales decreased, particularly in business domains related to the Advanced Automation segment (products and services for the manufacturing industry), as the pace of decline in capital investment lagged slightly behind the pace of economic downturn. The company maintains that it will announce its earnings forecast once it has minutely investigated the potential impact the novel coronavirus pandemic's spread could have on capital investment.

Listed below are current trends for each of the company's segments (as of mid-May 2020):

Building Automation segment: The company has not incurred any major short-term impact in this segment. It expects relatively stable demand for services and upgrade for existing buildings and other recurring revenue sources that, in aggregate, account for about 70% of sales. The company has begun to see some movement in the business related to new buildings scheduled for 2022–2023, and has not yet encountered any negative impact. However, it is necessary to note that small- to medium-sized projects could be affected if impact associated with the novel coronavirus proves to be a long-term factor. The company indicates the possibility that air quality in office buildings could become a priority in the medium to long term. Managing air quality throughout office buildings is, in some aspects, easier when employing the company's centralized air conditioning system rather than a decentralized system. The novel coronavirus pandemic could possibly have a positive impact on its business in the medium to long term.

Advanced Automation segment: As of end-FY03/20, this segment had not incurred any major impact from the novel coronavirus. However, negative effects began appearing in April and May as capital investment plans were temporarily suspended in all fields unrelated to semiconductors. The company will need to minutely investigate the capital investment trends of client companies moving forward. Meanwhile, demand for automation could undergo qualitative change in the medium to long term, and the company acknowledges the possibility that service provision methods could also change. Specifically, the company believes that demand could rise for a wide variety of analysis services equipped with cloud and AI technology, through continuously monitoring areas in buildings that cannot be seen from the outside using sensors and other devices.

Life Automation: The company has not noted any impact on gas and water meter-related performance from the novel coronavirus pandemic. However, in terms of the life science engineering (LSE) field, the company could see a rise in demand for products such as its pharmaceutical production equipment (which includes lyophilizers) and environmental equipment as production of vaccines for the virus is launched globally. Some experts believe this vaccine production will be decentralized across many countries, rather than being heavily concentrated within individual countries and that new facilities and equipment may become necessary.

Building Automation

Building Automation (JPYmn) (Margins unadjusted for eliminations)	FY03/14 Cons.	FY03/15 Cons.	FY03/16 Cons.	FY03/17 Cons.	FY03/18 Cons.	FY03/19 Cons.	FY03/20 Cons.	FY03/21 Est.
Sales (eliminations unadjusted)	109,566	114,521	118,835	116,421	120,233	119,500	123,794	-
YoY	2.0%	4.5%	3.8%	-2.0%	3.3%	-0.6%	3.6%	-
Sales to external customers	109,284	114,097	118,548	116,153	119,939	119,163	123,496	
YoY	2.0%	4.4%	3.9%	-2.0%	3.3%	-0.6%	3.6%	-
Operating profit	10,593	12,245	12,014	11,512	12,583	12,421	14,890	-
YoY	4.3%	15.6%	-1.9%	-4.2%	9.3%	-1.3%	19.9%	-
OPM	9.7%	10.7%	10.1%	9.9%	10.5%	10.4%	12.0%	-

Source: Shared Research based on company data

Advanced Automation

Advanced Automation (JPYmn) (Margins unadjusted for eliminations)	FY03/14 Cons.	FY03/15 Cons.	FY03/16 Cons.	FY03/17 Cons.	FY03/18 Cons.	FY03/19 Cons.	FY03/20 Cons.	FY03/21 Est.
Sales (eliminations unadjusted)	90,826	94,362	93,538	95,484	97,231	99,389	93,156	-
YoY	3.6%	3.9%	-0.9%	2.1%	1.8%	2.2%	-6.3%	-
Sales to external customers	89,637	93,131	92,936	94,820	96,563	98,350	92,159	
YoY	3.6%	3.9%	-0.2%	2.0%	1.8%	1.9%	-6.3%	-
Operating profit	3,966	5,013	5,029	7,204	9,931	12,211	10,486	-
YoY	8.8%	26.4%	0.3%	43.2%	37.9%	23.0%	-14.1%	-
OPM	4.4%	5.3%	5.4%	7.5%	10.2%	12.3%	11.3%	-

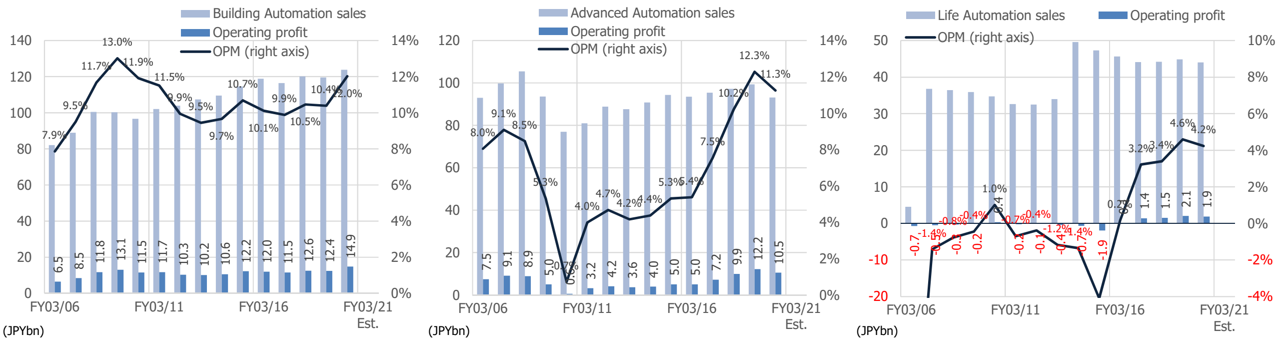
Source: Shared Research based on company data

Life Automation

Life Automation (JPYmn) (Margins unadjusted for eliminations)	FY03/14 Cons.	FY03/15 Cons.	FY03/16 Cons.	FY03/17 Cons.	FY03/18 Cons.	FY03/19 Cons.	FY03/20 Cons.	FY03/21 Est.
Sales (eliminations unadjusted)	49,597	47,331	45,646	44,116	44,208	44,840	44,033	-
YoY	45.9%	-4.6%	-3.6%	-3.4%	0.2%	1.4%	-1.8%	-
Sales to external customers	49,434	47,178	45,343	43,774	43,822	44,484	43,701	
YoY	46.0%	-4.6%	-3.9%	-3.5%	0.1%	1.5%	-1.8%	-
Operating profit	-671	-1,937	79	1,420	1,501	2,060	1,866	-
YoY	-	-	-	1697.5%	5.7%	37.2%	-9.4%	-
OPM	-1.4%	-4.1%	0.2%	3.2%	3.4%	4.6%	4.2%	-

Source: Shared Research based on company data

Earnings by segment



Source: Shared Research based on company data

Historical forecast accuracy

Results vs. Initial Est. (JPYmn)	FY03/12 Cons.	FY03/13 Cons.	FY03/14 Cons.	FY03/15 Cons.	FY03/16 Cons.	FY03/17 Cons.	FY03/18 Cons.	FY03/19 Cons.	FY03/20 Cons.
Sales (Initial Est.)	220,000	230,000	250,000	260,000	263,000	260,000	261,000	267,000	262,000
Sales (Results)	223,499	227,584	248,416	254,469	256,889	254,810	260,384	262,054	259,411
Results vs. Initial Est.	**1.6%**	**-1.1%**	**-0.6%**	**-2.1%**	**-2.3%**	**-2.0%**	**-0.2%**	**-1.9%**	**-1.0%**
Operating profit (Initial Est.)	13,000	15,000	14,200	15,500	18,700	19,000	22,000	26,000	26,500
Operating profit (Results)	14,348	13,410	13,903	15,337	17,135	20,145	24,026	26,690	27,255
Results vs. Initial Est.	**10.4%**	**-10.6%**	**-2.1%**	**-1.1%**	**-8.4%**	**6.0%**	**9.2%**	**2.7%**	**2.8%**
Recurring profit (Initial Est.)	13,000	14,800	13,500	15,000	18,200	18,500	21,500	25,500	26,200
Recurring profit (Results)	14,596	14,569	14,599	17,141	16,627	20,475	24,316	27,664	27,712
Results vs. Initial Est.	**12.3%**	**-1.6%**	**8.1%**	**14.3%**	**-8.6%**	**10.7%**	**13.1%**	**8.5%**	**5.8%**
Net income (Initial Est.)	7,300	9,000	8,000	8,500	11,000	11,500	14,000	17,500	18,500
Net income (Results)	8,518	8,308	7,669	7,168	8,268	13,153	17,890	18,951	19,793
Results vs. Initial Est.	**16.7%**	**-7.7%**	**-4.1%**	**-15.7%**	**-24.8%**	**14.4%**	**27.8%**	**8.3%**	**7.0%**

Source: Shared Research based on company data
Note: Figures may differ from company materials due to differences in rounding methods.

Long-term business strategy

Three key initiatives aimed at sustainable growth

The company's corporate philosophy is "human-centered automation." As its long-term target, the company's vision for the future: "By focusing on people and realizing a world of automation created by human ingenuity and technology, we will become a top-class global corporate group that enhances the safety and security of its customers, helps to improve their corporate value, and contributes to solving global environmental issues." In order to achieve sustainable growth over the medium- to long-term, the company has established three fundamental initiatives as follows.

Initiatives for growth:

- Become a long-term partner for both the customer and the community by offering solutions based on Azbil technologies and products;
- Expand globally into new regions and employ a qualitative change of focus;
- Implement organizational reforms to create a corporate organization that never stops learning.

In concrete terms, becoming an organization that keeps learning entails reforms in three areas. Azbil's management believes that this will strengthen the corporate organization and position it for sustainable growth. In November 2012, the company established a human resources training organization, Azbil Academy.
Restructuring global production and development for overseas growth;
Restructuring the engineering and services businesses for a shift toward services concentrated on expertise, expanding into new service areas, and overseas business development;
Human resources reform focused on appropriate employee allocation and fostering solutions and global talent.

Long-term plan toward FY03/22

In May 2013, the company announced a long-term plan to run through FY03/22, the tenth year since the start of the new Azbil. Based on the group's philosophy of human-centered automation, the plan provides an outline for delivering safety, comfort, and fulfillment in people's lives and for contributing to environmental protection. Under the plan, FY03/22 targets are sales of about JPY300bn, operating profit of JPY30bn or more, and ROE of at least 10%.

As its long-term target, the company's vision for the future is this: "By focusing on people and realizing a world of automation created by human ingenuity and technology, we will become a top-class global corporate group that enhances the safety and security of its customers, helps to improve their corporate value, and contributes to solving global environmental issues."

Under this long-term plan, the first step was the medium-term management plan covering FY03/14 to FY03/17. The plan set sales of JPY280bn and operating profit of JPY22bn as targets for FY03/17. Focus areas were new solutions for production and working and living spaces, energy management solutions, and safety solutions. Also notable was the intention to promote globalization, for example by raising the overseas sales ratio to 20%.

Although the company ultimately did not achieve the targets of the medium-term plan—FY03/17 results were sales of JPY254.8bn, operating profit of JPY20.1bn, and overseas sales ratio of 17.0%—it did make a certain degree of progress, expanding earnings in each business segment.

The company announced another medium-term management plan in May 2017 as the second step of its long-term plan. While leaving its long-term targets (operating profit of JPY30bn or more, sales of about JPY300bn, and ROE of at least 10%) unchanged, it set FY03/20 targets at operating profit of JPY25bn, sales of JPY270bn, and ROE of at least 9%. As specific measures to achieve these targets, the plan calls for the company to strengthen its self-sustaining businesses (offering value suited to the developmental stages of its customers' businesses), develop new areas of automation (responding to industry restructuring with a combination of equipment and data), and expand in the areas of environment and energy (offering solutions to long-term issues such as reducing the burden of businesses on the environment and controlling energy demand).

Sales in FY03/20 were JPY259.4bn, while operating profit was JPY27.3bn, and ROE was 10.9%. During the final fiscal year of the medium-term management plan, the company surpassed its target of JPY25.0bn in operating profit even though cyclical demand had bottomed out in the manufacturing equipment field. The company achieved this feat thanks to heightened job performance on site and improvement in the profitability of projects for new building within the Building Automation segment, as well as measures aimed at strengthening earnings capacities that the company implemented within the three businesses of its Advanced Automation segment (the CP, IAP, and SS businesses).

CP business: Control Products business (supplies products related to factory automation, including controllers and sensors)
IAP business: Industrial Automation Product business (supplies products related to process automation, including differential pressure and pressure transmitters and control valves)
SS business: Solutions & Services business (provides control systems and services related to engineering, maintenance, and energy-saving solutions)

New medium-term plan

The previous medium-term plan was implemented under President and Group Chief Executive Officer (Representative Director) Hirozumi Sone, who assumed his position with the company in April 2012. Kiyohiro Yamamoto is slated to assume the role of president and chief executive officer in June 2020 (as Mr. Sone shifts to the role of chairman). The company had been conducting preparations to announce its new medium-term plan but has now put off this announcement, citing the need to conduct minute investigations into potential impact from the novel coronavirus pandemic. Despite this need, the company will likely maintain the same basic approach to growth strategies, as Mr. Yamamoto has been deeply involved with the medium-term plan's formulation as General Manager of the Corporate Planning Department and in other roles.

The company is aware of several external environmental changes: First, values regarding workstyles are changing as Japan's working population shrinks. Second, globalization in the industrial world is progressing and awareness regarding SDGs is rising. Third, domains in which IoT, AI, and cloud technologies can be applied are expanding. Fourth, both individuals and society at large are modifying their behaviors to cope with the reality of living with the threat of the novel coronavirus (implementation of remote work programs, revisions to business continuity plans, supply chain adjustments, and digitalization).

Under these circumstances, the company anticipates expansion in domains to which automation can contribute, as well as growth in business opportunities. Accordingly, the company plans to move ahead with several initiatives: First, it will accelerate automation and manpower reduction within building and production management processes and provide a new type of automation that is designed to coordinate effectively with humans. Second, it will seek to expand its rollout of preventative maintenance and other advanced services that allow for a healthy balance between safety and cost. Third, it will provide solutions in domains that are related to the environment and energy and involve the application of IoT technology. Fourth, it will shift toward a product-as-a-service (PaaS) business model that actively applies cloud technology, moving away from service businesses focused on primarily on device upgrades. Fifth, the company will flexibly utilize building and manufacturing facilities as one of initiatives of business continuity plan.

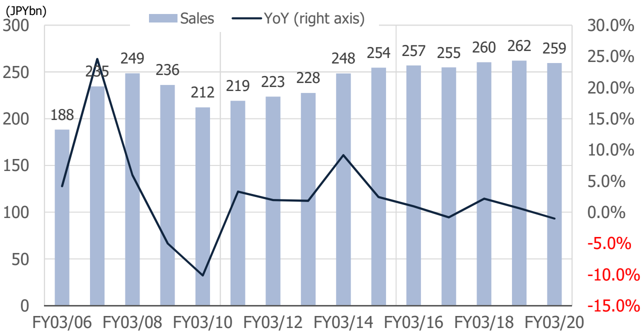
To aid in the implementation of these initiatives, the company has established several new organizations, including the IT Solution Department, the Cloud Operation Center, and the Corporate Sustainability Headquarters. Moving forward, Shared Research will monitor developments related to the company's new medium-term plan, which has been formulated with consideration for changes to societal structures and values that will follow the conclusion of the novel coronavirus pandemic.

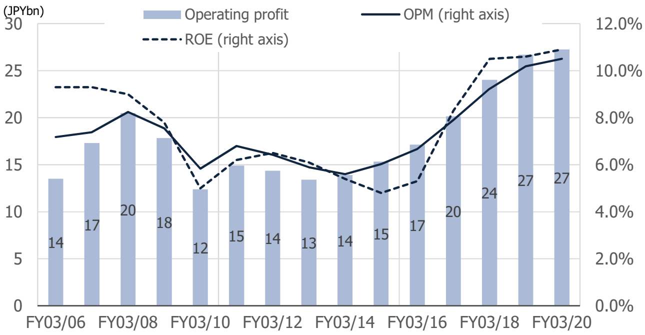
In FY03/19, sales fell short of plan at JPY262.1bn, but operating profit was JPY26.6bn and ROE was 10.6%, so in terms of profit, Azbil achieved the targets of its medium-term plan one year ahead of schedule, and even surpassed them.

Business

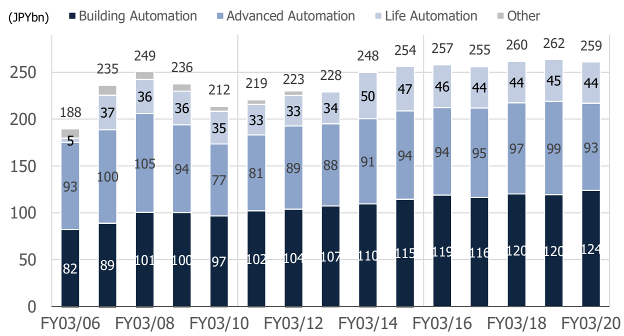
Business description

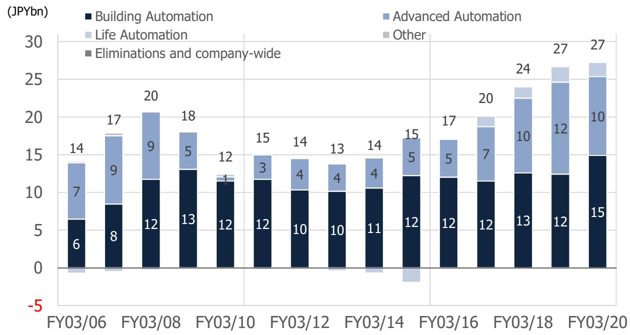
Sales (left), operating profit (right)





Sales (left), operating profit (right) by segment





Source: Shared Research based on company data

Japan’s largest supplier of automatic control systems for HVAC in commercial buildings

Azbil provides a variety of air-conditioning management, energy-saving and other services using its measurement and control technologies. In particular, the company is Japan’s largest supplier of automatic control systems for HVAC in commercial buildings. It has three main segments. The Building Automation segment focuses on the building market; Advanced Automation focuses on industrial plants and factories; Life Automation focuses on utilities, residential, and life science.

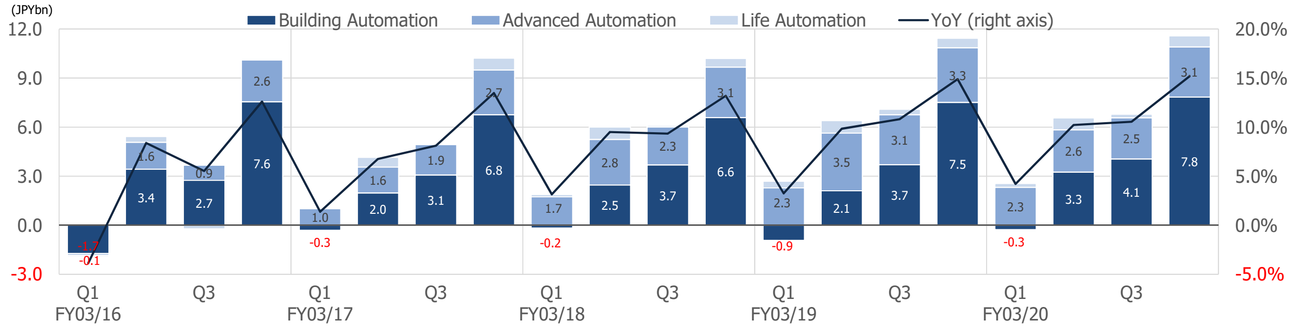
The group has established a consistent business structure in each field, allowing it to respond quickly to the demands of users in all aspects of its operations, including planning, development, sales, manufacturing, and maintenance. This means the company can quickly implement on-site feedback in solutions, helping it improve its on-site technology and services, and lower costs with greater efficiency.

Building Automation comprised a high percentage of operating profit, as maintenance sales in this segment have a high sales composition, resulting in a steady source of revenue. With this segment as its core, cash flow has shown a consistently positive trend. The company is using these funds to enter new areas through acquisitions at home and overseas, as well as to restructure its production base.

Quarterly profits

Sales are concentrated in Q2 and Q4. Fixed costs are incurred constantly, so profits in Q1 and Q3 tend to be lower than in the other two quarters. Also, sales in Q4 are typically higher than in Q2. Thus 1H profits tend to be lower than 2H profits.

Quarterly operating profit



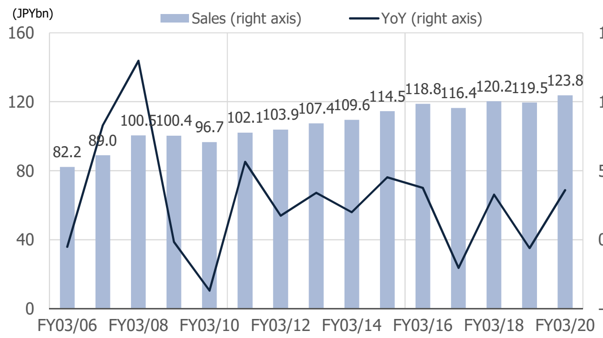
Source: Shared Research based on company data

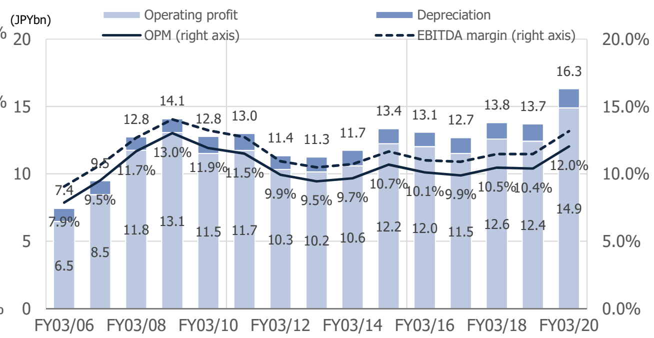
What does "azbil" mean?

The name azbil is a portmanteau word combining "automation," "zone," and "builder." The company says it wants to convey the idea that it uses automation technology to build zones delivering safety, comfort, and fulfillment in people's lives. These are key concepts in the group's philosophy of human-centered automation. At the same time, Azbil aims to contribute to environmental preservation.

Building Automation

Building Automation (JPYmn) (Margins unadjusted for eliminations)	FY03/12 Cons.	FY03/13 Cons.	FY03/14 Cons.	FY03/15 Cons.	FY03/16 Cons.	FY03/17 Cons.	FY03/18 Cons.	FY03/19 Cons.	FY03/20 Cons.
Sales (eliminations unadjusted)	103,895	107,426	109,566	114,521	118,835	116,421	120,233	119,500	123,794
YoY	1.7%	3.4%	2.0%	4.5%	3.8%	-2.0%	3.3%	-0.6%	3.6%
Sales to external customers	103,399	107,137	109,284	114,097	118,548	116,153	119,939	119,163	123,496
YoY	1.5%	3.6%	2.0%	4.4%	3.9%	-2.0%	3.3%	-0.6%	3.6%
Operating profit	10,328	10,152	10,593	12,245	12,014	11,512	12,583	12,421	14,890
YoY	-12.1%	-1.7%	4.3%	15.6%	-1.9%	-4.2%	9.3%	-1.3%	19.9%
OPM	9.9%	9.5%	9.7%	10.7%	10.1%	9.9%	10.5%	10.4%	12.0%
Orders (eliminations unadjusted)	113,381	105,726	108,432	122,614	133,863	117,649	117,811	123,766	122,905
YoY	16.6%	-6.8%	2.6%	13.1%	9.2%	-12.1%	0.1%	5.1%	-0.7%
Order backlog (eliminations unadjusted)	41,310	39,610	38,476	46,569	61,597	62,824	60,224	64,204	63,190
YoY	29.8%	-4.1%	-2.9%	21.0%	32.3%	2.0%	-4.1%	6.6%	-1.6%
Capital expenditures	740	899	1,819	1,581	1,090	1,470	2,351	2,408	1,769
Depreciation	1,022	1,027	989	935	1,069	1,176	1,214	1,280	1,422
Amortization of goodwill	-	79	158	174	-	-	-	-	-
EBITDA	11,350	11,258	11,740	13,354	13,083	12,688	13,797	13,701	16,312
YoY	-12.7%	-0.8%	4.3%	13.7%	-2.0%	-3.0%	8.7%	-0.7%	19.1%
EBITDA margin	10.9%	10.5%	10.7%	11.7%	11.0%	10.9%	11.5%	11.5%	13.2%
Assets	61,444	62,894	62,299	65,550	68,842	65,320	67,553	68,622	67,962
EBITDA / Assets (average)	19.4%	18.1%	18.8%	20.9%	19.5%	18.9%	20.8%	20.1%	23.9%





Source: Shared Research based on company data

Overview

In FY03/20, mainstay Building Automation accounted for 48% of overall sales and 55% of operating profit. Sales come from the completion of new buildings and maintenance (including recurring maintenance), as well as renewal of systems and equipment installed in buildings. Sales from new buildings fluctuate depending on the amount of construction per year planned by the owner (developer). Yet as most sales come from maintenance and renewal of automated-control equipment and systems in existing buildings, earnings are broadly stable. Although the company is handling some projects related to urban redevelopment projects in major cities in Japan, the domestic market is maturing and the company's business model is shifting toward services that generate recurring revenue, including upgrades and maintenance. Due to these circumstances, it must enhance the business development in developing nations, where forecasts indicate a future rise in demand for new building projects, to achieve overall business expansion.

Azbil aims to expand its suite of high value-added services and coordinate with partners in each region to win more local contracts for overseas business expansion.

Products and services

This segment develops, manufactures and sells products and systems necessary for automated air-conditioning controls installed in office buildings, factories, laboratories, commercial facilities, hotels, hospitals, and transport and sports facilities. It offers comprehensive services from system engineering and construction through maintenance. Key products and services include automatic control systems for HVAC in commercial buildings, such as temperature/humidity sensors, controllers, and valves. The company also offers security systems, renewal services for air-conditioning control systems, and comprehensive energy-management services. Maintenance contracts are typically renewed on a yearly basis. In the existing buildings business, there is replacement demand every 15 years or so, primarily for control system and peripheral components, and large-scale projects every 25 years, including heating system renewals. It is difficult for customers to change to another company when renewing systems and components, including equipment renewals such as heat source equipment, due to switching costs. As a result, this segment contributes to stable earnings.

Most profits come from maintenance contracts and the renewal of control systems. Typically, projects for new buildings have lower profitability, so Azbil has been working to reduce costs. From 2009, accounting for sales shifted from the completed-contract method to the percentage-of-completion method.

Sources of revenue

According to the company, a large share of Building Automation comprises offices (share of about 40%) and factories (10–15%), and the segment is expanding substantially to include mainly data centers, research facilities, hospitals, commercial facilities, hotels, and schools. A breakdown of Building Automation sales: maintenance and services 40%; renewal about 30%; new buildings about 20%; overseas around 10%; and others (security) less than 10%.

The company has the leading domestic market share (sales basis) among specialist manufacturers. Johnson Control's Japanese arm is number two, followed by Panasonic (TSE1: 6752). In this business, maintenance demand is generated once systems are installed. First-mover advantage in the domestic market underpins a solid track record and customer base. Its database of accumulated information sustains a large market share, and its construction and engineering capacity and structure allows it to quickly respond to customer needs, and deliver products and systems in line with the end of construction.

Process

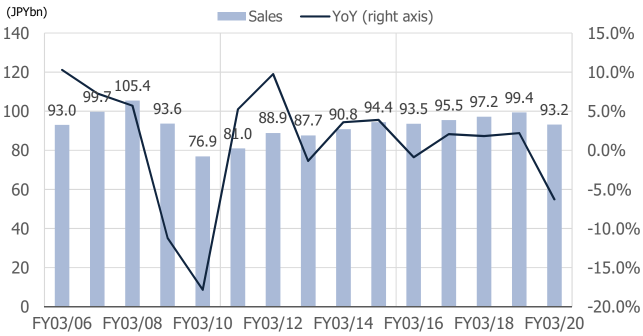
Orders for new buildings come from subcontractors. They supply air-conditioning, electrical, and sanitation-related equipment and construction work. This is outsourced to them from general contractors responsible for overall building construction. Maintenance contracts are typically made with the building owner, and renewal contracts for air-conditioning control systems usually come from either the building owner or subcontractors. The company has a strong customer base, and can meet needs of building owners (developers) and architectural firms through general contractors and subcontractors.

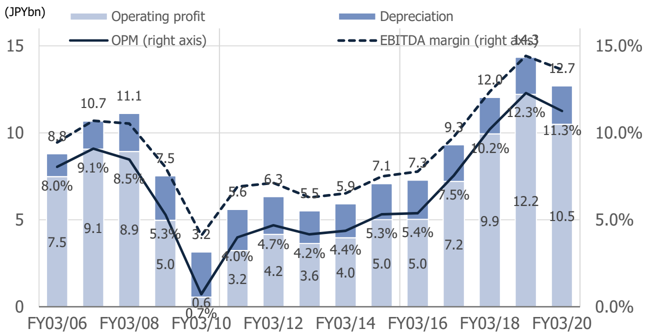
Overseas development focusing on Asia

The company is focusing on overseas development, primarily in Asia. It is targeting projects that have high specification HVAC systems similar to those used in Japan: contracts for components and systems requiring both comfort and energy efficiency. In overseas markets, non-Japanese manufacturers such as Johnson Controls and Siemens are ahead of the company. However, energy-saving regulations in these countries are driving the need for efficient, quality air-conditioning systems such as those found in Japan. The company says that while it is a late market entrant, these changes imply opportunities. It will use the energy-efficient air-conditioning expertise gained in the Japanese market as it focuses on overseas markets.

Advanced Automation

Advanced Automation (JPYmn) (Margins unadjusted for eliminations)	FY03/12 Cons.	FY03/13 Cons.	FY03/14 Cons.	FY03/15 Cons.	FY03/16 Cons.	FY03/17 Cons.	FY03/18 Cons.	FY03/19 Cons.	FY03/20 Cons.
Sales (eliminations unadjusted)	88,873	87,676	90,826	94,362	93,538	95,484	97,231	99,389	93,156
YoY	9.8%	-1.3%	3.6%	3.9%	-0.9%	2.1%	1.8%	2.2%	-6.3%
Sales to external customers	83,030	86,534	89,637	93,131	92,936	94,820	96,563	98,350	92,159
YoY	3.5%	4.2%	3.6%	3.9%	-0.2%	2.0%	1.8%	1.9%	-6.3%
Operating profit	4,158	3,646	3,966	5,013	5,029	7,204	9,931	12,211	10,486
YoY	28.6%	-12.3%	8.8%	26.4%	0.3%	43.2%	37.9%	23.0%	-14.1%
OPM	4.7%	4.2%	4.4%	5.3%	5.4%	7.5%	10.2%	12.3%	11.3%
Orders (eliminations unadjusted)	89,851	86,663	93,105	97,605	94,872	93,724	101,737	98,331	91,915
YoY	8.3%	-3.5%	7.4%	4.8%	-2.8%	-1.2%	8.5%	-3.3%	-6.5%
Order backlog (eliminations unadjusted)	21,993	20,980	23,259	26,502	27,836	26,076	30,789	28,981	27,785
YoY	14.0%	-4.6%	10.9%	13.9%	5.0%	-6.3%	18.1%	-5.9%	-4.1%
Capital expenditures	1,674	1,587	2,666	4,016	1,699	1,903	3,868	3,255	2,341
Depreciation	2,158	1,845	1,642	1,708	2,063	2,030	2,027	2,121	2,204
Amortization of goodwill	10	16	314	355	182	76	73	-	-
EBITDA	6,326	5,507	5,922	7,076	7,274	9,310	12,031	14,332	12,690
YoY	13.2%	-12.9%	7.5%	19.5%	2.8%	28.0%	29.2%	19.1%	-11.5%
EBITDA margin	7.1%	6.3%	6.5%	7.5%	7.8%	9.8%	12.4%	14.4%	13.6%
Assets	64,219	65,359	66,716	69,879	71,302	68,638	73,537	75,678	68,152
EBITDA / Assets (average)	10.3%	8.5%	9.0%	10.4%	10.3%	13.3%	16.9%	19.2%	17.6%





Source: Shared Research based on company data

Overview

Advanced Automation supplies plants and factories with systems, controllers, valves, field instruments, and sensors for various manufacturing sites, as well as engineering and maintenance services.

The business is concerned with capital investment and thus is affected by demand related to market sentiment in the industries of its customers. However, the fact that Azbil's customers are spread across a range of industries tends to mitigate the impact when comparing with companies that are related to capital investment in general. Compared with Building Automation, a higher proportion of segment sales is derived from products and a lower proportion from maintenance.

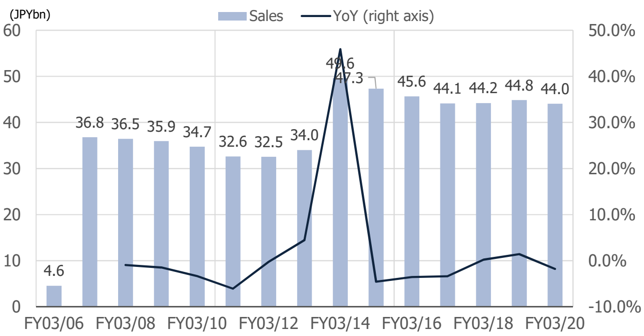
The segment is largely divided into the process automation business (about 60% of segment sales), relating to materials industries such as chemistry and petrochemistry, oil refining, electric power and gas, and steel, and the factory automation business (about 40% of segment sales), supplying various equipment for production facilities used in the processing or assembly of foods, drugs, automobiles, electric and electronic devices, and semiconductors. The company provides products and services to a range of customers centered on domestic manufacturing.

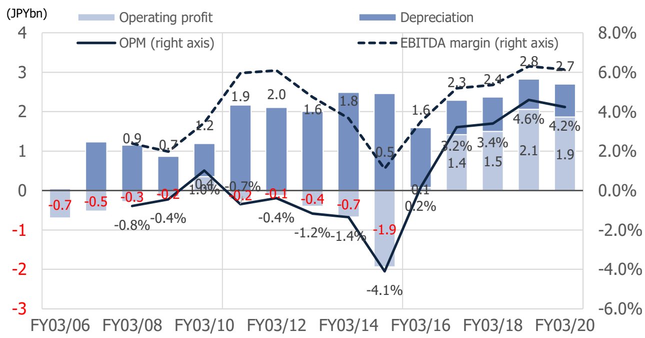
In the manufacturing industries in Japan, investment to enhance production capacity at factories is limited, so Azbil considers the domestic market to be mature. It aims to uncover new demand by providing new solutions for visualizing and evaluating the operational status of facilities and for detecting signs of abnormal operation, using sophisticated devices and equipment and advanced technologies such as IoT, big data, and AI. The company also expects cost reduction achieved through the use of overseas factories and a global procurement framework to drive improvement in profitability.

Starting in FY03/17, Azbil has managed the Advanced Automation by splitting it into three subsegments: Control Products (covering sensors, switches, regulators, displays, combustion and safety devices), Industrial Automation Products (covering control valves; flow, temperature, pressure, and liquid level meters; and transmitters), and Solutions & Services (covering operation monitoring and control systems, software, and maintenance services). The Control Products subsegment handles most factory automation while the IAP subsegment handles most process automation. Using the highly specialized natures of its individual businesses, the company is aiming to maximize the added value it provides and improve its profitability in the mature domestic market while enhancing its ability to make sales pitches to customers overseas. Control Products accounts for more than 40% of segment sales, Industrial Automation Products just over 20%, and Solutions & Services more than 30%.

Life Automation

Life Automation (JPYmn) (Margins unadjusted for eliminations)	FY03/12 Cons.	FY03/13 Cons.	FY03/14 Cons.	FY03/15 Cons.	FY03/16 Cons.	FY03/17 Cons.	FY03/18 Cons.	FY03/19 Cons.	FY03/20 Cons.
Sales (eliminations unadjusted)	32,543	33,994	49,597	47,331	45,646	44,116	44,208	44,840	44,033
YoY	-0.2%	4.5%	45.9%	-4.6%	-3.6%	-3.4%	0.2%	1.4%	-1.8%
Sales to external customers	32,266	33,850	49,434	47,178	45,343	43,774	43,822	44,484	43,701
YoY	0.1%	4.9%	46.0%	-4.6%	-3.9%	-3.5%	0.1%	1.5%	-1.8%
Operating profit	-127	-399	-671	-1,937	79	1,420	1,501	2,060	1,866
YoY	-44.1%	214.2%	-	-	-	1697.5%	5.7%	37.2%	-9.4%
OPM	-0.4%	-1.2%	-1.4%	-4.1%	0.2%	3.2%	3.4%	4.6%	4.2%
Orders (eliminations unadjusted)	32,441	40,118	52,628	48,462	45,784	42,080	48,013	43,867	44,806
YoY	-1.1%	23.7%	31.2%	-7.9%	-5.5%	-8.1%	14.1%	-8.6%	2.1%
Order backlog (eliminations unadjusted)	1,749	7,873	10,904	12,036	12,174	10,138	14,560	12,998	13,447
YoY	-5.5%	350.1%	38.5%	10.4%	1.1%	-16.7%	43.6%	-10.7%	3.5%
Capital expenditures	593	631	815	703	623	785	818	699	823
Depreciation	845	746	1,090	1,140	1,014	868	870	765	835
Amortization of goodwill	1,264	1,264	1,399	1,321	502	-	-	-	-
EBITDA	1,982	1,611	1,818	524	1,595	2,288	2,371	2,825	2,701
YoY	2.1%	-18.7%	12.8%	-71.2%	204.4%	43.4%	3.6%	19.1%	-4.4%
EBITDA margin	6.1%	4.7%	3.7%	1.1%	3.5%	5.2%	5.4%	6.3%	6.1%
Assets	26,681	39,808	40,558	36,011	30,124	29,944	31,095	29,746	31,053
EBITDA / Assets (average)	7.5%	4.8%	4.5%	1.4%	4.8%	7.6%	7.8%	9.3%	8.9%





Source: Shared Research based on company data

Overview

Life Automation uses the company's technical expertise of measurement, control, and metering in building and factory markets to offer tailored services in areas including utilities (gas and water lines); residences; and health, welfare and nursing care. With its January 2013 acquisition of Spain's Telstar (now Azbil Telstar), which supplies equipment to the pharmaceutical market, the company is developing a life science engineering (LSE) business. The company aims to stabilize overall group profits by expanding and developing this segment, which has a different operating environment and cycle from other segments. Gas and water-meter related sales account for 60–70% of sales in the Life Automation segment while LSE sales account for about 30% and other sales about 5%.

Gas and water meters

The gas and water meters business accounts for about 60–70% of Life Automation sales. The company has been involved in this business since 2005, when it acquired shares in Kimmon Manufacturing, now Azbil Kimmon. (Kimmon became a wholly owned subsidiary in 2008.) Due to production cost cuts, this business moved into a profitable position. Azbil Kimmon (the main business entity) mainly manufactures and sells city gas meters, LP gas meters and water meters. In the gas and water meter business, replacement demand is generated at regular intervals due to legal regulations. So companies in the business can expect stable sales based on their installation track record and market share. The company has the leading industry share in the city gas meter business, which accounts for the bulk of segment sales. It also offers a new service using data from meters installed for LP gas users, which use wireless technology to transmit data to the cloud. The data are collected for use in meter-reading, safety, and gas delivery planning. Azbil is proceeding with efforts to add value to its devices and services.

Life science engineering (equipment for pharmaceutical companies' manufacturing lines)

The life science engineering (LSE) business focuses on equipment and devices needed for production lines at pharmaceutical companies. LSE business sales are nearly 30% of Life Automation sales. Azbil Telstar*, bought in January 2013, is responsible for the LSE business. The company has centers in Western Europe (including Spain), Eastern Europe, Central America, South America, and North America. The company's strength is offering a one-stop solution including equipment for pharmaceutical processes in the fields of biologics, anticancer treatments and generic drugs.

After acquisitions, it posted operating losses, hurt by goodwill amortization, as well as economic slowdown and intensifying competition in emerging market countries. In FY03/16, the company made a major restructuring of its business framework and booked goodwill impairment losses of JPY3.0bn. Through these measures, the company sharply boosted profits in this business area and turned operations profitable. In the long term, it aims to take advantage of growth in the pharmaceutical market, including in generic drug business.

*In January 2013, Azbil invested in Spain's Telstar S.A. (currently Azbil Telstar), making it a subsidiary. Azbil Telstar is a company that develops and markets manufacturing and environmental equipment for pharmaceutical factories, laboratories, and hospitals. At the same time, the company launched its life science engineering business, aimed at offering new solutions integrating manufacturing equipment and environmental systems inspired by automation technology. This services markets that contribute to healthcare.

Other fields

Residential central air-conditioning systems account for about 5% of sales in the Life Automation segment. In this business, Azbil supplies central air-conditioning systems with added value, capable of delivering cooling, heating, ventilation, filtration, and dehumidification in a single system. The company aims to capture demand with new added-value services using tablet remote controls allowing users to save energy and control their air conditioning in a manner that suits their lifestyles.

Overseas sales

(JPYmn)	FY03/12 Cons.	FY03/13 Cons.	FY03/14 Cons.	FY03/15 Cons.	FY03/16 Cons.	FY03/17 Cons.	FY03/18 Cons.	FY03/19 Cons.	FY03/20 Cons.
Total sales	223,499	227,584	248,416	254,469	256,889	254,810	260,384	262,054	259,411
YoY	2%	2%	9%	2%	1%	-1%	2%	1%	-1%
Japan	203,662	204,628	202,281	207,713	207,898	211,431	214,586	215,344	215,216
YoY	1%	0%	-1%	3%	0%	2%	1%	0%	0%
% of total sales	91%	90%	81%	82%	81%	83%	82%	82%	83%
Overseas	19,837	22,956	46,135	46,756	48,991	43,379	45,798	46,710	44,195
YoY	10%	16%	101%	1%	5%	-11%	6%	2%	-5%
% of total sales	9%	10%	19%	18%	19%	17%	18%	18%	17%
Asia	9,978	11,115	16,066	18,353	20,045	19,500	20,047	20,414	18,784
YoY	16%	11%	45%	14%	9%	-3%	3%	2%	-8%
% of total sales	4%	5%	6%	7%	8%	8%	8%	8%	7%
China	6,690	8,639	11,292	9,630	9,973	8,573	9,365	9,763	9,826
YoY	5%	29%	31%	-15%	4%	-14%	9%	4%	1%
% of total sales	3%	4%	5%	4%	4%	3%	4%	4%	4%
North America	1,721	1,589	3,444	4,194	4,763	3,982	4,200	5,397	3,781
YoY	8%	-8%	117%	22%	14%	-16%	5%	29%	-30%
% of total sales	1%	1%	1%	2%	2%	2%	2%	2%	1%
Europe	822	895	11,572	10,244	10,610	8,419	9,086	8,511	9,176
YoY	3%	9%	1193%	-11%	4%	-21%	8%	-6%	8%
% of total sales	0%	0%	5%	4%	4%	3%	3%	3%	4%
Other	624	715	3,758	4,333	3,597	2,903	3,096	2,623	2,626
YoY	-11%	15%	426%	15%	-17%	-19%	7%	-15%	0%
% of total sales	0%	0%	2%	2%	1%	1%	1%	1%	1%
Exchange rate (avg. for January–December)									
USD	79.8	79.8	97.7	105.8	121.1	108.8	112.2	110.5	109.0
YoY	-9%	0%	22%	8%	14%	-10%	3%	-2%	-1%
EUR	111.1	102.6	129.8	140.4	134.3	120.3	126.7	130.4	122.0
YoY	-4%	-8%	27%	8%	-4%	-10%	5%	3%	-6%
CNY	12.3	12.7	15.9	17.2	19.2	16.4	16.6	16.7	15.8
YoY	-5%	3%	26%	8%	12%	-15%	2%	1%	-6%

Source: Shared Research based on company data

Azbil began efforts to expand globally in earnest in the early 2010s, and in FY03/20, overseas sales reached JPY44.2bn, or 17% of total sales. With global explanation as one of its key initiatives for growth, the company is working to maintain bases, develop products and services suiting overseas specifications, and establish a production structure equipped with a supply chain that brings the company closer to regional customers. Going forward, Azbil will strive to further evolve the high value-added products, applications, and services it has accumulated in Japan, and have them used by both global companies and local companies operating in regions Azbil is developing. In Singapore in 2018, the company established its Strategic Planning & Development Office for Southeast Asia to enhance the company's cross-sectional planning, strategy, and management functions and to develop markets in Southeast Asia, a region in which it expects markets to expand.

In the Building Automation business, Azbil is accumulating orders from sources other than the overseas businesses of Japanese companies, including locally funded development projects. In Asia, initial demand related to air conditioning was for systems that could maintain a set temperature, but now demand has turned more toward precise temperature control to improve human comfort or to reduce the environmental burden by cutting energy usage. Using its equipment and experience cultivated in the Building Automation business in Japan, Azbil is working to expand its local sales and service networks, as well as to increase its personnel in order to capture local demand. In Southeast Asia, in cooperation with a major architect's office operating globally, the company is getting a structure in place for capturing regional demand.

In the Advanced Automation business, Azbil says its advanced sensing and flow control devices, analytical technologies, and systems for detecting signs of abnormal operation are highly rated even overseas. However, at present, sales center on devices supplied by the Industrial Automation Products and Control Products business units. Overseas, Azbil has not been able to capture demand for equipment management, maintenance, and other services and solutions that cover the life cycle of production lines to the extent it has in Japan.

In the Life Automation business, after the 2013 acquisition of Spain's Telstar (now Azbil Telstar), Azbil has achieved a comparatively high overseas sales ratio in the life science engineering business by supplying manufacturing and environmental equipment to pharmaceutical companies and laboratories. Overseas sales can fluctuate year to year depending on the number of orders, but the company expects increasing demand related to vaccines and generic drugs in the medium term, especially in emerging markets. It plans to expand overseas business with this demand as a tailwind.

Production and procurement

Production as a share of consolidated sales is around 40%. The company faces a shifting business environment, including Japanese customers transferring production overseas, and increasing capital investment in developing markets. The group is responding by globalizing its production capacities and logistics structure, and strengthening its ability to offer customization and maintenance tailored to particular regional needs.

As part of its move to efficiently allocate its domestic and overseas production capacity, the company established Azbil Production Thailand in FY03/14. In China, it expanded its product line at Azbil Control Instruments (Dalian). These moves gave the company production hubs in Japan, China, and Thailand. In Thailand, it is expanding production scale centered on components and increasing the number of models being produced. In Dalian, China, it is expanding production chiefly of valves, differential pressure transmitters, and pressure transmitters. In Japan, as part of the company's efforts to optimize its global production structure, it integrated the functions of the Shonan and Isehara factories, leaving just the Shonan factory, which functions as the company's main factory and coordinates with the R&D functions of the Fujisawa Technology Center on measures to establish advanced production lines, increase the sophistication of production processes, and streamline operations.

(JPYmn)	FY03/11 Cons.	FY03/12 Cons.	FY03/13 Cons.	FY03/14 Cons.	FY03/15 Cons.	FY03/16 Cons.	FY03/17 Cons.	FY03/18 Cons.	FY03/19 Cons.
Production	89,321	90,311	86,538	98,557	101,964	104,338	101,709	104,366	104,994
YoY	-6.1%	1.1%	-4.2%	13.9%	3.5%	2.3%	-2.5%	2.6%	0.6%
% of sales	40.7%	40.4%	38.0%	39.7%	40.1%	40.6%	39.9%	40.1%	40.1%
Building Automation	36,271	36,450	37,365	37,248	37,998	41,897	41,072	41,189	40,445
YoY	9.2%	0.5%	2.5%	-0.3%	2.0%	10.3%	-2.0%	0.3%	-1.8%
% of sales	35.5%	35.1%	34.8%	34.0%	33.2%	35.3%	35.3%	34.3%	33.8%
Advanced Automation	34,024	36,219	30,594	31,317	34,272	32,106	31,386	33,970	35,319
YoY	9.9%	6.5%	-15.5%	2.4%	9.4%	-6.3%	-2.2%	8.2%	4.0%
% of sales	42.0%	40.8%	34.9%	34.5%	36.3%	34.3%	32.9%	34.9%	35.5%
Life Automation	17,981	17,416	18,578	29,991	29,692	30,334	29,249	29,206	29,228
YoY	-38.2%	-3.1%	6.7%	61.4%	-1.0%	2.2%	-3.6%	-0.1%	0.1%
% of sales	55.1%	53.5%	54.7%	60.5%	62.7%	66.5%	66.3%	66.1%	65.2%

Source: Shared Research based on company data

Research and development

Azbil continues to invest more than JPY10bn per year. In Japan, it concentrates its research facilities and research, development, and engineering staff at its Fujisawa Technology Center, where it conducts research and development across its various businesses. In the US, Azbil established an R&D base in Silicon Valley to develop products using advanced technologies through cooperation with local research institutes and universities. In Europe, the company conducts research into basic technologies for the life science engineering business and also develops products.

(JPYmn)	FY03/11 Cons.	FY03/12 Cons.	FY03/13 Cons.	FY03/14 Cons.	FY03/15 Cons.	FY03/16 Cons.	FY03/17 Cons.	FY03/18 Cons.	FY03/19 Cons.
R&D expenses	8,952	8,816	7,824	8,767	10,123	11,012	10,445	11,200	11,896
YoY	3.6%	-1.5%	-11.3%	12.1%	15.5%	8.8%	-5.1%	7.2%	6.2%
% of sales	4.1%	3.9%	3.4%	3.5%	4.0%	4.3%	4.1%	4.3%	4.5%
Building Automation	3,902	4,004	3,531	3,916	4,884	5,568	5,059	5,343	5,122
YoY	1.1%	2.6%	-11.8%	10.9%	24.7%	14.0%	-9.1%	5.6%	-4.1%
% of sales	3.8%	3.9%	3.3%	3.6%	4.3%	4.7%	4.3%	4.4%	4.3%
Advanced Automation	4,447	4,233	3,645	3,851	4,089	4,435	4,325	4,968	5,756
YoY	4.9%	-4.8%	-13.9%	5.7%	6.2%	8.5%	-2.5%	14.9%	15.9%
% of sales	5.5%	4.8%	4.2%	4.2%	4.3%	4.7%	4.5%	5.1%	5.8%
Life Automation	602	578	647	999	1,149	1,008	1,061	950	1,017
YoY	11.9%	-4.0%	11.9%	54.4%	15.0%	-12.3%	5.3%	-10.5%	7.1%
% of sales	1.8%	1.8%	1.9%	2.0%	2.4%	2.2%	2.4%	2.1%	2.3%

Source: Shared Research based on company data

Major group companies

The following are the major companies in the azbil Group (figures in parentheses are share of voting rights).

- Azbil Kimmon Co., Ltd. (100%): Made a wholly owned subsidiary in 2008. Develops the Life Automation business, including gas and water meters.
- Azbil Control Instruments (Dalian) Co., Ltd. (100%): Located in China. Established in 1994. Produces various types of control devices, control valves, and switches.
- Azbil Production (Thailand) Co., Ltd. (99.9%): Established in 2013. Manufactures thermal regulators, controllers for air conditioning, and other devices.
- Azbil Telstar, S.L.U. (100%): Located in Spain. Acquired in 2013 and made a wholly owned subsidiary in 2014. Markets manufacturing and environmental equipment for pharmaceutical factories and laboratories.

Strengths and weaknesses

Strengths

Stable business platform in Building Automation due to large domestic market share

The Building Automation business accounts for 55% of operating profit (FY03/20), and boasts a large domestic market share. It also has a stable business platform. Proof of this can be seen partly in the large gap in the domestic market share between Azbil and Johnson Controls (NYSE listed), the global market leader. In this segment, the company has capitalized on its first-mover advantage to accumulate experience, a track record, customer relationships, and a complete maintenance structure, making it difficult for new entrants as a result. The business is a cash cow supporting overall earnings.

Scope for overseas growth in Advanced Automation

Due to economic growth and industrial development in Asia and rising personnel costs, demand for automation is increasing across a variety of industries. The company has developed a strong engineering capacity through meeting the particular needs of Japanese customers. Since dissolving its alliance with Honeywell (US) in 2002, Azbil has been developing overseas markets and is building a track record in Asia. Moving forward as well, there is a possibility that China and ASEAN will drive the company's growth in the medium and long term.

Solid balance sheet and abundant cash flows

Helped by its business structure, neither Building Automation nor Advanced Automation needs major capital investments. While Advanced Automation tends to be heavily influenced by customers' capital investment cycles, Building Automation, the company's largest segment, generates stable cash flows. The company will be able to continue investing management resources into R&D over the medium to long term. The company is returning surplus funds through the appropriate implementation of dividends and share buybacks.

Weaknesses

Building Automation does not produce steady earnings overseas, as it does in Japan

Both Building Automation and Advanced Automation depend heavily on the domestic market. Building Automation has a large domestic market share, with over 90% of sales from Japan, but it ranks low in market share overseas, with delayed overseas expansion. In Asia, the company's focus, major overseas corporations have established a presence, making market entry difficult. However, demand for energy conservation is increasing overseas, implying greater demand for complex air-conditioning systems and services that Azbil specializes in. The company is making use of alliances with local companies to develop this business.

Profitability of Life Automation

To expand its business portfolio, Azbil is developing Life Automation. The segment has posted segment losses much of the time (except for a profit in FY03/10) due to investments to build the business, the cost of establishing infrastructure, and goodwill amortization from acquisitions. With a decline in goodwill amortization, the segment generated operating profit from FY03/16, but the operating profit margin was just 4.2% in FY03/20, comparing unfavorably with the other segments.

External factors affect Advanced Automation

Due to its structure, Advanced Automation depends on capital investment. Operating profit fell from a peak in FY03/07 of JPY9.1bn to JPY552mn in FY03/10, following the global financial crisis. In FY03/19, the segment posted an operating profit of JPY12.2bn thanks to the contribution of structural improvements. However, segment operating profit in FY03/20 fell 14% YoY to JPY10.5bn, affected by sluggishness in some industries, such as semiconductors. Shared Research understands that structural improvements have enabled the segment to generate profits more easily. However, this does not change the nature of the business, in which changes in the external environment can easily affect results.

Historical performance

Q3 FY03/20 results (out February 5, 2020)

Results summary

- For the nine-month period through Q3 FY03/20, the company reported sales of JPY183.0bn (-1.2% YoY), an operating profit of JPY15.7bn (-2.6% YoY), and net income of JPY11.0bn (-2.0% YoY). Results were in-line with company forecasts revised upward in November 2019. The order total of JPY200.9bn was down 1.6% YoY. The decline in overall sales reflects a combination of higher sales at the Building Automation segment, which made steady progress working off its large order book, and lower sales at the Advanced Automation segment, which struggled to make headway amid weak market conditions up to this point. Still, the company managed to deliver higher earnings at the operating profit level with the help of profitability improvement measures, and made no changes to its full-year forecast as results for the first nine months of FY03/20 left it with 69.9% of its full-year target for sales (versus 70.7% at this time last year), 58.0% of its full-year target for operating profit (versus 57.2%), and 58.0% of its full-year target for net income (versus 59.4%).
- The Building Automation segment reported orders of JPY98.5bn (-2.5% YoY), sales of JPY84.0bn (+5.2% YoY), and an operating profit of JPY7.0bn (+43.7% YoY). The overall order environment remained favorable thanks to the ongoing urban redevelopment projects in the Tokyo area and accompanying demand for the company's solution packages for reducing energy and operating costs. Although orders declined YoY at the segment due to the dropout of several large service orders received during the same nine-month period in FY03/19, the substantial order backlog particularly for large new building projects resulted in higher YoY sales. Operating profit saw a sharp increase thanks to higher sales and productivity improvement measures as well as the absence of a one-off expense incurred during Q3 FY03/19. Compared with the company's target for full-year segment sales of JP125.0bn and operating profit of JPY14.4bn, results for the first nine months of FY03/20 left the segment with 67.2% of its full-year target for sales (versus 66.8% at this time last year) and 48.9% of its full-year target for operating profit (versus 39.5%).
- The Advanced Automation segment reported orders of JPY69.7bn (-6.7% YoY), sales of JPY67.8bn (-7.2% YoY), and an operating profit of JPY7.4bn (-16.4% YoY). While the company continued to see strong demand for automated systems from companies looking to increase productivity or cope with labor shortages or environmental issues, weakness in the semiconductor manufacturing equipment and machine tool markets left overall orders at the segment down versus the same nine-month period the previous year. In Q3 alone, however, the segment saw a turnaround in demand from the semiconductor manufacturing equipment market and managed to finish the quarter with an order total of JPY24.7bn, a 0.8% increase over the same quarter in FY03/19, up from the preceding Q2 order total of JPY22.5bn, and also ahead of Q3 segment sales of JPY23.0bn. The cyclical slump in sales during the first nine months of FY03/20 notwithstanding, we note that the company still managed to keep the segment operating profit margin above 10%. Compared with the company's target for full-year segment sales of JP94.0bn and operating profit of JPY10.6bn, results for the first nine months of FY03/20 left the segment with 72.2% of its full-year target for sales (versus 73.5% at this time last year) and 70.0% of its full-year target for operating profit (versus 72.7%).
- The Life Automation segment reported orders of JPY33.7bn (+14.5% YoY), sales of JPY32.3bn (-3.9% YoY), and an operating profit of JPY1.2bn (-20.2% YoY). On the order front, we find a steady stream of new orders from gas and water utilities, and a growing order stream from the life science engineering (LSE) market. The decline in segment sales and operating profit is attributable in large to the drop in orders from the LSE market in FY03/19. The company continued working to restructure operations and pushed ahead with other initiatives aimed at stabilizing the earnings streams from its lifestyle-related businesses

including life science engineering and residential central air-conditioning systems. Compared with the company's target for full-year segment sales of JP45.0bn and operating profit of JPY2.0bn, results for the first nine months of FY03/20 left the segment with 71.8% of its full-year target for sales (versus 75.0% at this time last year) and 59.4% of its full-year target for operating profit (versus 72.3%).

Business names: Building Automation (BA), Advanced Automation (AA), and Life Automation (LA)

Building Automation (BA)

For the nine-month period through Q3 FY03/20, the BA segment posted sales of JPY84.0bn (+5.2% YoY) and operating profit of JPY7.0bn (+43.7% YoY). Versus full-year forecasts (sales of JPY125.0bn and operating profit of JPY14.4bn), sales achieved 67.2% of the target (compared with 66.8% versus full-FY03/19 results in cumulative Q3 FY03/19) and operating profit 48.9% (compared with 39.5%). Progress in cumulative Q3 was mostly in-line with forecasts.

In Q3, sales were up 5.2% YoY to JPY31.9bn and operating profit was up 9.4% YoY to JPY4.1bn. Backed by a substantial order backlog, sales grew YoY, particularly in large new building projects. Operating profit margin also increased from 12.2% in Q3 FY03/19 to 12.7%. At Azbil, gross profit margin is typically higher for existing buildings and services than for new buildings, so higher sales for new building projects tends to lead to deterioration in product mix. However, in Q3, profit margin increased despite higher sales for new building projects driving performance. This seems to be the result of taking into consideration profitability when taking orders and initiatives to enhance efficiency at construction sites.

Orders amounted to JPY98.5bn (-2.5% YoY) for the nine-month period through Q3 and JPY22.0bn (-14.7% YoY) in Q3 alone. We assume the double-digit fall in orders was owing to orders entering a low-demand period in Q3 FY03/20, in addition to the fact that orders were high in Q3 FY03/19 due to the acquisition of orders for office buildings and factories. According to Azbil, demand is high for urban redevelopment projects in the Tokyo metropolitan area and solutions for energy-saving and reducing operating costs, and it continues to receive many inquiries for large new building projects for which it is awaiting orders. The estimated order backlog at end-Q3 was high at over JPY78bn, so there appears to be little risk of an adverse impact to earnings in the short-term.

Advanced Automation (AA)

For the nine-month period through Q3 FY03/20, the AA segment posted sales of JPY67.8bn (-7.2% YoY) and operating profit of JPY7.4bn (-16.4% YoY). In Q3 alone, sales were down 9.2% YoY to JPY23.0bn and operating profit was down 17.7% YoY to JPY2.5bn. The low level of orders through Q2 due to reduced demand for semiconductor manufacturing equipment and machine tools led to the deterioration in earnings. However, operating profit margin was 11.0% in Q3, exceeding the level recorded during past cyclical downturns. Contributing to this were the shift of the AA segment to a management system using three business units (Control Products [CP], Industrial Automation Products [IAP], and Solutions & Services [SS]), order taking focusing strictly on profitability, and the continuous initiatives to reduce production costs.

Orders in Q3 swung to YoY growth (+0.8% YoY to JPY24.7bn), increased QoQ (from JPY22.5bn in Q2), and exceeded sales in Q3 (JPY23.0bn). Although demand from the machine tool, steel, and chemical industries was weak, orders started to recover, driven by demand from semiconductor-related industries both in Japan and overseas. The contribution margin is believed to have increased as a result of structural improvements carried out up to this point, so the company's focus will be on to what extent recovery in orders will lead to recovery in earnings. Meanwhile, demand for automation aimed at addressing labor shortages, responding to the environmental concerns, and further improving productivity remains high.

Life Automation (LA)

For the nine-month period through Q3 FY03/20, the LA segment posted sales of JPY32.3bn (-3.9% YoY) and operating profit of JPY1.2bn (-20.2% YoY). In Q3 alone, sales were down 5.4% YoY to JPY10.0bn and operating profit was down 30.7% YoY to JPY228mn.

In the core gas and water meters business, sales underperformed expectations for some new products (such as LP gas meters connected to wireless networks and managed remotely), but otherwise demand remained largely stable due to demand for the statutory replacement of meters making up the bulk. In the life science engineering business (LSE; manufacturing and environmental equipment for pharmaceutical companies), which is the main business of Azbil Telstar, sales and profit fell YoY due to the impact of low orders in FY03/19.

Orders were up 14.5% YoY to JPY33.7bn over the nine months through to Q3 and 2.6% YoY to JPY9.5bn in Q3 alone. Growth in Q3 was driven by increased orders at LSE. However, as the increase could also have been because of the low level of orders in Q3 FY03/19, the company cannot yet conclude that orders have started growing.

In FY03/19, the overseas sales ratio was 17.8% and the ratio of sales in China was 3.7%. Although trends in demand in China are uncertain given the impact of the new strain of coronavirus, the company believes any impact to sales will be negligible. Azbil manufactures various control equipment, regulators, and switches at its Dalian factory and ships these to Japan. In the event of a prolonged impact from the new coronavirus, Azbil would need to switch production to Japan, but at present, the company says it has sufficient levels of inventory.

1H FY03/20 results (out November 1, 2019)

Results summary

- 1H FY03/20 results: Azbil reported sales of JPY118.7bn (-0.9% YoY), operating profit of JPY8.9bn (+8.5% YoY), and net income of JPY5.9bn (+1.9% YoY). Orders came to JPY145.1bn (+0.0% YoY). Not only were Building Automation and Advanced Automation sales above plan, but measures to enhance profitability also contributed, pushing earnings above the company forecasts (sales of JPY117.0bn and operating profit of JPY7.7bn).
- FY03/20 forecast: Based on 1H results and recent performance, Azbil revised its FY03/20 profit targets upward, so its revised forecast calls for sales of JPY262.0bn (-0.0% YoY; unchanged from previous forecast), operating profit of JPY27.0bn (+1.2% YoY; previous forecast was JPY26.5bn), net income of JPY19.0bn (+0.3% YoY; previous forecast was JPY18.5bn), and EPS of JPY135.78 (previous forecast was JPY130.84). The full-year dividend forecast was left unchanged at JPY50 per share. In May 2019, Azbil announced a treasury share purchase, and as of the end of October had acquired 3.72mn shares for JPY9.9bn.
- Building Automation: 1H orders were JPY76.5bn (+1.7% YoY), sales JPY52.1bn (+5.2% YoY; initial target was JPY51.0bn), and operating profit JPY3.0bn (2.5x the 1H FY03/19 figure; initial target was JPY2.1bn). With urban redevelopment projects in the Tokyo region and strong demand for solutions related to energy savings and operational cost reductions, the business environment is favorable for accumulating orders. Increased sales and productivity improvement initiatives both contributed. Temporary expenses that had arisen in 1H FY03/19 disappeared, causing operating profit to increase significantly YoY. Azbil revised the full-year targets for segment to sales of JPY125.0bn (+4.6% YoY; unchanged from previous forecast) and operating profit of JPY14.4bn (+15.9% YoY; previous forecast was JPY13.7bn).
- Advanced Automation: 1H orders were JPY45.1bn (-10.4% YoY), sales JPY44.9bn (-6.1% YoY; initial target was JPY44.0bn), and operating profit JPY4.9bn (-15.7% YoY; initial target was JPY4.4bn). Demand for automation to respond to the labor shortage and environmental factors and to improve productivity remains strong, but orders were down YoY on deterioration in the market for semiconductor manufacturing equipment. However, this situation was within the scope of assumptions, and performance was actually better than the company had forecast. Even though sales declined YoY, the operating profit margin exceeded 10.0%. Azbil left full-year segment targets unchanged from the initial forecast at sales of JPY94.0bn (-5.4% YoY) and operating profit of JPY10.6bn (-13.2% YoY).
- Life Automation: 1H orders were JPY24.2bn (+20.0% YoY), sales JPY22.3bn (-3.3% YoY; initial target was JPY23.0bn), and operating profit JPY960mn (-17.2% YoY; initial target was JPY1.2bn). Orders related to gas and water utilities remained stable

and orders in the life science engineering (LSE) business increased. The declines in sales and operating profit resulted from a decline in orders in the LSE business in FY03/19. Azbil is continuing restructuring and other efforts to achieve stable or even improved earnings in regard to lifestyle-related business such as LSE and residential central air-conditioning systems. Azbil revised full-year segment targets to sales of JPY45.0bn (+0.4% YoY; unchanged from previous forecast) and operating profit of JPY2.0bn (-2.9% YoY; initial target was JPY2.2bn).

Business names: Building Automation (BA), Advanced Automation (AA), and Life Automation (LA)

Building Automation (BA)

Building Automation's 1H performance was robust, with sales of JPY52.1bn (+5.2% YoY) and operating profit of JPY3.0bn (2.5x the 1H FY03/19 figure). Sales exceeded the medium-term plan target of JPY51.0bn, aided by urban redevelopment projects in the Tokyo region and strong demand for solutions related to energy savings and operational cost reductions. Progress on new building projects, with a focus on large buildings, was ahead of plan, and sales of services were also above plan. Repair of existing buildings was roughly in line with plan. Growth for new buildings and services exceeded that for overseas business, which fell short of plan.

In terms of new building projects, it appears that initiatives aimed at spreading construction more evenly throughout the year are contributing to improvement. Building Automation sales tend to be weighted toward 2H (and especially Q4), but Azbil has been working to move up construction whenever possible, and this has helped to increase 1H sales.

New building projects, which account for about 20% of total sales, led the YoY growth, and services, about 40% of total sales, also saw growth. Renovation of existing buildings, about 30% of total sales, and overseas business, about 10% of sales, both declined YoY, but this was compensated by growth for new building projects.

Operating profit of JPY3.0bn exceeded the company initial target of JPY2.1bn. Not only were sales above plan, but consideration of profitability when taking orders and initiatives to enhance productivity contributed. Another positive factor impacting profit was the lack of temporary expenses (booking of provisions) that had arisen in 1H FY03/19. The operating profit margin in 1H was 5.7%, exceeding both the 2.4% margin in 1H FY03/19 and the 4.1% target set in initial company forecast.

1H orders came to JPY76.5bn (+1.7% YoY). The business environment was favorable, centered on urban redevelopment projects in the Tokyo region and other new building projects, and the segment saw growth in orders focused on large buildings. In services, after the company won a multiyear contract in 1H FY03/19, 1H orders declined YoY but still maintained a high level. In existing buildings, as building owners are tending to postpone repairs, 1H orders were down YoY. However, despite Q2 orders being down 4.2% YoY, 1H orders seem to have been above plan. Demand has remained robust and there appears to be no significant need for concern for the time being.

Advanced Automation (AA)

In 1H, Advanced Automation generated sales of JPY44.9bn (-6.1% YoY) and operating profit of JPY4.9bn (-15.7% YoY). The drop in sales for semiconductor manufacturing equipment had a large impact, pushing down both sales and profit YoY. However, the results still exceeded initial company targets (sales of JPY44.0bn and operating profit of JPY4.4bn).

Within Advanced Automation, Azbil secured higher sales in Industrial Automation Products (IAP) and Solutions & Services, but the drop in sales in Control Products, including a large number of products related to semiconductor manufacturing equipment, had a large impact. In the IAP business, demand is robust for automation to respond to the labor shortage and environmental factors and to improve productivity. However, in the Control Products business, the recent decline in orders centered on products for semiconductor manufacturing equipment has resulted in a drop in sales.

Operating profit was down YoY largely due mainly to lower sales, but ongoing measures to enhance profitability are having a positive impact on the profit level. Even though 1H FY03/20 sales at JPY44.9bn were below 1H FY03/18 sales of JPY46.2bn, 1H FY03/20 operating profit of JPY4.9bn (operating profit margin of 10.9%) was above 1H FY03/18 operating profit of JPY4.5bn (operating profit margin of 9.8%).

1H orders totaled JPY45.1bn (-10.4% YoY). Q1 orders were JPY22.6bn (-9.3% YoY) and Q2 orders were JPY22.5bn (-11.5% YoY), so not only did the YoY decline widen, but orders were down QoQ. However, in regard to products for semiconductor manufacturing equipment, which have been the chief cause of the decline, Azbil says it sees signs of recovery in some areas. Although the situation regarding products for automobiles and machine tools remains opaque, it seems fairly unlikely that Advanced Automation orders will decline much further.

Life Automation (LA)

Life Automation generated sales of JPY22.3bn (-3.3% YoY) and operating profit of JPY960mn (-17.2% YoY). Within the segment, sales were stable in lifeline-related products (nearly 70% of segment sales; includes gas and water meters) and residential central air-conditioning systems-related products (about 5% of segment sales), but sales were down in the life science engineering (LSE) business (nearly 30% of segment sales) after a decline in orders in FY03/19. This appears to be because of the off-season for delivery of equipment for pharmaceutical companies.

1H earnings fell short of initial company targets (sales of JPY23.0bn and operating profit of JPY1.2bn). Although lifeline-related products are a relatively stable business, there was a negative impact in 1H FY03/20 of fewer contracts up for bid for meters with separate display and measurement components. Azbil says there are no large changes in the competitive environment. If the number of contracts up for bid returns to normal, its own position should recover, so there is no significant cause for concern.

Life Automation's 1H orders amounted to JPY24.2bn (+20.0% YoY). Orders for lifeline-related and residential central air-conditioning systems-related products remained relatively stable, but there was significant growth in orders in the LSE field.

Q1 FY03/20 results (out August 2, 2019)

Results summary

- Q1 FY03/20 results: Azbil reported sales of JPY54.4bn (-0.8% YoY), operating profit of JPY2.3bn (+29.0% YoY), and net income attributable to owners of the parent of JPY1.5bn (-3.6% YoY). Orders came to JPY81.4bn (+1.5% YoY). The company made no changes to its forecast, and Q1 progress versus the full-year forecast put sales at 20.7% (20.9% in Q1 FY03/19 versus full-year results), operating profit at 8.6% (6.7%), and net income attributable to owners of the parent at 7.9% (8.0%). Azbil says this progress was essentially in line with plan.
- Building Automation: Orders were JPY47.6bn (+5.6% YoY), sales JPY22.5bn (+2.9% YoY), and operating loss JPY262mn (operating loss of JPY920mn in Q1 FY03/19). With a favorable environment for urban redevelopment projects in the Tokyo region, there has been an increase in orders for large building construction projects. The profitability of orders appears to be improving. Sales from large building construction have also increased. As usual, Q1 generated an operating loss, but the loss narrowed YoY with the help of higher sales and initiatives to improve profitability.
- Advanced Automation: Orders were JPY22.6bn (-9.3% YoY), sales JPY21.9bn (-2.0% YoY), and operating profit JPY2.3bn (+1.2% YoY). Orders were down on deterioration in the market for semiconductor manufacturing equipment. The development of new customers and promotion of strategic products supported sales to an extent, but sales were still down YoY with the negative impact of the semiconductor manufacturing equipment market. Nevertheless, the segment achieved an operating profit with streamlined operations for the three business units (Control Products, Industrial Automation Products, and Solutions & Services) and the continued success of a range of measures to enhance profitability. Demand for automation to respond to the labor shortage and environmental factors and to improve productivity remains strong.

- Life Automation: Orders were JPY11.6bn (+8.9% YoY), sales JPY10.3bn (-5.4% YoY), and operating profit JPY231mn (-42.7% YoY). Orders related to gas and water utilities remained stable and orders in the life science engineering (LSE) business increased. The declines in sales and operating profit resulted from a decline in orders in the LSE business in FY03/19. Azbil is continuing restructuring and other efforts to achieve stable or even improved earnings in regard to lifestyle-related business such as LSE and residential central air-conditioning systems.
- Progress on treasury stock purchase: On May 10, 2019, the company announced a plan to purchase treasury stock (maximum of 3.8mn shares for a maximum of JPY10.0bn, from May 13 to October 31, 2019). During Q1 (April–June), it purchased 1.8mn shares for JPY4.7bn.

Business names: Building Automation (BA), Advanced Automation (AA), and Life Automation (LA)

Building Automation (BA)

In an average year, Building Automation generates comparatively little in sales in Q1 (April–June) and its contribution to annual earnings is small. This also held true in Q1 FY03/20, when sales reached just 18.0% of the full-year target, but this was in line with plan. Sales were JPY22.5bn (+2.9% YoY) and there was an operating loss of JPY262mn (operating loss of JPY920mn in Q1 FY03/19). The increase in sales focused on new buildings in Japan, so the contribution toward increasing profit was small, but the operating loss shrank YoY by JPY658mn. Supply and demand seem to be remaining tight, but Azbil is working to enhance its performance capacity and efficiency at construction sites. Shared Research thinks that the company is improving its profitability even in regard to new buildings.

Orders increased to JPY47.6bn (+5.6% YoY), with orders related to large new buildings in Japan contributing. The number of inquiries regarding urban development projects to be completed in 2022 and 2023 in the Tokyo region appears to be increasing, and the risk of any rapid decline in new construction after the 2020 Olympics is diminishing. Azbil expects demand for repairs to buildings built around 1990 and in the early 2000s to begin increasing from about 2020, but there does not seem to be any significant progress on that front so far. As construction costs in general are rising, building owners may be delaying repair work.

Advanced Automation (AA)

Advanced Automation generated sales of JPY21.9bn (-2.0% YoY) in Q1. Sales were down on deterioration in the market for semiconductor manufacturing equipment. Nevertheless, Azbil’s reliance on the semiconductor industry is not very large, and demand for automation in other industries to respond to the labor shortage and environmental factors and to improve productivity remains strong. In addition, the company worked to develop new customers and promote strategic products, so the decline in sales was minor. Operating profit was JPY2.3bn (+1.2% YoY). Although a drop in marginal profit accompanied the decline in sales, lower CoGS at domestic and overseas factories and the effects of various measures to improve profitability more than compensated, pushing operating profit up YoY. It seems that subdividing the segment into three smaller management units—Control Products, Industrial Automation Products, and Solutions & Services—has proven to be a successful move.

Orders were JPY22.6bn (-9.3% YoY). With a drop in demand related to semiconductor manufacturing equipment, orders in the Control Products business declined, but the company secured orders on par with Q1 FY03/19 in the Industrial Automation Products and Solutions & Services businesses, which mainly target processing and assembly industries. Orders related to semiconductor manufacturing equipment were flat QoQ and seem to be bottoming out for now. The company’s orders show no sign of recovering so far.

Life Automation (LA)

Life Automation generated sales of JPY10.3bn (-5.4% YoY) and operating profit of JPY231mn (-42.7% YoY) in Q1. Sales of gas and water meters remained stable, but there were few projects booked as sales in the life science engineering (LSE) business. Nevertheless, orders increased to JPY11.6bn (+8.9% YoY), driven by orders in the LSE business. Although sales and profit were both down YoY in Q1, the order backlog has been trending upward since Q4 FY03/19, so there does not seem to be any great need for concern.

FY03/19 results (out May 10, 2019)

Results summary

- Full-year results: Azbil reported sales of JPY262.1bn (+0.6% YoY), operating profit of JPY26.7bn (+11.1% YoY), and net income attributable to owners of the parent of JPY19.0bn (+5.9% YoY). Orders came to JPY264.3bn (-0.8% YoY). The company has already exceeded its medium-term management plan (FY03/18–FY03/20) operating profit target (JPY25.0bn) a year early.
  - Building Automation: Orders were JPY123.8bn (+5.1% YoY), sales JPY119.5bn (-0.6% YoY), and operating profit JPY12.4bn (-1.3% YoY). The company considered profitability in actively capturing orders, and urban redevelopment projects in the Tokyo region and demand for solutions related to saving energy and reducing operational costs remained strong. Operating profit was down on the impact of temporary provision expenses in 1H, but the company says its profitability has actually improved with improved efficiency, chiefly at construction sites.
  - Advanced Automation: Orders were JPY98.3bn (-3.3% YoY), sales JPY99.4bn (+2.2% YoY), and operating profit JPY12.2bn (+23.0% YoY). Orders were down on the absence of large energy-related projects seen in FY03/18 and deterioration in the market for semiconductor manufacturing equipment, but there was strong demand for automation related to streamlining and labor saving. Operating profit grew significantly on initiatives to strengthen profitability that led to improved employee productivity and expanded overseas procurement.
  - Life Automation: Orders were JPY43.9bn (-8.6% YoY), sales JPY44.8bn (+1.4% YoY), and operating profit JPY2.1bn (+37.2% YoY). Although orders related to gas and water utilities and residential central air-conditioning systems increased, orders were down on the absence of large pharmaceutical and research orders. Operating profit grew significantly on higher sales and improved profitability achieved through business structure reform.
  - Extraordinary gain/loss: There was an extraordinary gain of JPY2.2bn, including gain on sales of investment securities (JPY2.2bn) and extraordinary loss of JPY3.5bn, including loss on abolishment of retirement benefit plan (JPY3.2bn).
  - Q4 (three months): In January–March 2019, orders were up 4.8% YoY, sales down 0.8% YoY, and operating profit up 12.0% YoY. Orders were down 5.5% YoY in Advanced Automation, but up 14.5% YoY in Building Automation and up 11.6% YoY in Life Automation. Operating profit was up in all segments, with Building Automation up 14.2% YoY, Advanced Automation up 8.2% YoY, and Life Automation up 7.3% YoY.
- Treasury stock purchase: When it announced its earnings results, the company also announced a plan to purchase treasury stock, a maximum of 3.8mn shares (2.6% of issued shares) for a maximum of JPY10.0bn. It also announced that it would cancel 3.3mn of the treasury shares it already owned (2.2% of issued shares).
- FY03/20 forecast: the company forecasts sales of JPY262.0bn (slight YoY drop), operating profit of JPY26.5bn (-0.7% YoY), and net income attributable to owners of the parent of JPY18.5bn (-2.4% YoY). The EPS forecast is JPY129.18. The company also forecasts an annual dividend of JPY50/share (estimated payout ratio of 38.7%) in FY03/20, up JPY4 YoY. Together with the planned treasury stock purchase, it is enhancing shareholder returns.
  - Building Automation: Sales of JPY125.0bn (+4.6% YoY) and operating profit of JPY13.7bn (+10.3% YoY). The business environment is favorable with new construction related to urban redevelopment and the 2020 Olympics and Paralympics. The company also expects growing demand for repairs to large buildings built around 1990 in the early 2000s and expansion in overseas business.

- Advanced Automation: Sales of JPY94.0bn (-5.4% YoY) and operating profit of JPY10.6bn (-13.2% YoY). There is strong demand for automation both inside and outside of Japan, and automation-related solutions are relatively profitable, but the forecast reflects deterioration of some markets, such as the market for semiconductor manufacturing equipment.
- Life Automation: Sales of JPY45.0bn (+0.4% YoY) and operating profit of JPY2.2bn (+6.8% YoY). The company plans to develop new demand while maintaining a relatively stable base of replacement demand dictated by statute.

Business names: Building Automation (BA), Advanced Automation (AA), and Life Automation (LA)

FY03/19 results

Full-year results: Azbil reported sales of JPY262.1bn (+0.6% YoY), operating profit of JPY26.7bn (+11.1% YoY), and net income attributable to owners of the parent of JPY19.0bn (+5.9% YoY). In the medium-term plan (FY03/18-FY03/20), the company set targets of JPY25.0bn in operating profit, JPY270.0bn in sales, and 9% or higher ROE. The company was able to achieve the targets for operating profit and ROE a year ahead of schedule.

The company announced its plan for returning surplus to shareholders at the same time as the results announcement. The company announced FY03/19 annual dividends of JPY46 (JPY5 real YoY increase; 34.8% payout ratio), an annual dividend forecast of JPY50 (+JPY4 YoY, forecasted payout ratio of 38.7%) in FY03/20, a new series of stock buybacks (capped at JPY10bn/3.8mn shares [2.6% of issued shares]), and a retirement of 3.3mn shares of treasury stock (2.2% of issued shares). The stock market is likely looking favorably at the company policy of not holding too much cash even amongst strong results and not holding too many shares of treasury stock.

Q4 (three months): In January–March 2019, sales were down 0.8% YoY, and operating profit up 12.0% YoY. While sales in the Advanced Automation and Life Automation segments were down YoY, the larger Building Automation segment secured higher profit. Each segment was able to secure higher YoY operating profit.

Building Automation (BA)

Building Automation: Orders were JPY123.8bn (+5.1% YoY), sales JPY119.5bn (-0.6% YoY), and operating profit JPY12.4bn (-1.3% YoY). The company focused on profitability while actively capturing orders amid robust urban redevelopment projects in the Tokyo region and strong demand for solutions related to saving energy and reducing operational costs. Domestic orders grew significantly while overseas orders also grew. While sales did not reach forecast (JPY122bn), this was likely due to the impact of revised construction periods in the overall construction market, not specific issues related to the company. Operating profit was down on the impact of temporary provision expenses in 1H, but the company says its profitability has actually improved with improved efficiency, chiefly at construction sites. In Q3 (October-December), operating profit margin was 12.2%, a 0.2pp YoY improvement. In Q4 (January-March), operating profit margin was 19.0%, a 1.9pp YoY improvement.

Advanced Automation (AA)

Advanced Automation: Orders were JPY98.3bn (-3.3% YoY), sales JPY99.4bn (+2.2% YoY), and operating profit JPY12.2bn (+23.0% YoY). Orders were down on the absence of large energy-related projects seen in FY03/18 and deterioration in the market for semiconductor manufacturing equipment. On the other hand, there was strong demand for automation related to streamlining and labor saving. In Q4, orders were down 5.5% YoY and sales were down 2.6% YoY. However, operating profit was up 8.2% YoY. The company introduced a new management structure, subdividing the segment into smaller management units based on the type of business (i.e. Control Products (CP) business, the Industrial Automation Products (IAP) business, and the Solutions & Services (SS) business). It explained that profit margin improved thanks to changes in the management structure, which led to improved profitability at the ordering level (avoiding low profitability orders) and improvement in the procurement system (procuring overseas). The drop in orders is a concern, but the overall structure of the segment appears to be improving steadily.

Life Automation (LA)

Life Automation: Orders were JPY43.9bn (-8.6% YoY), sales JPY44.8bn (+1.4% YoY), and operating profit JPY2.1bn (+37.2% YoY). Although orders related to gas and water utilities and residential central air-conditioning systems increased, orders were down on the absence of large pharmaceutical and research center projects. Results were affected by lower orders between Q1 and Q3. In Q4, orders in the life science engineering (LSE) business contributed to a 11.6% YoY increase in orders. In FY03/19, sales rose only slightly in the Life Automation segment. However, operating profit grew significantly due to the effects of structural reforms, suggesting that the segment is steadily building a business structure, which allows stable profit generation.

Income statement

Income statement (JPYmn)	FY03/12 Cons.	FY03/13 Cons.	FY03/14 Cons.	FY03/15 Cons.	FY03/16 Cons.	FY03/17 Cons.	FY03/18 Cons.	FY03/19 Cons.	FY03/20 Cons.
Sales	**223,499**	**227,584**	**248,416**	**254,469**	**256,889**	**254,810**	**260,384**	**262,054**	**259,411**
YoY	2.0%	1.8%	9.2%	2.4%	1.0%	-0.8%	2.2%	0.6%	-1.0%
Cost of sales	142,659	149,713	161,867	164,586	165,801	163,319	162,903	159,716	155,769
Gross profit	**80,840**	**77,871**	**86,549**	**89,883**	**91,088**	**91,491**	**97,480**	**102,338**	**103,642**
YoY	1.4%	-3.7%	11.1%	3.9%	1.3%	0.4%	6.5%	5.0%	1.3%
Gross profit margin	36.2%	34.2%	34.8%	35.3%	35.5%	35.9%	37.4%	39.1%	40.0%
SG&A expenses	66,492	64,461	72,646	74,546	73,953	71,346	73,454	75,648	76,386
YoY	2.6%	-3.1%	12.7%	2.6%	-0.8%	-3.5%	3.0%	3.0%	1.0%
SG&A ratio	29.8%	28.3%	29.2%	29.3%	28.8%	28.0%	28.2%	28.9%	29.4%
Operating profit	**14,348**	**13,410**	**13,903**	**15,337**	**17,135**	**20,145**	**24,026**	**26,690**	**27,255**
YoY	-3.7%	-6.5%	3.7%	10.3%	11.7%	17.6%	19.3%	11.1%	2.1%
Operating profit margin	6.4%	5.9%	5.6%	6.0%	6.7%	7.9%	9.2%	10.2%	10.5%
Non-operating income	804	1,723	1,314	2,673	1,168	888	939	1,285	1,109
Non-operating expenses	556	564	618	869	1,677	557	650	310	652
Recurring profit	**14,596**	**14,569**	**14,599**	**17,141**	**16,627**	**20,475**	**24,316**	**27,664**	**27,712**
YoY	-2.0%	-0.2%	0.2%	17.4%	-3.0%	23.1%	18.8%	13.8%	0.2%
Recurring profit margin	6.5%	6.4%	5.9%	6.7%	6.5%	8.0%	9.3%	10.6%	10.7%
Extraordinary gains	771	636	559	2,036	376	110	662	2,235	802
Extraordinary losses	560	1,113	609	7,565	3,851	1,957	796	3,457	380
Tax charges	5,983	5,557	6,900	4,193	4,595	5,231	6,038	7,226	7,932
Implied tax rate	40.4%	39.4%	47.4%	36.1%	34.9%	28.1%	25.0%	27.3%	28.2%
Net income attrib. to non-controlling interests	305	225	-21	250	288	243	252	264	409
Net income	**8,518**	**8,308**	**7,669**	**7,168**	**8,268**	**13,153**	**17,890**	**18,951**	**19,793**
YoY	7.4%	-2.5%	-7.7%	-6.5%	15.3%	59.1%	36.0%	5.9%	4.4%
Net margin	3.8%	3.7%	3.1%	2.8%	3.2%	5.2%	6.9%	7.2%	7.6%

Source: Shared Research based on company data
Note: Figures may differ from company materials due to differences in rounding methods.

Balance sheet

Balance sheet (JPYmn)	FY03/12 Cons.	FY03/13 Cons.	FY03/14 Cons.	FY03/15 Cons.	FY03/16 Cons.	FY03/17 Cons.	FY03/18 Cons.	FY03/19 Cons.	FY03/20 Cons.
ASSETS									
Cash and deposits	45,061	48,411	52,402	58,837	48,211	53,940	46,128	46,457	57,750
Accounts receivable	85,546	88,874	88,227	88,960	91,772	88,500	91,420	93,748	85,245
Marketable securities	12,400	13,251	14,937	13,605	21,505	25,607	36,406	36,405	32,200
Inventories	16,134	16,502	18,193	21,682	24,152	22,183	23,834	24,913	25,338
Other current assets	8,914	9,505	10,706	10,087	10,460	9,032	9,520	8,760	9,031
Allowance for doubtful accounts	-295	-362	-494	-565	-621	-907	-596	-379	-375
Total current assets	**172,986**	**181,714**	**189,377**	**197,995**	**200,826**	**204,113**	**212,405**	**209,907**	**209,190**
Total tangible fixed assets	**24,146**	**24,677**	**24,501**	**25,698**	**24,371**	**23,223**	**25,479**	**26,965**	**28,217**
Software	721	740	787	789	4,291	3,847	4,411	4,529	4,165
Goodwill	2,604	9,662	8,083	5,601	158	73	-	-	-
Other	935	2,078	3,934	4,989	1,094	1,327	724	617	1,069
Total intangible fixed assets	**4,405**	**12,625**	**12,950**	**11,524**	**5,687**	**5,392**	**5,279**	**5,147**	**5,234**
Investment securities	12,872	15,304	16,841	22,551	19,482	22,163	26,746	21,580	19,978
Long-term loans receivable	247	288	125	93	65	38	102	68	20
Deferred tax assets	1,638	1,801	2,101	874	1,535	1,190	1,379	4,278	4,286
Other	7,625	7,377	7,841	7,296	7,426	7,431	7,535	7,748	7,730
Investments and other assets	**21,937**	**24,401**	**26,618**	**30,499**	**28,242**	**30,587**	**35,465**	**33,497**	**31,915**
Total fixed assets	**50,489**	**61,704**	**64,070**	**67,722**	**58,301**	**59,203**	**66,223**	**65,610**	**65,368**
Total assets	**223,476**	**243,418**	**253,448**	**265,718**	**259,127**	**263,317**	**278,629**	**275,518**	**274,559**
LIABILITIES									
Accounts payable	37,185	40,548	41,456	42,687	45,587	40,456	41,498	40,101	38,482
Short-term debt	5,543	13,308	15,380	15,776	11,990	10,669	10,171	9,866	8,225
Other	10,327	11,209	11,732	14,810	13,297	13,561	13,917	13,292	13,926
Total current liabilities	**69,290**	**82,828**	**87,356**	**89,694**	**88,944**	**84,066**	**87,529**	**86,972**	**82,676**
Long-term debt	4,686	4,441	2,214	856	605	505	514	161	350
Other	968	1,089	1,083	1,847	2,975	2,190	1,275	2,022	2,408
Total long term liabilities	**19,109**	**19,393**	**21,112**	**15,729**	**13,217**	**13,499**	**13,136**	**5,448**	**6,581**
Total liabilities	**88,399**	**102,221**	**108,469**	**105,424**	**102,161**	**97,565**	**100,666**	**92,421**	**89,257**
Shareholders' equity	132,615	136,217	139,349	146,645	146,682	154,669	162,955	170,566	173,508
Capital stock	10,522	10,522	10,522	10,522	10,522	10,522	10,522	10,522	10,522
Capital surplus	17,197	17,197	17,197	17,197	12,333	12,333	11,670	11,670	11,670
Retained earnings	107,538	111,141	114,275	121,573	128,476	136,465	147,728	160,325	165,055
Treasury stock	-2,643	-2,644	-2,646	-2,648	-4,650	-4,652	-6,966	-11,952	-13,740
Other	948	2,824	3,966	11,628	8,323	9,152	13,040	10,576	9,680
Non-controlling interests	1,509	2,152	1,660	2,020	1,960	1,929	1,967	1,954	2,112
Total net assets	**135,076**	**141,197**	**144,978**	**160,294**	**156,966**	**165,751**	**177,962**	**183,097**	**185,301**
Working capital	64,495	64,828	64,964	67,955	70,337	70,227	73,756	78,560	72,101
Total interest-bearing debt	10,229	17,919	17,684	16,672	12,605	11,174	10,685	10,027	8,575
Net debt	-47,232	-43,743	-49,655	-55,770	-57,111	-68,373	-71,849	-72,835	-81,375

Source: Shared Research based on company data
Note: Figures may differ from company materials due to differences in rounding methods.

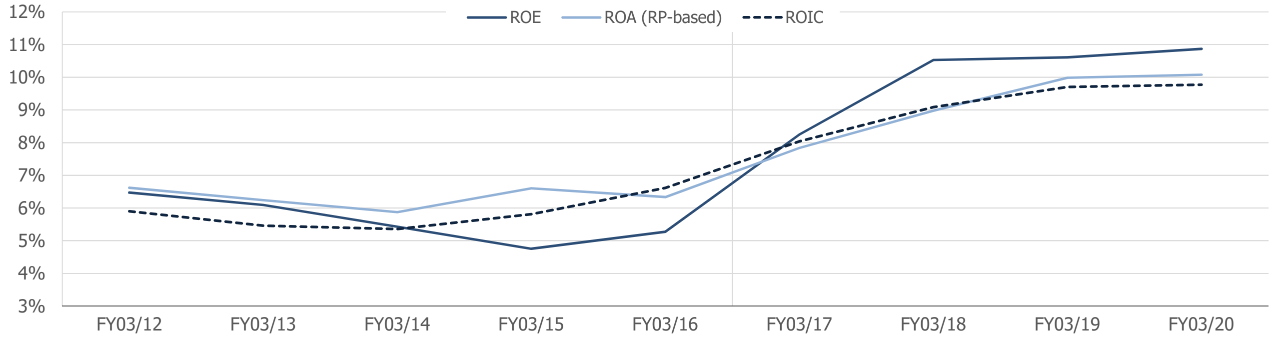
Cash flow statement

Cash flow statement (JPYmn)	FY03/12 Cons.	FY03/13 Cons.	FY03/14 Cons.	FY03/15 Cons.	FY03/16 Cons.	FY03/17 Cons.	FY03/18 Cons.	FY03/19 Cons.	FY03/20 Cons.
Cash flows from operating activities (1)	5,633	15,010	15,835	13,698	11,072	19,949	19,481	16,112	29,811
Pre-tax profit	14,807	14,092	14,549	11,612	13,152	18,629	24,181	26,442	28,134
Depreciation	4,026	3,620	3,722	3,784	4,147	4,075	4,111	4,166	4,461
Impairment losses	177	94	35	2,669	3,395	569	342	86	22
Amortization of goodwill	1,274	1,359	1,871	1,850	684	76	71	-	-
Change in working capital	-8,655	3,538	1,444	-2,872	-3,191	-1,194	-3,486	-5,416	6,566
Income taxes	-6,302	-5,413	-5,946	-6,851	-4,559	-4,507	-5,672	-7,324	-8,664
Other	306	-2,280	160	3,506	-2,556	2,301	-66	-1,842	-708
Cash flows from investing activities (2)	-3,549	-12,716	-10,669	-13,472	4,261	-9,060	-48	-4,075	-4,172
Acquisition of tangible/intangible fixed assets	-2,716	-3,294	-4,741	-6,053	-3,321	-3,661	-6,824	-6,645	-4,688
Proceeds from sale of tangible/intangible fixed assets	150	918	271	578	125	209	78	83	62
Acquisition of shares in subsidiaries	-	-7,574	-	-	-	-	-	-	-
Payments for business transfer	235	-	-	-	-	-	-	-	-
Other	-1,218	-2,766	-6,199	-7,997	7,457	-5,608	6,698	2,487	454
FCF (1+2)	2,084	2,294	5,166	226	15,333	10,889	19,433	12,037	25,639
Cash flows from financing activities	-6,393	-2,486	-6,939	-6,065	-10,536	-6,441	-10,851	-12,024	-18,767
Net change in short-term borrowings	14	3,896	789	587	-1,639	-730	-841	-294	-1,178
Net change in long-term borrowings	-1,529	-1,442	-2,334	-1,684	-1,665	-200	-44	-42	-141
Issuance and redemption of bonds	-60	-45	-80	-50	-30	-10	-	-	-
Acquisition of treasury stock	-	-1	-2	-2	-2,002	-1	-6,972	-5,002	-9,923
Dividends paid	-4,647	-4,649	-4,651	-4,650	-4,778	-5,160	-5,943	-6,353	-6,887
Other	-171	-245	-661	-266	-422	-340	2,949	-333	-638
Other	-179	837	1,532	1,431	-771	-557	221	-518	-262
Change in cash and cash equivalents	-4,487	664	-241	-4,407	4,026	3,889	8,802	-505	6,609
Cash and cash equivalents (year-end)	55,355	56,050	55,844	51,920	55,947	59,837	68,640	68,134	74,743
Depreciation and amortization (A)	4,026	3,620	3,722	3,784	4,147	4,075	4,111	4,166	4,461
Capital expenditures (B)	-2,566	-2,376	-4,470	-5,475	-3,196	-3,452	-6,746	-6,562	-4,626
Change in working capital (C)	-8,655	3,538	1,444	-2,872	-3,191	-1,194	-3,486	-5,416	6,566
Simple FCF (NI+A+B-C)	24,922	11,798	12,357	12,793	17,294	20,446	25,032	29,462	21,403

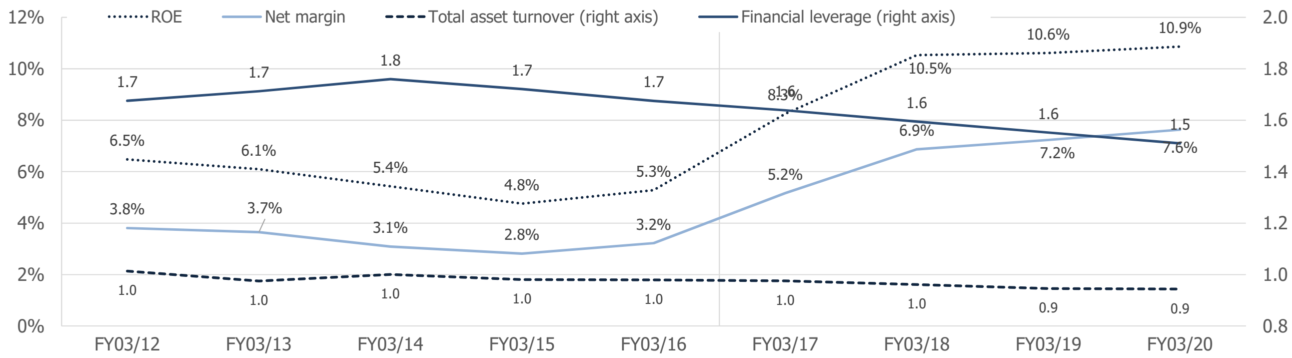
Source: Shared Research based on company data
Note: Figures may differ from company materials due to differences in rounding methods.

ROE, ROA, ROIC

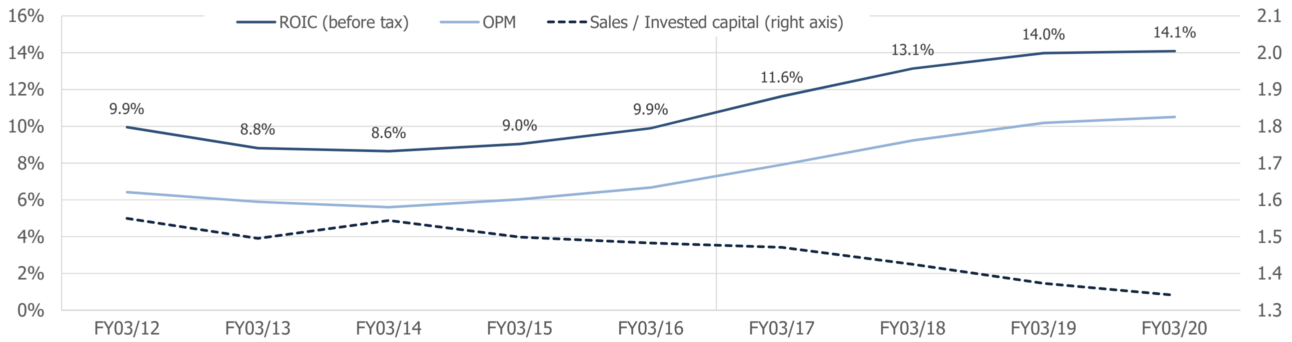
(JPYmn)	FY03/12 Cons.	FY03/13 Cons.	FY03/14 Cons.	FY03/15 Cons.	FY03/16 Cons.	FY03/17 Cons.	FY03/18 Cons.	FY03/19 Cons.	FY03/20 Cons.
ROE	**6.5%**	**6.1%**	**5.4%**	**4.8%**	**5.3%**	**8.3%**	**10.5%**	**10.6%**	**10.9%**
Net margin	3.8%	3.7%	3.1%	2.8%	3.2%	5.2%	6.9%	7.2%	7.6%
Total asset turnover	1.01	0.97	1.00	0.98	0.98	0.98	0.96	0.95	0.94
Financial leverage (equity multiplier)	1.68	1.71	1.76	1.72	1.68	1.64	1.59	1.55	1.51
ROA (RP-based)	**6.6%**	**6.2%**	**5.9%**	**6.6%**	**6.3%**	**7.8%**	**9.0%**	**10.0%**	**10.1%**
ROIC	**5.9%**	**5.5%**	**5.4%**	**5.8%**	**6.6%**	**8.0%**	**9.1%**	**9.7%**	**9.8%**
NOPAT	8,510	8,313	8,618	9,871	11,470	13,928	16,612	18,518	18,910
Net assets + Interest-bearing debt	144,256	152,211	160,889	169,814	173,269	173,248	182,786	190,886	193,500
ROIC (before tax)	9.9%	8.8%	8.6%	9.0%	9.9%	11.6%	13.1%	14.0%	14.1%
OPM	6.4%	5.9%	5.6%	6.0%	6.7%	7.9%	9.2%	10.2%	10.5%
Sales / Invested capital	1.55	1.50	1.54	1.50	1.48	1.47	1.42	1.37	1.34

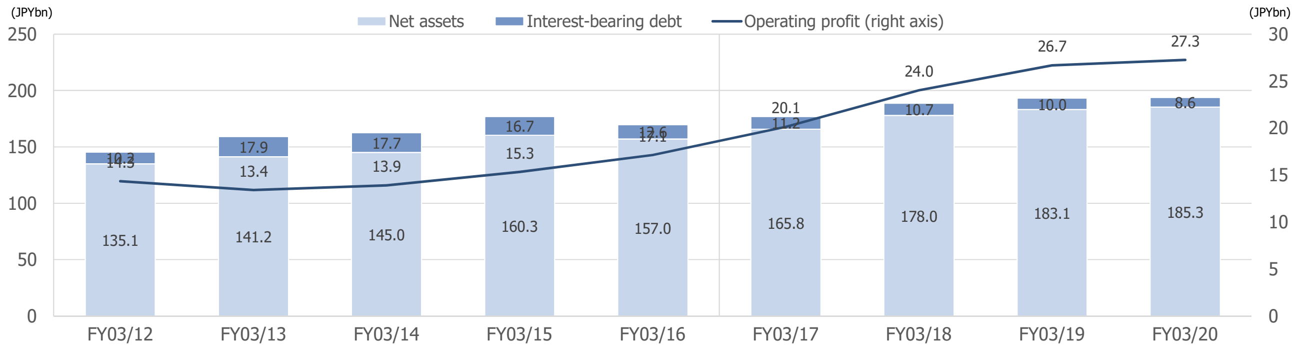


ROE



ROIC





Source: Shared Research based on company data

News and topics

On **February 28, 2020**, the company announced the change of its President and Representative Director.

Kiyohiro Yamamoto will be appointed President on June 24, 2020. Current President Hirozumi Sone will be appointed Chairman of the Board. The reason for the change is to drive new business growth by capturing major changes in the business environment and trends in technological innovation. Under new management, the company aims to further improve its enterprise value by expanding globally and accelerating strategic initiatives in three business domains (new automation, environment and energy, and lifecycle businesses), as well as promoting sustainable development goals consistent with the Group's philosophy.

Current President Hirozumi Sone will be appointed President and Chairman of the Board on April 1, 2020, and Chairman of the Board on June 24, 2020. Current Managing Executive Officer Kiyohiro Yamamoto will be appointed Executive Director and Vice President on April 1, 2020, and President following the general meeting of shareholders on June 24, 2020. From June 24, Sone will be responsible for strengthening the Group's governance and chairing the board, and Yamamoto will be the Group's CEO.

Kiyohiro Yamamoto joined the company in 1989. He was responsible for creating and deploying new solutions with advanced technologies, engineering, sales, and business planning in the Building Automation business. Additionally, he has a track record as a global business manager. Furthermore, he has been involved in management since establishing a joint venture that promoted energy management, cultivating an important business area for the company. From 2014 to 2017, he created the current medium-term management plan as General Manager of the Corporate Planning Department. Since April 2018, he has been a part of the management team as Managing Executive Officer. Currently, Yamamoto is in charge of business planning and product development for the Building Automation business. He is also responsible for the Group's marketing, formulating and executing marketing strategies for the entire Azbil Group.

Other information

History

Takehiko Yamaguchi founded Yamatake Shokai, the forerunner of the current company, in 1906. The firm was initially involved in the import and sale of machine tools. Subsequently, the company expanded its scope of business and entered an equity alliance with Honeywell, the top manufacturer of automatic control products and systems in the US. Yamatake-Honeywell grew with the development of Japanese industry. From 1990, Honeywell's stake in Yamatake-Honeywell (presently Azbil Corporation) was reduced, and in 1998, it became Yamatake Corporation. In 2006, the year of its centenary, it established a new corporate philosophy and formed the term "azbil" from the words "automation," "zone," and "builder." In 2008, it changed its group name to azbil Group, and in 2012, its trade name to "Azbil Co., Ltd." Azbil is involved in automation in a number of fields, from measurement and control systems and products in factories and plants to residential and nursing support.

1906	Takehiko Yamaguchi founds Yamatake Shokai Co., Ltd. and begins import and sales of machine tools and other instruments from US and EU
1952	Technical license agreement with Honeywell Inc.
1953	Yamatake (presently Azbil Corporation) forms equity-based alliance with Honeywell (presently Honeywell International Inc.) of the US (Honeywell has 50% stake)
1961	Lists on Tokyo Stock Exchange Second Section
1966	Name change to Yamatake-Honeywell Co., Ltd.
1969	Lists on Tokyo Stock Exchange First Section
1974	Yamatake establishes and invests in Taishin Co., Ltd. (presently Azbil Taishin Co., Ltd.)
1978	Establishes corporate philosophy of "savemation" (a combination of "save" and "automation")
1990	Honeywell's stake reduced from 50% to 24.15%; and strategic alliance agreement signed
1998	Yamatake Friendly Co., Ltd. (presently Azbil Friendly Co., Ltd.) established Equity alliance with Honeywell reorganized. Three Yamatake group (currently azbil Group) companies merged and reorganized. Yamatake-Honeywell changes name to Yamatake Corporation (currently Azbil Corporation). Yamatake Keiso renamed Yamatake Building Systems Co., Ltd. and Yamatake Engineering renamed Yamatake Industrial Systems Co., Ltd.
2002	Yamatake repurchases shares from Honeywell, formally ending equity relationship
2003	Group companies are merged into a single entity, moving to an internal company (profit center) system
2005	Kimmon Manufacturing Co., Ltd. (presently Azbil Kimmon Co., Ltd.) becomes a group company.
2006	New group philosophy symbolized by "azbil" introduced on occasion of centenary
2008	The group name changes to "azbil Group"
2009	Overseas subsidiaries' names changed to start with "Azbil"
2012	Name changes to Azbil Corporation TACO Co., Ltd. (presently Azbil TA Co., Ltd.) becomes a group company VorTek Instruments, LLC (US, presently Azbil VorTek, LLC) becomes a group company
2013	Telstar, S.A., (Spain) becomes a group company Azbil Trading Co., Ltd. and Azbil Royal Controls Co., Ltd. merge to become Azbil Trading Co., Ltd.
2014	Azbil North America Research and Development, Inc. established in California.
2015	Azbil Care & Support sold to Sohgo Security Services Co., Ltd.
2016	Azbil Yamatake General Foundation established

Major shareholders

Top shareholders (as of end March 2020)	Shares held ('000)	Shareholding ratio
Meiji Yasuda Life Insurance Company	10,428	7.4%
The Master Trust Bank of Japan, Ltd. (Trust account)	10,320	7.3%
SSBTC CLIENT OMNIBUS ACCOUNT	6,943	4.9%
Japan Trustee Services Bank, Ltd. (Trust account)	6,307	4.5%
Northern Trust Company AVFC Re Fidelity Funds	5,213	3.7%
Trust & Custody Services Bank, Ltd. (Trustee for Mizuho Trust & Banking Co., Ltd. Retirement benefit trust account)	4,631	3.3%
Chase Nominees Re Jasdeq Treaty Client Account General	4,243	3.0%
Nippon Life Insurance Company	3,739	2.6%
State Street Bank & Trust Company 505025	3,496	2.5%
Japan Trustee Services Bank, Ltd. (Trust account 9)	3,459	2.4%

Source: Shared Research based on company data
Note: Percentage of shares is based on shares outstanding (excl. treasury stock).

Shareholder returns

Azbil conducts shareholder turns centered on dividends but flexibly including treasury stock purchases, with careful consideration given to consolidated results, dividend on equity ratio, ROE, and other indicators, along with the need for retained earnings to develop businesses and maintain a sound financial base. The company is working to improve the level of dividends and aims to maintain stable dividends.

In FY03/20, the annual dividend rose to JPY50 per share, and the dividend payout ratio was 35.5%. The company forecasts an annual dividend of JPY50 per share in FY03/21.

When Azbil announced its FY03/19 earnings results, it also announced a new share buyback program. During FY03/20, it purchased 3,718 thousand treasury shares for JPY9.9bn. In addition, it cancelled 3.3mn shares of treasury stock already held (2.2% of shares outstanding). Even when its performance is favorable, the company tries not to hold onto excessive cash or maintain an excessive amount of treasury stock on its books.

Dividend per share

(JPYmn)		FY03/12 Cons.	FY03/13 Cons.	FY03/14 Cons.	FY03/15 Cons.	FY03/16 Cons.	FY03/17 Cons.	FY03/18 Cons.	FY03/19 Cons.	FY03/20 Cons.
Total dividends	a)	4,652	4,652	4,652	4,652	4,907	5,640	6,029	6,679	7,084
Total treasury stock acquired	b)	0	1	2	2	2,002	1	6,972	5,002	9,923
Total returns to shareholders	c) = a) + b)	4,652	4,653	4,654	4,654	6,909	5,641	13,001	11,681	17,007
Net income attributable to parent company shareholders	d)	8,518	8,308	7,669	7,168	8,268	13,153	17,890	18,951	19,793
Dividend payout ratio		54.6%	56.0%	60.7%	64.9%	59.4%	42.9%	33.3%	34.8%	35.5%
Total shareholder return ratio	c) / d)	54.6%	56.0%	60.7%	64.9%	83.6%	42.9%	72.7%	61.6%	85.9%
Net assets available to common shareholders (year end)		133,564	139,041	143,316	158,273	155,005	163,822	175,995	181,142	183,189
Avg. of beginning and end of year	f)	131,584	136,303	141,179	150,795	156,639	159,414	169,909	178,569	182,166
EPS	(JPY)	57.7	56.3	51.9	48.5	56.4	89.8	123.1	132.0	140.8
DPS	(JPY)	31.5	31.5	31.5	31.5	33.5	38.5	41.0	46.0	50.0
DOE	a) / f)	3.5%	3.4%	3.3%	3.1%	3.1%	3.5%	3.5%	3.7%	3.9%

Source: Shared Research based on company data
Note: The company conducted a 2-for-1 stock split on October 1, 2018. This table has been retroactively adjusted to account for this split.

Top management and corporate governance

President and Group Chief Executive Officer (Representative Director) Hirozumi Sone (born 1955) joined Azbil in April 1979, after completing a Master's degree in Engineering at the Tokyo Institute of Technology. In 1996, he assumed the office of Systems Marketing Manager of the Systems Development Group, Industrial Systems Division. Later, he became marketing manager of Yamatake Industries Systems Co., Ltd. in 1998 before also becoming an executive director at the same company in 2000. In 2010, he became a director at Yamatake Industries Systems (now "Azbil") before assuming his current position in June 2012. In June 2020, he is expected to assume the roles of chairman and representative director.

After the general meeting of shareholders in June, Kiyohiro Yamamoto, who joined the company in 1989, will be appointed president and group chief executive officer (representative director). Yamamoto was responsible for creating and deploying new solutions with advanced technologies, engineering, sales, and business planning in the Building Automation business. Additionally, he has a track record as a global business manager. Furthermore, he has been involved in management since establishing a joint venture that promoted energy management, cultivating an important business area for the company. From 2014 to 2017, he created the current medium-term management plan as General Manager of the Corporate Planning Department. Since April 2018, he has been a part of the management team as Managing Executive Officer. Currently, Yamamoto is in charge of business planning and product development for the Building Automation business. He is also responsible for the Group's marketing, formulating and executing marketing strategies for the entire Azbil Group.

Enhancing supervising and auditing functions	Nominating, and increasing the number of, outside directors	(2007: 1, 2010: 2, 2014: 3, 2018: 4, 2019: 5)
	Nominating and increasing the number of outside member of Audit & Supervisory Board	(2011: 3)
	Establishing independence standards for outside directors	(2016)
	Started Board of Directors effectiveness assessment	(2016)
	Appointing a non-executive director as Chairman of the Board	(2018)
Enhancing transparency and soundness of management	Nomination and Remuneration Meeting reorganized to Nomination and Remuneration Committee	(2016)
	Outside directors represent more than half of Nomination and Compensation Committee members	(2016)
	Revised directors' compensation system, expanding performance-linked portion, and newly including links to medium-term performance	(2017)
	Eliminated the counselor and advisor positions	(2018)
	Appointed an outside director as chairman of the Nomination and Remuneration Committee	(2018)
Clarification of responsibilities; promoting communication, other	Introduced the executive officer positions	(2000)
	Established corporate governance guidelines	(2016)
	Established director in charge of corporate communication	(2016)
	Established, and reviewed, guidelines regarding cross-shareholding	(2016, 2018)

Company profile

Company Name	Head Office
Azbil Corporation	19F Tokyo Building 2-7-3 Marunouchi, Chiyoda-ku Tokyo, Japan 100-6419
Phone	**Listed On**
+81-3-6810-1000	Tokyo Stock Exchange 1st Section
Established	**Exchange Listing**
August 22, 1949	February 1969
Website	**Financial Year-End**
https://www.azbil.com/index.html	March
IR Contact	**IR Page**
+81(0)3-6810-1031	https://www.azbil.com/ir/index.html
IR Mail	**IR Phone**
azbil-ir@azbil.com	-

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Current Client Coverage of Shared Research Inc.

Accordia Golf Trust
Advance Create Co., Ltd.
ADJUVANT COSME JAPAN CO., LTD.
Aeon Delight Co., Ltd.
Aeon Fantasy Co., Ltd.
Ai Holdings Corporation
AirTrip Corp.
and factory, inc.
ANEST IWATA Corporation
AnGes Inc.
Anicom Holdings, Inc.
Anritsu Corporation
Apaman Co., Ltd.
ARATA CORPORATION
Artspark Holdings Inc.
AS ONE CORPORATION
Ateam Inc.
Aucfan Co., Ltd.
AVANT CORPORATION
Axell Corporation
Azbil Corporation
AZIA CO., LTD.
AZoom, Co., Ltd.
Base Co., Ltd
BEENOS Inc.
Bell-Park Co., Ltd.
Benefit One Inc.
B-lot Co.,Ltd.
Broadleaf Co., Ltd.
CanBas Co., Ltd.
Canon Marketing Japan Inc.
Career Design Center Co., Ltd.
Carna Biosciences, Inc.
CARTA HOLDINGS, INC
CERES INC.
Chiyoda Co., Ltd.
Chori Co., Ltd.
Chugoku Marine Paints, Ltd.
cocokara fine Inc.
COMSYS Holdings Corporation
COTA CO.,LTD.
CRE, Inc.
CREEK & RIVER Co., Ltd.
Daiichi Kigenso Kagaku Kogyo Co., Ltd.
Daiseki Co., Ltd.
Demae-Can CO., LTD
DIC Corporation
Digital Arts Inc.
Digital Garage Inc.
Doshisha Corporation
Dream Incubator Inc.
Earth Corporation
Edion Corporation
Elecom Co., Ltd.
en-Japan Inc.
euglena Co., Ltd.
FaithNetwork Co., Ltd.
Ferrotec Holdings Corporation
FIELDS CORPORATION
Financial Products Group Co., Ltd.
First Brothers Col, Ltd.
FreeBit Co., Ltd.
FRONTEO, Inc.
Fujita Kanko Inc.
Gamecard-Joyco Holdings, Inc.
GameWith, Inc.
GCA Corporation
Good Com Asset Co., Ltd.
Grandy House Corporation
Hakuto Co., Ltd.
Hamee Corp.
Happinet Corporation
Harmonic Drive Systems Inc.
HOUSEDO Co., Ltd.
H2O Retailing Corporation
IDOM Inc.
IGNIS LTD.
i-mobile Co.,Ltd.
Inabata & Co., Ltd.
Infocom Corporation
Infomart Corporation
Intelligent Wave, Inc.
ipet Insurance CO., Ltd.
Itochu Enex Co., Ltd.
JSB Co., Ltd.
JTEC Corporation
J Trust Co., Ltd
Japan Best Rescue System Co., Ltd.
JINS HOLDINGS Inc.
JP-HOLDINGS, INC.
KAMEDA SEIKA CO., LTD.
Kanamic Network Co.,LTD
Kawanishi Holdings, Inc.
KFC Holdings Japan, Ltd.
KI-Star Real Estate Co., Ltd.
Kondotec Inc.
Kumiai Chemical Industry Co., Ltd.
Lasertec Corporation
Locondo, Inc.
LUCKLAND CO., LTD.
MATSUI SECURITIES CO., LTD.
Media Do Holdings Co., Ltd.
Medical System Network Co., Ltd.
MEDINET Co., Ltd.
MedPeer,Inc.
Mercuria Investment Co., Ltd.
Micronics Japan Co., Ltd.
MIRAIT Holdings Corporation
Monex Goup Inc.
MORINAGA MILK INDUSTRY CO., LTD.
Mortgage Service Japan Limited.
NAGASE & CO., LTD
NAIGAI TRANS LINE LTD.
NanoCarrier Co., Ltd.
Net Marketing Co., Ltd.
Net One Systems Co.,Ltd.
Nichi-Iko Pharmaceutical Co., Ltd.
Nihon Denkei Co., Ltd.
Nippon Koei Co., Ltd.
NIPPON PARKING DEVELOPMENT Co., Ltd.
NIPRO CORPORATION
Nisshinbo Holdings Inc.
NS TOOL CO., LTD.
OHIZUMI MFG. CO., LTD.
Oisix ra daichi Inc.
Oki Electric Industry Co., Ltd
ONO SOKKI Co., Ltd.
ONWARD HOLDINGS CO.,LTD.
Pan Pacific International Holdings Corporation
PARIS MIKI HOLDINGS Inc.
PIGEON CORPORATION
QB Net Holdings Co., Ltd.
RACCOON HOLDINGS, Inc.
Raysum Co., Ltd.
RESORTTRUST, INC.
ROUND ONE Corporation
RVH Inc.
RYOHIN KEIKAKU CO., LTD.
SanBio Company Limited
SANIX INCORPORATED
Sanrio Company, Ltd.
SATO HOLDINGS CORPORATION
SBS Holdings, Inc.
Seikagaku Corporation
Seria Co.,Ltd.
SHIFT Inc.
Shikigaku Co., Ltd
SHIP HEALTHCARE HOLDINGS, INC.
SIGMAXYZ Inc.
SMS Co., Ltd.
Snow Peak, Inc.
Solasia Pharma K.K.
SOURCENEXT Corporation
Star Mica Holdings Co., Ltd.
Strike Co., Ltd.
SymBio Pharmaceuticals Limited
Synchro Food Co., Ltd.
TAIYO HOLDINGS CO., LTD.
Takashimaya Company, Limited
Take and Give Needs Co., Ltd.
Takihyo Co., Ltd.
TEAR Corporation
Tenpo Innovation Inc.
3-D Matrix, Ltd.
TKC Corporation
TKP Corporation
Tsuzuki Denki Co., Ltd.
TOCALO Co., Ltd.
TOKAI Holdings Corporation
Tokyu Construction Co., Ltd.
TOYOBO CO., LTD.
Toyo Ink SC Holdings Co., Ltd
Toyo Tanso Co., Ltd.
Tri-Stage Inc.
TSURUHA Holdings
VISION INC.
VISIONARY HOLDINGS CO., LTD.
WirelessGate, Inc.
YELLOW HAT LTD.
YOSHINOYA HOLDINGS CO., LTD.
YUMESHIN HOLDINGS CO., LTD.
Yushiro Chemical Industry Co., Ltd.
ZAPPALLAS, INC.

Attention: If you would like to see companies you invest in on this list, ask them to become our client, or sponsor a report yourself.

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