



Hakuto / 7433

COVERAGE INITIATED ON: 2014.08.18

LAST UPDATE: 2021.03.16

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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.

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Executive summary

Multi-business firm: from electronics trading to chemical manufacturing

Hakuto is a unique mini-conglomerate. It is both an electronics trading company and industrial chemical manufacturer. The origin of the company's electronics trading business is a trading company founded in 1953 to import raw quartz for use in electronic devices. The industrial chemical manufacturing business started in 1960 as a new unit aimed at diversifying the company's operations and enhancing stability. At present, Hakuto is a conglomerate centered on these two main businesses.

Given its manufacturing DNA, Hakuto is a technology-driven company and even its electronics trading business has an engineering division. The trading business provides equipment installation and maintenance services, and employs Field Application Engineers (FAEs) with a high level of technical expertise. Shared Research believes that this focus on technology and synergies between the two seemingly different businesses are sources of Hakuto's strength. While firms operating in the semiconductor space tend to have large fluctuations in earnings performance, the company's earnings are relatively stable. In terms of relative size among semiconductor trading companies, Hakuto is medium size but its profit margins match those of the industry leaders.

Trends and outlook

In FY03/20, the company posted consolidated sales of JPY153.2bn (+9.3% YoY), operating profit of JPY2.4bn (-33.7% YoY), recurring profit of JPY2.1bn (-40.3% YoY), and net income attributable to owners of the parent of JPY1.4bn (-41.8% YoY). Sales declined in the Electronic and Electric Equipment segment amid a slump in equipment used in the manufacturing of smartphones. In contrast, sales rose in the Electronic Devices and Components segment on strength in communications-related components and the launch of automotive component sales through a new business channel. Sales in the Industrial Chemicals segment increased thanks to steady demand for petroleum refining products and cosmetic base materials. On the other hand, profit declined sharply in the Electronic and Electric Equipment segment and the Electronic Devices and Components segment on devaluation of book value as the effects from the increase in COVID-19 infections contributed to a decrease in inventory profitability. In the Industrial Chemicals segment, profit declined on an increase in transportation and manufacturing costs as a result of higher labor costs.

The company revised up its FY03/21 earnings forecast on January 29, 2021. It now targets FY03/21 sales of JPY164.0bn (+7.1% YoY), operating profit of JPY3.5bn (+45.0% YoY), recurring profit of JPY3.2bn (+49.6% YoY), and net income attributable to owners of the parent of JPY2.5bn (+73.7% YoY). The sales target was raised up by JPY20.0bn to reflect strong sales in the Electronic Devices and Components segment, where sales of ICs used in PCs (including tablet-type computers) and general-purpose components (such as connectors) are expanding due to telework and stay-at-home related demand. The segment is also seeing a rapid rebound in demand for its automotive ICs. The company also raised its profit forecasts (to JPY3.5bn at the operating profit level) to reflect the contributions from expanding sales of vacuum equipment in the Electronic and Electric Equipment segment and cosmetic base materials in the Industrial Chemicals segment, as well as lower costs owing to reduced activity during the pandemic. Profits also have been boosted by gains on sale of investment securities.

Strengths and weaknesses

Shared Research views the company's strengths as having a product lineup with varying business cycles, its status as an independent trading company, and the fact that many employees are science and engineering graduates. Weaknesses include Hakuto's high dependence on semiconductor devices, challenges maintaining its current pace of growth, and a hollowing out of the domestic business (see the Strengths and weaknesses section).

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 Cons. Est.
Sales	116,148	111,823	132,619	131,073	116,296	127,599	138,744	140,123	153,182	164,000
YoY	4.7%	-3.7%	18.6%	-1.2%	-11.3%	9.7%	8.7%	1.0%	9.3%	7.1%
Gross profit	18,065	17,115	19,095	19,481	17,221	16,495	18,301	18,667	17,465	
YoY	3.0%	-5.3%	11.6%	2.0%	-11.6%	-4.2%	10.9%	2.0%	-6.4%	
GPM	15.6%	15.3%	14.4%	14.9%	14.8%	12.9%	13.2%	13.3%	11.4%	
Operating profit	4,222	3,101	4,043	4,307	2,906	2,069	3,740	3,642	2,414	3,500
YoY	-3.9%	-26.6%	30.4%	6.5%	-32.5%	-28.8%	80.8%	-2.6%	-33.7%	45.0%
OPM	3.6%	2.8%	3.0%	3.3%	2.5%	1.6%	2.7%	2.6%	1.6%	2.1%
Recurring profit	4,187	3,435	4,218	4,555	2,873	1,989	3,772	3,580	2,139	3,200
YoY	4.1%	-18.0%	22.8%	8.0%	-36.9%	-30.8%	89.6%	-5.1%	-40.3%	49.6%
RPM	3.6%	3.1%	3.2%	3.5%	2.5%	1.6%	2.7%	2.6%	1.4%	2.0%
Net income	2,244	2,005	2,336	3,394	2,034	1,903	3,287	2,473	1,439	2,500
YoY	2.0%	-10.6%	16.5%	45.3%	-40.1%	-6.4%	72.7%	-24.8%	-41.8%	73.7%
Net margin	1.9%	1.8%	1.8%	2.6%	1.7%	1.5%	2.4%	1.8%	0.9%	1.5%
Per-share data (JPY)										
Shares issued (year-end; '000)	24,137	24,137	24,137	24,137	24,137	24,137	24,137	24,137	24,137	
EPS	102.6	91.7	106.9	155.1	93.0	87.2	154.9	118.6	70.0	121.5
EPS (fully diluted)	-	-	-	-	-	-	-	-	-	-
Dividend per share	35.0	35.0	35.0	40.0	40.0	40.0	46.0	50.0	50.0	50.0
Book value per share	1,880.7	1,992.5	2,128.6	2,318.5	2,330.4	2,413.2	2,568.0	2,658.1	2,627.8	
Balance sheet (JPYmn)										
Cash and cash equivalents	13,382	11,364	11,417	12,437	8,366	7,748	9,428	7,608	14,736	
Total current assets	59,120	59,686	65,259	66,046	60,655	61,081	68,490	70,901	97,146	
Tangible fixed assets	6,560	6,545	8,040	7,293	6,850	6,764	6,739	6,638	6,903	
Intangible fixed assets	651	1,509	1,342	1,332	1,109	819	453	325	333	
Investments and other assets	6,049	6,435	8,166	8,112	7,749	9,595	9,643	8,960	7,752	
Total assets	72,381	74,176	82,808	82,785	76,365	78,261	85,326	87,826	112,135	
Accounts payable	14,080	13,817	17,431	16,790	15,309	16,557	18,104	18,623	18,519	
Short-term debt	6,783	5,996	6,439	5,349	2,344	2,282	6,453	7,752	21,150	
Total current liabilities	25,281	24,644	28,196	25,706	20,993	21,805	27,930	30,650	44,085	
Long-term debt	4,050	4,163	5,600	3,864	2,527	1,410	1,269	634	12,534	
Total fixed liabilities	5,840	5,978	8,083	6,280	4,597	3,707	3,813	2,540	14,039	
Total liabilities	31,119	30,622	36,280	31,986	25,590	25,513	31,743	33,190	58,124	
Net assets	41,262	43,554	46,528	50,800	50,775	52,748	53,583	54,636	54,011	
Total interest-bearing debt	10,833	10,159	12,039	9,213	4,871	3,692	7,722	8,386	33,684	
Cash flow statement (JPYmn)										
Cash flows from operating activities	3,602	695	1,732	4,296	2,087	2,571	-459	-1,198	-16,288	
Cash flows from investing activities	-497	-1,846	-2,069	-374	44	-1,209	214	-152	-16	
Cash flows from financing activities	-3,131	-1,623	1,010	-3,658	-5,469	-1,947	1,777	-699	23,547	
Financial ratios										
ROA (RP-based)	5.7%	4.7%	5.4%	5.5%	3.6%	2.6%	4.6%	4.1%	2.1%	
ROE	5.5%	4.7%	5.2%	7.0%	4.0%	3.7%	6.2%	4.6%	2.7%	
Equity ratio	57.0%	58.7%	56.2%	61.4%	66.5%	67.4%	63.2%	62.2%	48.2%	

Source: Shared Research based on company data

Note: Figures may differ from company materials due to differences in rounding methods

Recent updates

Highlights

On March 16, 2021, Shared Research updated the report following interviews with Hakuto Co., Ltd.

On January 29, 2021, the company announced earnings results for Q3 FY03/21; see the results section for details.

On the same day, the company announced a revised earnings forecast for FY03/21.

Revised full-year FY03/21 earnings forecast

Sales:	JPY164.0bn (previously: JPY144.0bn)
Operating profit:	JPY3.5bn (previously: JPY2.7bn)
Recurring profit:	JPY3.2bn (previously: JPY2.5bn)
Net income*:	JPY2.5bn (previously: JPY1.7bn)
EPS:	JPY121.49 (previously: JPY82.71)

*Net income attributable to owners of the parent

Reasons for the revisions

The sales target was raised up by JPY20.0bn to reflect strong sales in the Electronic Devices and Components segment, where sales of ICs used in PCs (including tablet-type computers) and general-purpose components (such as connectors) are expanding due to telework and stay-at-home related demand. The segment is also seeing a rapid rebound in demand for its automotive ICs. The company also raised its profit forecasts (to JPY3.5bn at the operating profit level) to reflect the contributions from expanding sales of vacuum equipment in the Electronic and Electric Equipment segment and cosmetic base materials in the Industrial Chemicals segment, as well as lower costs owing to reduced activity during the pandemic. Profits also have been boosted by gains on sale of investment securities.

On the same day, the company announced an absorption-type merger (simplified, short-form merger) of a consolidated subsidiary.

The company announced that the Board of Directors resolved at its meeting on the same day to merge the Hakuto Life Science Co., Ltd. a consolidated subsidiary, with the company through an absorption-type merger.

Since its establishment in February 2018, Hakuto Life Science has been engaged in the sale of cosmetics, cosmetic raw materials, and other products, as a wholly owned subsidiary. The merger is part of a plan to expand the life science business and increase business efficiency. The merger agreement was concluded on the same day and will become effective on April 1, 2021. In this absorption-type merger, Hakuto Life Science will cease to exist as a separate entity after its absorption by Hakuto, the surviving company. The merger will not result in any new share issuance or distribution of funds. In addition, as it is a merger with a wholly owned subsidiary, the impact on Hakuto's consolidated performance will be minor.

On December 23, 2020, Shared Research updated the report following interviews with the company.

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

Trends and outlook

Quarterly trends and results

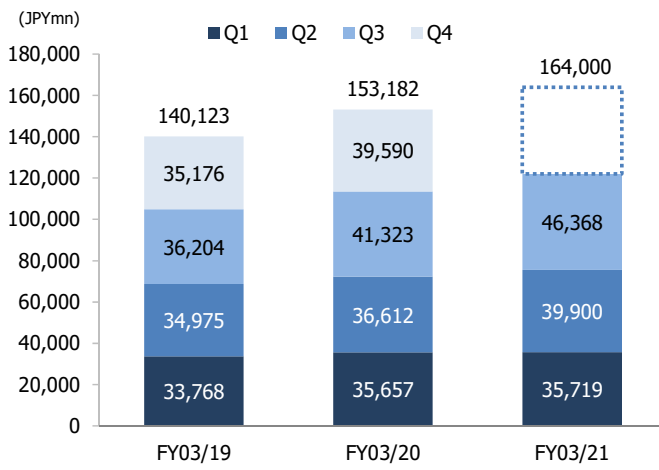
Cumulative (JPYmn)	FY03/20				FY03/21			FY03/21	
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	% of Est.	FY Est.
Sales	35,657	72,269	113,592	153,182	35,719	75,619	121,987	74.4%	164,000
YoY	5.6%	5.1%	8.2%	9.3%	0.2%	4.6%	7.4%		7.1%
Gross profit	4,416	9,134	13,823	17,465	4,647	8,694	13,453		
YoY	-7.1%	-2.2%	-1.3%	-6.4%	5.2%	-4.8%	-2.7%		
GPM	12.4%	12.6%	12.2%	11.4%	13.0%	11.5%	11.0%		
SG&A expenses	3,665	7,426	11,195	15,050	3,411	7,040	10,710		
YoY	0.6%	0.6%	0.3%	0.2%	-6.9%	-5.2%	-4.3%		
SG&A ratio	10.3%	10.3%	9.9%	9.8%	9.5%	9.3%	8.8%		
Operating profit	750	1,708	2,627	2,414	1,236	1,653	2,742	78.3%	3,500
YoY	-32.6%	-12.7%	-7.7%	-33.7%	64.8%	-3.2%	4.4%		45.0%
OPM	2.1%	2.4%	2.3%	1.6%	3.5%	2.2%	2.2%		2.1%
Recurring profit	713	1,574	2,410	2,139	1,148	1,521	2,506	78.3%	3,200
YoY	-40.1%	-21.3%	-16.3%	-40.3%	61.0%	-3.4%	4.0%		49.6%
RPM	2.0%	2.2%	2.1%	1.4%	3.2%	2.0%	2.1%		2.0%
Net income	492	1,105	1,743	1,439	736	1,014	1,883	75.3%	2,500
YoY	-41.1%	-17.9%	-7.4%	-41.8%	49.6%	-8.2%	8.0%		73.7%
Net margin	1.4%	1.5%	1.5%	0.9%	2.1%	1.3%	1.5%		1.5%
Quarterly (JPYmn)	FY03/20				FY03/21				
	Q1	Q2	Q3	Q4	Q1	Q2	Q3		
Sales	35,657	36,612	41,323	39,590	35,719	39,900	46,368		
YoY	5.6%	4.7%	14.1%	12.5%	0.2%	9.0%	12.2%		
Gross profit	4,416	4,718	4,689	3,642	4,647	4,047	4,759		
YoY	-7.1%	3.0%	0.4%	-21.9%	5.2%	-14.2%	1.5%		
GPM	12.4%	12.9%	11.3%	9.2%	13.0%	10.1%	10.3%		
SG&A expenses	3,665	3,761	3,769	3,855	3,411	3,629	3,670		
YoY	0.6%	0.7%	-0.3%	-0.3%	-6.9%	-3.5%	-2.6%		
SG&A ratio	10.3%	10.3%	9.1%	9.7%	9.5%	9.1%	7.9%		
Operating profit	750	958	919	-213	1,236	417	1,089		
YoY	-32.6%	13.4%	3.3%	-	64.8%	-56.5%	18.5%		
OPM	2.1%	2.6%	2.2%	-	3.5%	1.0%	2.3%		
Recurring profit	713	861	836	-271	1,148	373	985		
YoY	-40.1%	6.3%	-5.1%	-	61.0%	-56.7%	17.8%		
RPM	2.0%	2.4%	2.0%	-	3.2%	0.9%	2.1%		
Net income	492	613	638	-304	736	278	869		
YoY	-41.1%	20.2%	18.8%	-	49.6%	-54.6%	36.2%		
Net margin	1.4%	1.7%	1.5%	-	2.1%	0.7%	1.9%		

Source: Shared Research based on company data

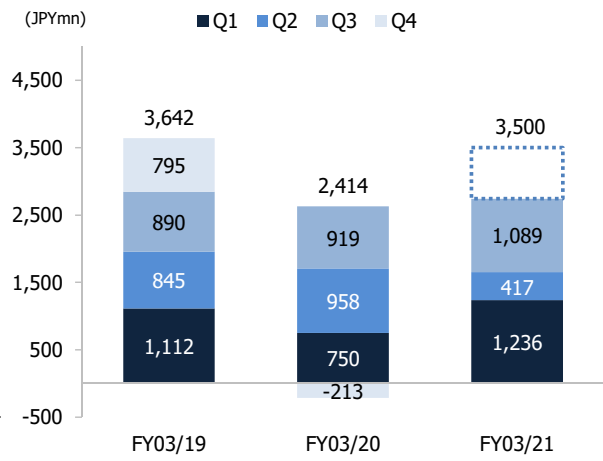
Note: Figures may differ from company materials due to differences in rounding methods

Change in accounting methodology: Starting in Q1 FY03/19, the company changed the currency conversion method it used for converting the revenues and expenses at its overseas subsidiaries from the market exchange rate on the last day of the accounting period to the average exchange rate over the entire accounting period. This change reduced 1H FY03/18 sales by JPY557mn, operating profit by JPY17mn, both recurring profit and pre-tax profit by JPY18mn, and net income by JPY14mn. The figures for FY03/18 results used in this report, including YoY comparisons, are based on the reported figures prior to this adjustment.

Quarterly sales



Quarterly operating profit



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

Cumulative (JPYmm)	FY03/19				FY03/20				FY03/21		
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3
Sales	33,768	68,743	104,947	140,123	35,657	72,269	113,592	153,182	35,719	75,619	121,987
YoY	-8.8%	-4.3%	-0.7%	1.0%	5.6%	5.1%	8.2%	9.3%	0.2%	4.6%	7.4%
Electronic Devices and Components	25,585	52,523	81,477	107,668	28,043	56,871	90,823	123,708	28,884	61,718	100,168
YoY	-13.4%	-6.3%	-2.1%	1.4%	9.6%	8.3%	11.5%	14.9%	3.0%	8.5%	10.3%
% of total	75.4%	76.0%	77.3%	76.5%	78.3%	78.3%	79.6%	80.4%	80.5%	81.2%	81.8%
Electronic and Electric Equipment	5,498	10,899	15,217	21,544	4,692	9,777	14,253	18,286	4,018	8,414	13,416
YoY	9.2%	0.9%	-3.0%	2.2%	-14.7%	-10.3%	-6.3%	-15.1%	-14.4%	-13.9%	-5.9%
% of total	16.2%	15.8%	14.4%	15.3%	13.1%	13.5%	12.5%	11.9%	11.2%	11.1%	10.9%
Industrial Chemicals	2,680	5,312	8,231	10,886	2,915	5,611	8,493	11,160	2,807	5,473	8,376
YoY	10.2%	6.9%	7.7%	6.2%	8.8%	5.6%	3.2%	2.5%	-3.7%	-2.5%	-1.4%
% of total	7.9%	7.7%	7.8%	7.7%	8.1%	7.7%	7.4%	7.3%	7.8%	7.2%	6.8%
Other	174	345	521	688	176	350	540	720	188	373	567
YoY	1.8%	1.2%	1.2%	1.2%	1.1%	1.4%	3.6%	4.7%	6.8%	6.6%	5.0%
% of total	0.5%	0.5%	0.5%	0.5%	0.5%	0.5%	0.5%	0.5%	0.5%	0.5%	0.5%
Adjustments	-169	-336	-500	-663	-170	-342	-518	-693	-179	-360	-541
Operating profit	1,112	1,957	2,847	3,642	750	1,708	2,627	2,414	1,236	1,653	2,742
YoY	25.4%	3.3%	-2.1%	-2.6%	-32.6%	-12.7%	-7.7%	-33.7%	64.8%	-3.2%	4.4%
Electronic Devices and Components	465	852	1,321	1,331	269	642	927	576	398	611	720
YoY	7.6%	11.1%	4.7%	-6.7%	-42.2%	-24.6%	-29.8%	-56.7%	48.0%	-4.8%	-22.3%
Operating profit margin	1.8%	1.6%	1.6%	1.2%	1.0%	1.1%	1.0%	0.5%	1.4%	1.0%	0.7%
Electronic and Electric Equipment	392	639	765	1,418	214	538	898	900	560	610	1,274
YoY	90.3%	3.6%	-8.9%	13.1%	-45.4%	-15.8%	17.4%	-36.5%	161.7%	13.4%	41.9%
Operating profit margin	7.1%	5.9%	5.0%	6.6%	4.6%	5.5%	6.3%	4.9%	13.9%	7.2%	9.5%
Industrial Chemicals	267	481	755	932	229	466	724	838	249	477	760
YoY	23.6%	11.6%	6.9%	3.1%	-14.2%	-3.1%	-4.1%	-10.1%	8.7%	2.4%	5.0%
Operating profit margin	10.0%	9.1%	9.2%	8.6%	7.9%	8.3%	8.5%	7.5%	8.9%	8.7%	9.1%
Other	9	17	26	16	7	12	20	21	13	20	34
YoY	50.0%	41.7%	13.0%	-40.7%	-22.2%	-29.4%	-23.1%	31.3%	85.7%	66.7%	70.0%
Operating profit margin	5.2%	4.9%	5.0%	2.3%	4.0%	3.4%	3.7%	2.9%	6.9%	5.4%	6.0%
Adjustments	-21	-33	-21	-55	30	48	55	79	16	-65	-46
Quarterly (JPYmm)	FY03/19				FY03/20				FY03/21		
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3
Sales	33,768	34,975	36,204	35,176	35,657	36,612	41,323	39,590	35,719	39,900	46,368
YoY	-8.8%	0.5%	7.0%	6.3%	5.6%	4.7%	14.1%	12.5%	0.2%	9.0%	12.2%
Electronic Devices and Components	25,585	26,938	28,954	26,191	28,043	28,828	33,952	32,885	28,884	32,834	38,450
YoY	-13.4%	1.6%	6.6%	13.7%	9.6%	7.0%	17.3%	25.6%	3.0%	13.9%	13.2%
% of total	75.4%	76.7%	79.6%	74.1%	78.3%	78.4%	81.8%	82.7%	80.5%	81.9%	82.6%
Electronic and Electric Equipment	5,498	5,401	4,318	6,327	4,692	5,085	4,476	4,033	4,018	4,396	5,002
YoY	9.2%	-6.4%	-11.4%	17.1%	-14.7%	-5.9%	3.7%	-36.3%	-14.4%	-13.5%	11.8%
% of total	16.2%	15.4%	11.9%	17.9%	13.1%	13.8%	10.8%	10.1%	11.2%	11.0%	10.7%
Industrial Chemicals	2,680	2,632	2,919	2,655	2,915	2,696	2,882	2,667	2,807	2,666	2,903
YoY	10.2%	3.7%	9.0%	2.1%	8.8%	2.4%	-1.3%	0.5%	-3.7%	-1.1%	0.7%
% of total	7.9%	7.5%	8.0%	7.5%	8.1%	7.3%	6.9%	6.7%	7.8%	6.7%	6.2%
Other	174	171	176	167	176	174	190	180	188	185	194
YoY	1.8%	0.6%	1.1%	1.2%	1.1%	1.8%	8.0%	7.8%	6.8%	6.3%	2.1%
% of total	0.5%	0.5%	0.5%	0.5%	0.5%	0.5%	0.5%	0.5%	0.5%	0.5%	0.4%
Adjustments	-169	-167	-164	-163	-170	-172	-176	-175	-179	-181	-181
Operating profit	1,112	845	890	795	750	958	919	-213	1,236	417	1,089
YoY	25.4%	-16.1%	-12.2%	-4.4%	-32.6%	13.4%	3.3%	-126.8%	64.8%	-56.5%	18.5%
Electronic Devices and Components	465	387	469	10	269	373	285	-351	398	213	109
YoY	7.6%	15.5%	-5.3%	-93.9%	-42.2%	-3.6%	-39.2%	-	48.0%	-42.9%	-61.8%
Operating profit margin	1.8%	1.4%	1.6%	0.0%	1.0%	1.3%	0.8%	-	1.4%	0.6%	0.3%
Electronic and Electric Equipment	392	247	126	653	214	324	360	2	560	50	664
YoY	90.3%	-39.9%	-43.5%	57.7%	-45.4%	31.2%	185.7%	-99.7%	161.7%	-84.6%	84.4%
Operating profit margin	7.1%	4.6%	2.9%	10.3%	4.6%	6.4%	8.0%	0.0%	13.9%	1.1%	13.3%
Industrial Chemicals	267	214	274	177	229	237	258	114	249	228	283
YoY	23.6%	-0.5%	-0.4%	-10.6%	-14.2%	10.7%	-5.8%	-35.6%	8.7%	-3.8%	9.7%
Operating profit margin	10.0%	8.1%	9.4%	6.7%	7.9%	8.8%	9.0%	4.3%	8.9%	8.6%	9.7%
Other	9	8	9	-10	7	5	8	1	13	7	14
YoY	50.0%	33.3%	-18.2%	-	-22.2%	-37.5%	-11.1%	-	85.7%	40.0%	75.0%
Operating profit margin	5.2%	4.7%	5.1%	-	4.0%	2.9%	4.2%	0.6%	6.9%	3.8%	7.2%
Adjustments	-21	-12	12	-34	30	18	7	24	16	-81	19

Source: Shared Research based on company data

Note: Figures may differ from company materials due to differences in rounding methods

Cumulative Q3 FY03/21 results (announced on January 29, 2021)

Consolidated results for the nine-month period through Q3 FY03/21 (April–December 2020)

▷ Sales:	JPY122.0bn (+7.4% YoY)
▷ Gross profit:	JPY13.5bn (-2.7% YoY)
▷ SG&A expenses:	JPY10.7bn (-4.3% YoY)
▷ Operating profit:	JPY2.7bn (+4.4% YoY)
▷ Recurring profit:	JPY2.5bn (+4.0% YoY)
▷ Net income*:	JPY1.9bn (+8.0% YoY)

*Net income attributable to owners of the parent

- ▷ Electronic industry trends: While the decline in earnings and the increased uncertainty in the wake of the pandemic depressed capital spending by companies, demand for semiconductors and other electronic parts remained solid, bolstered by demand generated by people working from home and sheltering in the home during the pandemic, which has increased demand for PCs, servers, game consoles and other equipment, and by the rollout of high-speed commercial 5G telecommunications services. Meanwhile the auto industry, which was forced to drastically cut production in Q1 (April–June 202), has seen a rapid rebound in production in China, which has led to tight supply conditions for some automotive semiconductors.
- ▷ Company performance: At its Electronic Devices and Components segment, the company saw sales rise on the back of growing demand for integrated circuits (ICs) used in PCs (including tablet-type computers) and optical components used in 5G telecommunications equipment, a sharp rebound in demand in automotive-use ICs, and sales of automotive electronic parts through a new channel that it established in Q3 FY03/20. In contrast, sales at the Electronic and Electric Equipment segment declined, hurt by the loss of distribution rights for certain compound semiconductor manufacturing equipment, which was too large to be offset by gains elsewhere, including rising sales of optical components for 5G-related applications, vacuum devices, and PCB manufacturing equipment. The Industrial Chemicals segment also saw sales finish the period down, as the gains from rising sales of base materials for cosmetics and water treatment chemicals were not enough to offset the downturn in demand from the petroleum/petrochemical market and the paper/pulp market amid the pandemic.
- ▷ Cumulative Q3 sales were up 7.4% YoY, but gross profit declined 2.7% YoY. Moreover, GPM dropped 1.2pp YoY to 11.0% due in part to a deteriorating product mix in the Electronic Devices and Components segment, which accounts for the lion's share of sales among the three segments. SG&A expenses were down JPY485mn, or 4.3%, YoY as sales-related travel expenses were held in check due to the COVID-19 pandemic. Operating profit grew 4.4% YoY as the drop in SG&A expenses offset the decline in gross profit. OPM was down 0.1pp YoY to 2.2%, returning to being nearly flat YoY as the YoY drop in GPM narrowed.

Electronic Devices and Components segment

Performance

Cumulative (JPYmn)	FY03/19				FY03/20				FY03/21		
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3
Sales	25,585	52,523	81,477	107,668	28,043	56,871	90,823	123,708	28,884	61,718	100,168
YoY	-13.4%	-6.3%	-2.1%	1.4%	9.6%	8.3%	11.5%	14.9%	3.0%	8.5%	10.3%
Segment profit	465	852	1,321	1,331	269	642	927	576	398	611	720
YoY	7.6%	11.1%	4.7%	-6.7%	-42.2%	-24.6%	-29.8%	-56.7%	48.0%	-4.8%	-22.3%
Operating profit margin	1.8%	1.6%	1.6%	1.2%	1.0%	1.1%	1.0%	0.5%	1.4%	1.0%	0.7%

Quarterly (JPYmn)	FY03/19				FY03/20				FY03/21		
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3
Sales	25,585	26,938	28,954	26,191	28,043	28,828	33,952	32,885	28,884	32,834	38,450
YoY	-13.4%	1.6%	6.6%	13.7%	9.6%	7.0%	17.3%	25.6%	3.0%	13.9%	13.2%
Segment profit	465	387	469	10	269	373	285	-351	398	213	109
YoY	7.6%	15.5%	-5.3%	-93.9%	-42.2%	-3.6%	-39.2%	-	48.0%	-42.9%	-61.8%
Operating profit margin	1.8%	1.4%	1.6%	0.0%	1.0%	1.3%	0.8%	-	1.4%	0.6%	0.3%

Source: Shared Research based on company data

Results for cumulative Q3 FY03/21 (April–December 2020)

- ▷ Segment sales: JPY100.2bn (+10.3% YoY)
- ▷ Segment profit: JPY720mn (-22.3% YoY)
- ▷ Cumulative Q3 sales were up 10.3% YoY, backed by firm demand for 5G-related optical components and growing demand for ICs used in PCs (including tablet-type computers) and general-purpose components (such as connectors) generated by people working from home and sheltering in the home during the pandemic. Sales also benefitted from a sharp rebound in demand for automotive ICs, including from sales through a new channel the company established in Q3 FY03/20. Sales in Q3 (October–December 2020) were up 13.2% YoY amid an ongoing expansion in sales of electronic and optical components from Q2 (July–September 2020) and demand recovering for automotive ICs.
- ▷ Cumulative Q3 segment profit was down 22.3% YoY, with segment profit margin dipping 0.3pp YoY to 0.7%. By quarter, segment profit margin had been on a downtrend since Q1, dropping from 1.4% in Q1 to 0.6% in Q2 and 0.3% in Q3, mainly on a deteriorating product mix amid a sharp recovery in demand for automotive ICs that tend to have low profitability.

Electronic and Electric Equipment segment

Performance

Cumulative (JPYmn)	FY03/19				FY03/20				FY03/21		
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3
Sales	5,498	10,899	15,217	21,544	4,692	9,777	14,253	18,286	4,018	8,414	13,416
YoY	9.2%	0.9%	-3.0%	2.2%	-14.7%	-10.3%	-6.3%	-15.1%	-14.4%	-13.9%	-5.9%
Segment profit	392	639	765	1,418	214	538	898	900	560	610	1,274
YoY	90.3%	3.6%	-8.9%	13.1%	-45.4%	-15.8%	17.4%	-36.5%	161.7%	13.4%	41.9%
Operating profit margin	7.1%	5.9%	5.0%	6.6%	4.6%	5.5%	6.3%	4.9%	13.9%	7.2%	9.5%

Quarterly (JPYmn)	FY03/19				FY03/20				FY03/21		
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3
Sales	5,498	5,401	4,318	6,327	4,692	5,085	4,476	4,033	4,018	4,396	5,002
YoY	9.2%	-6.4%	-11.4%	17.1%	-14.7%	-5.9%	3.7%	-36.3%	-14.4%	-13.5%	11.8%
Segment profit	392	247	126	653	214	324	360	2	560	50	664
YoY	90.3%	-39.9%	-43.5%	57.7%	-45.4%	31.2%	185.7%	-99.7%	161.7%	-84.6%	84.4%
Operating profit margin	7.1%	4.6%	2.9%	10.3%	4.6%	6.4%	8.0%	0.0%	13.9%	1.1%	13.3%

Source: Shared Research based on company data

Results for cumulative Q3 FY03/21 (April–December 2020)

- ▷ Segment sales: JPY13.4bn (-5.9% YoY)
- ▷ Segment profit: JPY1.3bn (+41.9% YoY)
- ▷ Segment sales were down 5.9% YoY, largely due to a sales decline resulting from the loss of distribution rights for certain compound semiconductor manufacturing equipment, but also a downturn in scientific instrument sales. On the other hand,

sales were firm for optical components for use in 5G and other telecommunications infrastructure equipment (such as undersea cables), vacuum-related devices and PCB manufacturing equipment used in semiconductor-related applications,.

- ▷ Despite the downturn in sales, segment profit increased 41.9% YoY on the elimination of the less-profitable distribution business for certain compound semiconductor manufacturing equipment and sales growth in highly profitable optical-related and PCB manufacturing equipment. As a result, segment profit margin in Q3 (October–December 2020) not only rose 5.3pp YoY to 13.3% but was up on a QoQ basis as well.

Industrial Chemicals segment

Performance

Cumulative (JPYmn)	FY03/19				FY03/20				FY03/21		
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3
Sales	2,680	5,312	8,231	10,886	2,915	5,611	8,493	11,160	2,807	5,473	8,376
YoY	10.2%	6.9%	7.7%	6.2%	8.8%	5.6%	3.2%	2.5%	-3.7%	-2.5%	-1.4%
Segment profit	267	481	755	932	229	466	724	838	249	477	760
YoY	23.6%	11.6%	6.9%	3.1%	-14.2%	-3.1%	-4.1%	-10.1%	8.7%	2.4%	5.0%
Operating profit margin	10.0%	9.1%	9.2%	8.6%	7.9%	8.3%	8.5%	7.5%	8.9%	8.7%	9.1%

Quarterly (JPYmn)	FY03/19				FY03/20				FY03/21		
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3
Sales	2,680	2,632	2,919	2,655	2,915	2,696	2,882	2,667	2,807	2,666	2,903
YoY	10.2%	3.7%	9.0%	2.1%	8.8%	2.4%	-1.3%	0.5%	-3.7%	-1.1%	0.7%
Segment profit	267	214	274	177	229	237	258	114	249	228	283
YoY	23.6%	-0.5%	-0.4%	-10.6%	-14.2%	10.7%	-5.8%	-35.6%	8.7%	-3.8%	9.7%
Operating profit margin	10.0%	8.1%	9.4%	6.7%	7.9%	8.8%	9.0%	4.3%	8.9%	8.6%	9.7%

Source: Shared Research based on company data

Results for cumulative Q3 FY03/21 (April–December 2020)

- ▷ Segment sales: JPY8.4bn (-1.4% YoY)
- ▷ Segment profit: JPY760mn (+5.0% YoY)
- ▷ Segment sales fell 1.4% YoY, with steady growth in sales of base materials for cosmetics and water treatment chemicals offset by production cutbacks and lower sales of chemicals used in fuel oil production by petroleum/petrochemical companies and in printing paper production by pulp/paper industry as the pandemic reduced demand.
- ▷ Segment profit was up 5.0% YoY despite the decline in sales, owed to reduced expenses and higher sales in the highly profitable cosmetics base materials business mainly for high-end brand cosmetics. The cosmetics base materials business was previously operated on an outsourced production basis by consolidated subsidiary Hakuto Life Science Co., Ltd. However, the company in January 2021 announced its plan to merge Hakuto Life Science into the company to expand the cosmetics base materials business and enhance management efficiency. The new operating structure will be effective from FY03/22.

Other business segment

Performance

Cumulative (JPYmn)	FY03/19				FY03/20				FY03/21		
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3
Sales	174	345	521	688	176	350	540	720	188	373	567
YoY	1.8%	1.2%	1.2%	1.2%	1.1%	1.4%	3.6%	4.7%	6.8%	6.6%	5.0%
Segment profit	9	17	26	16	7	12	20	21	13	20	34
YoY	50.0%	41.7%	13.0%	-40.7%	-22.2%	-29.4%	-23.1%	31.3%	85.7%	66.7%	70.0%
Operating profit margin	5.2%	4.9%	5.0%	2.3%	4.0%	3.4%	3.7%	2.9%	6.9%	5.4%	6.0%

Quarterly (JPYmn)	FY03/19				FY03/20				FY03/21		
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3
Sales	174	171	176	167	176	174	190	180	188	185	194
YoY	1.8%	0.6%	1.1%	1.2%	1.1%	1.8%	8.0%	7.8%	6.8%	6.3%	2.1%
Segment profit	9	8	9	-10	7	5	8	1	13	7	14
YoY	50.0%	33.3%	-18.2%	-	-22.2%	-37.5%	-11.1%	-	85.7%	40.0%	75.0%
Operating profit margin	5.2%	4.7%	5.1%	-	4.0%	2.9%	4.2%	0.6%	6.9%	3.8%	7.2%

Source: Shared Research based on company data

Results for the nine-month period through Q3 FY03/21 (April–December 2020)

- ▷ Segment sales: JPY567mn (+5.0% YoY)
- ▷ Segment profit: JPY34mn (+70.0% YoY)
- ▷ Sales and earnings at Other business segment are derived largely from the management of the group's back office and logistics operations (which have been subcontracted by the parent) and the insurance agency business.

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

Company forecast for FY03/21

(JPYmn)	FY03/19			FY03/20			FY03/21		
	1H Act.	2H Act.	FY Act.	1H Act.	2H Act.	FY Act.	1H Act.	2H Est.	FY Est.
Total sales	68,743	71,380	140,123	72,269	80,913	153,182	75,619	88,381	164,000
YoY	-3.5%	5.8%	1.0%	5.1%	13.4%	9.3%	4.6%	9.2%	7.1%
Cost of sales	59,406	62,050	121,456	63,134	72,582	135,716	66,924		
Gross profit	9,337	9,330	18,667	9,134	8,331	17,465	8,694		
YoY	0.7%	3.3%	2.0%	-2.2%	-10.7%	-6.4%	-4.8%		
Gross profit margin	13.6%	13.1%	13.3%	12.6%	10.3%	11.4%	11.5%		
SG&A expenses	7,379	7,645	15,024	7,426	7,624	15,050	7,040		
SG&A ratio	10.7%	10.7%	10.7%	10.3%	9.4%	9.8%	9.3%		
Operating profit	1,957	1,685	3,642	1,708	706	2,414	1,653	1,847	3,500
YoY	3.3%	-8.7%	-2.6%	-12.7%	-58.1%	-33.7%	-3.2%	161.6%	45.0%
Operating profit margin	2.8%	2.4%	2.6%	2.4%	0.9%	1.6%	2.2%	2.1%	2.1%
Recurring profit	2,000	1,580	3,580	1,574	565	2,139	1,521	1,679	3,200
YoY	-3.2%	-7.3%	-5.1%	-21.3%	-64.2%	-40.3%	-3.4%	197.2%	49.6%
Recurring profit margin	2.9%	2.2%	2.6%	2.2%	0.7%	1.4%	2.0%	1.9%	2.0%
Net income	1,346	1,127	2,473	1,105	334	1,439	1,014	1,486	2,500
YoY	-14.1%	-34.5%	-24.8%	-17.9%	-70.4%	-41.8%	-8.2%	344.9%	73.7%
Net margin	2.0%	1.6%	1.8%	1.5%	0.4%	0.9%	1.3%	1.7%	1.5%

Source: Shared Research based on company data

Note: Figures may differ from company materials due to differences in rounding methods.

Company forecast for FY03/21

Revised full-year FY03/21 earnings forecast (announced along with Q3 FY03/21 results)

- ▷ Sales: JPY164.0bn (previously: JPY144.0bn)
- ▷ Operating profit: JPY3.5bn (previously: JPY2.7bn)
- ▷ Recurring profit: JPY3.2bn (previously: JPY2.5bn)
- ▷ Net income*: JPY2.5bn (previously: JPY1.7bn)

*Net income attributable to owners of the parent

- ▷ Progress versus the company forecast as of end-Q3 was 74.4% for sales, 78.3% for operating profit, 78.3% for recurring profit, and 75.3% for net income.
- ▷ The sales target was raised up by JPY20.0bn to reflect strong sales in the Electronic Devices and Components segment, where sales of ICs used in PCs (including tablet-type computers) and general-purpose components (such as connectors) are expanding due to telework and stay-at-home related demand, and demand for automotive ICs has been recovering sharply from the middle of the term. More than half of the upward revision can be attributed to the Electronic Devices and Components segment.
- ▷ By segment, the company forecasts sales of JPY133.9bn (+8.2% YoY) in Electronic Devices and Components, JPY19.1bn (+4.5%) in Electronic and Electric Equipment, and JPY11.0bn (-1.4% YoY) in Industrial Chemicals.
- ▷ The company also raised its profit forecasts (to JPY3.5bn at the operating profit level; revised forecast by segment undisclosed) to reflect the contributions from expanding sales of vacuum equipment in the Electronic and Electric Equipment segment and cosmetic base materials in the Industrial Chemicals segment, as well as lower costs owing to reduced activity during the pandemic. Profits also have been boosted by gains on sale of investment securities.

Historical earnings forecast accuracy

Results vs. Initial Est. (JPYmn)	FY03/11	FY03/12	FY03/13	FY03/14	FY03/15	FY03/16	FY03/17	FY03/18	FY03/19	FY03/20
	Cons.	Cons.	Cons.	Cons.	Cons.	Cons.	Cons.	Cons.	Cons.	Cons.
Sales (Initial Est.)	110,000	110,000	120,000	124,000	142,000	136,000	128,000	134,000	148,000	160,000
Sales (Results)	110,910	116,148	111,823	132,619	131,073	116,296	127,599	138,744	140,123	153,182
Results vs. Initial Est.	0.8%	5.6%	-6.8%	7.0%	-7.7%	-14.5%	-0.3%	3.5%	-5.3%	-4.3%
Operating profit (Initial Est.)	3,200	4,100	4,500	3,500	4,200	4,400	3,300	3,200	4,500	4,000
Operating profit (Results)	4,392	4,222	3,101	4,043	4,307	2,906	2,069	3,740	3,642	2,414
Results vs. Initial Est.	37.2%	3.0%	-31.1%	15.5%	2.5%	-34.0%	-37.3%	16.9%	-19.1%	-39.7%
Recurring profit (Initial Est.)	3,100	4,000	4,500	3,600	4,300	4,400	3,400	3,300	4,700	4,000
Recurring profit (Results)	4,023	4,187	3,435	4,218	4,555	2,873	1,989	3,772	3,580	2,139
Results vs. Initial Est.	29.8%	4.7%	-23.7%	17.2%	5.9%	-34.7%	-41.5%	14.3%	-23.8%	-46.5%
Net income (Initial Est.)	2,000	2,500	2,900	2,500	2,800	2,900	2,300	2,400	3,400	2,800
Net income (Results)	2,200	2,244	2,005	2,336	3,394	2,034	1,903	3,287	2,473	1,439
Results vs. Initial Est.	10.0%	-10.3%	-30.9%	-6.6%	21.2%	-29.9%	-17.3%	37.0%	-27.3%	-48.6%

Source: Shared Research based on company data

Note: Figures may differ from company materials due to differences in rounding methods.

The company focuses on profitability, and eschews unreasonable orders. It also tends to give conservative forecasts. Consequently, judging from past estimates and actual results, its earnings tend to be generally stable, other than in unusual circumstances such as are described below, and regularly surpass the initial targets.

- ▷ **FY03/09:** Results were substantially below initial forecast, mainly due to the impact of the 2008–09 global financial crisis (market contraction in Europe and the US, high raw material prices, exchange rate fluctuations).
- ▷ **FY03/13:** The recurrence of debt crises in Europe in 1H and economic slowdown in China caused a deceleration in capital expenditures, resulting in the company falling short of initial forecast.
- ▷ **FY03/15:** Sales missed the firm’s targets, but profit beat initial projections thanks to contributions from profit upturns for both overseas and domestic subsidiaries.
- ▷ **FY03/16:** Profits missed the company’s initial targets due to the impact of a main client’s withdrawal from the LED business and inventory reserves that accrued because of a drop in sales of smartphone and tablet parts to the Chinese market.
- ▷ **FY03/17:** The company revised down forecast as steep exchange rate fluctuations in Q1 impaired 1H profits, but with some recovery made in 2H it managed to revise up forecast again for the full year.
- ▷ **FY03/18:** Hakuto commented from the start that its forecast was conservative, and it made steady progress from Q1, with robust sales related to PCB/FPC manufacturing equipment covering for delays in the high-margin stepper business, allowing it to finish the year above plan despite rapid yen appreciation in Q4.
- ▷ **FY03/19:** For its core Electronic Devices and Components business Hakuto suffered from weak demand from China for connectors for use in consumer and industrial devices, while it also had discontinued the memory card business that had contributed during FY03/18. As a result, although sales were up YoY, both sales and profits came in below the initial plan.
- ▷ **FY03/20:** Although earnings were generally in line with targets through Q3, profit fell well short of the company’s initial target as the spread of COVID-19 infections from the beginning of Q4 and the expected impact on business activity and sales trends contributed to devaluation of book value in line with a decrease in inventory profitability.

Long-term outlook

Along with FY03/16 results, Hakuto announced a new medium-term management plan, E&C + 2020, which will be carried out through FY03/21. The plan's vision is to realize sustainable growth and to improve Hakuto's corporate value by pursuing synergies between electronics and chemicals, and mixing new elements into the company's technological strength and its unique high value-added business models. The plan has four basic policies: strengthening the profit base, actively cultivating new markets and businesses, strengthening the overseas businesses, and building a management system that drives growth. Numerical targets for FY03/21, the final year in the plan, include sales of JPY180.0bn, operating profit of JPY7.0bn, and ROE of 8% or higher.

Basic policies in medium-term plan

Strengthening profit base	<ul style="list-style-type: none"> • Focus on selected fields within existing businesses • Establish new profit streams by developing next generation core items • Generate greater value by exploiting M&A
Actively cultivate new markets and businesses	<ul style="list-style-type: none"> • Tap opportunities in markets beyond conventional electronics and expand its business domain (penetrate environmental equipment and medical equipment fields) • Foster new businesses by integrating group companies and business divisions
Strengthen overseas businesses	<ul style="list-style-type: none"> • Create a marketing framework that emphasizes local businesses in Asia, press ahead with business reforms • Strengthen automotive businesses by establishing bases in Europe and the UK
Build a management system that drives growth	<ul style="list-style-type: none"> • Efficient and effective management system (bolster human resource, IT, financial and IR strategies)

Source: Shared Research based on company data

- ▷ When announcing FY03/20 results, the company had refrained from issuing FY03/21 guidance, citing the difficulties in making reasonable calculations regarding the impact of the COVID-19 pandemic on earnings. When announcing Q1 FY03/21 results (July 31, 2020), however, given the easing of restrictions on social and economic activity around the world, the company announced that based on the information it has been able to obtain and on certain assumptions it deems reasonable, it forecasts full-year FY03/21 sales of JPY144.0bn (-6.0% YoY), operating profit of JPY2.7bn (+11.8% YoY), recurring profit of JPY2.5bn (+16.9% YoY), and net income attributable to owners of the parent of JPY1.7bn (+18.1% YoY).
- ▷ In an environment in which COVID-19 cases are continuing to increase, management has given the highest priority to ensuring the company's survival and has set out a policy of implementing a variety of business continuity plan (BCP) measures, including those aimed at securing cash on hand, maintaining employment, and ensuring the health of its employees. On the other hand, with an eye to the operating environment after the effects from the COVID-19 pandemic fade and the goal of returning to a growth track, management is focusing on identifying and then concentrating its resources in the growth markets of each of its operating segments.

Hakuto's strategies in each of its primary business areas are as follows.

Electronics

This is the main area of Hakuto's operations and one in which the company can showcase its engineer-based technical support and its ability to respond to needs in areas from planning and design to production. The Electronic Devices and Components segment accounts for the largest portion of sales and while sales in recent years have expanded, segment profit has continued to decline. Amid such an environment, the company is expanding its lineup of ADAS (advanced driver assistance system) products in the automotive field and focusing its attentions on products with high added value, including RFID systems that improve logistics management through the use of wireless technology and module solutions that combine a number of electronic components. Management is also working to entrench digitization and systemization in order to reduce costs. With the general nature of its products contributing to sluggish sales in the Electronic and Electric Equipment segment, management aims to

accelerate product development and the company's expansion into new markets. More specifically, the company intends to expand its lineup of leading products, including the FINLASE laser processing system that can be used for the precision processing of automotive and industrial equipment components, and expand its lineup of medical devices after obtaining the necessary permits and licenses.

Chemicals

In the Industrial Chemicals segment, the company aims promote solutions-based sales and develop its customer base not only in the domestic petroleum, petrochemical, and paper and pulp markets where it already operates, but also in overseas markets with the strong potential for growth. Management is also focused on expanding the scale of its business by improving its product development capabilities.

Overseas business

Sales are expanding to Japanese and local businesses in the ASEAN community and the company also targets ADAS-related growth in Europe and the US. Management aims to expand its business by responding appropriately to changes in global supply chains brought on by the COVID-19 pandemic.

In regard to progress toward achieving its medium-term business plan targets, the company recognizes the challenges it faces on the profit and capital efficiency fronts. While the COVID-19 pandemic has contributed to changes in the operating environment, management in addition to the aforementioned strategies is committed to following policies that are mindful of capital costs, capital efficiency, and profits. In terms of concrete measures, quantitative targets and plans, the company aims to announce new medium-term management plan targets after further assessing the impact from the COVID-19 pandemic.

Business

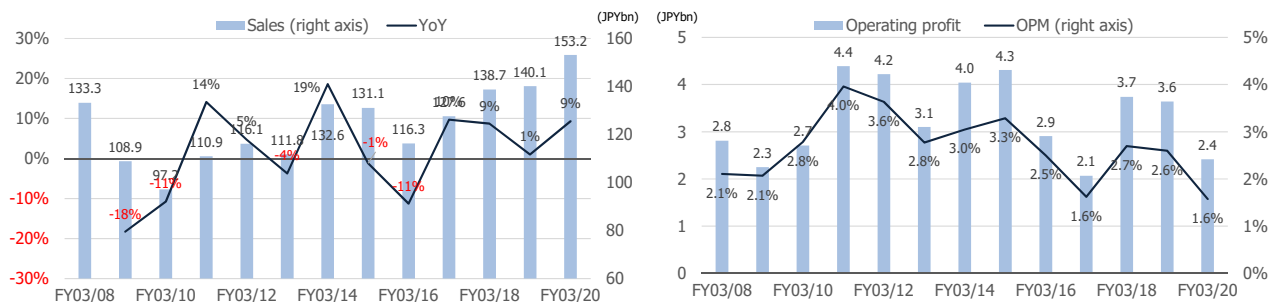
Business description

Multi-business firm: from electronics trading to chemical manufacturing

Hakuto is a unique mini-conglomerate. It is both an electronics trading company and an industrial chemical manufacturer. The company's electronics trading business started as a trading company founded in 1953 to import raw quartz for use in electronic devices. The industrial chemical manufacturing business started in 1960 to diversify the company's operations and enhance stability.

What sets Hakuto apart is its technology-oriented structure, its three distinct business segments that provide a stable business foundation, and its diverse product offerings in growth markets. Although at heart an electronics trading company, Hakuto has an engineering division in each of its business areas. That allows the company to provide its customers with comprehensive technical services, including technical support from the planning, development, and design stages through the equipment installation, calibration, and maintenance stages. It also boasts of a strong cohort of Field Application Engineers (FAEs) with technical expertise. Consequently, while firms operating in the electronics-related space tend to have large fluctuations in earnings performance, since Hakuto operates as more than just a trading company, the company's earnings are relatively stable. Hakuto is medium sized compared to other semiconductor trading companies, but its profit margins match those of the sector leaders (see the Profitability snapshot, financial ratios section).

Performance trends



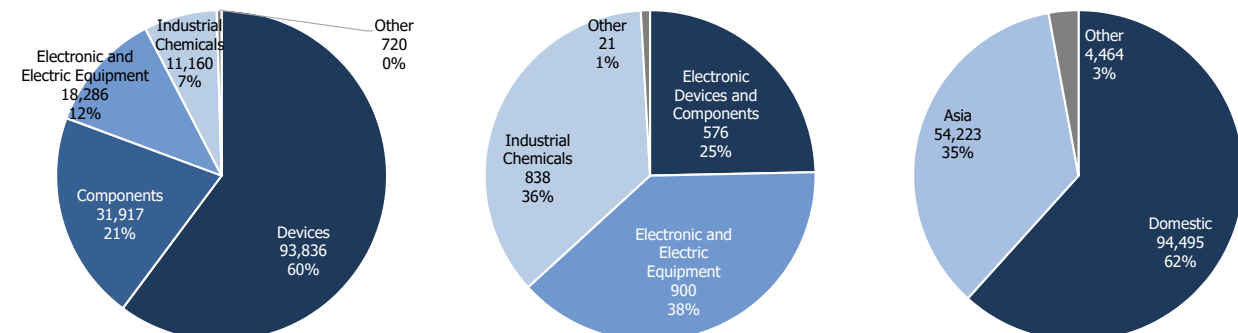
Source: Shared Research based on company data

Business segments

Electronics trading accounts for 90% of total sales; industrial chemicals manufacturing accounts for 10% of total sales

In FY03/20, the electronics trading business accounted for more than 90% of sales. Less than 10% were from industrial chemicals. The electronics trading business is comprised of two segments—Electronic Devices and Components, and Electronic and Electric Equipment. Within the Electronic Devices and Components segment are three divisions—semiconductor devices, general electronic components, and optical components. The industrial chemicals segment contains petroleum refinery and petrochemical, paper, and pulp, and other related activities (including cosmetics).

Sales composition by segment (left), operating profit by segment (center), sales by region (right)



Source: Shared Research based on company data
Percentages for sales, operating profit, and sales by region are calculated based on simple sums of the respective components.

Cumulative (JPYmn)	FY03/11	FY03/12	FY03/13	FY03/14	FY03/15	FY03/16	FY03/17	FY03/18	FY03/19	FY03/20
	Cons.	Cons.	Cons.	Cons.	Cons.	Cons.	Cons.	Cons.	Cons.	Cons.
Sales	110,910	116,148	111,823	132,619	131,073	116,296	127,599	138,744	140,123	153,182
YoY	14.1%	4.7%	-3.7%	18.6%	-1.2%	-11.3%	9.7%	8.7%	1.0%	9.3%
Electronic Devices and Components	95,882	89,661	83,951	100,940	99,301	88,098	98,554	106,223	107,668	123,708
YoY	17.0%	-6.5%	-6.4%	20.2%	-1.6%	-11.3%	11.9%	7.8%	1.4%	14.9%
% of total	78.4%	76.8%	74.6%	75.7%	75.4%	75.3%	76.8%	76.2%	76.5%	80.4%
Semiconductor devices	61,490	59,509	55,694	65,526	65,801	61,186	62,141	71,996	77,926	90,847
YoY		-3.2%	-6.4%	17.7%	0.4%	-7.0%	1.6%	15.9%	8.2%	16.6%
% of total	50.2%	50.9%	49.5%	49.1%	49.9%	52.3%	48.5%	51.6%	55.4%	59.0%
Electronic components	24,583	30,152	28,256	35,355	33,500	26,913	36,412	34,226	29,741	32,860
YoY		22.7%	-6.3%	25.1%	-5.2%	-19.7%	35.3%	-6.0%	-13.1%	10.5%
% of total	20.1%	25.8%	25.1%	26.5%	25.4%	23.0%	28.4%	24.6%	21.1%	21.4%
Electronic and Electric Equipment	18,658	18,593	18,308	21,089	22,343	18,477	19,191	21,085	21,544	18,286
YoY	22.2%	-0.3%	-1.5%	15.2%	5.9%	-17.3%	3.9%	9.9%	2.2%	-15.1%
% of total	15.2%	15.9%	16.3%	15.8%	17.0%	15.8%	15.0%	15.1%	15.3%	11.9%
Industrial Chemicals	7,169	7,871	9,545	10,566	9,399	9,694	9,828	10,247	10,886	11,160
YoY	1.9%	9.8%	21.3%	10.7%	-11.0%	3.1%	1.4%	4.3%	6.2%	2.5%
% of total	5.9%	6.7%	8.5%	7.9%	7.1%	8.3%	7.7%	7.4%	7.7%	7.3%
Other	667	691	696	727	709	707	676	680	688	720
YoY	6.0%	3.6%	0.7%	4.5%	-2.5%	-0.3%	-4.4%	0.6%	1.2%	4.7%
% of total	0.5%	0.6%	0.6%	0.5%	0.5%	0.6%	0.5%	0.5%	0.5%	0.5%
Adjustments	-11,466	-668	-678	-705	-681	-682	-652	-657	-663	-693
Operating profit	4,392	4,222	3,101	4,043	4,307	2,906	2,069	3,740	3,642	2,414
YoY	62.1%	-3.9%	-26.6%	30.4%	6.5%	-32.5%	-28.8%	80.8%	-2.6%	-33.7%
Electronic Devices and Components	2,329	2,316	1,707	2,642	2,940	1,152	447	1,404	1,331	576
YoY	22.0%	-0.6%	-26.3%	54.8%	11.3%	-60.8%	-61.2%	214.1%	-5.2%	-56.7%
OPM	2.4%	2.6%	2.0%	2.6%	3.0%	1.3%	0.5%	1.3%	1.2%	0.5%
Electronic and Electric Equipment	1,113	1,302	1,055	846	889	1,018	804	1,246	1,418	900
YoY	-1624.0%	17.0%	-19.0%	-19.8%	5.1%	14.5%	-21.0%	55.0%	13.8%	-36.5%
OPM	6.0%	7.0%	5.8%	4.0%	4.0%	5.5%	4.2%	5.9%	6.6%	4.9%
Industrial Chemicals	508	576	343	513	443	587	867	904	932	838
YoY	-3.0%	13.5%	-40.5%	49.6%	-13.6%	32.5%	47.7%	4.3%	3.1%	-10.1%
OPM	7.1%	7.3%	3.6%	4.9%	4.7%	6.1%	8.8%	8.8%	8.6%	7.5%
Other	1	15	14	17	20	26	19	27	16	21
YoY	-70.1%	1212.3%	-6.7%	21.4%	17.6%	30.0%	-26.9%	42.1%	-40.7%	31.3%
OPM	0.2%	2.2%	2.0%	2.3%	2.8%	3.7%	2.8%	4.0%	2.3%	2.9%

Source: Shared Research based on company data
 Figures may differ from company materials due to differences in rounding methods.
 Figures are before elimination of intersegment transactions.

Electronics trading

This is the company's main profit driver. The company handles a range of products serving electronics manufacturers, from semiconductors and electronic components to manufacturing equipment. Electronics products are characterized by short development and life cycles, with manufacturers having diverse procurement needs for advanced components. Hakuto employs a sales team who possess technical knowledge, allowing it to precisely identify customer needs and then procure and supply high value-added products from around the world. The company's solutions often include a design component. It acts as a development partner, linking its customers to suppliers and contributing to the development of state-of-the-art products matching customers' individual needs.

Hakuto operates as more than just an import/export agent and marketer on commission. It is also a "technology trading company" that provides its customers with development support and equipment maintenance. Although at heart a trading company, its staff have technical expertise in several areas, allowing the company to provide its customers with comprehensive support. Other trading companies specializing in electronics tend to strengthen their technical support as part of their strategy to boost value-added. However, Hakuto's key customers include major manufacturers, government agencies, and research institutes, and hence it has adopted this uncompromising approach to technical expertise as its business philosophy since its founding in 1953.

The following are overviews for each segment.

Electronic Devices and Components

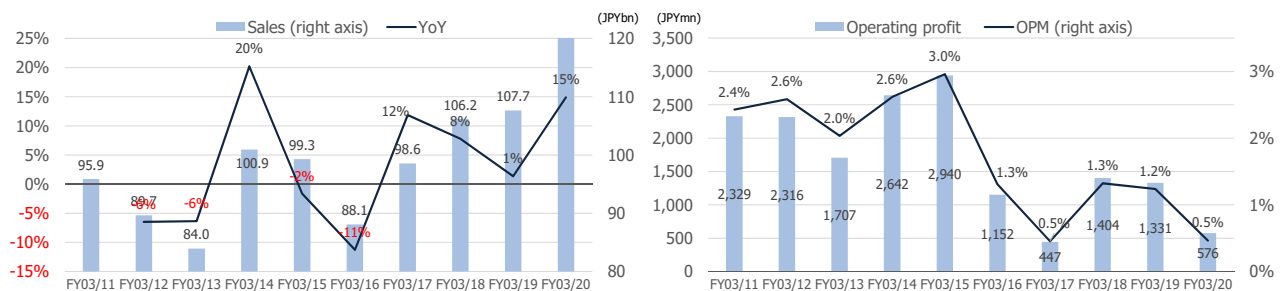
This is Hakuto's core business. During FY03/20 sales for the segment reached JPY123.7bn (76.5% of total sales) and segment profit came to JPY576mn (36.0%). However, with an operating margin of 0.5%, profitability was low compared to the other segments.

Within the segment are the semiconductor devices, general electronic components, and optical components divisions. Of segment sales, semiconductor devices accounted for 73.4%, general electronic components for 20.1%, and optical components for 6.5%. The company does not disclose a breakdown of operating profit by division, but Shared Research believes that the profitability is strong in the general electronic components and optical components divisions.

Main customers are in the electronics, automotive, and infrastructure sectors. Applications cover a broad spectrum, ranging from consumer products to R&D and production. In semiconductor devices, the company supplies these customers with state-of-the-art semiconductors. The Electronic Devices division procures and supplies these customers with advanced semiconductor equipment, while the Electronic Components division does the same for high quality, high function mechanical components and modular products.

Just over 10% of the segment's workforce is made up of field application engineers (FAEs), who not only provide technical support for the semiconductors handled but are also involved in design-related activities, such as proposing specific semiconductors to match a customer's product development needs.

Sales and operating profit



Source: Shared Research based on company data

Electronic Devices

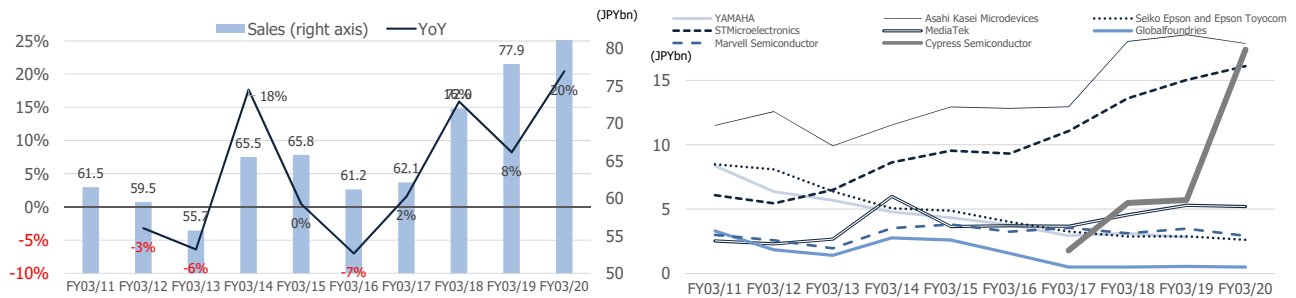
The main products handled are microprocessors, graphics semiconductors, microcontrollers, sound generator semiconductors, quartz devices, and other semiconductor devices. Main customer sectors include automotive, manufacturers of consumer equipment and manufacturers of telecom equipment.

The Electronic Devices division is the mainstay of the Electronic Devices and Components segment. It handles devices for such applications as automobiles, consumer electronics, motors for consumer equipment and tablets. Because of the great number of products involved and large customer transactions, its contribution to sales is large, but price competition in the segment is also fierce. As a result, the profit margin is low compared to other segments. Nevertheless, at present sales are robust, especially for automobiles where the introduction of smart controls is proceeding at a torrid pace.

Major suppliers include such domestic and overseas semiconductor manufacturers as Asahi Kasei Microsystems Co., Ltd. (wholly owned subsidiary of Asahi Kasei Corporation [TSE1: 3407]), Yamaha Corp (TSE1: 7951), STMicroelectronics NV (NYSE: STM), Cypress Semiconductor Corporation, which was acquired by Infineon Technologies (IFX, FWB), SP Media-Tec Co., Ltd. (TPE: 2454), Marvell Technology Group Ltd (NASDAQ: MRVL), and Seiko Epson Corp (TSE1: 6724). Hakuto has recently increased the commercial rights it holds for foreign-branded semiconductors. From FY03/20 it is expected to increasingly do so, especially for Cypress Semiconductor products for automobile use. Hakuto's strategy appears to be that by expanding its product lineup it can achieve an optimal business balance while more dynamically responding to market needs. Consequently, Hakuto handles

products from major manufacturers while also working to increase sales of products from many small-scale producers that have original technology and products.

Sales



Source: Shared Research based on company data

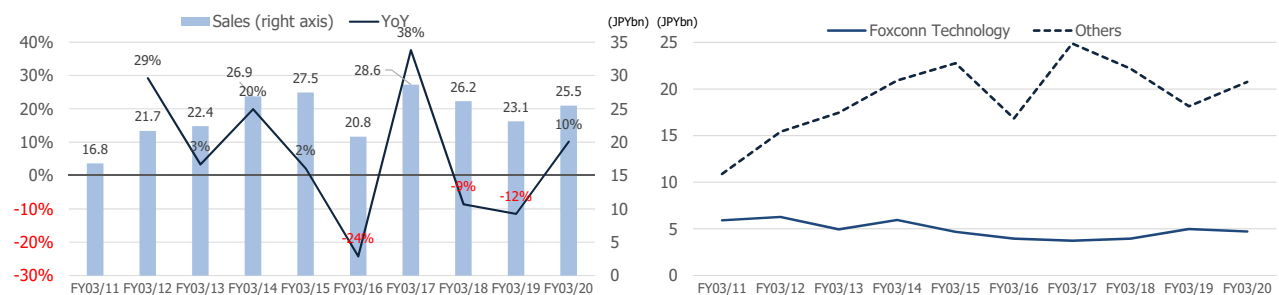
Electronic Components

Main products include various kinds of connectors, LCD panels, electrical components and materials, products to prevent electromagnetic interference (EMI), heat sinks, and optical components.

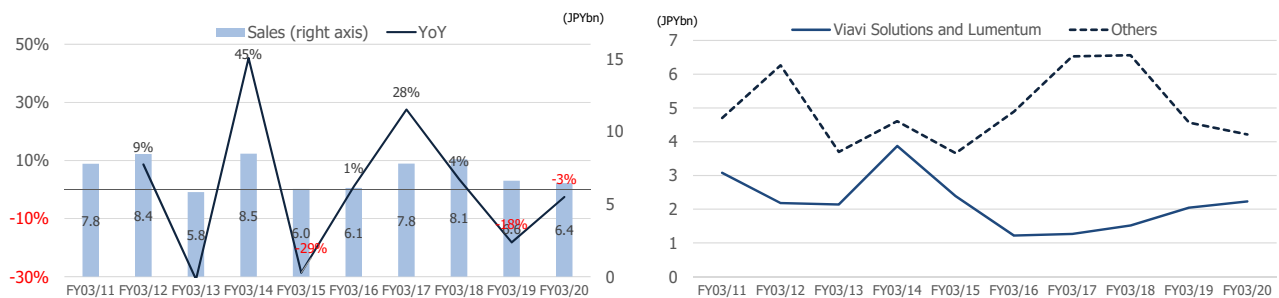
The electronic components business within the electronic devices and components segment handles products covering a range of fields, from PCs to telecom, consumer equipment, and OA equipment. Connectors are the mainstay, but the company offers a broad product lineup and thus can cater to a wide range of electronics-related customer needs for all types of electrical components and electrical materials. Although the company does not disclose the division’s profit margins, Shared Research believes them to be higher than in electronic devices.

According to the company, it expects rapid growth for the optical components business, as a result of the technological innovations now occurring in growth fields like 5G and IoT. Since it has already been involved in these areas for around a decade, the company claims to have a leg up on other trading companies. Moreover, since the LCD panel business has been adversely impacted by the drying up of growth previously seen in the OA equipment market, Hakuto has shifted its focus to growth markets, such as the automobile sector, cultivating new markets such as the radio-frequency identification (RFID) business, and getting involved in new sectors.

Sales of general electronic components



Sales of optical components



Source: Shared Research based on company data

Electronic and Electric Equipment

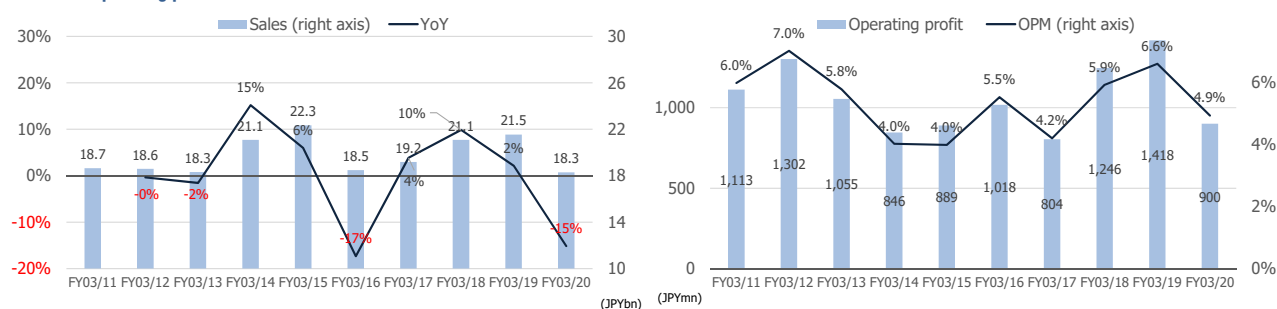
Main products handled are PCB manufacturing equipment, vacuum equipment, and physics and chemistry-related analysis apparatus.

In this segment, Hakuto proactively works to acquire distribution agency rights from domestic and overseas manufacturers of equipment and analysis apparatus related to state-of-the-art technologies, while at the same time it deploys a sales team with technical expertise that provides support to meet the varying needs of customers concerning technological trends or R&D. In FY03/20, segment sales reached JPY18.3bn (-15.9 YoY) while segment profit came to JPY900mn (-36.5% YoY) with an operating margin of 4.9%.

Although the operating margin is high compared to the Electronic Devices and Components business, that is due to the value added for the technical services required to handle changes in specifications for calibrating and customizing equipment delivered to customers. Roughly 40% of the company's staff working in this segment are service staff who offer total customer support for everything from defining the specifications to providing after-service.

The company develops and manufactures its own brand of PCB manufacturing equipment. The company's Isehara Technical Center in Kanagawa Prefecture provides maintenance services and offers product demonstrations.

Sales and operating profit



Source: Shared Research based on company data
 Note: FY03/19 figures are based on the company's initial forecast.

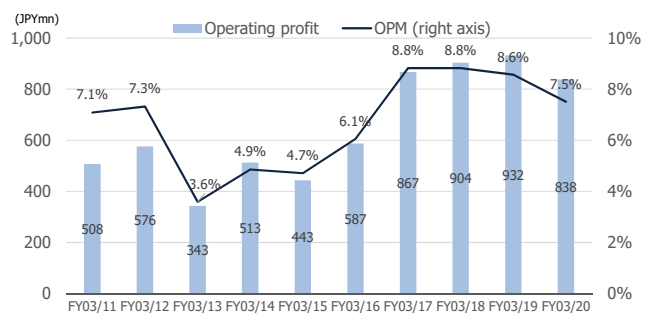
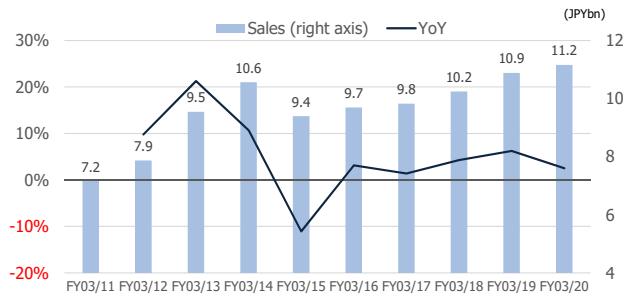
Industrial Chemicals

Main products handled are as follows:

- ▷ Petroleum refinery and petrochemical: corrosion inhibitor, desalting agent, antifoulant, fluid catalytic cracking (FCC) catalyst.
- ▷ Pulp and paper: anti-foaming agent, deposit control agent, felt conditioner, pulp cleansing aid.
- ▷ Automotive: paint overspray detackifier, paint pipe-cleaning agent.
- ▷ Water treatment and boiler: water treatment additives, ion exchange resin.
- ▷ Cosmetics: cosmetics base material (Alcasealan), commissioned cosmetics development.

In this segment the company acts both as a manufacturer of original products and a distributor for a number of domestic and overseas manufacturers. In FY03/20, segment sales were JPY11.2bn (+2.5% YoY), segment profit was JPY838mn (-10.1% YoY), and the operating margin was 7.5%. The specialty factor for the products the company handles translates into a profit margin for this area above the company's average. In its specialty chemicals manufacturer capacity, the company aims to help customers enhance productivity as well as improve environmental performance in such fields as petroleum refining, petrochemicals, pulp and paper, and automotive. Hakuto also uses microbial polysaccharide technology to manufacture and supply materials for cosmetics manufacturers on an OEM basis. Product development is carried out at Hakuto's plant and research laboratory in Yokkaichi, Mie Prefecture.

Sales and operating profit



Source: Shared Research based on company data

Involvement in new fields to expand business

To maintain sustainable growth, the company continuously reviews and updates its product lineup. The company also collaborates with, and makes investments in, partner companies in fields with strong growth potential. Since FY03/13, the company has established alliances and capital tie-ups with the following partners:

Date	New transaction	Sales target
2019		
5/13	Signed contract for exclusive sales rights in Japan with Wave2Wave Solution Corporation and NTT Advanced Technology Corporation	
2017		
11/7	Signed new distributor contract with MAXIM Integrated (US)	
2016		
10/16	Signed new distributor contract with OtO Photonics (Taiwan)	JPY50mn in FY03/18, JPY100mn in FY03/19
5/23	Service started in Hakuto Czech	Sales mainly of electronic parts and equipment
2/17	Started sales of HIKARI Smart Home System with C-Cube	
2015		
12/25	Newly installed solar power system in Isehara Logistics Center for electricity sales	
11/12	Signed new distributor contract with Cypress Semiconductor	
2014		
12/15	Signed new distributor contract with Next Biomatrix (Norway)	JPY1.5bn in three years
11/04	Began handling new product samples fro Veeco Instruments (US)	JPY4.0bn by FY03/15, JPY5.0bn by end of 2015 of all Veeco products
5/09	Signed new distributor contract with Compass-EOS (Israel)	JPY100mn for FY03/15, JPY300mn for FY03/16, JPY1bn for FY03/17
5/02	Signed new distributor contract with Ambarella (US)	JPY50mn for FY03/15, JPY300mn for FY03/16, JPY500mn for FY03/17
4/03	Signed new distributor contract with CYMBET (US)	JPY100mn for FY03/15, JPY300mn for FY03/16, JPY500mn for FY03/17
4/01	Commenced electricity sales at Hakuto Miyazaki Solar Park Began handling new product samples from Aviacomm	
2/03	Signed new distributor contract with Hitachi Consumer Marketing	
1/28	Commenced electricity sales at Hakuto Noboribetsu Solar Park	
2013		
12/18	Commenced electricity sales at Hakuto Fukushima Solar Park	
9/30	Operations started at Hakuto Takigawa Hohoemi Solar Park	
9/06	Operations started at Hakuto Igurazu Solar Park	
9/2	Began sales of Spansion (US) products	JPY3bn for FY03/16
	Signed new distributor contract with Veeco Instruments (US)	JPY4bn for FY03/15, JPY5bn for FY03/16
8/7	Signed new distributor contract with Hittite Microwave (US)	JPY1bn for FY03/15, JPY2bn for FY03/16
6/4	Signed new distributor contract with PLX Technology (US)	JPY1bn for FY03/16
3/26	Groundbreaking ceremony for Hakuto Takikawa Hohoemi Megasolar Power Plant	
3/18	Signed new distributor contract with Aviacomm (US)	JPY1bn for FY03/16
1/31	Signed agreement to construct megasolar power plant in Takikawa City, Hokkaido	
1/29	Isehara service center reopened following renovations	
2012		
12/28	Groundbreaking ceremony for Hakuto Igurazu Solar Power Plant	
12/26	Signed new distributor agreement with W. L. Gore & Associates (US)	
12/18	Signed new distributor agreement with Fujitsu Semiconductor	JPY3bn for FY03/16
8/22	Established subsidiary for consumer PV sales after merger	JPY2.6bn for FY03/14
6/22	Established Matsumoto Satellite Office	
6/4	Signed new distributor agreement with LitePoint (US)	JPY1bn for FY03/15
4/23	Signed new distributor agreement with International Rectifier (US)	

Source: Shared Research based on company data

Hakuto's unique sales system delivers a low inventory loss rate

Hakuto's trading business uses a sales structure that is different from that of its competitors, one of the sources of the company's strength. Main characteristics:

“Vertical” team structure results in enhanced relations with customer companies and reduced inventory loss rate

Unlike other semiconductor trading companies, Hakuto uses “vertically” organized sales teams based on the supplier. The company's competitors typically have marketing staff highly versed in a particular product. These employees are responsible for procurement, and separate sales people focus on managing a specific customer account. However, at Hakuto, the same individual fulfills both the marketer and account manager roles.

Since the account is handled by a different person depending on the product category, several sales staff may be involved in serving a specific customer, particularly large customers. At first glance, such a system may appear inefficient, but sales persons

are in contact not only with the customer's purchasing department, but also with many other divisions. This is advantageous, as it enables Hakuto to build close relationships with customers.

Reduced inventory loss rate

One of the major advantages of having one sales person responsible for each product is the low rate of inventory loss. According to the company, if a sales person makes sales calls to 100 customers, around 30 customers will make sample orders and, on average, this will lead to large-volume orders from around 10 customers. Since Hakuto's competitors typically have several employees involved in each potential sale, additional time is required to coordinate the team. Communication errors with the client can easily arise, which can lead to problems in precision of order fulfillment. In contrast, Hakuto has one person handling both marketing and sales, which makes it easier to monitor market trends, competition and customer needs.

Since responsibility is not split among several people, managing the profitability of each product is also made easier. Hakuto, focusing more on profitability than on growing sales, will place an order with a supplier only after receiving a written purchase pledge from a customer. This aids in keeping inventories to a minimum. According to Hakuto's CEO, other trading companies often place orders with suppliers before receiving a written pledge of purchase, since winning orders is given top priority. However, in the company's case, 80-90% of its inventory already has a purchase pledge from a customer, and the annual inventory loss is less than JPY100mn. For this reason, Hakuto states that the inventory loss rate is lower than the industry average

The company assigns at least one sales person to manage each product. Even in the cases of newly acquired distribution rights for a start-up company's new product, at least one sales person is assigned to that product as his sole responsibility. However, Hakuto maintains its focus on profitability, even for new products. Although high-volume orders require additional sales people, lowering profitability, the company aims to achieve profitability for a product within three years, and gross profit per sales person of JPY30mn per year. Hakuto manages profit on a departmental basis, and each department is set a profit target that is above the previous year's result. Two to four groups are within each department, and establishment of new groups is left to the discretion of departmental management. Each department must aim for maximum profitability, coordinating newly established groups and maintaining profitable groups.

Maintenance capability

High level of maintenance capability. According to the company, almost no other distributors in Japan are capable of providing maintenance on machinery that ranges from universal small-scale equipment to large-scale equipment. Hakuto has handled a variety of equipment, beginning with measuring instruments immediately after its founding. Apart from a few exceptions, the company provides clients with comprehensive solutions from installation to maintenance. According to the company, its competitors rarely provide such services, and this gives customers peace of mind when procuring equipment through Hakuto.

To execute the vertically integrated sales method, the company needs to employ many sales people with strong technical knowledge. For this reason, it actively recruits new staff with engineering backgrounds. With regard to maintenance capabilities, Hakuto runs the Isehara Technical Center, where it aims to increase its maintenance knowledge. In both sales and maintenance, accumulating expertise takes time, and it will be difficult for competitors to quickly catch up. Shared Research believes this focus on profitability, combined with its unique sales method, are important sources of Hakuto's strength (see Strengths and weaknesses).

Hakuto follows an in-house rule for prolonged inventory turnover, which stipulates a provision of 100% allowance for products that have been in inventory for two years. This rule had a significant impact on earnings in FY03/20, since the company applied the rule in advance in preparation for the potentially prolonged retention period of purchased inventory, as the COVID-19 pandemic leads to a slump in sales activities and a slowdown in socio-economic activity. The costs associated with this action severely impacted profit at the company in FY03/20. The company indicated that the provision will be reversed upon the sale of retained inventory.

Suppliers and customers

Hakuto has around 600 domestic suppliers and around 4,500 domestic customers (company data). The number has remained stable over the years. The company did not disclose the corresponding number of overseas suppliers and customers but said it is considerably smaller.

Recognizing the risk of overdependence on specific suppliers or customers whether in Japan or abroad, Hakuto does business with many companies. Its group companies around the world allow it to seamlessly market its products to customers both at home and abroad. The main customers are Panasonic Corp (TSE1: 6752), Fujitsu Ltd. (TSE1: 6702), Denso Corporation (TSE1: 6902), and Aisin Seiki Co., Ltd. (TSE1:7259). However, the company does not have any “big customers” accounting for more than 10% of its total sales.

Hakuto emphasizes profitability over the level of sales. According to the company, it sets a GPM target for each product, and conducts sales with this target in mind. The GPM target for devices appears to be around 10%, around 30% for equipment, and around 50% for industrial chemicals (with its high weighting of in-house products).

Hakuto sets its own credit parameters for each customer, and conducts business based on those parameters. Thanks to this systematic approach, the level of doubtful receivables is low, not exceeding several million yen annually. The company says that this level remained relatively stable even during the 2008-09 global financial crisis.

Manufacturing

Although Hakuto is a trading firm, the company manufactures some products sold in the Industrial Chemicals and Electronic Devices and Components businesses, something that sets it apart among the electronics trading companies. Manufacturing is especially important in the Industrial Chemicals business. As an example, production results for FY03/19 (on a sales amount basis) were JPY1.5bn (+31.3% YoY) for Electronic Devices and Components and JPY6.0bn (+7.7%) for Industrial Chemicals. The proportion of sales for the company’s own production to total segment sales were 1.4% for Electronic Devices and Components and 54.8% for industrial chemicals.

Sales channel by product category

- Electronic Devices and Components:** In addition to sales by the parent, sales are handled by consolidated subsidiaries Hakuto Enterprises Ltd (Hong Kong), Hakuto Enterprises (Shanghai) Ltd, Hakuto (Thailand) Ltd, Hakuto Singapore Pte Ltd, Hakuto Taiwan Ltd, and Hakuto Trading (Shenzhen) Ltd. Consolidated subsidiary Moldec Co Ltd manufactures and sells electronic components, and processes some electronic components on behalf of the company.
- Electronic and Electric Equipment:** In addition to sales by the parent, sales are handled by consolidated subsidiaries Hakuto Enterprises Ltd (Hong Kong), Hakuto Enterprises (Shanghai) Ltd, Hakuto (Thailand) Ltd, Hakuto Singapore Pte Ltd, and Hakuto Taiwan Ltd. Some electronic and electric equipment is bought from affiliate San Ei Giken Inc. Affiliate ASA Systems Inc. carries out sales and computer software development for electronic and electric equipment. Some of these products are sold among Hakuto’s consolidated group companies.
- Industrial Chemicals:** In addition to sales of in-house manufactured products, the company also sells some products manufactured by other companies.
- Others:** Consolidated subsidiary Hakuto A&L Co Ltd undertakes subcontracted operations on behalf of other group companies.

Sales by region

Hakuto is expanding overseas operations in conjunction with that of its domestic customers. Overseas sales are increasing. Since 1973, the company has established offices in Hong Kong, Taiwan and Singapore, and has developed independent businesses to match the needs of local markets. According to the company, around 50% of sales of these overseas operations are from local

business, and profit margins are higher than in Japan. There are also many products for which Hakuto's commercial rights are only valid for overseas offices. In the future, cultivating overseas markets will be a key management priority.

Sales by region

Cumulative (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.	FY03/20 Cons.
Sales	110,910	116,148	111,823	132,619	131,073	116,296	127,599	138,744	140,123	153,182
YoY	14.1%	4.7%	-3.7%	18.6%	-1.2%	-11.3%	9.7%	8.7%	1.0%	9.3%
Electronic Devices and Components	76,893	75,232	68,783	82,654	75,289	68,624	71,428	80,901	83,105	94,495
YoY	6.0%	-2.2%	-8.6%	20.2%	-8.9%	-8.9%	4.1%	13.3%	2.7%	13.7%
% of total	69.3%	64.8%	61.5%	62.3%	57.4%	59.0%	56.0%	58.3%	59.3%	61.7%
Electronic and Electric Equipment	32,444	40,162	42,356	48,702	54,816	45,676	54,396	55,857	54,179	54,223
YoY	33.1%	23.8%	5.5%	15.0%	12.6%	-16.7%	19.1%	2.7%	-3.0%	0.1%
% of total	29.3%	34.6%	37.9%	36.7%	41.8%	39.3%	42.6%	40.3%	38.7%	35.4%
Other	1,573	754	684	1,263	968	1,996	1,775	1,986	2,839	4,464
YoY	590.1%	-52.1%	-9.3%	84.6%	-23.4%	106.2%	-11.1%	11.9%	43.0%	57.2%
% of total	1.4%	0.6%	0.6%	1.0%	0.7%	1.7%	1.4%	1.4%	2.0%	2.9%
Overseas sales ratio	30.7%	35.2%	38.5%	37.7%	42.6%	41.0%	44.0%	41.7%	40.7%	38.3%

Source: Shared Research based on company data

Impact of exchange rates

To hedge forex risks, the company uses forward exchange contracts and other instruments. Basically, the company hedges for both purchases and sales by using forward exchange contracts (for both purchases and sales of foreign currency) to lock in a fixed rate on the settlement dates. In its currency management, the company has adopted an in-company policy of avoiding trying to time the currency market, and instead hedges in order to ensure profits from its product sales transactions. It therefore enters into foreign exchange contracts with the aim of avoiding forex market fluctuations.

As shown in the table below, within the parent's results—which constitute a major portion of the group's results—purchases from overseas account for almost half of all purchases. The company has 11 overseas subsidiaries in Asia. Financial statements for each region are prepared in local currency and subsequently converted to yen for the preparation of consolidated statements. Consequently, the exchange rate used at the time of conversion has an impact on the subsequent consolidated statements.

Purchase turnover of the parent by region (includes CoGS and outsourcing costs)

(JPYmn)	FY03/10	FY03/11	FY03/12	FY03/13	FY03/14	FY03/15	FY03/16	FY03/17	FY03/18	FY03/19
Total	60,353	71,415	71,439	69,186	85,018	80,711	73,671	78,577	99,092	103,286
Domestic procure	34,971	44,320	41,408	36,311	42,384	44,056	42,074	44,767	54,897	56,612
Overseas procure	25,382	27,095	30,030	32,875	42,633	36,654	31,596	33,809	44,194	46,674
Overseas ratio	42.1%	37.9%	42.0%	47.5%	50.1%	45.4%	42.9%	43.0%	44.6%	45.2%

Source: Shared Research based on company data

Main group companies

The group comprises the parent and group companies (12 subsidiaries and two affiliates). The group spans Japan and the Asia region (China, Taiwan, Singapore, and Thailand).

The company's major consolidated subsidiaries, as of FY03/19, are as follows.

Consolidated subsidiaries

	Company	Voting rights ratio	Businesses
Domestic	Moldec Co., Ltd	100%	Manufacture and sales of high precision plastics
	Hakuto A&L Co., Ltd.	100%	Administration and logistics
	Hakuto Life Science Co., Ltd.	100%	Purchase of chemical raw materials and products
Overseas	Hakuto Enterprises Ltd.	100%	Export and import of electronic equipment and components
	Hakuto Singapore Pte. Ltd.	100%	Export and import of electronic equipment and components
	Hakuto Taiwan Ltd.	100%	Export and import of electronic equipment and components
	Hakuto Enterprises (Shanghai) Ltd.	100%	Export and import of electronic equipment and components
	Hakuto (Thailand) Ltd.	100%	Export and import of electronic equipment and components
	Hakuto Engineering (Thailand) Ltd.	100%	Export and import of electronic equipment and components
	Hakuto Trading (Shenzhen) Ltd.	100%	Import of electronic components

Source: Shared Research based on company data

Equity-method affiliates

	Company	Voting rights ratio
Domestic	San ei giken inc.	33%
	ASA Systems Inc.	30%

Source: Shared Research based on company data

Profitability snapshot, financial ratios

Comparison between sales of top 10 semiconductor trading companies and Hakuto Co., Ltd.

Ticker	Company Name	Sales (JPYmn)									
		FY03/11	FY03/12	FY03/13	FY03/14	FY03/15	FY03/16	FY03/17	FY03/18	FY03/19	FY03/20
7433	Hakuto Co., Ltd.	110,910	116,148	111,823	132,619	131,073	116,296	127,599	138,744	140,123	153,182
2715	Elematec Corporation	110,614	115,417	129,405	143,442	181,876	216,824	203,004	196,238	183,399	175,654
2737	TOMEN DEVICES CORPORATION	189,693	151,426	137,383	174,654	171,882	189,372	156,677	197,569	217,632	260,367
3132	Macnica Fuji Electronics Holdings, Inc. *	188,440	188,893	196,452	255,967	284,673	405,315	398,503	504,085	524,235	521,193
3156	Restar Holdings Corporation **	303,585	257,162	284,508	317,042	280,672	288,684	273,752	301,449	205,771	379,548
7537	MARUBUN CORPORATION	210,455	242,708	220,200	260,424	280,320	279,571	270,698	347,508	326,694	287,550
8084	Ryoden Trading Company, Limited	197,016	202,723	203,730	224,766	237,877	221,990	219,225	236,494	240,312	230,087
8140	Ryosan Company, Limited	216,154	217,887	206,534	238,399	233,552	228,149	218,003	254,077	249,688	227,297
8150	SANSHIN ELECTRONICS CO., LTD.	182,670	144,159	147,963	192,240	219,091	199,075	167,654	157,257	147,879	123,085
8154	KAGA ELECTRONICS CO.,LTD.	237,811	229,856	216,405	257,852	255,143	245,387	227,209	235,921	292,779	443,615
		Operating profit (JPYmn)									
7433	Hakuto Co., Ltd.	4,392	4,222	3,101	4,043	4,307	2,906	2,069	3,740	3,642	2,414
2715	Elematec Corporation	4,113	4,081	4,147	5,246	7,375	6,868	5,406	6,480	6,335	4,765
2737	TOMEN DEVICES CORPORATION	4,037	3,487	1,928	2,364	2,435	1,907	1,252	2,598	3,528	4,526
3132	Macnica Fuji Electronics Holdings, Inc. *	6,360	6,887	5,747	8,456	9,195	9,729	10,473	15,163	15,324	14,447
3156	Restar Holdings Corporation **	4,431	5,389	7,360	6,925	5,578	6,487	-6,603	4,384	4,508	6,637
7537	MARUBUN CORPORATION	2,754	2,842	2,991	3,912	4,688	3,212	2,883	3,771	5,048	2,369
8084	Ryoden Trading Company, Limited	4,084	4,003	4,414	5,278	4,992	3,673	2,730	5,078	5,624	5,559
8140	Ryosan Company, Limited	6,078	3,511	3,673	5,144	5,925	5,538	4,659	5,665	5,236	3,108
8150	SANSHIN ELECTRONICS CO., LTD.	2,163	1,008	2,032	2,517	3,260	1,913	804	1,763	1,965	1,958
8154	KAGA ELECTRONICS CO.,LTD.	3,423	2,067	1,260	5,106	6,362	7,788	6,879	8,119	7,570	10,014
		Operating profit margin									
7433	Hakuto Co., Ltd.	4.0%	3.6%	2.8%	3.0%	3.3%	2.5%	1.6%	2.7%	2.6%	1.6%
2715	Elematec Corporation	3.7%	3.5%	3.2%	3.7%	4.1%	3.2%	2.7%	3.3%	3.5%	2.7%
2737	TOMEN DEVICES CORPORATION	2.1%	2.3%	1.4%	1.4%	1.4%	1.0%	0.8%	1.3%	1.6%	1.7%
3132	Macnica Fuji Electronics Holdings, Inc. *	3.4%	3.6%	2.9%	3.3%	3.2%	2.4%	2.6%	3.0%	2.9%	2.8%
3156	Restar Holdings Corporation **	1.5%	2.1%	2.6%	2.2%	2.0%	2.2%	-	1.5%	2.2%	1.7%
7537	MARUBUN CORPORATION	1.3%	1.2%	1.4%	1.5%	1.7%	1.1%	1.1%	1.1%	1.5%	0.8%
8084	Ryoden Trading Company, Limited	2.1%	2.0%	2.2%	2.3%	2.1%	1.7%	1.2%	2.1%	2.3%	2.4%
8140	Ryosan Company, Limited	2.8%	1.6%	1.8%	2.2%	2.5%	2.4%	2.1%	2.2%	2.1%	1.4%
8150	SANSHIN ELECTRONICS CO., LTD.	1.2%	0.7%	1.4%	1.3%	1.5%	1.0%	0.5%	1.1%	1.3%	1.6%
8154	KAGA ELECTRONICS CO.,LTD.	1.4%	0.9%	0.6%	2.0%	2.5%	3.2%	3.0%	3.4%	2.6%	2.3%

Source: Shared Research based on data for individual companies.

*Established after merger of MACNICA, Inc. and Fuji Electronics Co., LTD. in April 2015. Prior figures are for MACNICA.

**Established after merger of UKC Holdings Corporation and Vitec Holdings Co., Ltd. in April 2019. Prior figures are for UKC Holdings Corporation.

Maintaining stable profit levels in the semiconductor and electronics fields since 2008

In the 2000s, the semiconductor industry saw brisk performance amid fast-growing demand. However, the operating environment changed in fall of 2008 with the onset of the global financial crisis. In 2H 2009, sales across many sectors—including PCs, mobile phones, and automotive—turned stagnant, and the operating performance of semiconductor-related companies deteriorated rapidly. Although there were signs of a recovery in 2011, the impact of sluggish European economies and other factors meant a full recovery did not ensue.

Given these market conditions, the performance of semiconductor-related companies has fluctuated greatly, and industry realignment and consolidation has been an ongoing feature across the globe. In the electronics trading sector, rapid changes in customer performance in the consumer electronics and mobile phone industries has led to large performance fluctuations, and some trading companies have seen performance slide, forcing many companies to restructure.

In this environment, Hakuto has maintained relatively stable profits compared with the industry. Hakuto's sales are in the mid-range of the top 30 electronics trading companies in Japan. However, operating profit on an absolute basis compares favorably with other companies in the top 10. In terms of OPM, Hakuto consistently ranks high.

Shared Research believes that the stability of Hakuto's revenues can be attributed to two factors. It has a balanced business model not limited to one particular business. In addition, it employs many technical staff, and can provide technical services that differentiate it from competitors (see Strategy section).

Market and value chain

The semiconductor device business is at the core of Hakuto's operations. Sales by this business account for around half of overall sales. As such, semiconductor market trends are an important factor to consider when looking at Hakuto's earnings.

World Semiconductor Trade Statistics (WSTS) was unable to have a spring forecast meeting in 2020 due to the COVID-19 situation. WSTS market forecasts to date have been based on member company forecasts that reference WSTS semiconductor market statistics, while also taking into account trends at the macroeconomic level and among mainstay electronics products. However, the current forecast forgoes this process and is instead based on the average of the growth forecasts made by the member companies.

WSTS is a statistics-gathering organization. It was established in 1984, and most semiconductor manufacturers around the globe are members. WSTS compiles the semiconductor shipment values and volumes of its members, broken down by product category and region (Japan, Americas, Europe, Asia Pacific). Statistics are released monthly. It publishes the world's only statistics with standardized classifications for all manufacturers. The WSTS outlook conference takes place twice yearly in May and November. WSTS currently has 43 member companies (semiconductor manufacturers).

World semiconductor market trends

On a calendar-year basis, the global semiconductor market contracted by 12.0% YoY in 2019. The market was sharply impacted by the slowdown in a global economy fraught with geopolitical risks, including trade friction between the US and China. In contrast, the market is expected to expand 3.3% YoY in 2020, largely on a rebound in memory prices. Excluding memory, the WSTS forecasts estimate the market declining 0.7% YoY. On the other hand, the semiconductor market is expected to recover on an overall basis in 2021, expanding by 6.2% YoY.

The WSTS forecast for 2020 estimates the discrete semiconductor market at USD22.3bn (-6.6% YoY), the optoelectronics market at USD39.4bn (-5.1% YoY), the sensors market at USD13.2bn (-2.1% YoY), and the IC market as a whole at USD351.0bn (+5.3% YoY). Within the IC market, the WSTS forecast estimates gains of 15.0% YoY in the memory market, 2.9% YoY in the logic market, and 2.6% YoY in the micro market, but a decline of 5.8% in the analog market. For 2021, the WSTS forecast estimates the discrete semiconductor market at USD23.6bn (+5.7% YoY), the optoelectronics market at USD41.9bn (+6.1% YoY), the sensors market at USD13.8bn (+4.6% YoY), and the IC market as a whole at USD373.0bn (+6.3% YoY). Within the IC market, the WSTS forecast estimates gains of 11.2% YoY in the memory market, 3.9% YoY in the logic market, 1.4% YoY in the micro market, and 5.9% in the analog market.

Japan semiconductor market trends

The Japanese semiconductor market narrowed 11.2% YoY on a local-currency basis in 2019 to about JPY3.9tn.

The WSTS forecast estimates the Japanese semiconductor market contracting for a second consecutive year on a local-currency basis in 2020, dropping 4.2% YoY to about JPY3.8tn. On the other hand the WSTS forecast estimates 3.3% YoY growth in 2021 to about JPY3.9tn.

The WSTS definition of semiconductor market is "the region where semiconductor products are sold to a third party by a semiconductor manufacturer", regardless of the nationality or location of production plant. Third party refers to semiconductor users (electronics manufacturers), EMS and semiconductor trading firms. Consequently, the shipment value for the Japan market is based on sales by manufacturers worldwide to third parties in Japan. Even if the buyer ships the semiconductors overseas to be used in the production of electronics goods, this is still defined as part of the Japan market.

The WSTS Regional Breakdown of Shipments by Value (May 2019)

	CY2010	CY2011	CY2012	CY2013	CY2014	CY2015	CY2016	CY2017	CY2018	CAGR 15-18
Worldwide (USDmn)	298,315	299,521	291,562	305,584	335,843	335,168	338,931	408,691	437,265	9.3%
America	53,675	55,197	54,359	61,496	69,324	68,738	65,537	86,458	95,380	11.5%
Europe	38,054	37,391	33,163	34,883	37,459	34,258	32,707	38,048	39,799	5.1%
Japan	46,561	42,903	41,056	34,795	34,830	31,102	32,292	36,350	37,990	6.9%
Asia Pacific	160,025	164,030	162,985	174,410	194,230	201,070	208,395	247,834	264,097	9.5%
Japan (JPYbn)	4,083	3,419	3,274	3,396	3,681	3,765	3,507	4,058	4,214	3.8%

Source: Shared Research based on WSTS Japan

Barriers to entry

Full-scale new entry: difficult. The trading business does not require large-scale plant or facilities. However, the core sales broking operations need networks of suppliers and customers. In recent years, specialty trading firms undertake development support activities for customers, and this requires the accumulation of technical expertise. Although limited entry is possible for new entrants where the trading business generates synergies with the entrant's main business, full-scale new entry is seen as difficult.

According to the company, Japanese suppliers are moving further toward a non-factory model (smaller sales and production functions) to reduce fixed costs and enable greater focus on product development. This means increasing need for trading companies with technical knowledge and understanding. However, when a product's sales volume increases, some suppliers suggest that they will switch to direct sales to end-customers rather than dealing with a trading company. In such cases, Hakuto can appeal to suppliers by emphasizing that its highly honed market prowess adds value by developing new customers and promoting new products—functions the supplier could not handle on its own. Among recent cases, around 80% of suppliers who have cancelled contracts with Hakuto in the past have ended up returning, according to the company. This shows that most suppliers cannot ignore the company's marketing capabilities.

Competition

Semiconductor trading companies can be divided into manufacturer-affiliated firms and independent firms. Since the range of products handled is diverse, each firm tends to have its own distinct characteristics. However, manufacturer-affiliated firms tend to rely heavily on their parent's products. According to Hakuto, Ryoden Trading Co Ltd has a similar business model since it not only has a semiconductor business but handles equipment and has production operations. However, Ryoden's sales are largely dependent on parent Mitsubishi Electric Corp (TSE1:6503).

Since Hakuto is independent, it has diverse suppliers and there is little direct friction between suppliers. Major independent semiconductor trading companies include Macnica Fuji Electronics Holdings Inc. (TSE1: 3132), Marubun Corp (TSE1: 7537) and Kaga Electronics Co Ltd (TSE1: 8154). Kaga has similarities to Hakuto through its diverse businesses. However, Kaga has a broad array of businesses including golf and food, and has little direct competitive overlap with Hakuto. The distinctive characteristics of domestic semiconductor trading companies are summarized below.

Major Semiconductor Trading Companies and their Characteristics

Ticker	Company	Description
7433	Hakuto Co., Ltd.	Specialist independent trading company handling electronics. Large weighting of foreign products. Development-oriented sales a feature. Also has industrial chemicals manufacturing business. Developing China market.
2715	Elematec CORPORATION	Specializes in electronic materials and components. Under the Toyota Tsusho umbrella. Shifting focus from smartphones to automotive.
2737	TOMEN DEVICES CORPORATION	Trader of semiconductors and liquid crystal products under the Toyota Tsusho umbrella. Primarily sells Samsung Electronics' DRAM and flash memory products.
7631	Macnica Fuji Electronics Holdings, Inc. *	One of the leading independent semiconductor trading in Japan. Has strength in discovering technologies to market. Also covers security-related products. Current holding company established in April 2015, following merger of Macnica and Fuji Electronics, Inc.
3156	Restar Holdings Corporation **	General electronics trading company, focusing on semiconductors and electronic components. Established in April 2019 when Vitec Holdings merged with UKC Holdings (formed through a merger between Kyoshin Technosonic and USC, a specialist handling Sony products).
7537	MARUBUN CORPORATION	Independent trading firm specializing in foreign-made semiconductors, established in 1844 as a clothing wholesaler. Sales mostly from semiconductor devices. Also covers in medical and measuring instruments.
8084	Ryoden Trading Company, Limited	Largest Mitsubishi Electric-affiliated trading firm. Covers a wide range of products including FA, elevators, air conditioning, as well as semiconductors. Expanding coverage of products made by non-Mitsubishi companies.
8140	Ryosan Company, Limited	One of the largest independent semiconductor trading firms. Mainly handles Renesas Electronics products (especially the products from former NEC Electronics). Large engineering workforce. Expanding China market following acquisition of a Hong Kong-based trading company.
8150	SANSHIN ELECTRONICS CO., LTD.	Major semiconductor trader. Mainly covers Renesas Electronics products. Covers semiconductors used in consumer electronics such as game consoles, as well as products for industrial applications. Large sales overseas.
8154	KAGA ELECTRONICS CO., LTD.	Independent trading firm focusing on EMS and specializing in automotive and IoT. Also covers energy saving products for commercial facilities and convenience stores.

Source: Shared Research based on JAPAN COMPANY HANDBOOK and company data

*In April 2015 Macnica Inc. merged with Fuji Electronics Co., Ltd. after Macnica Inc. had been delisted in March 2015.

**In April 2019 UKC Holdings Corporation merged with Vitec Holdings Co., Ltd.

With regard to overseas semiconductor trading firms, major distributors include Avnet (Nasdaq: AVT) and Arrow Electronics, Inc. (Nasdaq: ARW). According to the company, although these large distributors have the image of carrying a large amount of inventory, they in fact also put a lot of focus on technical support. To sell IBM semiconductors, Avnet recruited 200 IBM engineers. The business model of such firms is not simply broking, but is based on the assumption of offering technical support. Hakuto's president says that these overseas semiconductor trading firms differ from Hakuto in that they have focused on devices, whereas the company has sought to achieve a balance with its other businesses; nonetheless, they share the same emphasis on technical expertise in order to stay ahead in competition.

Strategy

The company is conscious of the need to maintain stable earnings in existing businesses while constantly being on the lookout for new commercial rights opportunities. It recognizes the importance of building overall group profit. For this reason, it sees the need to maintain a growth balance across all four businesses—components, devices, equipment and chemicals—while avoiding bias toward one business. To realize this goal, the company has formulated the following differentiation strategies:

Balanced management

Hakuto's operations are not concentrated in any particular field, but spread over a range of businesses, underpinning stable management. Suppliers and customers are not dominated by a single firm, and trading takes place with a large number of companies. The company does not rely solely on the electronics component field, but spans electronic and electric equipment, and industrial chemicals. If business is concentrated on a single field or industry, a company's performance is greatly affected by the performance of the sector as a whole. Since Hakuto operates in three segments, each with different business cycles, it can maintain a stable balance in sales and profits. In this respect, Hakuto is a rare case in the industry for its diversity of suppliers and products.

Technical services

Despite being a trading company, Hakuto employs a large number of technical staff. The company collaborates with suppliers to provide customers with technical support.

In the Electronic Devices and Components segment, FAEs not only provide technical support for semiconductors but undertake design activities by proposing semiconductors that match customers' product development needs.

In the Electronic and Electric Equipment segment, FSEs provide total support encompassing equipment customization, installation, calibration and maintenance. The company carries out equipment maintenance and product demonstrations in its Isehara Technical Center (maintenance cost: JPY50mn per year) in Kanagawa Prefecture. According to the company, it has technical service capabilities on par with a manufacturer, one of Hakuto's competitive advantages.

Strengths and weaknesses

Strengths

- ▶ **Product lineup with varying business cycles:** Company founder Shigeo Takayama entered the industrial chemicals business at an early stage to avoid over-dependence on a single sector. His move paid off, and the company's present business spans four product categories of electronic devices, electronic components, electronic and electric equipment, and industrial chemicals. Many of Hakuto's competitors have a high dependence on semiconductor devices and see large fluctuations in operating performance. In contrast, Hakuto's operating results are broadly stable due to the varying business cycles of its segments.
- ▶ **Independent trading company:** Trading companies specializing in semiconductors are broadly divided into manufacturer-affiliated firms and independent firms. Manufacturer-affiliated firms have backup from the parent company, but handle a limited range of products. This indirectly narrows the customer base, making performance particularly susceptible to the impact of supplier and customer performance. Hakuto is not affected by an equity relationship with its suppliers, and has a high level of flexibility in dealing with suppliers and customers. Hakuto also has its finger on the pulse of the industry through relationships with many manufacturers and customers.
- ▶ **Many employees are science and engineering graduates:** Hakuto sees itself as a technology-driven trading company. This status is supported by the recruitment of many science and engineering graduates. According to the company, although it has recently increased the ratio of humanities graduates, 70-80% of new recruits are still from a science or engineering background. By having many science and engineering graduates in sales roles, there is more technical understanding between employees, and new recruits make rapid progress in on-the-job training.

Weaknesses

- ▶ **High dependence on semiconductor devices:** Even if the ratio is low compared with peers, semiconductor devices account for more than half of the company's sales. Responding to any decline in Japan's electronics manufacturing sector will be a key challenge.
- ▶ **Challenge maintaining growth pace:** Hakuto's business model is based on building up a large number of niche products. For this reason considerable effort is needed to maintain a high growth rate by adding a large number of new businesses. Although the business is buttressed by staff with a deep technical understanding, competitors are also trying to add more value by boosting technical capabilities. In addition, the ratio of employees with science and engineering backgrounds is gradually falling, so one of the longer-term challenges will be to maintain the company's human resource edge.
- ▶ **Hollowing out of the domestic business:** The company's trading business customers are moving production to Asia to be closer to future consumer markets, and Hakuto is moving more of its business to Asia in tandem with this trend. However, the more this trend advances, the greater the risk of a hollowing out of domestic operations. For this reason, the company is devoting considerable energy to finding better ways to serve domestic customers, including acquisition of commercial rights.

Historical financial statements

Income statement

Income statement (JPYmn)	FY03/11	FY03/12	FY03/13	FY03/14	FY03/15	FY03/16	FY03/17	FY03/18	FY03/19	FY03/20
	Cons.	Cons.	Cons.	Cons.	Cons.	Cons.	Cons.	Cons.	Cons.	Cons.
Total sales	110,910	116,148	111,823	132,619	131,073	116,296	127,599	138,744	140,123	153,182
Electronic Devices and Components	95,882	89,661	83,951	100,940	99,301	88,098	98,554	106,223	107,668	123,708
Semiconductor devices	61,490	59,509	55,694	65,526	65,801	61,186	62,141	71,996	77,926	90,847
Electronic components	24,583	30,152	28,256	35,355	33,500	26,913	36,412	34,226	29,741	32,860
Electronic and Electric Equipment	18,658	18,593	18,308	21,089	22,343	18,477	19,191	21,085	21,544	18,286
Industrial Chemicals	7,169	7,871	9,545	10,566	9,399	9,694	9,828	10,247	10,886	11,160
Other	667	691	696	727	709	707	676	680	688	720
YoY	14.1%	4.7%	-3.7%	18.6%	-1.2%	-11.3%	9.7%	8.7%	1.0%	9.3%
Electronic Devices and Components	17.0%	-6.5%	-6.4%	20.2%	-1.6%	-11.3%	11.9%	7.8%	1.4%	14.9%
Electronic and Electric Equipment	-	-0.3%	-1.5%	15.2%	5.9%	-17.3%	3.9%	9.9%	2.2%	-15.1%
Industrial Chemicals	-	9.8%	21.3%	10.7%	-11.0%	3.1%	1.4%	4.3%	6.2%	2.5%
Other	-	3.6%	0.7%	4.5%	-2.5%	-0.3%	-4.4%	0.6%	1.2%	4.7%
Gross profit	17,543	18,065	17,115	19,095	19,481	17,221	16,495	18,301	18,667	17,465
GPM	15.8%	15.6%	15.3%	14.4%	14.9%	14.8%	12.9%	13.2%	13.3%	11.4%
SG&A expenses	13,151	13,843	14,014	15,052	15,174	14,315	14,426	14,561	15,024	15,050
SG&A-to-sales ratio	11.9%	11.9%	12.5%	11.3%	11.6%	12.3%	11.3%	10.5%	10.7%	9.8%
Operating profit	4,392	4,222	3,101	4,043	4,307	2,906	2,069	3,740	3,642	2,414
Electronic Devices and Components	2,329	2,316	1,707	2,642	2,940	1,152	447	1,404	1,331	576
Electronic and Electric Equipment	1,113	1,302	1,055	846	889	1,018	804	1,246	1,418	900
Industrial Chemicals	508	576	343	513	443	587	867	904	932	838
Other	1	15	14	17	20	26	19	27	16	21
YoY	62.1%	-3.9%	-26.6%	30.4%	6.5%	-32.5%	-28.8%	80.8%	-2.6%	-33.7%
Electronic Devices and Components		-0.6%	-26.3%	54.8%	11.3%	-60.8%	-61.2%	214.1%	-5.2%	-56.7%
Electronic and Electric Equipment		17.0%	-19.0%	-19.8%	5.1%	14.5%	-21.0%	55.0%	13.8%	-36.5%
Industrial Chemicals		13.5%	-40.5%	49.6%	-13.6%	32.5%	47.7%	4.3%	3.1%	-10.1%
Other		1,212.3%	-6.7%	21.4%	17.6%	30.0%	-26.9%	42.1%	-40.7%	31.3%
OPM	4.0%	3.6%	2.8%	3.0%	3.3%	2.5%	1.6%	2.7%	2.6%	1.6%
Electronic Devices and Components	2.4%	2.6%	2.0%	2.6%	3.0%	1.3%	0.5%	1.3%	1.2%	0.5%
Electronic and Electric Equipment	4.5%	4.3%	3.7%	2.4%	2.7%	3.8%	2.2%	3.6%	4.8%	2.7%
Industrial Chemicals	2.7%	3.1%	1.9%	2.4%	2.0%	3.2%	4.5%	4.3%	4.3%	4.6%
Other	0.2%	2.2%	2.0%	2.3%	2.8%	3.7%	2.8%	4.0%	2.3%	2.9%
Non-operating income (expenses)	-369	-35	334	175	248	-33	-80	32	-62	-274
Recurring profit	4,023	4,187	3,435	4,218	4,555	2,873	1,989	3,772	3,580	2,139
YoY	62.0%	4.1%	-18.0%	22.8%	8.0%	-36.9%	-30.8%	89.6%	-5.1%	-40.3%
RPM	3.6%	3.6%	3.1%	3.2%	3.5%	2.5%	1.6%	2.7%	2.6%	1.4%
Extraordinary gains (losses)	-314	-168	-361	-519	498	-37	-13	739	-35	6
Tax charges	1,432	1,724	1,069	1,363	1,660	801	73	1,224	1,071	706
Implied tax rate	38.6%	42.9%	34.8%	36.8%	32.9%	28.2%	3.7%	27.1%	30.2%	32.9%
Net income attrib. to parent company shareholders	2,200	2,244	2,005	2,336	3,394	2,034	1,903	3,287	2,473	1,439
YoY	33.0%	2.0%	-10.6%	16.5%	45.3%	-40.1%	-6.4%	72.7%	-24.8%	-41.8%
Net margin	2.0%	1.9%	1.8%	1.8%	2.6%	1.7%	1.5%	2.4%	1.8%	0.9%

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

As for earnings trends in the semiconductor industry, in fall 2008 the onset of the global financial crisis triggered a slump in worldwide consumption, and the earnings performance of most companies deteriorated dramatically. In 2011–12, although there were signs of a recovery, in 2013 slowdowns in China and Europe led to difficult conditions once again. Consequently, the semiconductor sector has seen ongoing realignment and consolidation.

Hakuto was unable to avoid the impact of these various external conditions, but its steady earnings from the industrial chemicals business helped it maintain a relatively stable profit level.

The COVID-19 pandemic had a sharp impact on Hakuto earnings in FY03/20, with the effects on profit particularly severe as the company took a conservative approach to risk and applied its in-house valuations rule to purchased inventory.

Balance sheet

Balance sheet (JPYmm)	FY03/11	FY03/12	FY03/13	FY03/14	FY03/15	FY03/16	FY03/17	FY03/18	FY03/19	FY03/20
	Cons.	Cons.	Cons.	Cons.	Cons.	Cons.	Cons.	Cons.	Cons.	Cons.
ASSETS										
Cash and deposits	13,232	13,382	11,364	11,417	12,437	8,366	7,748	9,428	7,608	14,736
Accounts receivable	30,293	29,065	29,613	34,749	32,874	33,550	32,682	34,627	37,132	42,025
Inventories	13,214	14,449	16,264	16,537	18,699	16,397	17,821	22,216	25,402	36,409
Other	2,516	2,295	2,579	2,654	2,164	2,377	2,841	2,235	788	4,028
Allowance for doubtful accounts	-134	-71	-134	-98	-128	-35	-11	-16	-29	-52
Total current assets	59,121	59,120	59,686	65,259	66,046	60,655	61,081	68,490	70,901	97,146
Total tangible fixed assets	6,755	6,560	6,545	8,040	7,293	6,850	6,764	6,739	6,638	6,903
Total intangible fixed assets	298	651	1,509	1,342	1,332	1,109	819	453	325	333
Investment securities	6,621	5,473	5,869	7,600	7,324	7,329	9,184	9,253	8,446	7,188
Deferred tax assets	74	75	39	212	40	30	52	60	142	206
Other	495	502	527	354	748	390	359	330	372	358
Investments and other assets	7,190	6,049	6,435	8,166	8,112	7,749	9,595	9,643	8,960	7,752
Total fixed assets	14,243	13,260	14,489	17,548	16,739	15,709	3,707	3,813	2,540	14,039
Total assets	73,364	72,381	74,176	82,808	82,785	76,365	78,261	85,326	87,826	112,135
LIABILITIES										
Accounts payable	15,084	14,080	13,817	17,431	16,790	15,309	16,557	18,104	18,623	18,519
Short-term debt	7,809	6,783	5,996	6,439	5,349	2,344	2,282	6,453	7,752	21,150
Other	2,814	4,418	4,831	4,326	3,567	3,340	2,966	3,373	4,275	4,416
Total current liabilities	25,706	25,281	24,644	28,196	25,706	20,993	21,805	27,930	30,650	44,085
Long-term debt	5,333	4,050	4,163	5,600	-	2,527	1,410	1,269	634	12,534
Other	2,115	1,790	1,815	2,483	2,416	2,070	2,297	2,544	1,906	1,505
Total fixed liabilities	7,448	5,840	5,978	8,083	6,280	4,597	3,707	3,813	2,540	14,039
Total liabilities	33,154	31,119	30,622	36,280	31,986	25,590	25,513	31,743	33,190	58,124
Shareholders' equity	38,900	40,372	41,612	43,183	46,172	47,035	48,131	49,083	49,973	50,179
Capital stock	8,100	8,100	8,100	8,100	8,100	8,100	8,100	8,100	8,100	8,100
Capital surplus	7,492	7,491	7,491	7,289	7,289	7,289	7,289	7,289	7,289	7,289
Retained earnings	27,493	28,965	30,205	31,777	34,714	35,756	36,782	39,186	40,460	40,667
Treasury stock	-4,185	-4,184	-4,184	-3,982	-3,932	-4,109	-4,040	-5,492	-5,876	-5,877
Minority interests	218	150	-	-	-	-	-	-	-	-
Other	1,092	738	1,941	3,345	4,627	3,739	-	-	-	-
Total net assets	40,210	41,260	43,553	46,528	50,799	50,774	52,748	53,583	54,635	54,011
Working capital	28,423	29,434	32,060	33,855	34,783	34,638	33,946	38,739	43,911	59,915
Total interest-bearing debt	13,142	10,833	10,159	12,039	9,213	4,871	3,692	7,722	8,386	33,684
Net debt	-91	-2,549	-1,205	622	-3,224	-3,495	-4,056	-1,706	778	18,948

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

Assets

Although the company also manufactures industrial chemicals, its core business is that of a trading company. Since trading company operations do not require large-scale facilities, the ratio of tangible fixed assets is low. Working capital, such as trade receivables and inventory, account for a large portion of assets. Since FY03/10, the company has aggressively increased inventory, reflecting its ardent efforts to handle new products.

The rise in inventories in FY03/13 was reflected in the increase in PV panels following the full-fledged entry into the PV business, along with expansion in overseas operations. Working capital is rising with the increase in inventories. In FY03/16, however, the company streamlined its assets and this resulted in reduced inventories and working capital.

According to the company, accounts receivable from Japanese customers are generally collected within around three months, versus one or two months for foreign customers. Excluding the results for FY03/16 when revenue declined considerably as the company overhauled its recycled energy purchasing system and the semiconductor market cratered, the accounts receivable collections period for the company as a whole has trended at about three months. However, Shared Research believes that during FY03/19 as transactions with major customers increased, the collection period lengthened. Also, with the rapid contraction of the semiconductors market in the latter half of the year, there was a buildup in inventory and other issues, resulting in a stretching out of the collection period.

Investments and other assets are mostly investments in securities. According to the company, it intends to consider a shareholding policy that takes into account the degree of contribution to operations as well as being attentive to investment returns.

Liabilities

Accompanying the expansion in business scale in FY03/14, interest-bearing debt increased slightly. However, in FY03/15, debt again decreased, falling JPY2.8bn YoY to JPY9.2bn. As a result, the company recorded net cash of JPY3.2bn in FY03/15 after posting net debt of JPY622mn in FY03/14. The upward trend has since continued; the interest-bearing debt dependence ratio (interest-bearing debt/total assets) at end FY03/16 was 6.4%, and the debt/equity ratio was 0.1x. Overall, liabilities were low. The company returned to a net debt status in FY03/19 as net income declined by double digits.

Net assets

Net assets in FY03/16 remained flat year on year but are showing a rapid growing trend on the build-up of retained earnings. As the total assets decreased due to streamlining measures in FY03/16, the equity ratio was 66.5% (up from 61.4% the previous year).

Cash flow statement

Cash flow statement (JPYmn)	FY03/11	FY03/12	FY03/13	FY03/14	FY03/15	FY03/16	FY03/17	FY03/18	FY03/19	FY03/20
	Cons.	Cons.	Cons.	Cons.	Cons.	Cons.	Cons.	Cons.	Cons.	Cons.
Cash flows from operating activities (1)	73	3,602	695	1,732	4,296	2,087	2,571	-459	-1,198	-16,288
Cash flows from investing activities (2)	-650	-497	-1,846	-2,069	-374	44	-1,209	214	-152	-16
Free cash flow (1+2)	-577	3,105	-1,151	-337	3,922	2,131	1,362	-245	-1,350	-16,304
Cash flows from financing activities	684	-3,131	-1,623	1,010	-3,658	-5,469	-1,947	1,777	-699	23,547
Depreciation and amortization of goodwill (A)	596	630	576	809	1,095	1,053	874	899	674	825
Capital expenditures (B)	-695	-658	-1,759	-2,930	-817	-394	-386	-589	-405	-542
Working capital changes (C)	3,370	1,012	2,626	1,795	928	-145	-692	4,793	5,172	16,004
Simple FCF (NI + A + B - C)	-1,269	1,204	-1,804	-1,580	2,744	2,838	3,083	-1,196	-2,430	-14,282

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

Cash flows from operating activities

Reflecting stable earnings, operating cash flows are fundamentally steady. However, the negative trend prevailing since FY03/18 can primarily be attributed to increases in accounts receivable, accounts payable, and inventory assets. The company has presumably worked to maintain product inventories and quality control to handle transactions with Tier 1 major customers (primarily in the automobile sector) that have been on the rise in recent years. In addition to a decrease in net income on a deterioration in overall earnings, FY03/20 saw the outflow of cash from operating activities temporarily surge as the company increased working capital in association with the new automotive-related commercial rights.

Cash flows from investing activities

Since the trading business accounts for the majority of operations, there is little need for investment in fixed assets. In FY03/19, there was a JPY364mn YoY increase in cash used, resulting in a net cash outflow from investing activities. The main reason was against the background of fixed assets acquired reached JPY405mn. According to the company, the accumulation of a number of comparatively small-scale contracts for such items as demonstration-use equipment and introduction of computer systems

basically led to fluctuations in purchases and sales of securities and bank account deposits and withdrawals. The outflow of cash from investing activities narrowed in FY03/20 thanks to the sell-off of investment securities.

Cash flows from financing activities

In FY03/19, although borrowings increased by JPY666mn from FY03/18, the period also saw decreases in dividend payments and treasury stock, resulting in a net cash outflow (vs. a net cash inflow in FY03/18). Concerning the company's business operations, as previously noted, transactions with major customers increased and there was also a trend towards relatively longer payment terms. It therefore appears that the company will need to raise capital with the aim of securing sufficient working capital. Cash flow from investing activities turned positive in FY03/20 on procurement of capital through long-term loans.

Historical performance

1H FY03/21 results (out November 12, 2020)

Consolidated results for the six-month period through Q2 FY03/21 (April–September 2020)

- ▷ Sales: JPY75.6bn (+4.6% YoY)
- ▷ Gross profit: JPY8.7bn (-4.8% YoY)
- ▷ SG&A expenses: JPY7.0bn (-5.2% YoY)
- ▷ Operating profit: JPY1.7bn (-3.2% YoY)
- ▷ Recurring profit: JPY1.5bn (-3.4% YoY)
- ▷ Net income*: JPY1.0bn (-8.2% YoY)

*Net income attributable to owners of the parent

- ▷ Electronics industry trends: While the decline in earnings and the increased uncertainty in the wake of the pandemic depressed capital spending by companies, demand for semiconductors and other electronic components remained solid, bolstered by the increasingly common use of remote work arrangements and the resulting increase in demand for PCs, servers, and other equipment, and the rollout of commercial high-speed 5G telecommunications services. Even the auto industry, which was forced to drastically cut production in Q1 (April–June), is experiencing a steady comeback with production now on the upswing in Japan as well as China.
- ▷ Sales: The mainstay Electronic Devices and Components segment saw sales rise 8.5% YoY in 1H FY03/21 (April–September 2020), driving overall sales growth. Segment sales benefitted from robust performance of integrated circuits (ICs) for PCs/tablets and 5G telecommunications equipment, a rebound in demand in automotive-use ICs in Q2, and sales of automotive components through a new channel established in FY03/20. In particular, new automotive components businesses picked up in earnest from Q3 FY03/20, contributing to the 13.9% YoY sales growth in the Electronic Devices and Components segment in Q2 FY03/21. In contrast, sales at the Electronic and Electric Equipment segment finished the six-month period down 13.9% YoY, due to the downturn in sales of PCB manufacturing equipment and the loss of distribution rights for certain compound semiconductor manufacturing equipment. These shortfalls outweighed rising sales of optical components for 5G-related applications and vacuum devices. The Industrial Chemicals segment also saw sales finish the period down 2.5% YoY, as the gains from rising sales of base materials for cosmetics and water treatment chemicals were not enough to offset the downturn in demand from the oil and petrochemical market and the paper/pulp market.
- ▷ Operating profit: In 1H FY03/21, operating profit was down 3.2% YoY and OPM fell 0.2pp YoY to 2.2% despite higher sales and SG&A expenses being cut by JPY386mn YoY to JPY7.0bn. This was due to a change in the product mix of the Electronic Devices and Components segment, which drove sales growth, with relatively low-margin businesses such as the automotive business contributing to the expansion of the segment, while sales in high-margin fields such as PCB manufacturing equipment fell.
- ▷ The company is focusing on securing cash on hand as it expands its business and has been liquidating its receivables. At end-1H FY03/21, notes and accounts receivable, and electronically recorded monetary claims totalled JPY37.4bn, down JPY4.6bn from end-FY03/20. On the cash flow statement, the company recorded a JPY4.5bn cash inflow from changes in accounts receivable, which contributed to the increase in operating cash flows.

Electronic Devices and Components segment

Results for the six-month period through Q2 FY03/21 (April–September 2020)

- ▷ Segment sales: JPY61.7bn (+8.5% YoY)

- ▷ Segment profit: JPY611mn (-4.8% YoY)
- ▷ Segment trends: In the semiconductor devices division, sales rose 10.8% YoY to JPY45.2bn thanks to a rebound in demand in automotive-use integrated circuits (ICs) in Q2 and contributions from a new automotive channel, which picked in earnest from Q3 FY03/20. In the general electronic components division, sales of ICs used in PCs/tablets and general-purpose components (such as connectors) increased as remote work arrangements became increasingly common in the wake of the pandemic. However, overall general electronic components sales stayed flat (-0.7% YoY) due partially to a drop in consumer electronics equipment. The decline in segment earnings was attributed to lower margins in the semiconductor devices division resulting from a change in product mix.

Electronic and Electric Equipment segment

Results for the six-month period through Q2 FY03/21 (April–September 2020)

- ▷ Segment sales: JPY8.4bn (-13.9% YoY)
- ▷ Segment profit: JPY610mn (+13.4% YoY)
- ▷ Segment trends: The decline in sales at the Electronic and Electric Equipment segment reflected lower sales of PCB manufacturing equipment (a lull in sales during the transition period to a new product lineup) and the loss of distribution rights for certain compound semiconductor manufacturing equipment. The shortfalls in these areas outweighed rising sales of optical components for use in 5G and other telecommunications infrastructure equipment (such as undersea cables), and rising sales of vacuum-related devices used in semiconductor-related applications. On the profit front, the strong sales of optical components for use in 5G and other telecommunications infrastructure equipment led to an increase in segment profit.

Industrial Chemicals segment

Results for the six-month period through Q2 FY03/21 (April–September 2020)

- ▷ Segment sales: JPY5.5bn (-2.5% YoY)
- ▷ Segment profit: JPY477mn (+2.4% YoY)
- ▷ Segment trends: Sales at the Industrial Chemicals segment finished the six-month period down due to a drop in sales for chemicals used by oil and petrochemical companies which make up the largest portion of the segment, despite steady growth in sales of base materials for cosmetics and water treatment chemicals. In the wake of the COVID-19 pandemic, demand for fuel oil fell in the oil and petrochemical industry, and demand for printing and publishing paper declined in the pulp and paper production industry. Still, the segment was able to report higher earnings for the period thanks to the increase in sales of high-margin base materials for cosmetics and cuts in employee travel and other SG&A expenses.

Other business segment

Results for the six-month period through Q2 FY03/21 (April–September 2020)

- ▷ Segment sales: JPY373mn (+6.6% YoY)
- ▷ Segment profit: JPY20mn (+66.7% YoY)
- ▷ Sales and earnings at Other business segment are derived largely from the management of the group's back office and logistics operations (which have been subcontracted by the parent) and the insurance agency business.

Q1 FY03/21 results (out July 31, 2020)

Consolidated earnings results for Q1 FY03/21 (April 2020–June 2020)

- ▷ Sales: JPY35.7bn (+0.2% YoY)

- ▷ Gross profit: JPY4.6bn (+5.2% YoY)
- ▷ SG&A expenses: JPY3.4bn (-6.9% YoY)
- ▷ Operating profit: JPY1.2bn (+64.8% YoY)
- ▷ Recurring profit: JPY1.1bn (+61.0% YoY)
- ▷ Net income*: JPY736mn (+49.6% YoY)

*Net income attributable to owners of the parent

- ▷ Electronics industry trend: Demand for 5G-related communications equipment remained firm moving into FY03/21. Demand for PC and peripheral equipment used for teleworking and educational purposes increased due to the spread of COVID-19, but reduced automobile production also had a strong impact on trends in the industry. The industrial equipment and consumer electronics sectors were adversely impacted by the global recession.
- ▷ Company performance: Sales improved 3.0% YoY to JPY28.9bn in the Electronic Devices and Components segment thanks to continued strength in communications-related components, increased demand for PC, tablet, and peripheral products, as well as a contribution from automotive component sales through a new business channel won in FY03/20. Despite an improvement in optical equipment, sales in Electronic and Electric Equipment segment fell 14.4% YoY to JPY4.0bn on the expiration of certain commercial rights for compound semiconductor-related equipment. In the Industrial Chemicals segment, the COVID-19 pandemic contributed to rush demand, but sales declined 3.7% YoY to JPY2.8bn due to a sustained and severe slump in the pulp and paper business.
- ▷ GPM rose from 12.4% in to 13.0% YoY due to an improved product mix. Personnel expenses staying approximately level, and various other expenses reduced by approximately JPY300mn, meant that SG&A-to-sales ratio improved from 10.3% to 9.5%. Accordingly, OPM widened by 1.4pp YoY to 64.8%.

Electronic Devices and Components

Earnings results for Q1 FY03/21 (April 2020–June 2020)

- ▷ Segment sales: JPY28.9bn (+3.0% YoY)
- ▷ Segment profit: JPY398mn (+48.0% YoY)
- ▷ Segment trend: Sales improved thanks to increased demand for components used in PC, tablet, and peripherals on the upgrading of infrastructure due to the rise in home-based learning and telecommuting amid the COVID-19 pandemic, and for optical components related to 5G communications. A new business channel won in the automotive domain also contributed to sales from 2H FY03/20 (sales fell in the existing automotive business). Sales increased in all three categories (semiconductor devices, general electronic components, and optical components). Profit grew on the increase in sales and improved performance of subsidiaries in Shanghai and Taiwan due to the recovering economic environment in Greater China, as well as enhanced profitability at domestic subsidiaries producing PC components such as connectors.

Electronic and Electric Equipment

Earnings results for Q1 FY03/21 (April 2020–June 2020)

- ▷ Segment sales: JPY4.0bn (-14.4% YoY)
- ▷ Segment profit: JPY560mn (+161.7% YoY)
- ▷ Segment trend: Despite the booking of sales of approximately JPY200mn for PCB manufacturing equipment that had been pushed back from last year, firm demand for communications infrastructure components, including those used in 5G and undersea cable applications, and strength in vacuum equipment, sales for the segment as a whole declined by JPY674mn on

the expiration of certain commercial rights for compound semiconductor-related equipment (which pulled sales down by approximately JPY1.3bn YoY). On the other hand, profit improved thanks to enhanced profitability on greater communications infrastructure equipment sales (which have a relatively high profit margin), and OPM also widened significantly from 4.6% to 13.9%.

Industrial Chemicals

Earnings results for Q1 FY03/21 (April 2020–June 2020)

- ▷ Segment sales: JPY2.8bn (-3.7% YoY)
- ▷ Segment profit: JPY249mn (+8.7% YoY)
- ▷ Segment trend: Despite strong sales of polymerization-inhibitors (remaining approximately level YoY) and orders in the petrochemicals business being pushed forward as customers take countermeasures to reduce the risk of supply chain disruption due to the spread of COVID-19, sales in the segment decreased 3.7% YoY due to an ongoing decline in demand for pulp and paper products and a downturn in sales of papermaking chemicals. Sales were also impacted by a slump in automotive paint treatment additives. Operating profit improved 8.7% YoY on an expansion in sales of high-margin cosmetics base materials and reduced costs, including travel expenses, as a result of the COVID-19 pandemic.

Other

Earnings results for Q1 FY03/21 (April 2020–June 2020)

- ▷ Segment sales: JPY188mn (+6.8% YoY)
- ▷ Segment profit: JPY13mn (+85.7% YoY)
- ▷ The segment is mainly engaged in management of the company's operations and logistics, and acting as an agency for insurance companies.

Full-year FY03/20 results (out May 22, 2020)

Consolidated earnings results for FY03/20 (April 2019–March 2020)

- ▷ Sales: JPY153.2bn (+9.3% YoY)
- ▷ Gross profit: JPY17.5bn (-6.4% YoY)
- ▷ SG&A expenses: JPY15.1bn (+0.2% YoY)
- ▷ Operating profit: JPY2.4bn (-33.7% YoY)
- ▷ Recurring profit: JPY2.1bn (-40.3% YoY)
- ▷ Net income*: JPY1.4bn (-41.8% YoY)

*Net income attributable to owners of the parent

- ▷ Electronics industry trend: Demand was strong in areas related to 5G communications and advanced driver-assistance system (ADAS) in the automotive field, but sluggish overall amid a downturn in automobile sales volume. Industrial equipment-related demand was also weak, largely on a decline in capex in China.
- ▷ Company performance: Sales improved sharply in the Electronic Devices and Components segment thanks to strength in communications-related components and the launch of automotive component sales through a new business channel. In the Electronic and Electric Equipment segment, sales fell on weak demand for vacuum equipment and equipment used in the manufacturing of smartphones. In the Industrial Chemicals segment, sales increased amid steady demand for petroleum refining chemicals and cosmetic base materials. On the other hand, operating profit declined on a shift in the product mix and

the booking of valuation-related expenses in line with inventory valuation revisions enacted in response to the expected effects from the COVID-19 pandemic. More specifically, the company applied a conservative approach to its in-house rule for inventory valuations as it factored in the future business risks from the COVID-19 pandemic, especially large-scale equipment products, including electronic and electric equipment. While the company did not provide specific figures for the estimated impact, Shared Research believes this factor accounted for the bulk of the JPY1.2bn YoY decline in operating profit.

Electronic Devices and Components

Earnings results for FY03/20 (April 2019–March 2020)

- ▷ Segment sales: JPY123.7bn (+14.9% YoY)
- ▷ Segment profit: JPY576mn (-56.7% YoY)
- ▷ Segment trend: Sales grew on firm demand for optical components used in the domestic telecommunications industry, improved demand for smartphone-related electronic components overseas, and the acquisition of a new business channel in the field of automotive components. By application, sales expanded by double digits in three areas, rising to JPY44.4bn (+30.6% YoY) in automotive equipment, JPY11.4bn (+23.9% YoY) in mobile equipment, and JPY8.5bn (+46.6% YoY) in communications equipment. However, profit declined sharply due to a downturn in gross profit margins on changes to the product mix, and provision for inventory adjustments on a one-off factor tied to the transfer of commercial rights for semiconductors used in automotive applications.

Electronic and Electric Equipment

Earnings results for FY03/20 (April 2019–March 2020)

- ▷ Segment sales: JPY18.3bn (-15.1% YoY)
- ▷ Segment profit: JPY900mn (-36.5% YoY)
- ▷ Segment trend: Despite expanded demand for equipment used in domestic communications infrastructure, sales declined on a slump in vacuum equipment, as well as a sustained downturn in lithographic exposure equipment used in PCB manufacturing for smartphones, one of the mainstay segment products. Segment profit declined sharply as the company took a conservative approach and devalued book value on a downturn in inventory asset profitability, particularly in large equipment, in line with the expected impact from the COVID-19 pandemic on corporate activity and sales trends moving forward.

Industrial Chemicals

Earnings results for FY03/20 (April 2019–March 2020)

- ▷ Segment sales: JPY11.2bn (+2.5% YoY)
- ▷ Segment profit: JPY838mn (-10.1% YoY)
- ▷ Segment trend: Sales growth was supported by strong sales of polymerization-inhibitors and catalysts in the petrochemicals area, which accounts for over 50% of segment sales, and solid sales of bio-polymers in the cosmetics business, which accounts for about 10% of segment sales. Strong sales in these two areas outweighed sluggish sales of paper and pulp business, which accounts for about 30% of segment sales and continues to struggle amid a global decline in papermaking caused by the spread of digital media. Profit, however, declined owing to increased manufacturing and transportation costs resulting from higher labor costs.

Other

Earnings results for FY03/20 (April 2019–March 2020)

- ▷ Segment sales: JPY720mn (+4.7% YoY)
- ▷ Segment profit: JPY21mn (+31.3% YoY)
- ▷ The segment is mainly engaged in management of the company's operations and logistics, and acting as an agency for insurance companies.

Q3 FY03/20 results (out February 13, 2020)

Consolidated earnings results for cumulative Q3 FY03/20 (April–December 2019)

- ▷ Sales: JPY113.6bn (+8.2% YoY)
- ▷ Gross profit: JPY13.8bn (-1.3% YoY)
- ▷ SG&A expenses: JPY11.2bn (+0.3% YoY)
- ▷ Operating profit: JPY2.6bn (-7.7% YoY)
- ▷ Recurring profit: JPY2.4bn (-16.3% YoY)
- ▷ Net income*: JPY1.7bn (-7.4% YoY)

*Net income attributable to owners of the parent

- ▷ No changes were made to the full-year FY03/20 earnings forecast. While sales increased and profit fell YoY in cumulative Q3 results, performance appears to be trending largely as expected if excluding impacts of forex fluctuation, an increase in provision for inventory write-down and other factors. In the automotive field, sales through a new business channel began in earnest in October 2019.
- ▷ Electronics industry trend: Demand was strong in areas related to 5G communications and advanced driver-assistance system (ADAS) in the automotive field, but sluggish for industrial equipment-related components.
- ▷ Segment overview (as at end-Q3 FY03/20): In the Electronic Devices and Components segment, sales grew YoY as a result of strong demand for semiconductor devices used in optical communications and the start of full-scale sales activities through a new business channel in the automotive field. In the Electronic and Electric Equipment segment, in spite of strong demand underpinned by Japan's ongoing 5G investments, sales fell as demand for lithographic exposure equipment used in PCB manufacturing for smartphones remained sluggish as in Q3. In the Industrial Chemicals segment, sales increased supported by steady demand for petroleum refining chemicals and cosmetic base materials.

Electronic Devices and Components

Earnings results for cumulative Q3 FY03/20 (April–December 2019)

- ▷ Segment sales: JPY90.8bn (+11.5% YoY)
- ▷ Segment profit: JPY927mn (-29.8% YoY)
- ▷ Segment trend: Sales rose 17.3% YoY, while profit fell 39.2% YoY in Q3 FY03/20 (October–December 2019). Despite sluggish demand for semiconductor devices used in home electric appliances (e.g., air conditioners) in the Chinese market, sales increased on ongoing strong growth in sales of optical components for domestic telecommunications amid rising investments in 5G communications, and better than forecast growth in sales of optical components manufactured by Viavi Solutions Inc., Lumentum Holdings Inc., and others. Sales of electronic components for smartphones also continued to grow at a steady rate overseas. In the automotive field, sales through existing business channels were sluggish due to a slump in new car sales, but segment sales increased YoY on the contribution of semiconductor devices manufactured by Cypress Semiconductor, which was

added as a new business channel in October 2019. The decline in segment profit was mainly due to a change in sales composition and a resulting decline in the proportion of products with relatively high profitability, as well as forex fluctuations. According to Hakuto, transactions are conducted in foreign currencies for approximately half of all clients, including for some domestic clients (transactions in USD for these clients).

Electronic and Electric Equipment

Earnings results for cumulative Q3FY03/20 (April–December 2019)

- ▷ Segment sales: JPY14.3bn (-6.3% YoY)
- ▷ Segment profit: JPY898mn (+17.4% YoY)
- ▷ Segment trend: Although sales of compound semiconductor-related equipment remained favorable as in Q2, demand for lithographic exposure equipment used in PCB manufacturing for smartphones remained sluggish. Meanwhile, sales of optical-related products included under this segment increased alongside scaled up investments into 5G communications. Despite lower sales, segment profit increased owing to a better product mix from sales of semiconductor-related devices, which are relatively high margin.

Industrial Chemicals

Earnings results for cumulative Q3 FY03/20 (April–December 2019)

- ▷ Segment sales: JPY8.5bn (+3.2% YoY)
- ▷ Segment profit: JPY724mn (-4.1% YoY)
- ▷ Segment trend: The sales split by industry was approximately 50% oil and petrochemicals, 30% papermaking, and 20% other industries, including cosmetics. Sales growth was supported by strong consumption of petrochemicals, which boosted sales of the company's polymerization-inhibitors and catalysts, and solid sales of the cosmetic base materials in the cosmetics field. Strong sales in these two areas outweighed sluggish sales of papermaking chemicals in the paper and pulp business—which continues to struggle amid a global decline in papermaking caused by the spread of digital media—to sustain growth in sales over cumulative Q3 FY03/20. Profit, however, declined owing to increased manufacturing and transportation costs resulting from higher labor costs amid a labor shortage.

Other

Earnings results for cumulative Q3 FY03/20 (April–December 2019)

- ▷ Segment sales: JPY540mn (+3.6% YoY)
- ▷ Segment profit: JPY20mn (-23.1% YoY)
- ▷ The segment is mainly engaged in management of the company's operations and logistics, and acting as an agency for insurance companies.

Other information

History

The company was founded in November 1953 as an importer and seller of raw quartz, needed to manufacture quartz oscillators used in electronics. In 1957, the company began importing and selling quartz processing equipment and measurement instruments to meet customer needs. To provide maintenance for this equipment, the company embarked on building its in-house technical expertise. This is the origin of the company's evolution into a technology-driven trading company specializing in electronics. This trading business grew rapidly from the mid-1960s onward as Japan's electronics industry expanded quickly. Hakuto also expanded its business areas and launched overseas operations.

Founder Shigeo Takayama decided to reduce the company's dependence on the electronics sector, and in 1960 commenced sales of measuring instruments for the petroleum industry with the aim of building a stable earning structure. In 1963, the company established Hakuto Chemical Co Ltd to manufacture industrial chemicals, sell these products domestically, and provide engineering services. This was the starting point for their industrial chemicals business of today. Hakuto Chemical subsequently began importing and selling domestically products from Nalco Chemical Co (US). Nalco is a leader in the US market in such products as anticorrosion agents and water treatment additives. Hakuto also launched technical services related to this business.

The name Hakuto is derived from a combination of the old Japanese name for Brazil, a country that imports quartz, and the first part of the word Tokyo.

November 1953	Shigeo Takayama founded the company in Tokyo with capital of JPY5mn.
August 1963	Established Hakuto Co Ltd. in Nagoya city, Aichi Prefecture.
November 1973	Hakuto Enterprises Ltd established in Hong Kong.
January 1974	Established Hakuto Taiwan Ltd.
December 1975	Hakuto Chemical and Nalco Chemical formed a capital and technical alliance.
November 1977	Hakuto Singapore Pte Ltd established in Singapore.
April 1984	Terminated alliance with Nalco.
June 1989	Established Hakuto (Thailand) Ltd.
April 1991	Acquired Hakuto Chemical Co., Ltd.
March 1995	IPO on the Japanese OTC market.
December 1995	Established Hakuto Enterprises (Shanghai) Ltd.
February 1999	Debut on TSE second section.
March 2000	Debut on TSE first section.
October 2007	Acquired Microtek Inc. as a wholly owned subsidiary.
July 2011	Fully acquired Adixen Japan Inc. (merged into parent in February 2012).
December 2011	Acquired the Japanese paper chemicals division of BASF.
August 2012	Established joint venture Lufs Co Ltd.
June 2014	Transferred all shares in wholly owned subsidiary Fuyo Chemical Industries to Aquas Corporation.
April 2016	Acquired the projection aligner business of Topcon Technohouse Corporation, a wholly owned subsidiary of Topcon Corporation
January 2017	Absorbed Microtek Inc.

News and topics

July 2020

On July 31, 2020, the company announced its forecast for full-year FY03/21 earnings and dividend.

Revised 1H FY03/21 consolidated earnings forecast

Sales:	JPY70.0bn (previously: TBD)
Operating profit:	JPY1.5bn (previously: TBD)
Recurring profit:	JPY1.4bn (previously: TBD)
Net income*:	JPY900mn (previously: TBD)
EPS:	JPY43.79 (previously: TBD)

*Net income attributable to owners of the parent

Revised FY03/21 consolidated earnings forecast

Sales:	JPY144.0bn (previously: TBD)
Operating profit:	JPY2.7bn (previously: TBD)
Recurring profit:	JPY2.5bn (previously: TBD)
Net income*:	JPY1.7bn (previously: TBD)
EPS:	JPY82.71 (previously: TBD)
DPS:	JPY25.0 (year-end), JPY50.0 (annual) (previously: TBD for both)

*Net income attributable to owners of the parent

Reasons for the revisions

Hakuto had previously left its FY03/21 earnings forecast to be determined at a later date, explaining at the results announcement held on May 22, 2020 that it was too difficult to reasonably estimate the effects from the COVID-19 outbreak on FY03/21 earnings. However, when the company released Q1 FY03/21 results on July 31, 2020, it also announced its full-year earnings forecasts. Hakuto explained that the estimates were calculated based on certain assumptions it believed to be reasonable and information obtained by the company in line with the easing of social and economic restrictions in countries around the world. In the Electronic Devices and Components segment, the company expects PC and peripheral equipment demand to temporarily expand given an increase in home-based learning and telecommuting as a result of the COVID-19 pandemic, though it also expects that it will take some time for demand in the automotive market to recover. In the Electronic and Electric Equipment segment, the company looks for an increase in semiconductor-related capex demand. Management assumes the impact from the COVID-19 pandemic is likely to be relatively light in the Industrial Chemicals segment.

On July 21, 2020, Shared Research updated the report following interviews with the company.

June 2020

On June 25, 2020, the company announced the disposal of treasury stock in the form of restricted stock compensation.

The company announced that it had resolved to dispose of treasury stock at a meeting of the Board of Directors on the same day.

At a meeting of the Board of Directors held on May 22, 2020, the company resolved to introduce a restricted stock compensation program (RSC program) as a new system of remuneration for directors who are not members of the Audit and Supervisory Committee, as well as non-executive directors, including outside directors (eligible directors). The objective of the RSC program is to give an incentive to continually improve the corporate value of the company, and to further promote the sharing of values with shareholders. In addition, at the 68th Annual General Meeting of Shareholders held on the same day, shareholder approval was obtained in respect of the RSC program for the provision of monetary compensation claims of up to JPY70mn per year to eligible directors for compensation in kind through the acquisition of restricted stock, and for the transfer restriction period to be the period from the date of the relevant stock allotment to the point when the relevant eligible director has resigned from the position of a director of the company.

RSC program summary

Disposal date:	July 22, 2020
Class and number of shares for disposal:	Common stock, 34,700 shares
Disposal price per share:	JPY1,004
Total disposal price:	JPY34,838,800
Allottees, and number of shares to be allotted:	Six directors (directors other than members of the Audit and Supervisory Committee, as well as non-executive directors, including outside directors), 34,700 shares

May 2020

On May 22, 2020, the company announced the launch of a restricted stock compensation program and changes to director remuneration.

At a meeting held on May 22, 2020, the company's Board of Directors resolved to revise the executive compensation system and implement a restricted stock compensation program, with the related proposals to be submitted to the 68th Annual General Meeting of Shareholders scheduled for June 25, 2020.

As Hakuto transitions to a company with an audit and supervisory committee, as part of its corporate governance reforms, the company is introducing a restricted stock compensation program. The purpose is to promote further shared value with shareholders and provide directors who are not members of the Audit and Supervisory Committee, as well as non-executive directors, including outside directors, with incentives to sustain growth in corporate value. For additional details, please see the company's press release (Japanese only as of May 22, 2020).

On the same day, the company announced the establishment of a nomination and compensation committee.

On the same day, the company announced partial changes to its articles of incorporation.

April 2020

On April 28, 2020, the company announced the postponement of its full-year consolidated FY03/20 results announcement.

On the same day, the company announced that it had decided to postpone the announcement of consolidated FY03/20 results from Thursday, April 30, 2020 to Friday, May 22, 2020. The reason for this is that the company expects delays in the settlement of accounts and auditing procedures due to its efforts to work from home in response to requests to refrain from going out related to the emergency declaration following the spread of the new coronavirus. As of today, the company has not changed its full-year consolidated FY03/20 earnings forecast (announced on March 31, 2020).

March 2020

On March 31, 2020, the company announced revisions to its earnings and dividend forecast for FY03/20.

Revisions to FY03/20 earnings forecast

▷ Sales:	JPY152.0bn (initial forecast: JPY160.0bn)
▷ Operating profit:	JPY2.5bn (initial forecast: JPY4.0bn)
▷ Recurring profit:	JPY2.2bn (initial forecast: JPY4.0bn)
▷ Net income*:	JPY1.5bn (initial forecast: JPY2.8bn)
▷ EPS:	JPY72.98 (initial forecast: JPY136.22)
▷ Year-end DPS:	JPY20.00 (initial forecast JPY30.00)

*Net income attributable to owners of the parent

Reasons for revision

Hakuto projects that sales will fall short of its initial forecast. As macroeconomic factors contributing to this shortfall, the company listed economic slowdown in China caused by trade friction with the US and unavoidable impact from the spread of the novel coronavirus disease in Q4. It also mentioned delayed launch of a new automobile-related business in the Electronic Devices and Components segment as an internal factor contributing to the shortfall. The company also anticipates that all profit lines will finish below the figures it had initially announced due to the lower-than-expected sales and its conservative raising of valuation allowance for inventory.

Hakuto had initially forecast a year-end dividend of JPY30 per share but lowered this to JPY20 per share, bringing the annual dividend to JPY50 per share, level with FY03/19.

Top management

On January 31, 2020, the company announced the appointment of a new president of the company. The company's previous president Ryusaburo Sugimoto became Director and Senior Advisor, and the Director, V.P., and Executive Managing Officer Ryoji Abe (born 1957) became President on April 1, 2020. Ryoji Abe joined the company in March 1983, after graduating from the engineering faculty of Musashi Institute of Technology (now Tokyo City University). Subsequently, in June 2008, he was appointed Director and Division Manager of Semiconductor Devices 2nd Div. and Electronic Components Div. Then, in June 2015, he was appointed Director and Executive Managing Officer, and Division Manager of Semiconductor Devices 2nd Div., Electronic Components Div., and Overseas Business Operation Div. From January 2020, he served as Director, V.P., and Executive Managing Officer, in charge of Semiconductor Devices and Electronic Components Business; Division Manager of Semiconductor Devices Technology and Operation Center; President of Electronic Components Company; and Division Manager of Overseas Business Operation Div. and Branch Manager of South Korea Branch before being appointed President in April 2020.

Employees

(no. of employees; end of month)	Mar 2015	Mar 2016	Mar 2017	Mar 2018	Mar 2019	Mar 2020	YoY change
Electronic Devices and Components	658	638	622	617	631	631	0
Electronic and Electric Equipment	255	266	279	270	267	253	-14
Industrial Chemicals	131	137	137	143	137	137	0
Other	99	95	90	90	93	104	+11
Corporate	168	172	166	159	136	132	-4
Total	1,311	1,308	1,294	1,279	1,264	1,257	-7

Source: Shared Research based on company data (as of March 31, 2019)

Dividends and shareholder benefits

The company considers return of profits to shareholders an important management policy. Because of this, the target dividend payout ratio is between 30% and 50%.

Major shareholders




Top shareholders	Shares held ('000)	Shareholding ratio
TAKAYAMA INTERNATIONAL EDUCATION FOUNDATION	4,226.2	20.56%
Japan Trustee Services Bank, Ltd.	1,919.2	9.34%
Ichiro Takayama	1,058.9	5.15%
Ken Takayama	1,058.9	5.15%
Ryutaro Takayama	1,058.8	5.15%
The Master Trust Bank of Japan, Ltd.	831.3	4.04%
ATRA Holdings	543.9	2.65%
Hakuto Employees Shareholding Association	409.5	1.99%
RE FUND 107-CLIENT AC (Standing proxy: Citibank N.A. Tokyo Branch)	383.9	1.87%
DFA INTL SMALL CAP VALUE PORTFOLIO (Standing proxy: Citibank N.A. Tokyo Branch)	376.0	1.83%
SUM	11,866.7	57.73%

Source: Shared Research based on company data (as of March 31, 2020)

Other




Role of a trading company specializing in semiconductors

Main functions of semiconductor trading companies: sales intermediation, development cooperation, financing, and inventory/delivery. Sales intermediation encompasses the sale of semiconductor products to client firms based on current technological and market trends. Previously this served as the primary role of semiconductor trading companies. However, in order to stand out from competitors, the company has increasingly focused on the remaining three functions.

- 
Development cooperation provides support to product development at client firms. In many cases, there is some level of customization involved when clients make use of semiconductors. In order to reduce the burden placed on the client when customizing components, highly trained staff with extensive product knowledge are dispatched to client firms, and provide support for circuit design and development.
- 
Financing serves to provide a buffer between the debt collection period of the manufacturer and the debt repayment period of the client. Particularly when dealing internationally, the semiconductor trading company will advance necessary funds to fill the gap between short debt collection periods of the manufacturer and longer debt repayment periods of the client.
- 
Inventory/delivery describes the process that facilitates stable supply to the client firm: a semiconductor trading company will hold inventory in order to minimize the gap between the semiconductor manufacturer's production cycle and the client firm's demand period.

Without differentiation via these functions, the only way to compete is through lower pricing. Therefore, each semiconductor trading company takes the above factors into consideration to form varying differentiation strategies.

Glossary

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Sales engineer (SE): Salespeople who possess specialized knowledge regarding products and services. The position is midway between a technical and a sales position. Sales engineers may also be referred to as technical sales staff. When selling products and services, such as semiconductors and software to corporate customers, technical commentary and support is required to aid the customer in understanding product features. Understanding and responding to technical demands from the customer is also essential. As a result, employees in this position often build up experience as engineers, and then move into sales.
- 
Design activities: Sales activities that promote the use of products to customers before product specifications have been finalized. Competing with competitors after final specifications on customer products have been decided can often lead to a bidding war, so stepping in at an early stage in the purchasing process to propose solutions to a customer's product development needs can be advantageous.
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Field application engineer (FAE): Sales staff with technical expertise, primarily in the semiconductor industry. After assessing semiconductors and electronic components necessary for the finished product envisioned by manufacturers, FAEs

procure and, if required, customize the components from a global network of suppliers. The ability to participate in technical discussions with clients and identify companies and engineers with a high degree of expertise is required. Although FAEs are often grouped together with SEs, FAEs need a greater level of technical knowledge, as they are an integral member of a client's development team.

- ▶ **Field Programmable Gate Array (FPGA):** Programmable LSIs which allow simulation of microprocessor and ASIC designs. Although slower and more expensive than dedicated LSIs, they are still significantly faster than simulating designs via software.
- ▶ **Large Scale Integration (LSI):** Semiconductor integrated circuits (IC) which have between 1,000 and 100,000 transistors. Also used interchangeably with IC. For a short period after its introduction in the 1970s, the term was used to differentiate between rudimentary ICs with relatively few transistors and the new generation, which had a number of transistors that were several orders of magnitude greater. Recently there is less need for such distinctions, and much like the term IC, it is used to refer to semiconductor integrated circuits in general.
- ▶ **Original Equipment Manufacturer (OEM):** The process of manufacturing products intended for branding by another company, or by the manufacturer itself.

Profile

Company	Head office
Hakuto Co., Ltd.	1-13, Shinjuku 1-Chome, Shinjuku-Ku, Tokyo, Japan 160-8910
Phone	Listed on
+81-3-3225-8910	Tokyo Stock Exchange 1st Section
Established	Exchange listing
November 7, 1953	March 14, 1995
Website	Financial year-end
https://www.hakuto.co.jp/english/	March
IR contact	IR web
https://www.hakuto.co.jp/english/contact/	https://www.hakuto.co.jp/english/irinfo/

We offer corporate clients comprehensive report coverage, a service that allows them to better inform investors and other stakeholders by presenting a continuously updated third-party view of business fundamentals, independent of investment biases. Shared Research can be found on the web at <https://sharedresearch.jp>.

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ADJUVANT COSME JAPAN CO., LTD.	Doshisha Corporation	KI-Star Real Estate Co., Ltd.	RYOHIN KEIKAKU CO., LTD.
Aeon Delight Co., Ltd.	Dream Incubator Inc.	KLab Inc.	SanBio Company Limited
Aeon Fantasy Co., Ltd.	Earth Corporation	Kondotec Inc.	SANIX INCORPORATED
Ai Holdings Corporation	Edion Corporation	Kumiai Chemical Industry Co., Ltd.	Sanrio Company, Ltd.
AI inside Inc.	Elecom Co., Ltd.	Lasertec Corporation	SATO HOLDINGS CORPORATION
AirTrip Corp.	en Japan Inc.	Locondo, Inc.	SBS Holdings, Inc.
and factory, inc.	Estore Corporation.	LUCKLAND CO., LTD.	Seikagaku Corporation
ANEST IWATA Corporation	euglena Co., Ltd.	Marumae Co., Ltd.	Seria Co., Ltd.
AnGes Inc.	FaithNetwork Co., Ltd.	MATSUI SECURITIES CO., LTD.	Serverworks Co., Ltd.
Anicom Holdings, Inc.	Ferrotec Holdings Corporation	Media Do Co., Ltd.	SHIFT Inc.
Anritsu Corporation	FIELDS CORPORATION	Medical System Network Co., Ltd.	Shikigaku Co., Ltd.
Apaman Co., Ltd.	Financial Products Group Co., Ltd.	MEDINET Co., Ltd.	SHIP HEALTHCARE HOLDINGS, INC.
ARATA CORPORATION	First Brothers Col, Ltd.	MedPeer, Inc.	SIGMAXYZ Inc.
Artspark Holdings Inc.	FreeBit Co., Ltd.	Mercuria Investment Co., Ltd.	SMS Co., Ltd.
AS ONE CORPORATION	Gamecard-Joyco Holdings, Inc.	Metaps Inc.	Snow Peak, Inc.
Ateam Inc.	GameWith, Inc.	Micronics Japan Co., Ltd.	Solasia Pharma K.K.
Aucfan Co., Ltd.	GCA Corporation	MIRAIT Holdings Corporation	SOURCENEXT Corporation
AVANT CORPORATION	Good Com Asset Co., Ltd.	Monex Goup Inc.	Star Mica Holdings Co., Ltd.
Axell Corporation	Grandy House Corporation	MORINAGA MILK INDUSTRY CO., LTD.	Strike Co., Ltd.
Azbil Corporation	Hakuto Co., Ltd.	Mortgage Service Japan Limited.	Symbio Pharmaceuticals Limited
AZIA CO., LTD.	Hamee Corp.	MRT Inc.	Synchro Food Co., Ltd.
AZoom, Co., Ltd.	Happinet Corporation	NAGASE & CO., LTD	TAIYO HOLDINGS CO., LTD.
Base Co., Ltd	Harmonic Drive Systems Inc.	NAIGAI TRANS LINE LTD.	Takashimaya Company, Limited
BEENOS Inc.	HENNGE K.K.	NanoCarrier Co., Ltd.	Take and Give Needs Co., Ltd.
Bell-Park Co., Ltd.	Hosokawa Micron Corporation	Net Marketing Co., Ltd.	TEAR Corporation
Benefit One Inc.	Hope, Inc.	Net One Systems Co., Ltd.	Tenpo Innovation Inc.
B-lot Co., Ltd.	HOUSEDO Co., Ltd.	Nichi-Iko Pharmaceutical Co., Ltd.	3-D Matrix, Ltd.
Broadleaf Co., Ltd.	H2O Retailing Corporation	Nihon Denkei Co., Ltd.	The Hokkoku Bank, Ltd.
CanBas Co., Ltd.	IDOM Inc.	Nippon Koei Co., Ltd.	TKC Corporation
Canon Marketing Japan Inc.	IGNIS LTD.	NIPPON PARKING DEVELOPMENT Co., Ltd.	TKP Corporation
Career Design Center Co., Ltd.	i-mobile Co., Ltd.	NIPRO CORPORATION	Tsuzuki Denki Co., Ltd.
Carna Biosciences, Inc.	Inabata & Co., Ltd.	Nishinbo Holdings Inc.	TOCALO Co., Ltd.
CARTA HOLDINGS, INC	Infocom Corporation	NS TOOL CO., LTD.	TOKAI Holdings Corporation
CERES INC.	Infomart Corporation	OLBA HEALTHCARE HOLDINGS, Inc.	Tokyu Construction Co., Ltd.
Chiyoda Co., Ltd.	Intelligent Wave, Inc.	OHIZUMI MFG. CO., LTD.	TOYOBO CO., LTD.
Chori Co., Ltd.	ipet Insurance CO., Ltd.	Osix ra daichi Inc.	Toyo Ink SC Holdings Co., Ltd.
Chugoku Marine Paints, Ltd.	Itochu Enex Co., Ltd.	Oki Electric Industry Co., Ltd	Toyo Tanso Co., Ltd.
cocokara fine Inc.	JAFCO Co., Ltd.	ONO SOKKI Co., Ltd.	Tri-Stage Inc.
COMSYS Holdings Corporation	JMDC Inc.	ONWARD HOLDINGS CO., LTD.	TSURUHA Holdings
COTA CO., LTD.	JSB Co., Ltd.	Pan Pacific International Holdings Corporation	VISION INC.
CRE, Inc.	JTEC Corporation	PARIS MIKI HOLDINGS Inc.	VISIONARY HOLDINGS CO., LTD.
CREEK & RIVER Co., Ltd.	J Trust Co., Ltd	PIGEON CORPORATION	World Holdings Co., Ltd.
Daichi Kigenso Kagaku Kogyo Co., Ltd.	Japan Best Rescue System Co., Ltd.	P3, inc.	YELLOW HAT LTD.
Daiseki Co., Ltd.	JINS HOLDINGS Inc.	QB Net Holdings Co., Ltd.	YOSHINOYA HOLDINGS CO., LTD.
Demae-Can CO., LTD	JP-HOLDINGS, INC.	RACCOON HOLDINGS, Inc.	YUMESHIN HOLDINGS CO., LTD.
DIC Corporation	KAMEDA SEIKA CO., LTD.	Raysum Co., Ltd.	ZAPPALLAS, INC.
Digital Arts Inc.	Kanamic Network Co., LTD	RESORTTRUST, INC.	

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