



Bridge Report

OPTEX GROUP (6914)

 Toru Kobayashi Chairman and CEO	 Isamu Oguni President and COO	Company	OPTEX GROUP Co., Ltd.	
		Code No.	6914	
		Exchange	TSE 1st Section	
		Industry	Electric equipment (manufacturer)	
		Chairman	Toru Kobayashi	
		President	Isamu Oguni	
		HQ Address	5-8-12, Ogoto, Otsu, Shiga	
		Business Description	Holding company centered around OPTEX that manufactures and sells outdoor sensors, automatic door sensors and environment-related products. The company expands FA related business and Machine vision lightning business, too.	
		Year-end	December	
		URL	http://www.optex.co.jp/e/group/	

— Stock Information —

Share Price	Shares Outstanding		Market Cap.	ROE(actual)	Trading Unit
¥3,870	17,347,711 Shares		¥67,135 million	7.4%	100 shares
DPS (Est.)	Dividend Yield (Est.)	EPS (Est.)	PER (Est.)	BPS (actual)	PBR (actual)
¥50.00	1.3%	¥161.43	24.0x	¥1,480.66	2.6x

* Stock price as of the close on Aug 14, 2017. Number of shares at the end of the most recent quarter excluding treasury shares.

ROE and BPS are from the last year-end.

— Consolidated Earnings Trends —

(Units: Million Yen)

Fiscal Year	Net Sales	Operating Profit	Ordinary Profit	Net Profit	EPS (¥)	Dividend (¥)
December 2012	20,699	1,398	1,680	825	49.88	30.00
December 2013	23,582	2,108	2,628	1,620	97.90	30.00
December 2014	25,678	2,558	3,043	1,897	114.68	35.00
December 2015	27,793	3,161	3,222	2,051	123.96	40.00
December 2016	31,027	3,015	3,086	1,809	109.33	45.00
December 2017 Est.	36,300	4,200	4,250	2,800	161.43	50.00

* Estimates are those of the Company. From the current fiscal year, the definition for net profit has been changed to net profit attributable to owners of parent.

This Bridge Report presents OPTEX GROUP's earnings results for the second quarter of fiscal year ending December 2017.

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Key Points

• The sales for the second quarter of FY12/2017 were 18,514 million yen, up 42.4% yoy. The sales of the security-related business grew slightly, the sales of the automatic door-related business dropped, the performance of the FA business was healthy, and the reorganization of CCS into a subsidiary contributed. Domestic sales were 7,845 million yen, up 76.8% yoy, while overseas sales were 10,669 million yen, up 24.6% yoy. Due to the reorganization into a consolidated subsidiary, SG&A expenses augmented, but it was offset by sales growth, and operating profit was 2,724 million yen, up 82.0% yoy. (There was an exchange loss amounting to 196 million yen.) Ordinary profit rose 147.6% yoy to 2,776 million yen, thanks to the increase in investment gain on equity method and the shrinkage of exchange loss. Reflecting the favorable business performance, the earnings forecasts for the first half and the full year have been revised upwardly. For dividends, too, the interim dividend has been changed from 20 yen/share to 25 yen/share.

• The full-year earnings forecast, too, has been revised upwardly, but the revision amount is smaller than that for the first half, because sales and profit in the second half are estimated to decline. Sales are projected to be 36.3 billion yen, up 17.0% yoy. Its business performance is healthy as a whole, but the FA business will see the ebb of smartphone-related sales, which were favorable in the first half. In the MVL business, the company will redevelop the business in China. Operating profit is estimated to rise 39.3% to 4.2 billion yen. In the second half, the cost rates are forecasted to increase because projects in the first half with high profit rates will decrease. The company will also actively conduct upfront investment, including the establishment of a U.S. distributor of OPTEX FA. As for dividends, the interim dividend is to be increased by 5 yen/share, and the annual dividend is to be 50 yen/share. The estimated payout ratio is 31.0%.

• In the previous report, we wrote “we would like to draw attention to the recovery of EMEA security-related sales, which has a high sales composition but continue to experience a decline in sales.” The cumulative sales in the second quarter started growing again, and the initial forecast has been revised upwardly. The earnings forecast for the U.S. market, too, has been revised upwardly, although the sales declined compared to the same period of the previous fiscal year. The performance of the security-related business can be said to be healthy, like the FA and MLV businesses. In the second half, sales and profit are estimated to decline from the previous year and also from the first half, but it seems that the stock market highly evaluates their upfront investment for growth, as their recent performance has been favorable. We would like to pay attention to how much they strive to improve their performance in the second half while sales and profit are estimated to decline in the short term, and how rapidly a camera-integrated sensor will be distributed as a new solution to prevent outdoor crimes in the medium term.

1. Company Overview

OPTEX GROUP Co., Ltd. is a holding company centered around OPTEX Co., Ltd. that manufactures and sells outdoor sensors (top share of 40% in the global market), automatic door sensors (30% share of the global market and 60% share of the domestic market) and environment-related products.

OPTEX GROUP holds subsidiaries including OPTEX FA CO., LTD., which deals with FA related sensing business, CCS Inc. which holds the global top share in the LED lighting business for image processing, RAYTEC LIMITED (UK), which has attained the largest global share (about 50 %) for supplemental lights for CCTV, and FIBER SENSYS INC. (US), which deals with optical fiber intrusion detection systems.

OPTEX CO., LTD.	Development and sales of products and systems using sensing technologies
OPTEX FA CO., LTD.	Development, manufacturing and sales of photoelectric sensors, image inspection systems, measuring instruments

CCS Inc.	Development, manufacturing, and sale of LED lighting devices and systems for image processing
SICK OPTEX CO., LTD.	Development of general-purpose photoelectric sensors. A joint venture of SICK AG (Germany) and OPTEX FA CO., LTD.
GIKEN TRASTEM CO., LTD.	Development, manufacturing and sales of people counting systems, customer traffic counting/management systems
ZENIC INC.	Contracted development of IC and LSI for image processing, and design and sales of FA systems
O'PAL OPTEX CO., LTD.	Management of membership sports clubs and environmental hands-on learning programs.
FIBER SENSYS INC.(US)	Development, manufacturing and sales of fiber-optic intrusion detection systems
FARSIGHT SECURITY SERVICES LTD.(UK)	Security company providing remote video surveillance services
RAYTEC LIMITED.(UK)	Development, manufacturing and sales of supplemental lighting for surveillance cameras
GARDASOFT VISION LIMITED(UK)	Development, manufacturing, and sale of LED lighting controllers for machine vision

【Business Description】

The Company's business is composed of its main Sensing Solution (SS) business (security-related business, automatic door-related business, and EMS-related business), Factory Automation (FA) business (sensor for industrial machine), Machine vision lighting (MVL) business (LED lighting device and system for image processing), and Other business (operation of sport clubs). (The names and segment changed when the Company changed its system to a holding company.)

Segment		Feature
SS Business	Security-related	Main products include various indoor and outdoor sensors, wireless security systems and LED lighting control systems, etc. For outdoor sensors, the company has the leading share in the global market. Recently, it focuses on development of the automobile detection sensor using microwave technologies.
	Automatic door-related	The company developed the world's first automatic door sensor using infrared rays. Main products are automatic door opening/closing sensors, shutter sensors for factories, wireless touch switches, etc.
	EMS-related	Electronic manufacturing service in Chinese factory
	Others	Manufacturing/marketing of measuring instruments, Transportation safety products, Customer traffic counting/management systems, developing/marketing of image processing-related products
FA Business		Main products include photoelectric sensors used for quality control and automation of production lines, displacement sensors, image sensors, LED lights, etc. In Japan, these products are provided to a wide range of industries such as food or pharmaceutical for quality control of production lines. In Europe, its products are sold broadly through its technological partner SICK AG (Germany) that has the largest share in industrial sensor market. Also, its house-brand products have been launched in Asia and North America.
MVL Business		The company has a significant share in the LED lighting business for image processing. The company offers solutions using the natural light LED developed by the company, which boasts the best color rendering property in the field.
Others		Operating sports clubs

【Advantages :Diversified Technologies/Expertise on Sensing and Unique Sensing Algorithm】

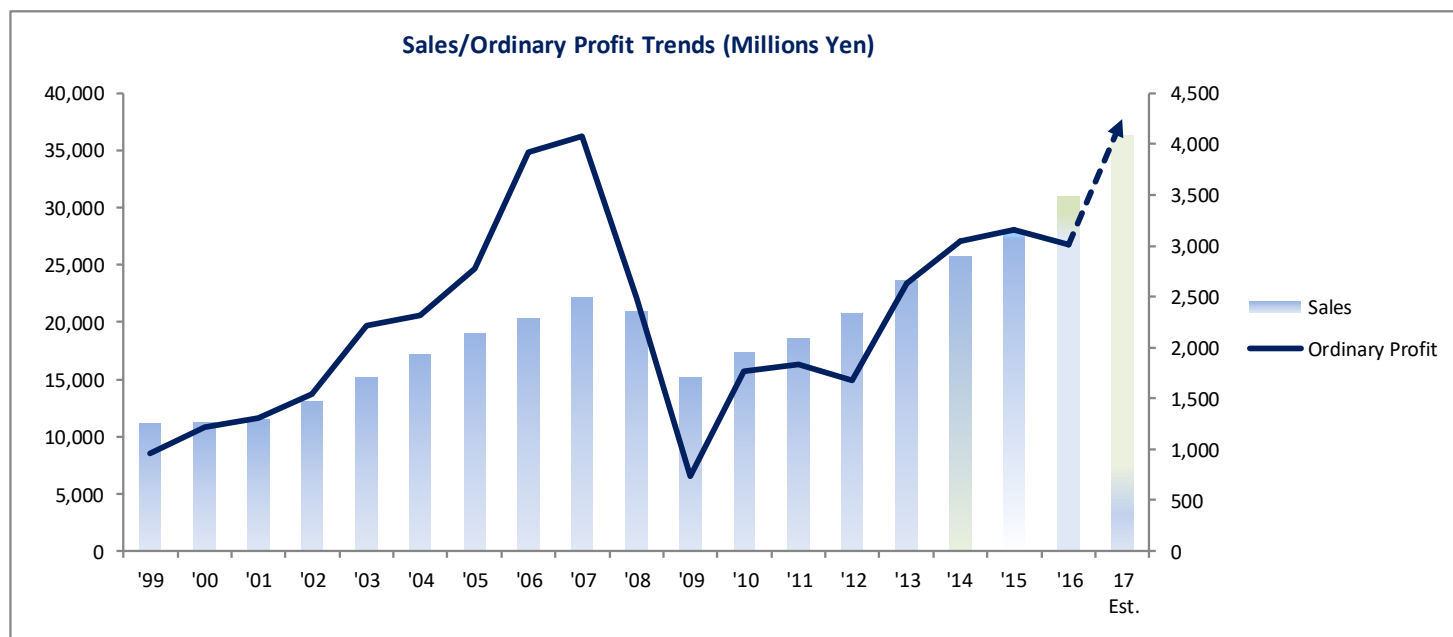
To produce stable and reliable sensors, it is essential to build on a number of elemental technologies and expertise, as well as 'algorithms' to control physical changes. The company takes advantage of its technologies/expertise suitable for intended applications and its unique sensing algorithm to secure the largest share in global market.

Noise abatement technology	<ul style="list-style-type: none"> • Hardware design to minimize various noises • Conduct a number of environmental assessments based on its own standard, and launch products that pass the assessments.
Sophisticated optical design	<ul style="list-style-type: none"> • Make use of optical simulation to achieve high-density areas eliminating blind spots. • Packaging technologies to enable downsizing
Compliant to public standards for reliability	<ul style="list-style-type: none"> • Adapted and compliant to any global standards • Adapted and compliant to industry standards and guidelines (CE marking, EN standard [TUV certified], ANSI, JIS, etc.)
Environment friendly design	<ul style="list-style-type: none"> • By identifying 15 restricted-use materials and 10 self-control materials, the company succeeded in excluding toxic substances in all products. • Compliant to RoHS directive, lead-free solder alloy • Design to minimize the effect from CO2 when in use
Secure & safe control	<ul style="list-style-type: none"> • Adopt self-diagnosis functions in emergency or in failure to prevent system outage, and fail-safe devices for sensors • Propose preventive maintenance measures to maintain functions
Unique sensing algorithm	<ul style="list-style-type: none"> • Unique algorithm to eliminate the impact of noise ineliminable by hardware, detect, scan and analyze only the intended events • Various automatic correction functions to maintain performance in the field

【History】

OPEX was established in 1979 and developed the world's first automatic door sensors using infrared rays in the following year. Back then, most of the automatic doors were using pressure sensitive rubber mats, which contained sensors, and sensors using infrared rays were very innovative. The company also showed unrivaled abilities in product maintenance and implementation, and captured the top share in the automatic door sensors market in only three years since its inception (currently, about 60% share in the domestic market). The company expanded operations and listed on the over-the-counter market (equal to listing on JASDAQ) in 1991. Then it listed on the second section of Tokyo Stock Exchange in 2001 and moved to its first section in 2003.

Recently, it has been working on enhancement of solutions based on image processing technologies and high-end security systems. In 2008, it acquired ZENIC INC., which specialized in contracted development of IC/LSI for image processing systems. Furthermore, it acquired FIBER SENSYS INC. (US) in 2010 and RAYTEC LIMITED (UK) in 2012 respectively. In May 2016, the company reorganized CCS Inc. (6669, JASDAQ), which has the largest share in the global industrial LED lighting field, into a subsidiary. On Jan. 1, 2017, the company shifted to the holding company system, with the aim of advancing to next-generation management and pursuing group synergy.



【ROE analysis】

	FY12/11	FY12/12	FY12/13	FY12/14	FY12/15	FY12/16
ROE(%)	6.0%	4.6%	8.2%	8.6%	8.7%	7.4%
Net Profit Margin	5.58%	3.99%	6.87%	7.39%	7.38%	5.83%
Total Assets Turnover	0.85times	0.91times	0.92times	0.89times	0.91times	0.91times
Leverage	1.27x	1.28x	1.30x	1.31x	1.30x	1.41x

OPTEX GROUP's ROE in FY12/16 was 7.4% and less than 8% for the first time in 4 terms.

The Company sets a goal of ROE of 10% or more as an important management index and aims for recovery to more than 8%.

2. Second Quarter of Fiscal Year December 2017 Earnings Results

(1) Earnings Results

(Units: Million Yen)

	2Q FY 12/16	Share	2Q FY 12/17	Share	YoY change	Ratio to initial plan
Sales	13,003	100.0%	18,514	100.0%	+42.4%	+7.6%
Gross Profit	7,158	55.0%	10,445	56.4%	+45.9%	-
SG&A	5,661	43.5%	7,721	41.7%	+36.4%	-
Operating Profit	1,497	11.5%	2,724	14.7%	+82.0%	+70.3%
Ordinary Profit	1,121	8.6%	2,776	15.0%	+147.6%	+68.3%
Current Net Profit	713	5.5%	1,854	10.0%	+160.0%	+76.6%

Sales and profit grew considerably. The earnings forecast has been revised upwardly.

Sales were 18,514 million yen, up 42.4% yoy. The sales of the security-related business grew slightly, the sales of the automatic door-related business dropped, the performance of the FA business was healthy, and the reorganization of CCS into a subsidiary contributed. Domestic sales were 7,845 million yen, up 76.8% yoy, while overseas sales were 10,669 million yen, up 24.6% yoy.

Due to the reorganization into a consolidated subsidiary, SG&A expenses augmented, but it was offset by sales growth, and operating profit

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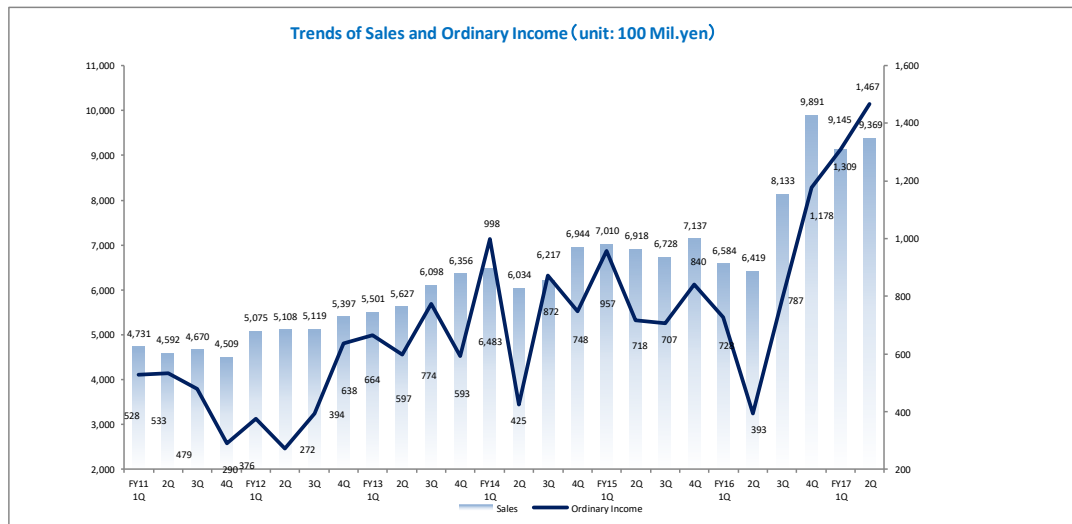


was 2,724 million yen, up 82.0% yoy. (There was an exchange loss amounting to 196 million yen.)

Ordinary profit rose 147.6% to 2,776 million yen, thanks to the increase in investment gain on equity method and the shrinkage of exchange loss. Reflecting the favorable business performance, the earnings forecasts for the first half and the full year have been revised upwardly.

For dividends, too, the interim dividend has been changed from 20 yen/share to 25 yen/share.

Quarterly Financial Results



◎ Average exchange rate and the impact of foreign exchange

	2Q FY12/16	2Q FY12/17	Full-year plan
USD	¥111.81	¥112.37	¥100.00
GBP	¥160.20	¥141.40	¥130.00
EURO	¥124.62	¥121.63	¥110.00

	Compared with the same period last year	Ratio to plan
Sales	¥-332 million	¥920 million
Operating income	¥-196 million	¥275 million

(2) Earnings by Segment

① Sales/Profit by Segment

(Units: Million Yen)

	2Q FY12/16	Share	2Q FY12/17	Share	YoY change
SS Business	10,056	77.3%	10,277	55.5%	+2.2%
FA Business	2,907	22.4%	3,676	19.9%	+26.5%
MVL Business	-	-	4,522	24.4%	-
Others	39	0.3%	38	0.2%	-2.6%
Sales	13,003	100.0%	18,514	100.0%	+42.4%
SS Business	1,238	12.3%	1,529	14.9%	+23.5%
FA Business	252	8.7%	559	15.2%	+121.8%
MVL Business	-	-	658	-	-
Others	5	12.8%	4	10.5%	-20.0%
Adjustment	0	-	-27	-	-
Operating Profit	1,497	11.5%	2,724	14.7%	+82.0%

*Shares for operating profits are sales to profit margin.

②Trend in each segment and each region

(Units: Million Yen)

	2Q FY12/16	Share	2Q FY12/17	Share	YoY change	Ratio to initial plan
Security						
Japan	1,174	17.8%	1,142	16.8%	-2.7%	-7.8%
AMERICAs	1,264	19.2%	1,200	17.6%	-5.1%	+7.8%
EMEA	3,567	54.2%	3,606	53.0%	+1.1%	+3.0%
Asia	581	8.8%	855	12.6%	+47.2%	+15.9%
Total	6,586	100.0%	6,803	100.0%	+3.3%	+3.2%
Automatic door						
Japan	1,016	48.5%	1,052	52.2%	+3.5%	+2.1%
AMERICAs	562	26.9%	515	25.6%	-8.4%	+0.4%
EMEA	461	22.0%	384	19.1%	-16.7%	-13.7%
Asia	54	2.6%	63	3.1%	+16.7%	+12.5%
Total	2,093	100.0%	2,014	100.0%	-3.8%	-1.5%
FA						
Japan	1,292	44.4%	1,640	44.6%	+26.9%	+16.6%
AMERICAs	60	2.1%	51	1.4%	-15.0%	-42.0%
EMEA	1,101	37.9%	1,395	38.0%	+26.7%	+19.7%
Asia	455	15.6%	590	16.1%	+29.7%	+19.2%
Total	2,908	100.0%	3,676	100.0%	+26.4%	+16.5%
MVL						
Japan	-	-	3,003	66.4%	-	+14.8%
AMERICAs	-	-	403	8.9%	-	+0.0%
EMEA	-	-	495	10.9%	-	+9.8%
Asia	-	-	621	13.7%	-	+44.4%
Total	-	-	4,522	100.0%	-	+16.0%

◎ SS business

(Security-related)

Japan: The sales of outdoor security sensors targeted at security companies were sluggish, and dropped.

AMERICAs: Sales declined, because the receipt of orders for outdoor security sensors targeted at large-scale facilities was carried over.

EMEA: Sales increased slightly by 8%, excluding the effect of exchange rate fluctuations, as the performance of outdoor security sensors targeted at large-scale facilities was healthy.

Asia: Sales grew significantly, as the performance of outdoor security sensors targeted at large-scale facilities was healthy.

(Automatic door-related)

Japan: The sales of sensors for automatic doors and factory shutters were healthy.

AMERICAs: The sales of sensors for automatic doors targeted at major clients in North America decreased compared to the same period of the previous fiscal year.

EMEA: The sales of sensors for automatic doors targeted at major clients in Europe declined compared to the same period of the previous fiscal year.

Outside Japan, the company lost ground to the new products of competitors. From the second half, the company will release new products to cover it.

◎ FA business

Japan: The sales of semiconductors, secondary batteries, flat-panel displays, electronic parts, displacement sensors for the food industry, image sensors, and LED lamps for image inspection were healthy.

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EMEA: Since the sales promotion toward OEMs turned out to be effective, displacement sensors sold well.

Asia: As the investment in labor-saving equipment was active in China, the sales of displacement sensors, especially those for the smartphone industry, were favorable.

In each region, displacement sensors sold well.

The shipment to SICK in Germany, especially for electric appliances, machinery, and secondary batteries for automobiles, was healthy.

◎ MVL lighting business

Japan: Sales expanded steadily, as solutions were enriched and proposals were strengthened.

AMERICAS: Performance was healthy, as there were large-scale orders for products for smartphones and continuous transactions in North America.

EMEA: As the semiconductor market in Europe was healthy, the sales toward major clients increased continuously.

Asia: Sales dropped as the joint venture in China was discontinued, but the sales in emerging countries, such as Malaysia, increased.

(3) Financial Conditions

◎Major BS

(Units: Million Yen)

	End of December 2016	End of June 2017		End of December 2016	End of June 2017
Cash Deposits	10,000	10,486	Account Payable	1,630	1,956
Accounts Receivable	7,838	8,644	Short-term Debt	1,833	942
Inventory Assets	5,044	5,428	Current Liabilities	5,704	5,601
Current Assets	24,833	26,455	Long-term Debt	160	110
Property, Plant and Equipment	4,275	4,215	Net Defined Benefit Liability	1,085	1,121
Intangible Assets	4,414	4,151	Fixed Liabilities	3,322	3,190
Investments, Others	4,158	4,176	Liabilities	9,026	8,792
Fixed Assets	12,847	12,543	Net assets	28,654	30,206
Total Assets	37,681	38,999	Total liabilities, net assets	37,681	38,999
			Equity ratio	65.0%	70.6%

Current assets increased 1,622 million yen, due to the rise in accounts receivable and inventory assets through sales growth. Because of the decrease in intangible assets, fixed assets dropped 304 million yen, and total assets rose 1,318 million yen to 38,999 million yen.

Due to the decrease in short-term and long-term debts, total liabilities declined 234 million yen to 8,792 million yen.

Net assets grew 1,552 million yen to 30,206 million yen, as non-controlling shareholders' interest decreased, but capital surplus and retained earnings increased.

As a result, equity ratio rose by 5.6% from 65.0% at the end of the previous term to 70.6%.

◎Cash flow

(Unit: Million Yen)

	2Q FY12/16	2Q FY12/17	Increase/decrease
Operating CF	1,629	1,685	+56
Investing CF	-2,607	153	+2,760
Free CF	-978	1,838	+2,816
Financing CF	2,296	-1,416	-3,712
Cash & Equivalents	10,411	10,486	+75

Operating CF was nearly unchanged, as quarterly net profit before taxes and other adjustments grew, but account receivable increased. Investing CF became positive, because the expenditure for acquiring the shares of subsidiaries, which existed in the same period of the previous year, no longer exists.

Financing CF became negative, due to the decrease in short-term debts, etc.

The cash position is nearly unchanged.

3. Fiscal Year December 2017 Earnings Estimates

(1) Full-year earnings forecast

[unit: million yen]

	FY12/16	Composition ratio	FY12/17 (Est.)	Composition ratio	YoY change	Ratio to initial plan	Year-on-year progress rate
Sales	31,027	100.0%	36,300	100.0%	+17.0%	+2.0%	51.0%
Operating income	3,015	9.7%	4,200	11.6%	+39.3%	+13.5%	64.9%
Ordinary income	3,086	9.9%	4,250	11.7%	+37.7%	+11.8%	65.3%
Net income	1,809	5.8%	2,800	7.7%	+54.8%	+12.0%	66.2%

(Unit : million yen)

	IHFY12/16	Composition ratio	IHFY12/17 (Est.)	Composition ratio	YoY change	Ratio to initial plan
Sales	18,514	42.4%	17,786	-1.3%	-3.9%	-3.3%
Operating income	2,724	82.0%	1,476	-2.8%	-45.8%	-29.7%
Ordinary income	2,776	147.6%	1,474	-25.0%	-46.9%	-31.4%
Net income	1,854	160.0%	946	-13.7%	-49.0%	-34.8%

The earnings forecast has been revised upwardly. In the full year, sales and profit are estimated to grow by double digits, but in the second half, sales and profit are forecasted to drop.

The full-year earnings forecast, too, has been revised upwardly, but the revision amount is smaller than that for the first half, because sales and profit in the second half are estimated to decline.

Sales are projected to be 36.3 billion yen, up 17.0% yoy. Its business performance is healthy as a whole, but the FA business will see the ebb of smartphone-related sales, which were favorable in the first half. In the MVL business, the company will redevelop the business in China.

Operating profit is estimated to rise 39.3% to 4.2 billion yen. In the second half, the cost rates are forecasted to increase because projects in the first half with high profit rates will decrease. The company will also actively conduct upfront investment, including the establishment of a U.S. distributor of OPTEX FA.

As for dividends, as described above, the interim dividend is to be increased by 5 yen/share, and the annual dividend is to be 50 yen/share. The estimated payout ratio is 31.0%.

② Trend in each segment and each region

(Unit: Million Yen)

	FY12/16	Share	FY12/17	Share	YoY change	Ratio to initial plan	Progress Rate
Security							
Japan	2,329	18.4%	2,492	18.2%	+7.0%	-8.1%	45.8%
AMERICAs	2,434	19.2%	2,571	18.8%	+5.6%	+9.4%	46.7%
EMEA	6,572	51.9%	7,020	51.3%	+6.8%	+3.2%	51.4%
Asia	1,340	10.6%	1,609	11.8%	+20.1%	+3.7%	53.1%
Total	12,675	100.0%	13,692	100.0%	+8.0%	+2.1%	49.7%
Automatic door							
Japan	2,089	50.5%	2,170	50.5%	+3.9%	+0.0%	48.5%

AMERICAs	1,082	26.2%	1,098	25.6%	+1.5%	+3.7%	46.9%
EMEA	848	20.5%	886	20.6%	+4.5%	-7.3%	43.3%
Asia	117	2.8%	140	3.3%	+19.7%	+11.1%	45.0%
Total	4,136	100.0%	4,294	100.0%	+3.8%	-0.4%	46.9%
FA							
Japan	2,761	44.9%	3,286	47.0%	+19.0%	+12.9%	49.9%
AMERICAs	109	1.8%	178	2.5%	+63.3%	-11.9%	28.7%
EMEA	2,367	38.5%	2,630	37.6%	+11.1%	+12.9%	53.0%
Asia	912	14.8%	896	12.8%	-1.8%	-11.8%	65.8%
Total	6,149	100.0%	6,990	100.0%	+13.7%	+8.2%	52.6%
MVL							
Japan	3,145	62.6%	5,617	68.1%	-	+3.1%	53.5%
AMERICAs	496	9.9%	800	9.7%	-	+0.0%	50.4%
EMEA	550	10.9%	917	11.1%	-	+1.9%	54.0%
Asia	832	16.6%	915	11.1%	-	-3.7%	67.9%
Total	5,023	100.0%	8,249	100.0%	-	+1.8%	54.8%

* Since MVL business is consolidated from the third quarter of FY 12/ 16, it does not calculate the YOY ratio.

4. Future Growth Strategy

“Security” and “Factory Automation” are 2 pillars of its growth strategies.

(1) Growth strategies

◎Security-related: Incorporation of surveillance cameras and sensors

There is a problem with detecting abnormality just by a sensor from an accuracy point of view (e.g. triggering a false alarm). In the UK, the police rushes to the site only after the sensor detects abnormality and a camera image is confirmed. In the USA, some states impose a fine on false alarms.

Furthermore, not only for residential use, the need for high-end visual verification is increasing in emerging countries where infrastructure development for important facilities is accelerating amid frequent terrorist attacks in the world.

In response to the expansion of the needs for visual verification, it is expected that the global surveillance camera market, including network security cameras, will grow at an annual rate of 15% until 2018.

As a concrete action to take in such demands, the company had a tie-up with a leading security manufacturer in the global residential market in July 2017 and released a new product that is equipped with a “sensor” to detect, a “camera” to shoot images and a “wireless” function to send that signal.

This integrated camera has fused the company’s strong points, after accumulating the know-how of outdoor sensing over many years. As the company is the only one that possesses an outdoor integrated model as a product, starting from this new product, it will promote sales of new solutions for “outdoor advance security” which they occupy the top share in the global market under the concept of “Internet of Sensing Solution (IoS),” in the high-end market and the residential market.

◎Factory automation-related: pursuit of synergy

In the field of Factory Automation (FA), the company will pursue a synergetic effect of the “sensor business” of OPTEX FA and the “machine vision lighting business” of CCS.

(FA Business)

In present America, the demand for capital investment is expanding as the manufacturing industry returns to the country along with IT-related demands.

Considering this business environment as an opportunity, an American sales company is to be established within 2017 that aims at expanding the sales of highly-competitive “displacement sensors” further.

Its sales system is to be shifted from having sales distributors to direct selling.

The company plans to scoop up detailed needs of customers by direct selling, and to strengthen the trusting relationship with them.

(MVL Business)

The LED lightning market for image processing has been expanding in China too.

As its background, in addition to the acceleration of automation of inspection process due to a sudden rise in labor cost and the growth of electricity and electronic components-related demands, rising demands for high-quality and advanced LED lightning for inspection due to the advance of the Chinese manufacturing sites cannot be overlooked.

CCS Inc. had set up a joint venture with a local capital in 2014, but it was dissolved in June 2017, while it established a 100% subsidiary “CCS China.”

Along with launching a local brand to respond swiftly to the local needs, it will implement a multi-brand strategy and pursue the increase in its share in the Chinese MVL market. The company is aiming for sales of 1 billion yen in 3 years.

(Synergetic effect)

They already started a joint purchase of components, but they are expecting a maximum synergy effect from sharing the customer base. The FA sensor of OPTEX FA has its major customers in “three industries”, i.e., food, pharmaceuticals and cosmetics, while LED lighting and power sources for image inspection of CCS has its major customers in electricity, electronics, semiconductor and automobile industries.

By utilizing sales routes that each possesses, they will aim more expansion of domestic FA business.

Also, the OPTEX group has its bases in 15 countries around the world and supplies its products and services to approximately 80 countries. It will promote CCS to use this overseas network.

For example, in case CCS sets up a testing room for LED lighting abroad, the OPTEX group can make use of the facilities of its subsidiaries and second-tier subsidiaries overseas. In addition, since it has various sales channels and information networks, CCS can make use of them to save time and effort for expansion of the overseas MVL business that currently holds a 20% share.

(2) Management benchmarks and performance goals

The management benchmarks for the OPTEX GROUP are “a sales growth rate of over 15%,” “an operating profit margin of over 15%” and “an ROE of over 10%.”

To speed up the sales expansion, the company will work for the overall growth of the group by spinning off companies and setting up new companies, and in addition, it will continue to implement the M&A strategy for security-related and factory automation-related businesses under a medium-term policy of “aiming for a corporate group full of venture spirits.”

To raise operating profit margin, the company will continuously work on reducing costs and minimize the influence of exchange rates by increasing domestic sales ratio and expanding the overseas manufacturing system.

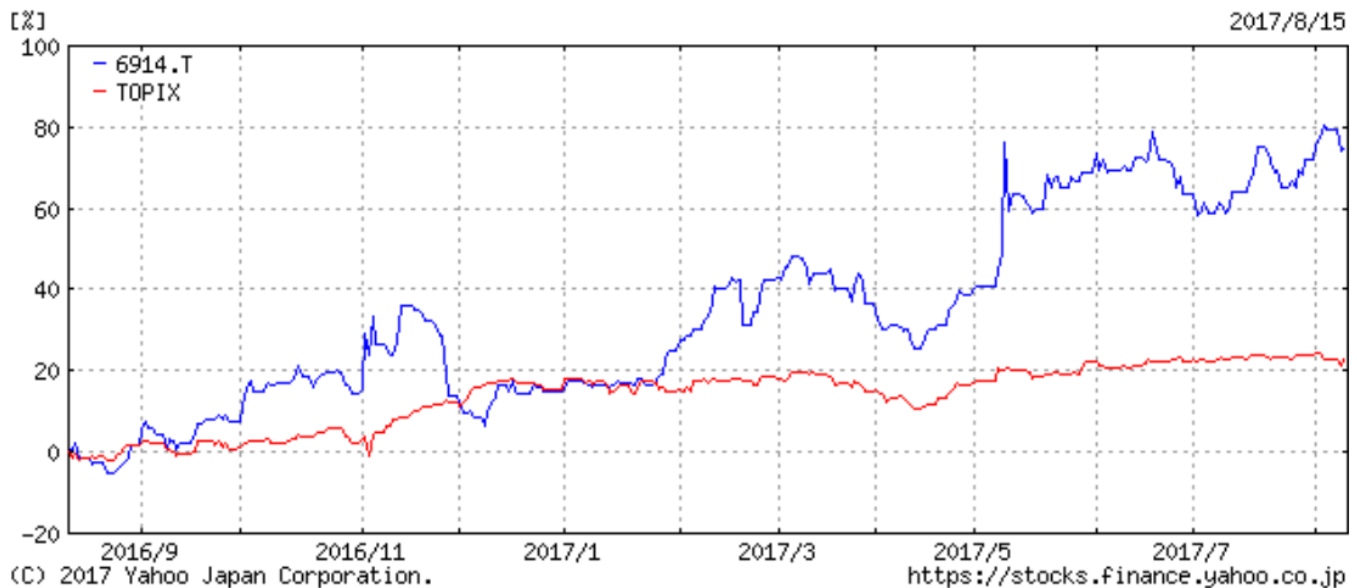
The goals of the company for 2019 are sales of 50 billion yen and an operating profit of 7.5 billion yen. It is planning to carry out M&A worth about 7 to 8 billion yen for 4 to 5 companies for boosting sales.

5. Conclusions

In the previous report, we wrote “we would like to draw attention to the recovery of EMEA security-related sales, which has a high sales composition but continue to experience a decline in sales.” The cumulative sales in the second quarter start growing again, and the initial forecast has been revised upwardly. The earnings forecast for the U.S. market, too, has been revised upwardly, although the sales declined compared to the same period of the previous fiscal year. The performance of the security-related business can be said to be healthy, like the FA and MLV businesses.

In the second half, sales and profit are estimated to decline from the previous year and also from the first half, but it seems that the stock market highly evaluates their upfront investment for growth, as their recent performance has been favorable.

We would like to pay attention to how much they strive to improve their performance in the second half while sales and profit are estimated to decline in the short term, and how rapidly a camera-integrated sensor will be distributed as a new solution to prevent outdoor crimes in the medium term.



* Relative stock price (1 year). Blue: Company stock price, Red: TOPIX

<Reference :Regarding Corporate Governance>

◎ Organization type, and the composition of directors and corporate auditors

Organization type	Company with audit and supervisory committee
Directors	9 directors, including 3 external ones

◎ Corporate Governance Report

The latest revision date: April 10, 2017

<Reasons for Non-compliance with the Principles of the Corporate Governance Code (Excerpts)>

Principle	Reason for non-compliance
【Supplementary Principle 1-2-4 Electronic Voting Right】	We will continue to consider offering electronic voting right after taking into account the future shareholder distribution and cost effectiveness.
【Supplementary Principle 1-2-5 Attendance of the shareholders who hold shares under the name of a trust bank or the like at a general meeting of shareholders】	The company recognizes the shareholders who hold a voting right registered in the list of shareholders as the shareholders who can exercise a voting right, but does not allow those who have shares under the name of a trust bank or the like to exercise a voting right or the like. However, considering the trend and situation of virtual shareholders, the company will have discussions with trust banks, etc.

<Disclosure Based on the Principles of the Corporate Governance Code (Excerpts)>

Principle	Items to be disclosed
【Principle 1-4 the so-called strategically held shares】	The company will hold shares after the deliberation and resolution by the board of directors, only when the shareholding is considered to contribute to the cementing of transaction relations and the improvement of corporate value under the business strategies of the company and its corporate group. Every year, the board of directors discusses the meanings of the holding of the shares, and if it is judged that the reasonable value of the shareholding is insufficient, the company will sell the shares while

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	<p>considering the market trend, etc. As for the exercise of the voting rights of shares the company holds, there are no specific standards, but each bill will be discussed, and dealt with based on comprehensive judgment.</p>
<p>【Principle 5-1 Policy for the constructive dialogues with shareholders】</p>	<p>The company has the publicity and IR sections, and makes efforts to explain its managerial policy and situation in an understandable manner, so that it can talk with shareholders proactively and constructively. In addition, IR staff and officers hold briefing sessions for institutional and individual investors as planned, and respond to the request for an interview from institutional investors.</p> <p>In addition, each annual meeting of shareholders is held on Saturday, so that a broad range of shareholders can attend, and after the meeting, the company holds a briefing session and a convivial party for shareholders, so that they can understand the policy of the company.</p>

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