




Bridge Report OPTEX GROUP (6914)

 <p>Toru Kobayashi Chairman and CEO</p>  <p>Isamu Oguni President and COO</p>	Company	OPTEX GROUP Co., Ltd.	
	Code No.	6914	
	Exchange	TSE 1st Section	
	Industry	Electric equipment (manufacturer)	
	Chairman	Toru Kobayashi	
	President	Isamu Oguni	
	Address	5-8-12, Ogoto, Otsu, Shiga Prefecture	
	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.optexgroup.co.jp/en/	

— Stock Information —

Share Price	Shares Outstanding (Excluding Treasury Shares)		Market Cap.	ROE(actual)	Trading Unit
¥2,371	34,700,907 shares		¥82,275 million	12.6%	100 shares
DPS (Est.)	Dividend Yield (Est.)	EPS (Est.)	PER (Est.)	BPS (actual)	PBR (actual)
¥30.00	1.3%	¥99.78	23.8x	¥1,680.79	2.8x

* Stock price as of the close on August 1, 2018. Number of shares at the end of June 2018 excluding treasury shares. ROE and BPS are the results from the last year-end. On April 1, 2018, a 2-for-1 stock split was implemented. For PBR, the stock split is considered. Share exchange will be implemented on July 1, 2018. For EPS, the stock split and issuance of new shares upon share exchange are considered.

— Consolidated Earnings Trends —

(Unit: Million Yen)

Fiscal Year	Net Sales	Operating Profit	Ordinary Profit	Net Profit	EPS (¥)	DPS (¥)
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	37,504	4,885	5,036	3,386	195.25	55.00
December 2018 (Est.)	40,500	5,300	5,400	3,600	99.78	30.00

* 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 the parent company. The same shall apply hereinafter. On April 1, 2018, a 2-for-1 stock split was implemented. For DPS, the stock split is considered. Share exchange was implemented on July 1, 2018. For EPS, the stock split and issuance of new shares upon share exchange are considered. Both EPS and DPS are not revised retroactively.

This Bridge Report presents OPTEX GROUP's earnings results for the second quarter of fiscal year ended December 2018.

1. Company Overview
 2. Second Quarter of Fiscal Year Ended December 2018 Earnings Results
 3. Fiscal Year Ending December 2018 Earnings Estimates
 4. Future Growth Strategy
 5. Conclusions
- <Reference: Regarding Corporate Governance>

Key Points

- Sales for the second quarter of FY 12/18 were 19,674 million yen, up 6.3% yoy. Major businesses performed well, driven by the FA and MVL businesses. Domestic sales were 8,190 million yen, an increase of 4.4%. Overseas sales were 11,484 million yen, up 7.6% yoy. Operating profit fell 4.2% to 2,609 million yen. SG&A expenses increased, due to a decline in the gross margin resulting from changes in the sales mix, as well as investments toward the growth of the company, such as expansion of testing rooms for the MVL business, development of new products, and increases in manufacturing personnel. Quarterly net profit increased 5.2% yoy to 1,950 million yen. 386 million yen gained from the partial sale of investment securities was declared as extraordinary profit. Both sales and profits were mostly in line with initial estimates.
- There is no change in the full year forecast. Sales are projected to rise 8.0% yoy to 40.5 billion yen, increasing across all segments. Operating profit is estimated to grow 8.5% yoy to 5.3 billion yen. Sales growth in the first half was somewhat slow as procurement of certain parts was delayed and conducted in the second half, but the company expects to see a recovery by the end of the term. Some expenses were dealt with in advance, so the company anticipates a 25% increase in operating profit and ordinary profit. The dividend is to be 30 yen/share. The estimated payout ratio is 30.1%.
- Although financial results were in line with estimates, the stock price took a sharp downward turn, recording the lowest amount so far this year. Considering the state of the market for capital investments such as AI, automation, and labor-saving, a strong demand over the medium to long term is anticipated. However, there are also other companies whose stock prices have risen since last year, and it seems that there are many cases where short-term factors such as the fear of bottlenecks due to parts shortages lead to the temporary sale of stocks. Although there are concerns regarding trade friction between the United States and China, we would like to pay attention to the company's progress in the second half in the short term, and the development of M&As, which are indispensable for achieving "sales of 50 billion yen and an operating profit of 7.5 billion yen in 2019" 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; Three Ace Co., Ltd., which specializes in the development of various systems, applications, and digital content; Optex MFG Co., Ltd., which is responsible for manufacturing Group products, 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 and sales of photoelectric sensors, image inspection systems, and measuring instruments
CCS Inc.	Development, manufacturing and sales of LED lighting devices, and systems for image processing
THREE ACE CO., LTD.	Development of various systems, applications, and digital content
OPTEX MFG CO., LTD.	Manufactures products for the Group and provides contract manufacturing service for electronic equipment

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
OPAL 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

【1-1. Business Description】

The Company's business is composed of its main Sensing Solution (SS) business (security-related business and automatic door-related business), Factory Automation (FA) business (sensors for industrial machinery), Machine vision lightning (MVL) business (LED lighting device and system for image processing), "EMS business," which was included in the SS business up until the previous term and provides contract manufacturing services for electronic equipment in China, and Other business (operation of sports clubs).

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.
	Others	Equipment for measuring water quality. 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.
EMS-related		Contract manufacturing services for electronic equipment, developed at a factory in China
Other		Operating sports clubs

【1-2. 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 the 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
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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

【1-3. History】

OPTEX 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 foundation (currently, about 60% share in the domestic market). The company expanded operations and got listed on the over-the-counter market (equal to listing on JASDAQ) in 1991. Then it got 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. Also, CCS Inc. (6669, JASDAQ), which holds the largest market share in the world for LED lighting for image processing, was reorganized into a subsidiary in May 2016 (and became a wholly owned subsidiary in July 2018). On January 1, 2017, the company shifted to the holding company system, with the aim of advancing to next-generation management and pursuing group synergy.

【1-4. ROE analysis】

	FY12/11	FY12/12	FY12/13	FY12/14	FY12/15	FY12/16	FY12/17
ROE(%)	6.0	4.6	8.2	8.6	8.7	7.4	12.6
Net Profit Margin	5.58	3.99	6.87	7.39	7.38	5.83	9.03
Total Assets Turnover	0.85	0.91	0.92	0.89	0.91	0.91	0.95
Leverage	1.27	1.28	1.30	1.31	1.30	1.41	1.48

ROE in the FY 12/17 achieved “10% or more” as targeted, for net profit margin improved significantly owing to favorable performance.

2. Second Quarter of Fiscal Year Ended December 2018 Earnings Results

(1) Earnings Results

(Unit: Million Yen)

	FY 12/17 2Q	Share	FY 12/18 2Q	Share	YoY change	Ratio to initial forecast
Sales	18,514	100.0%	19,674	100.0%	+6.3%	-0.1%
Gross Profit	10,445	56.4%	10,960	55.7%	+4.9%	-
SG&A	7,721	41.7%	8,351	42.4%	+8.2%	-
Operating Profit	2,724	14.7%	2,609	13.3%	-4.2%	+2.3%
Ordinary Profit	2,776	15.0%	2,573	13.1%	-7.3%	-1.0%

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Net Profit	1,854	10.0%	1,950	9.9%	+5.2%	+11.4%
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Sales increased, but operating profit fell due to investments made in the MVL business.

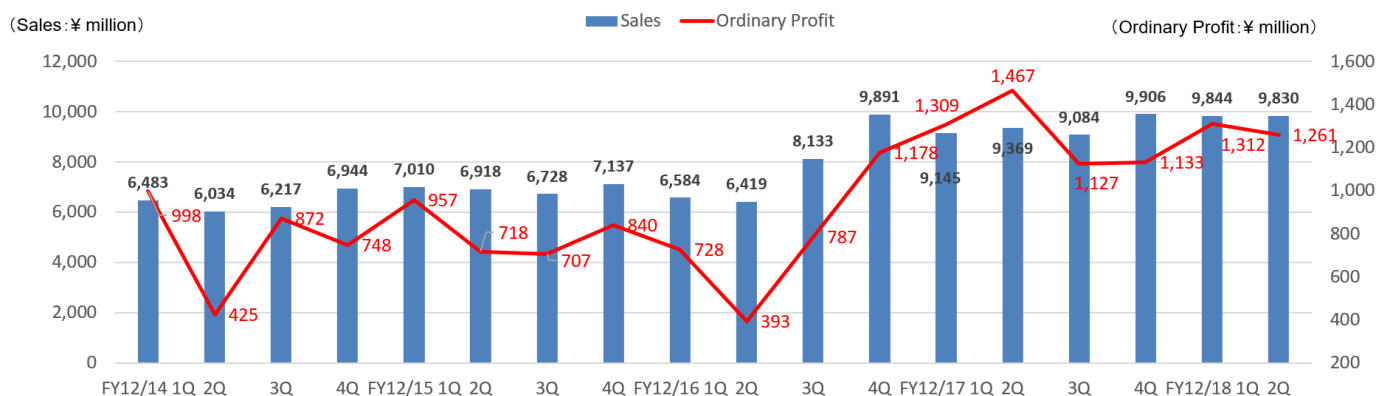
Sales were 19,674 million yen, up 6.3% yoy. All major businesses performed well, driven by the FA and MVL businesses. Domestic sales were 8,190 million yen, an increase of 4.4%. Overseas sales were 11,484 million yen, up 7.6% yoy.

Operating profit fell 4.2% to 2,609 million yen. SG&A expenses increased, due to a decline in gross margin resulting from changes in the sales mix, as well as investments toward the growth of the company, such as expansion of testing rooms for the MVL business, development of new products, and increases in manufacturing personnel.

Net profit increased 5.2% yoy to 1,950 million yen. 386 million yen gained from the partial sale of investment securities was declared as extraordinary profit.

Both sales and profits were mostly in line with initial estimates.

Quarterly Financial Results



◎Average exchange rate

	FY12/17 2Q	FY12/18 2Q	Full-year plan
USD	¥112.37	¥108.68	¥110.00
GBP	¥141.40	¥149.72	¥140.00
EURO	¥121.63	¥131.64	¥125.00

(2) Earnings by Segment

①Sales and profit by segment

(Unit: Million Yen)

	FY12/17 2Q	Share	FY12/18 2Q	Share	YoY change
SS Business	9,975	53.9%	10,190	51.8%	+2.2%
FA Business	3,676	19.9%	4,273	21.7%	+16.2%
MVL Business	4,522	24.4%	4,896	24.9%	+8.3%
EMS Business	302	1.6%	277	1.4%	-8.3%
Others	38	0.2%	36	0.2%	-5.3%
Sales	18,514	100.0%	19,674	100.0%	+6.3%
SS Business	1,382	13.9%	1,225	12.0%	-11.4%
FA Business	559	15.2%	790	18.5%	+41.3%
MVL Business	658	14.6%	630	12.9%	-4.3%
EMS Business	146	48.3%	41	14.8%	-71.9%
Others	4	10.5%	0	0.0%	-
Adjustments	-27		-77		-
Operating Profit	2,724	14.7%	2,609	13.3%	-4.2%

*Shares for operating profits are sales to profit margin.

②Trends in each segment and region

(Unit: Million Yen)

	FY12/17 2Q	Share	FY12/18 2Q	Share	YoY change	Ration to initial forecast
Security	6,803	100.0%	6,939	100.0%	+2.0%	-2.8%
Japan	1,142	16.8%	943	13.6%	-17.4%	-21.5%
AMERICAs	1,262	18.6%	1,584	22.8%	+25.5%	+26.2%
EMEA	3,544	52.1%	3,638	52.4%	+2.7%	-4.7%
Asia	855	12.6%	774	11.2%	-9.5%	-10.3%
Automatic door	2,014	100.0%	2,170	100.0%	+7.7%	-4.5%
Japan	1,052	52.2%	1,094	50.4%	+4.0%	-0.8%
AMERICAs	453	22.5%	524	24.1%	+15.7%	-9.8%
EMEA	446	22.1%	472	21.8%	+5.8%	-8.9%
Asia	63	3.1%	80	3.7%	+27.0%	+14.3%
Other	1,158	100.0%	1,082	100.0%	-6.6%	-6.7%
Japan	904	78.1%	930	86.0%	+2.9%	-2.9%
AMERICAs	3	0.3%	0	0.0%	-	-
EMEA	16	1.4%	0	0.0%	-	-
Asia	235	20.3%	152	14.0%	-35.3%	-23.2%
FA	3,676	100.0%	4,274	100.0%	+16.3%	+8.7%
Japan	1,640	44.6%	1,828	42.8%	+11.5%	+1.4%
AMERICAs	51	1.4%	57	1.3%	+11.8%	-33.7%
EMEA	1,395	37.9%	1,569	36.7%	+12.5%	+12.3%
Asia	590	16.1%	820	19.2%	+39.0%	+27.1%
MVL	4,522	100.0%	4,896	100.0%	+8.3%	+2.5%
Japan	3,003	66.4%	3,261	66.6%	+8.6%	+1.9%
AMERICAs	403	8.9%	412	8.4%	+2.2%	-9.6%
EMEA	495	10.9%	649	13.3%	+31.1%	-9.0%
Asia	621	13.7%	574	11.7%	-7.6%	+40.0%
EMS	302	100.0%	277	100.0%	-8.3%	-27.1%
Japan	65	21.5%	98	35.4%	+50.8%	-10.1%
Asia/Oceania	237	78.5%	179	64.6%	-24.5%	-33.9%

◎SS Business**(Security-related)**

Japan: The sales of outdoor security sensors for security companies and large-scale facilities such as mega solar power plants were sluggish, and sales declined.

AMERICAs: Sales increased due to large-scale transactions involving outdoor security sensors for major facilities in South America.

EMEA: Sales increased due to the steady performance of manufacturing subsidiaries in the UK.

Asia: Sales of security sensors targeted at Australia and Southeast Asia were sluggish, and sales declined.

(Automatic door-related)

Japan: Sales increased due to strong sales of automatic door sensors targeted at major domestic clients.

AMERICAs: Sales grew steadily for outdoor security sensors targeted at key facilities in North America, and sales increased.

EMEA: Sales of sensors for automatic doors targeted at major clients in Europe were sluggish, but sales increased due to the effect of the foreign exchange rate.

◎ FA business

Japan: In addition to displacement sensors for semiconductors, secondary batteries, and flat panel displays, sales of displacement sensors for the electronic parts industry were strong, and sales increased.

EMEA: Due to the effect of sales promotion toward OEMs, the sales of displacement sensors were steady. Consequently, sales increased.

Asia: As the investment in labor-saving equipment was active in China, the sales of displacement sensors were steady. Consequently, sales increased significantly.

◎ MVL lighting business

Japan: Sales increased thanks to a larger sales area, which was made possible by expanding solutions and establishing a testing room.

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

EMEA: The semiconductor market in Europe was healthy, and sales toward major clients continuously expanded, and sales increased.

Asia: Although sales in Southeast Asia were steady, sales declined due to the termination of the joint venture in China.

(3) Financial Conditions**◎Major BS**

(Unit: Million Yen)

	End of Dec. 2017	End of Dec. 2018		End of Dec. 2017	End of Dec. 2018
Cash Deposits	12,293	11,755	Account Payable	1,851	2,195
Accounts Receivable	8,290	9,184	Short-term Debt	784	945
Inventory Assets	5,963	6,921	Current Liabilities	6,520	6,186
Current Assets	29,004	29,924	Long-term Debt	59	771
Property, Plant and Equipment	4,340	4,444	Net Defined Benefit Liability	1,150	1,212
Intangible Assets	3,970	3,943	Fixed Liabilities	3,042	3,541
Investments, Others	4,253	4,159	Liabilities	9,562	9,728
Fixed Assets	12,564	12,548	Net assets	32,006	32,744
Total Assets	41,569	42,472	Total liabilities, net assets	41,569	42,472
			Equity ratio	70.1%	70.4%

Total assets grew 903 million yen from the end of the previous term to 42,472 million yen, due to increases in accounts receivable and inventory assets.

Total liabilities rose 166 million yen from the end of the previous term to 9,728 million yen, due to an increase in long-term debts.

Net assets were 32,744 million yen, up 738 million yen from the end of the previous term due to an increase in retained earnings, etc.

As a result, equity ratio was 70.4%, almost unchanged from the end of the previous term.

◎Cash flow

(Unit: Million Yen)

	FY12/17 2Q	FY12/18 2Q	YOY change
Operating CF	1,685	-82	-1,767
Investing CF	153	-181	-334
Free CF	1,838	-263	-2,101
Financing CF	-1,416	8	+1,424

Cash and Equivalents	10,486	11,755	+1,269
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Free CF turned negative due to increases in inventories and purchase of property, plant and equipment. As proceeds from long-term borrowings increased, financing CF turned positive, and the cash position improved.

(4) Topics

◎ Reorganization of a software development company into a subsidiary

In June 2018, the company acquired all shares of Three Ace Co., Ltd. (Kyoto City), a software development company specializing in the development of various systems, applications and digital content, and reorganized them into a subsidiary.

(Background and purpose for making Three Ace a subsidiary)

Within the OPTEX Group, OPTEX Co. Ltd., OPTEX FA Co., Ltd. and CCS Co., Ltd., companies that are part of the main businesses, securing IT technology was viewed as an important task as part of the “IoT strategy,” which involves developing comprehensive solutions while taking communication systems and the end user into account.

Three Ace has been developing business systems for roughly 40 years, and has the know-how necessary to provide a one-stop solution for problem solving, system design, installation, and maintenance.

The company believes that the “IoT strategy” will benefit from reorganizing Three Ace into a subsidiary through the in-house manufacturing of IT technology and the use of combined know-how to improve comprehensive solutions.

◎ Operations begin at the production control company

OPTEX MFG Co., Ltd., which was established in April 2018 in order to divide and integrate the production segments of OPTEX Co., Ltd. and OPTEX FA Co., Ltd. and to oversee production at these companies, began operations in July 2018.

In the future, in addition to integrating overlapped production/management, technology, and purchases functions at both companies into OPTEX MFG, OPTEX MFG aims to improve productivity by taking initiative with the development of production technology and applying innovative production methods cultivated at the company’s Chinese factory to factories in Japan, thereby optimizing the production process across the entire Group.

3. Fiscal Year Ending December 2018 Earnings Estimates

(1) Full-year earnings forecast

(Unit: Million Yen)

	FY12/17	Share	FY12/18 (Est.)	Share	YoY change	Progress rate FY12/18
Sales	37,504	100.0%	40,500	100.0%	+8.0%	48.6%
Operating profit	4,885	13.0%	5,300	13.1%	+8.5%	49.2%
Ordinary profit	5,036	13.4%	5,400	13.3%	+7.2%	47.6%
Net profit	3,386	9.0%	3,600	8.9%	+6.3%	54.2%

There is no change in the earnings forecast. Sales and profits are expected to increase.

There is no change in the earnings forecast. Sales are projected to increase in all segments and to be 40.5 billion yen, up 8.0% yoy. Operating profit is estimated to rise by 8.5% to 5.3 billion yen.

Sales growth in the first half was somewhat slow as procurement of certain parts was delayed and conducted in the second half, but the company expects to see a recovery by the end of the term. Some expenses were dealt with in advance, so the company anticipates a 25% increase in operating profit and ordinary profit.

The dividend is to be 30 yen/share. The estimated payout ratio is 30.1%.

Trends in 1H and 2H

(Unit: Million Yen)

	1H FY 12/18	Share	2H FY 12/18 (Est.)	Share	YOY Change
Sales	19,674	100.0%	20,826	100.0%	+9.7%
Operating profit	2,609	13.3%	2,691	12.9%	+24.5%
Ordinary profit	2,573	13.1%	2,827	13.6%	+25.1%
Net profit	1,950	9.9%	1,650	7.9%	+7.7%

(2) Trends in each segment and region

(Unit: Million Yen)

	FY12/17	Share	FY12/18 (Est.)	Share	YoY change	Progress rate FY12/18
Security	13,942	100.0%	14,801	100.0%	+6.2%	46.9%
Japan	2,391	17.1%	2,713	18.3%	+13.5%	34.8%
AMERICAs	2,675	19.2%	2,586	17.5%	-3.3%	61.3%
EMEA	7,214	51.7%	7,670	51.8%	+6.3%	47.4%
Asia	1,662	11.9%	1,832	12.4%	+10.2%	42.2%
Automatic door	4,237	100.0%	4,602	100.0%	+8.6%	47.2%
Japan	2,191	51.7%	2,308	50.2%	+5.3%	47.4%
AMERICAs	1,023	24.1%	1,187	25.8%	+16.0%	44.1%
EMEA	876	20.7%	957	20.8%	+9.2%	49.3%
Asia	147	3.5%	150	3.3%	+2.0%	53.3%
Others	2,173	100.0%	2,443	100.0%	+12.4%	44.3%
Japan	1,673	77.0%	1,959	80.2%	+17.1%	47.5%
AMERICAs	4	0.2%	4	0.2%	+0.0%	0.0%
EMEA	22	1.0%	1	0.0%	-95.5%	0.0%
Asia	474	21.8%	479	19.6%	+1.1%	31.7%

FA	7,315	100.0%	8,071	100.0%	+10.3%	53.0%
Japan	3,248	44.4%	3,658	45.3%	+12.6%	50.0%
AMERICAs	110	1.5%	276	3.4%	+150.9%	20.7%
EMEA	2,770	37.9%	2,793	34.6%	+0.8%	56.2%
Asia	1,187	16.2%	1,344	16.7%	+13.2%	61.0%
MVL	9,022	100.0%	9,739	100.0%	+7.9%	50.3%
Japan	6,042	67.0%	6,497	66.7%	+7.5%	50.2%
AMERICAs	788	8.7%	935	9.6%	+18.7%	44.1%
EMEA	1,068	11.8%	1,438	14.8%	+34.6%	45.1%
Asia	1,124	12.5%	869	8.9%	-22.7%	66.1%
EMS	739	100.0%	760	100.0%	+2.8%	36.4%
Japan	209	28.3%	257	33.8%	+23.0%	38.1%
Asia/Oceania	530	71.7%	503	66.2%	-5.1%	35.6%

- ✧ The FA business and the MVL business show a high rate of progress, driving growth for the entire year.
- ✧ While the SS business (security-related) is somewhat sluggish in the domestic market, the company expects that business will be better in the second half than in the first half.
- ✧ Although the launch of OPTEx FA's U.S. subsidiary was slightly delayed, the company plans to increase their pace in the second half.

4. Future growth strategies

(1) Expansion of FA-related business

Because growth is anticipated in fields such as automobiles (electric cars, advanced driving support systems), IoT (increased demand for data centers), AI (labor saving, working style reforms), and robotics (labor saving, measures to handle a decreasing working age population), capital investment for semiconductors and electronic components is expected to steadily increase in the future, and demand will increase for items like FA sensors, LED lights for image processing, and cameras.

Taking the above into consideration, the company established OPTEx FA's first local subsidiary in the U.S. The subsidiary, OPTEx FA Inc., is a wholly owned sales subsidiary that deals in factory automation. It began operations on April 2, 2018.

They will fully enter the factory automation market in the U.S., where further growth is expected. They will also switch from agency sales to a consulting method, developing on-the-spot sales. By making strategic use of the highly competitive "displacement sensors," the company will increase new customers and enter new markets such as the automobile industry and IT industry (data centers, etc.).

They aim to reach sales of about 400 million yen in 3 years.

The company also aims to further expand business by pursuing synergies with CSS Co., Ltd., which deals in LED lighting for image processing and became a wholly owned subsidiary of the company in July 2018.

OPTEx FA specializes in general-purpose lighting but has few connections to overseas markets. On the other hand, CCS specializes in custom lighting and has had respectable results overseas. The company plans to combine the strengths of these two companies and use CCS's sales channels to increase sales.

They intend to raise the two companies' combined market share to 70% in Japan and 50% overseas (currently 50% in Japan and 20% overseas) in the next five years.

(2) Promotion of the IoT strategy

With the reorganization of Three Ace into a subsidiary, the company will take this opportunity to strongly promote the "IoT strategy."

It will become possible to develop communication software for monitoring services using IoT-compatible displacement sensors in the FA business, and remote monitoring services using sensors with built-in cameras in the SS business.

(3) Strengthen manufacturing capabilities

OPTEX MFG Co., Ltd., which began operating in July 2018, will establish a highly competitive production system by cooperating with companies from each business, utilizing their production capabilities. They will refine their manufacturing technology, and begin working on developing new products as a mother factory.

(4) Performance targets

The company's goals for 2019 include sales of 50 billion yen and an operating profit of 7.5 billion yen. In addition to 45 billion yen in regular sales, the company plans to gain another 5-6 billion yen through M&As with four to five other companies. However, rather than going by the numbers, synergy will be their primary concern as they move forward. The company also plans to raise the operating profit ratio on sales from the current estimate of 13.1% to 15%, and they intend to do so through advances in business rather than by cutting costs. The key to accomplishing this is to introduce new products that meet the security field's growing need for visual verification.

5. Conclusions

Although financial results were in line with estimates, the stock price took a sharp downward turn, recording the lowest amount so far this year.

Considering the state of the market for capital investments such as AI, automation, and labor-saving, a strong demand over the medium to long term is anticipated. However, there are also other companies whose stock prices have risen since last year, and it seems that there are many cases where short-term factors such as the fear of bottlenecks due to parts shortages lead to the temporary sale of stocks.

Although there are concerns regarding trade friction between the United States and China, we would like to pay attention to the company's progress in the second half in the short term, and the development of M&As, which are indispensable for achieving "sales of 50 billion yen and an operating profit of 7.5 billion yen in 2019" in the medium term.

<Reference: Regarding Corporate Governance>

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

Organization type	Company with audit and supervisory committee
Directors	10 directors, including 3 external ones

◎ Corporate Governance Report

The latest revision date: March 26, 2018

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

It is stated that "Our company enforces all the principles of corporate governance code."

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

Principle	Items to be disclosed
【Principle 1-4 The 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> <p>In addition, this year, the venue of the general meeting of shareholders was changed to a hotel located inside the JR Kyoto Station building, in order to make it more convenient for shareholders to participate.</p>

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