



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	
		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
¥2,045	37,466,932 shares		¥76,619 million	12.6%	100 shares
DPS (Est.)	Dividend Yield (Est.)	EPS (Est.)	PER (Est.)	BPS (actual)	PBR (actual)
¥30.00	1.5%	¥99.74	20.5x	¥1,680.79	2.4x

* Stock price as of the close on November 12, 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	99.74	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 third quarter of fiscal year ended December 2018.

1. Company Overview
 2. Third Quarter of Fiscal Year Ended December 2018 Earnings Results
 3. Fiscal Year Ending December 2018 Earnings Estimates
 4. Conclusions
- <Reference1: Future Growth Strategies>
<Reference2: Regarding Corporate Governance>

Key Points

- Sales for the third quarter of FY 12/18 were 29,314 million yen, up 6.2% yoy, driven by the FA business. The SS and MVL businesses were also strong. Domestic sales were 12,224 million yen, and overseas sales were 17,090 million yen, up 5.2% and 6.9% respectively, yoy. Operating profit fell 2.0% to 3,737 million yen. OPTEX increased investment for future growth, by reducing gross margin with changes in the sales mix, expanding testing rooms for the MVL business, investing in the development of new products, and increasing manufacturing personnel. The FA business segment recorded increased profits. Quarterly net profit increased 7.1% yoy to 2,794 million yen. 388 million yen was posted as extraordinary profit, including gains from the partial sale of investment securities.
- There is no change in the full-year forecast. Sales are projected to rise 8.0% yoy to 40.5 billion yen. Sales are expected to increase in all segments. Operating profit is estimated to grow 8.5% yoy to 5.3 billion yen. The dividend is to be 30 yen/share. The estimated payout ratio is 30.1%.
- As mentioned in the previous report, OPTEX expects both sales and profits to recover in the second half. With regard to the forecast for the second half, progress rates in the third quarter (July- Sept.) are 46% for sales, and 42% for operating profit. In the MVL business, the full-year progress rate for sales was over 50% at the end of the first half, but slowed down slightly in the third quarter, finishing at 71%. The FA business continues to perform well. In the fourth quarter, we would like to pay attention to how much sales are led by the FA business, and how much the MVL business and domestic SS business (security-related) will recover as the company works toward its goal of achieving sales of 50 billion yen and an operating profit of 7.5 billion yen in 2019.

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.	Develops and sells sensors for various uses, such as security sensors and sensors for automatic doors
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 sport 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
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	• 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	• 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. Third Quarter of Fiscal Year Ended December 2018 Earnings Results**(1) Earnings Results**

(Unit: Million Yen)

	FY 12/17 3Q	Share	FY 12/18 3Q	Share	YoY change
Sales	27,598	100.0%	29,314	100.0%	+6.2%
Gross Profit	15,419	55.9%	16,366	55.8%	+6.1%
SG&A	11,603	42.0%	12,628	43.1%	+8.8%
Operating Profit	3,815	13.8%	3,737	12.7%	-2.0%
Ordinary Profit	3,903	14.1%	3,785	12.9%	-3.0%
Net Profit	2,609	9.5%	2,794	9.5%	+7.1%

Sales increased, but operating profit declined due to investment for future growth.

Sales grew 6.2% yoy to 29,314 million yen, driven by the FA business. The SS and MVL businesses were also strong. Domestic sales were 12,224 million yen, and overseas sales were 17,090 million yen, up 5.2% and 6.9% respectively, yoy.

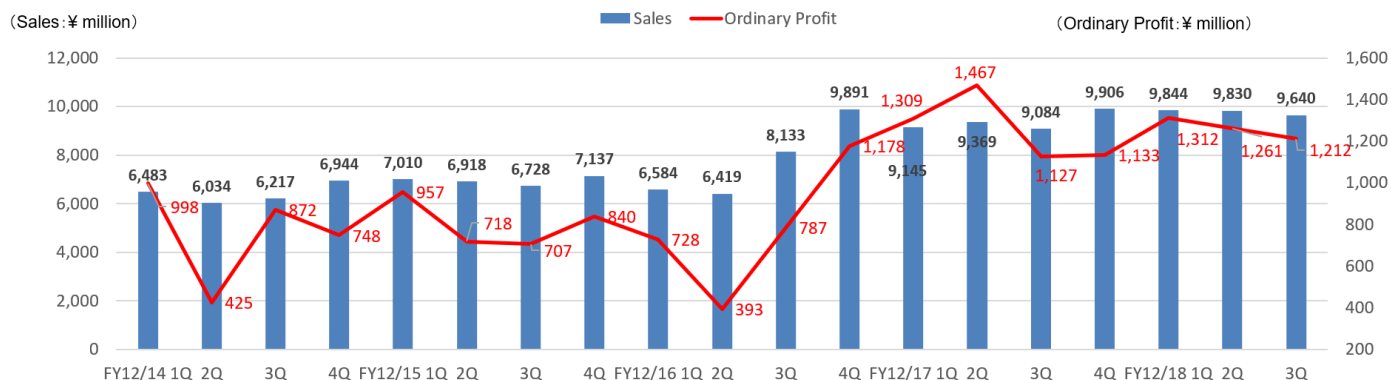
Operating profit fell 2.0% to 3,737 million yen. OPTEX increased investment for future growth, by reducing gross margin with changes in the sales mix, expanding testing rooms for the MVL business, investing in the development of new products, and increasing manufacturing personnel. The FA business segment recorded increased profits.

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Quarterly net profit increased 7.1% yoy to 2,794 million yen. 388 million yen was posted as extraordinary profit, including gains from the partial sale of investment securities.

Quarterly Financial Results



◎Average exchange rate

	FY12/17 3Q	FY12/18 3Q	Full-year plan
USD	¥111.92	¥109.61	¥110.00
GBP	¥142.67	¥148.24	¥140.00
EURO	¥124.55	¥130.97	¥125.00

(2) Earnings by Segment

①Sales and profit by segment

(Unit: Million Yen)

	FY12/17 3Q	Share	FY12/18 3Q	Share	YoY change
SS Business	14,822	53.7%	15,434	52.7%	+4.1%
FA Business	5,587	20.2%	6,412	21.9%	+14.8%
MVL Business	6,605	23.9%	6,942	23.7%	+5.1%
EMS Business	519	1.9%	358	1.2%	-30.9%
Others	64	0.2%	167	0.6%	+160.9%
Sales	27,598	100.0%	29,314	100.0%	+6.2%
SS Business	1,936	13.1%	1,929	12.5%	-0.4%
FA Business	843	15.1%	1,052	16.4%	+24.7%
MVL Business	868	13.1%	731	10.5%	-15.8%
EMS Business	187	36.0%	215	60.1%	+14.9%
Others	10	15.6%	7	4.2%	-30.0%
Adjustments	-31	-	-197	-	-
Operating Profit	3,815	13.8%	3,737	12.7%	-2.0%

*Shares for operating profits are sales to profit margin.

②Trends in each segment and region

(Unit: Million Yen)

	FY12/17 3Q	Share	FY12/18 3Q	Share	YoY change
Security	10,044	100.0%	10,542	100.0%	+5.0%
Japan	1,689	16.8%	1,566	14.9%	-7.3%
AMERICAs	1,914	19.1%	2,262	21.5%	+18.2%
EMEA	5,191	51.7%	5,508	52.2%	+6.1%

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Asia	1,250	12.4%	1,206	11.4%	-3.5%
Automatic door	3,089	100.0%	3,270	100.0%	+5.9%
Japan	1,602	51.9%	1,666	50.9%	+4.0%
AMERICAs	713	23.1%	807	24.7%	+13.2%
EMEA	669	21.7%	682	20.9%	+1.9%
Asia	105	3.4%	115	3.5%	+9.5%
Other	1,690	100.0%	1,622	100.0%	-4.0%
Japan	1,261	74.6%	1,372	84.6%	+8.8%
AMERICAs	3	0.2%	0	0.0%	-100.0%
EMEA	19	1.1%	0	0.0%	-100.0%
Asia	407	24.1%	250	15.4%	-38.6%
FA	5,587	100.0%	6,412	100.0%	+14.8%
Japan	2,451	43.9%	2,752	42.9%	+12.3%
AMERICAs	78	1.4%	88	1.4%	+12.8%
EMEA	2,173	38.9%	2,422	37.8%	+11.5%
Asia	885	15.8%	1,150	17.9%	+29.9%
MVL	6,605	100.0%	6,942	100.0%	+5.1%
Japan	4,400	66.6%	4,609	66.4%	+4.8%
AMERICAs	583	8.8%	583	8.4%	0.0%
EMEA	776	11.7%	911	13.1%	+17.4%
Asia	846	12.8%	839	12.1%	-0.8%
EMS	519	100.0%	358	100.0%	-31.0%
Japan	148	28.5%	91	25.4%	-38.5%
Asia/Oceania	371	71.5%	267	74.6%	-28.0%

◎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 declined.

AMERICAs: Sales increased due to the steady sale of outdoor security sensors by sales subsidiaries in North America.

EMEA: Sales increased due to the steady sale of outdoor security sensors by sales subsidiaries in the UK.

Asia: Sales targeted at South Korea and Australia were sluggish, and declined.

(Automatic door-related)

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

AMERICAs: Sales increased due to the steady sale of automatic door sensors targeted at major clients in North America.

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, rechargeable batteries, and flat panel displays, sales of displacement sensors for the electronic parts industry were strong, and sales increased.

EMEA: As a result of sales promotion to the OEM company SICK, the sale of displacement sensors was strong, and sales increased.

Asia: Sales increased substantially as investments into labor-saving equipment in China were very active, resulting in the steady sale of displacement sensors.

◎ 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: Although there were large orders from existing customers, the number of consistent orders decreased, and sales remained roughly the same as the previous term.

EMEA: The economy in Europe is on an upward trend, and sales in the region were favorable, resulting in a significant increase in sales.

Asia: Despite the strong performance of the wholly owned subsidiary that was established in China in the previous term, sales decreased slightly.

(3) Financial Conditions

◎Major BS

(Unit: Million Yen)

	End of Dec. 2017	End of Sep. 2018		End of Dec. 2017	End of Sep. 2018
Cash Deposits	29,004	30,469	Account Payable	6,520	6,601
Accounts Receivable	12,293	11,955	Short-term Debt	1,851	1,935
Inventory Assets	8,290	8,723	Current Liabilities	784	1,199
Current Assets	5,963	7,365	Long-term Debt	3,042	3,537
Property, Plant and Equipment	12,564	12,957	Net Defined Benefit Liability	59	770
Intangible Assets	4,340	4,662	Fixed Liabilities	1,150	1,212
Investments, Others	3,970	3,897	Liabilities	9,562	10,139
Fixed Assets	4,253	4,397	Net assets	32,006	33,288
Total Assets	41,569	43,427	Total liabilities, net assets	41,569	43,427
			Equity ratio	70.1%	76.4%

Total assets grew 1,858 million yen from the end of the previous term to 43,427 million yen, due to an increase in inventory assets, etc.

Total liabilities rose 577 million yen from the end of the previous term to 10,139 million yen, due to an increase in short-term debts, etc.

Net assets were 33,288 million yen, up 1,282 million yen from the end of the previous term due to an increase in retained earnings, etc.

As a result, equity ratio increased 6.3 points from the end of the previous term to 76.4%.

(4) Topics

◎ French LED lighting company, that develops, manufactures and sells LED lighting for machine vision, reorganized into a subsidiary

In Oct. 2018, EFFILUX SAS became a wholly owned subsidiary of CCS. Effilux is a French company that develops, manufactures and sells LED lighting for machine vision in France and Germany.

Effilux's broad product lineup meets local needs in Europe, and one of its strengths is its ability to swiftly meet clients' individual needs as well.

The types of LED lighting for machine vision demanded overseas are different than those in Japan, so CCS will be able to capture new demand by utilizing Effilux products.

Moving forward, Effilux will be the base for product development, production, and sales of LED lighting for machine vision in the European market. The company plans to further expand sales in Europe by combining CCS's solution proposals and Effilux's technology and sales channels.

◎ Announced the acquisition of treasury stocks

In Nov. 2018, the company will implement a flexible capital policy in response to changes in the business environment, and acquire treasury stocks in order to improve shareholder returns.

An upper limit of 750,000 shares will be acquired (2.00% of the total number of outstanding shares, excluding treasury stocks), at a value of 1.5 billion yen.

The acquisition period is from Nov. 7, 2018 to Dec. 28, 2018.

As of the end of Oct. 2018, the company holds roughly 240,000 treasury shares.

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%	72.4%
Operating profit	4,885	13.0%	5,300	13.1%	+8.5%	70.5%
Ordinary profit	5,036	13.4%	5,400	13.3%	+7.2%	70.1%
Net profit	3,386	9.0%	3,600	8.9%	+6.3%	77.6%

*Shares for profits are sales to profit margin

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.

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

(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%	71.2%
Japan	2,391	17.1%	2,713	18.3%	+13.5%	57.7%
AMERICAs	2,675	19.2%	2,586	17.5%	-3.3%	87.5%
EMEA	7,214	51.7%	7,670	51.8%	+6.3%	71.8%
Asia	1,662	11.9%	1,832	12.4%	+10.2%	65.8%
Automatic door	4,237	100.0%	4,602	100.0%	+8.6%	71.1%
Japan	2,191	51.7%	2,308	50.2%	+5.3%	72.2%
AMERICAs	1,023	24.1%	1,187	25.8%	+16.0%	68.0%
EMEA	876	20.7%	957	20.8%	+9.2%	71.3%
Asia	147	3.5%	150	3.3%	+2.0%	76.7%
Others	2,173	100.0%	2,443	100.0%	+12.4%	66.4%
Japan	1,673	77.0%	1,959	80.2%	+17.1%	70.0%
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%	52.2%

FA	7,315	100.0%	8,071	100.0%	+10.3%	79.4%
Japan	3,248	44.4%	3,658	45.3%	+12.6%	75.2%
AMERICAs	110	1.5%	276	3.4%	+150.9%	31.9%
EMEA	2,770	37.9%	2,793	34.6%	+0.8%	86.7%
Asia	1,187	16.2%	1,344	16.7%	+13.2%	85.6%
MVL	9,022	100.0%	9,739	100.0%	+7.9%	71.3%
Japan	6,042	67.0%	6,497	66.7%	+7.5%	70.9%
AMERICAs	788	8.7%	935	9.6%	+18.7%	62.4%
EMEA	1,068	11.8%	1,438	14.8%	+34.6%	63.4%
Asia	1,124	12.5%	869	8.9%	-22.7%	96.5%
EMS	739	100.0%	760	100.0%	+2.8%	47.1%
Japan	209	28.3%	257	33.8%	+23.0%	35.4%
Asia/Oceania	530	71.7%	503	66.2%	-5.1%	53.1%

4. Conclusions

As mentioned in the previous report, OPTEX expects both sales and profits to recover in the second half. With regard to the forecast for the second half, progress rates in the third quarter (July- Sept.) are 46% for sales, and 42% for operating profit. In the MVL business, the full-year progress rate for sales was over 50% at the end of the first half, but slowed down slightly in the third quarter, finishing at 71%. The FA business continues to perform well. In the fourth quarter, we would like to pay attention to how much sales are led by the FA business, and how much the MVL business and domestic SS business (security-related) will recover as the company works toward its goal of achieving sales of 50 billion yen and an operating profit of 7.5 billion yen in 2019.

(Progress Rate to 2H)

(Unit: Million Yen)

	FY12/18 2H Est.	3Q (Jul.-Sep.) Act.	3Q (Jul.-Sep.) YoY	3Q to 2H Progress Rate
Sales	20,826	9,640	+6.1%	46.3%
Operation profit	2,691	1,128	+3.4%	41.9%
Current profit	2,827	1,212	+7.5%	42.9%
Net profit	1,650	844	+11.8%	51.2%

<Reference1: Future Growth Strategies (from the last report) >

(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.

<Reference2: 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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