
 Isamu Oguni President and CEO	OPTEX GROUP (6914)
	

Company Information

Market	TSE 1st Section
Industry	Electric equipment (manufacturer)
President and CEO	Isamu Oguni
HQ Address	5-8-12, Ogoto, Otsu, Shiga Prefecture
Year-end	December
Homepage	https://www.optexgroup.co.jp/

Stock Information

Share Price	Shares Outstanding		Total market cap	ROE Act.	Trading Unit
1,670	36,794,056 shares		61,446 million	12.3%	100 shares
DPS Est.	Dividend yield Est.	EPS Est.	PER Est.	BPS Act.	PBR Act.
30.00	1.8%	108.71	15.4 x	875.98	1.9 x

*The share price is the closing price on May 10. Shares Outstanding is the number of shares at the end of December 2019 excluding treasury shares. ROE and BPS are the results at the end of the previous term.

Earnings Trend

Fiscal Year	Sales	Operating Profit	Ordinary Profit	Net Profit	EPS	DPS
Dec. 2012	20,699	1,398	1,680	825	24.94	15.00
Dec. 2013	23,582	2,108	2,628	1,620	48.95	15.00
Dec. 2014	25,678	2,558	3,043	1,897	57.34	17.50
Dec. 2015	27,793	3,161	3,222	2,051	61.98	20.00
Dec. 2016	31,027	3,015	3,086	1,809	54.67	22.50
Dec. 2017	37,504	4,885	5,036	3,386	97.63	27.50
Dec. 2018	40,113	4,989	5,038	3,775	104.85	30.00
Dec. 2019 Est.	43,000	5,300	5,400	4,000	111.07	30.00

*The estimated values are from the company. The Net profit is the 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. Both EPS and DPS are revised retroactively.

This Bridge Report presents OPTEX GROUP's earnings results for the first quarter of fiscal year ending December 2019.

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Key Points

- **The sales in the first quarter of fiscal year ending December 2019 were 9,285 million yen, down 5.7%, year on year. There was a slight decrease in sales from the SS business. The sales from the FA and MVL businesses, which were steady in the previous term, also decreased due to economic slowdown in China and deceleration in demand for smartphone-related capital investment. Domestic sales were 4,207 million yen, down 25%, year on year, and overseas sales amounted to 5,182 million yen, down 8.1%, year on year. Operating profit dropped 49.9%, year on year, to 732 million yen. In addition to decreased sales, rise in costs and SGA of the acquired subsidiary contributed to the decrease in operating profit.**
- **There is no change in the forecast for the first half and the full fiscal year. The sales for fiscal year ending December 2019 are expected to rise 7.2%, year on year, to 43 billion yen. Domestic sales are projected to be 18.2 billion yen, up 6.6%, year on year, and overseas sales are forecasted to increase 7.7 %, year on year, to 24.7 billion yen. Increased sales are expected in all segments. The company also anticipates emergence of upcoming Tokyo 2020 Olympics/Paralympics-related demand for security and automatic door-related products in the SS business. Operating profit is expected to augment 6.2%, year on year, to 5.3 billion yen. The company plans to pay a dividend of 30 yen/share. The expected payout ratio is 27.0%.**
- **While progress of the SS business was relatively robust, the FA and MVL businesses, which were healthy until the previous term, had the progress rates to the full-year forecast of 19.7% and 21.5% respectively. The company expects the situation to “change from the second-half of the term,” and we would like to pay attention to how these two businesses improve their performances. In addition, we look forward to realization of M&A, which the company considers as one of the important growth strategies, in each business.**

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, displacement sensors 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
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

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 lighting (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		Business Description
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
Others	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 passed 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

1-3 Corporate 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

	FY Dec. 11	FY Dec. 12	FY Dec. 13	FY Dec. 14	FY Dec. 15	FY Dec. 16	FY Dec. 17	FY Dec. 18
ROE (%)	6.0	4.6	8.2	8.6	8.7	7.4	12.6	12.3
Net Profit Margin	5.58	3.99	6.87	7.39	7.38	5.83	9.03	9.41
Total Assets Turnover	0.85	0.91	0.92	0.89	0.91	0.91	0.95	0.95
Leverage	1.27	1.28	1.30	1.31	1.30	1.41	1.48	1.38

ROE in FY December 2018 achieved “10% or more” as targeted for two consecutive terms. Net profit margin for the current fiscal year is projected to be 9.3%. It is expected that the high ROE will continue due to accumulation of profits even if total assets and capital increase.

1-5 Efforts on ESG

The company actively responds to ESG issues and strives to improve corporate value.

E: Environment	<p>In the SS business (automatic door-related), the company develops and sells the “e-Smooth Sensor” which is an automatic door sensor that controls unnecessary opening. This product improves the air conditioning efficiency of the building and reduces electricity consumption by about 30%.</p> <p>In the SS business (water quality measurement-related), the company has developed and marketed products to measure water quality such as turbidity. These products, which enable water quality management using IoT, contribute to global warming countermeasures globally.</p>
S: Society	<p>The company’s head office is located by Lake Biwa. Taking advantage of its location, one of its subsidiaries, O’PAL OPTEX Co., Ltd. implements the “Lake Biwa Active Learning Program” as part of social contribution activities. Approximately 10,000 people participate annually to experience sports such as canoes and learn the water environment such as lakeside creatures.</p>
G: Governance	<p>To enhance the quality of strategies through active discussions at the Board of Directors and realize further enhancement of corporate value, the company appoints external directors with diverse backgrounds and skills.</p> <p>In addition, there are four independent external directors accounting for more than one-third of the 11 directors and auditors. They constitute a management structure that balances management functions and monitoring functions of management.</p>

2. First quarter of fiscal year ending December 2019 Earnings Results

2-1 Business Results

	1Q FY Dec. 18	Ratio to sales	1Q FY Dec. 19	Ratio to sales	YoY
Sales	9,844	100.0%	9,285	100.0%	-5.7%
Gross profit	5,520	56.1%	5,054	54.4%	-8.4%
SG&A	4,058	41.2%	4,321	46.5%	+6.5%
Operating Profit	1,461	14.8%	732	7.9%	-49.9%
Ordinary Profit	1,312	13.3%	704	7.6%	-46.3%
Net Profit	812	8.2%	499	5.4%	-38.5%

*The estimated values are from the company. The Net profit is the profit attributable to owners of the parent company. The same shall apply hereinafter.

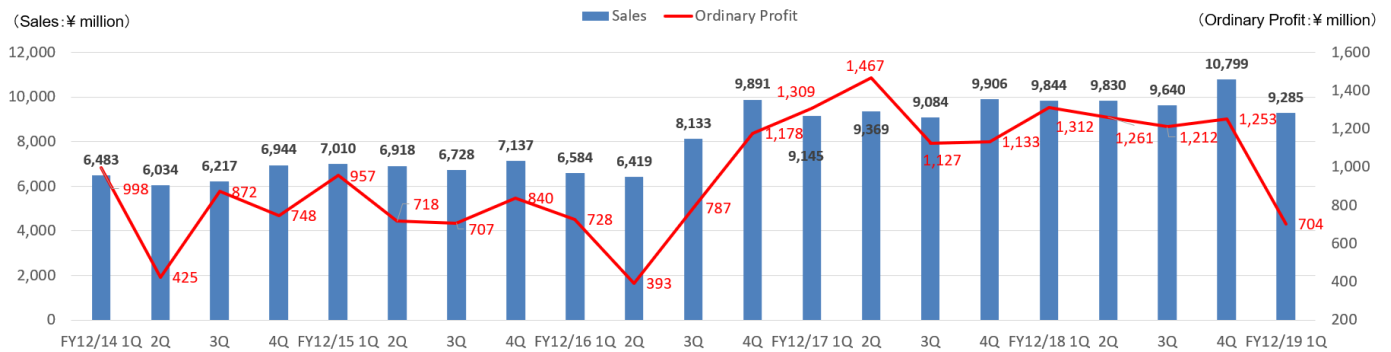
Sales and profit decreased.

The sales were 9,285 million yen, down 5.7%, year on year. There was a slight decrease in sales from the SS business. The sales from the FA and MVL businesses, which were steady in the previous term, also decreased due to economic slowdown in China and deceleration in demand for smartphone-related capital investment. Domestic sales were 4,207 million yen, down 25% yoy, and overseas sales amounted to 5,182 million yen, down 8.1%, year on year. Operating profit dropped 49.9%, year on year to 732 million yen. In addition to decreased sales, rise in costs and SGA of the acquired subsidiary contributed to the decrease in operating profit.

BRIDGE REPORT



Earnings result by quarter



Average exchange rate

	1Q FY Dec. 18	1Q FY Dec. 19
USD	¥108.30	¥110.20
GBP	¥150.89	¥143.68
EURO	¥133.22	¥125.15

2-2 Earnings by Segment

2-2-1 Trends in each segment and region

	1Q FY Dec. 18	Ratio to sales	1Q FY Dec. 19	Ratio to sales	YoY
SS Business	5,060	51.4%	4,989	53.7%	-1.4%
FA Business	2,088	21.2%	1,755	18.9%	-15.9%
MVL Business	2,552	25.9%	2,305	24.8%	-9.7%
EMS Business	139	1.4%	115	1.2%	-17.4%
Others	4	0.0%	119	1.3%	+2875.0%
Sales	9,844	100.0%	9,285	100.0%	-5.7%
SS Business	698	13.8%	398	8.0%	-43.0%
FA Business	430	20.6%	172	9.8%	-60.0%
MVL Business	358	14.0%	158	6.9%	-55.9%
EMS Business	15	10.8%	-22	-	-
Others	-12	-	-12	-	-
Adjustments	-28	-	38	-	-
Operating Profit	1,461	14.8%	732	7.9%	-49.9%

*The estimated values are from the company.

2-2-2 Trends in each segment and region

	1Q FY Dec. 18	Ratio to sales	1Q FY Dec. 19	Ratio to sales	YoY
SS: Security	3,365	100.0%	3,331	100.0%	-1.0%
Japan	466	13.8%	574	17.2%	+23.2%
AMERICAs	678	20.1%	635	19.1%	-6.3%
EMEA	1,823	54.2%	1,780	53.4%	-2.4%
Asia	398	11.8%	342	10.3%	-14.1%
SS: Automatic door	1,077	100.0%	1,088	100.0%	+1.0%
Japan	535	49.7%	515	47.3%	-3.7%
AMERICAs	252	23.4%	284	26.1%	+12.7%
EMEA	254	23.6%	260	23.9%	+2.4%
Asia	36	3.3%	29	2.7%	-19.4%
SS: Other	618	100.0%	571	100.0%	-7.6%
Japan	547	88.5%	534	93.5%	-2.4%
Asia	71	11.5%	37	6.5%	-47.9%
FA	2,088	100.0%	1,756	100.0%	-15.9%
Japan	914	43.8%	839	47.8%	-8.2%
AMERICAs	25	1.2%	31	1.8%	+24.0%
EMEA	745	35.7%	623	35.5%	-16.4%
Asia	404	19.3%	263	15.0%	-34.9%
MVL	2,552	100.0%	2,305	100.0%	-9.7%
Japan	1,690	66.2%	1,491	64.7%	-11.8%
AMERICAs	212	8.3%	192	8.3%	-9.4%
EMEA	334	13.1%	394	17.1%	+18.0%
Asia	316	12.4%	228	9.9%	-27.8%
EMS Business	140	100.0%	115	100.0%	-17.9%
Japan	51	36.4%	31	27.0%	-39.2%
Asia/Oceania	89	63.6%	84	73.0%	-5.6%

*Unit: million yen

SS Business

(Security-related)

Japan :Sales increased as the sales of the outdoor security sensors for security companies and important large-scale facilities such as airports were healthy.

AMERICAs :Sales dropped as the sales of the sensors for important large-scale facilities by the sales subsidiary in North America were sluggish.

EMEA :Sales decreased as the sales of the sensors for general residence in the Europe region by the sales subsidiary in the U.K. were sluggish.

Asia :Sales dropped as the sales of the sensors for Australia and South-east Asian countries were stagnant

(Automatic door-related)

Japan :Sales decreased as the sales of the sensors of automatic doors for major domestic customers were sluggish.

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

EMEA :Sales improved as the sales of the sensors for automatic doors for major customers in Europe grew steadily.

FA Business

Japan : Sales declined as the growth of sales of the products for semiconductor, rechargeable battery and electronic parts-related industries was sluggish, while sales were steady for automobile-related industries.

EMEA : Sales dropped as the sales of the products to OEM were stagnant due to declining business confidence of the world's economy.

Asia: Sales decreased due to the sluggish growth of sales of displacement sensors as a result of deceleration of demand for capital investment caused by economic slowdown in China.

MVL lighting business

Japan : Sales dropped because of a slowdown in demand for capital investment mainly in electrical, electronics and semiconductor industries.

AMERICAS : New projects increased, but sales decreased in reaction to the large-scale projects for the existing customers.

EMEA : A French LED lighting manufacturer for image inspection, which was made into a subsidiary in the fourth quarter in 2018, contributed to increased sales.

Asia: Sales declined as the growth of sales by the local subsidiaries was stagnant due to deceleration in demand for capital investment in China.

2-3 Financial Conditions

Main BS

	Dec. 18	Mar. 19		Dec. 18	Mar. 19
Current Assets	29,530	29,143	Current liabilities	6,470	6,069
Cash	11,563	10,976	Payables	1,997	1,963
Receivables	8,938	9,003	LT Interest Bearing Liabilities	1,409	1,416
Inventories	7,339	7,498	Noncurrent liabilities	4,474	4,864
Noncurrent Assets	13,760	14,217	ST Interest Bearing Liabilities	1,706	1,714
Tangible Assets	4,678	5,279	Net defined benefit liabilities	1,219	1,203
Intangible Assets	4,243	4,154	Liabilities	10,945	10,934
Investment, Others	4,837	4,783	Net Assets	32,345	32,426
Total assets	43,291	43,360	Total Liabilities and Net Assets	43,291	43,360

*Unit: million yen

Total assets were nearly unchanged from the end of the previous term at 43,360 million yen, as cash and deposits decreased and property, plant and equipment increased.

Total liabilities were nearly unchanged from the end of the previous term at 10,934 million yen.

Net assets augmented 81 million yen from the end of the previous term to 32,426 million yen.

Equity ratio was unchanged from the end of the previous term at 74.5%.

2-4 Efforts by each business

2-4-1 SS Business

Growing of businesses related to vehicle detection

The company develops and sells a highly efficient sensor for vehicle detection, and promotes replacement of an underground sensor, which requires a great deal of time and effort for installation and maintenance, with it.

The company is expanding its sales in Japan through a tie-up with a parking equipment manufacturer, targeting coin-operated parking and parking lots of large-scale facilities.

Outside Japan, the company tied up with a major parking-related agency in North America to target offices and security gates of multiple

dwelling houses.

Strengthening of shutters for construction and storehouses

The company developed and released a new product called “Shutter Sensor OAM-EXPLORER” for the rolling shutter market in Europe and the U.S.

The company plans to actively expand the sales of the above product, which utilizes the development technology that the company cultivated in the Japanese market and has key features such as “it detects forklifts operated in a factory/storehouse without fail,” “it cancels the objects crossing in front of the shutter and detects only those coming nearer to it” and “it enables operation setting through a smartphone and simplifies troublesome high-place work”, in the overseas market.

The company predicts the market of sensors for shutters in the West to be of around 20 billion yen, and hopes to acquire 10% of the share in the Western areas by 2022.

2-4-2 FA Business

The company transferred its thermometer business from Optex to Optex FA in 2018.

It is expanding publicity activities in a wider range for the existing and new sales channels, and the sales of products such as noncontact thermometer and infrared thermography are expanding drastically through discovery of a new industry and application.

The company aims to expand its share not only in the domestic market, but also in the overseas market such as in the U.S., China and Southeast Asia.

2-4-3 MVL Business

There is a rising need for the utilization of AI for industrial applications to eliminate the manpower shortage and improve the product quality from client companies.

In response to their demand, the company opened an AI Lab in the CCS Tokyo office to expand the image inspection solutions that provide “visibility” and “capability (to do something)” through introduction of AI.

The lab installed the latest high-performance workstation, and specializes in image analysis of machine vision. It has three types of software based on deep learning, and proposes conditions for image acquisition that can make the best use of the cognitive capability of AI. Customers can choose the appropriate “lighting,” “cameras” and “lens” together for inspection.

3. Fiscal Year ending December 2019 Earnings Forecasts

3-1 Business Results

	FY Dec. 18	Ratio to sales	FY Dec. 19 Est.	Ratio to sales	YoY	Progress rate
Sales	40,113	100.0%	43,000	100.0%	+7.2%	21.6%
Operating Profit	4,989	12.4%	5,300	12.3%	+6.2%	13.8%
Ordinary Profit	5,038	12.6%	5,400	12.6%	+7.2%	13.0%
Net Profit	3,775	9.4%	4,000	9.3%	+6.0%	12.5%

*The estimated values are from the company.

The earnings forecast remains unchanged. Sales and profit are estimated to grow.

There is no change in the forecasts. Sales are projected to increase to 43.0 billion yen, up 7.2%, year on year. Domestic sales are expected to increase 6.6%, year on year, to 18.2 billion yen, while overseas sales are projected to increase 7.7%, year on year, to 24.7 billion yen. The company anticipates increases of sales in all segments. It also anticipates demands for the Tokyo Olympic and Paralympic games that will be coming next year in the security-related and automatic door-related segments of the SS business. Operating profit is estimated to rise 6.2%, year on year, to 5.3 billion yen.

The dividend is to be 30 yen/share. The estimated payout ratio is 27.0%.

3-2 Trends in each segment and region

	FY Dec. 18	Ratio to sales	FY Dec. 19 Est.	Ratio to sales	YoY	Progress rate
SS: Security	14,382	100.0%	15,026	100.0%	+4.5%	22.2%
Japan	2,377	16.5%	2,512	16.7%	+5.7%	22.9%
AMERICAs	2,991	20.8%	3,043	20.3%	+1.7%	20.9%
EMEA	7,407	51.5%	7,486	49.8%	+1.1%	23.8%
Asia	1,607	11.2%	1,985	13.2%	+23.5%	17.2%
SS: Automatic door	4,455	100.0%	4,536	100.0%	+1.8%	24.0%
Japan	2,308	51.8%	2,348	51.8%	+1.7%	21.9%
AMERICAs	1,099	24.7%	1,138	25.1%	+3.5%	25.0%
EMEA	896	20.1%	875	19.3%	-2.3%	29.7%
Asia	152	3.4%	175	3.9%	+15.1%	16.6%
SS: Other	2,320	100.0%	2,532	100.0%	+9.1%	22.6%
Japan	1,952	84.1%	2,051	81.0%	+5.1%	26.0%
Asia	368	15.9%	481	19.0%	+30.7%	7.7%
FA	8,548	100.0%	8,905	100.0%	+4.2%	19.7%
Japan	3,763	44.0%	3,969	44.6%	+5.5%	21.1%
AMERICAs	123	1.4%	157	1.8%	+27.6%	19.7%
EMEA	3,218	37.6%	3,220	36.2%	+0.1%	19.3%
Asia	1,444	16.9%	1,559	17.5%	+8.0%	16.9%
MVL	9,485	100.0%	10,706	100.0%	+12.9%	21.5%
Japan	6,207	65.4%	6,556	61.2%	+5.6%	22.7%
AMERICAs	796	8.4%	878	8.2%	+10.3%	21.9%
EMEA	1,342	14.1%	2,087	19.5%	+55.5%	18.9%
Asia	1,140	12.0%	1,185	11.1%	+3.9%	19.2%
EMS Business	565	100.0%	639	100.0%	+13.1%	18.0%
Japan	194	34.3%	194	30.4%	0.0%	16.0%
Asia/Oceania	371	65.7%	445	69.6%	+19.9%	18.9%

*Unit: million yen

SS Business (Security Sensors) (Security-related)

*Priority products

The company will promote the visual verification business with interconnected operation of sensors and cameras targeting overseas market.

It will begin selling camera-equipped sensors that an OEM began to sell in 2017 in North America by as its own brand in Europe in April 2019.

Moreover, in order to capture the demand of the growing camera market, a camera will be installed in all outdoor security sensors in the future. Using them as a strength and feature of the company, it will sell the products as a system solution.

*Priority areas

The company aims to have the top share in the Japan's high-end market.

As measures, in addition to strengthening the product lineup by selling imported products from overseas subsidiaries, it will strengthen the system to obtain projects to secure safety of large-scale important facilities including about 100 airports and 250 defense-related

facilities in Japan.

It will also improve the repair and maintenance departments.

FA Business

***Priority products**

The company strives to increase the market share by strengthening the lineup of displacement sensors, which are its primary feature. It will appeal to its strengths such as the world's highest level of measurement accuracy, developed based on expertise accumulated over several decades, and simple equipment configuration and operability satisfying user needs.

In addition, as Tokyo Opto-Electronics Co., Ltd. became a subsidiary of OPTEX FA CO., LTD., which is a subsidiary of the company, the Group entered the outer diameter measurement market. It will supplement the lineup in the non-contact high precision laser measurement field.

***Priority areas**

The company will increase the share in the Asian and the U.S. markets, which continue to grow with the needs of automation and labor-saving equipment.

In Asia, it will expand the business of the Chinese sales subsidiary OFC (OPTEX FA China). Currently the situation in the Chinese market is not bright, but the company believes that it is necessary to strengthen the sales structure all the more. In Southeast Asia, the company will expand sales targeting Japanese companies.

In addition, in the United States, the company will expand the distribution network by its sales subsidiary OFI (OPTEX FA Inc.) that was established in April 2018.

MVL Business

***Priority products**

The company will focus on the UV-LED lighting business for the products that are used for ink setting of label seals, adhesion/sealing of panels, and adhesion of electronic parts, etc. by using the UV curing principle, which chemically changes liquid into solids with UV (ultraviolet) energy.

According to the company's document, the global UV-LED market will grow at an average annual growth rate of 33% from 2017 to 2022 as the capacity of LEDs improves, and the market size in 2022 is expected to be about 1.2 billion dollars.

***Priority areas**

The company plans to expand the European business through Effilux (France), which was acquired by CCS in October 2018.

The company develops, manufactures and sells LED lighting for machine vision and offers a wide lineup corresponding to local needs in Europe. It also has a capacity to respond quickly to customer needs through direct sales.

In addition to selling the CCS products through sales channels of Effilux, it will sell the products of both companies in North America.

4. Growth Strategy

The company has been growing by executing effective M&A projects as well as increasing the market share of existing businesses.

For the security-related business, starting with converting FARSIGHT SECURITY SERVICES LTD. (UK) to a subsidiary that offers remote video surveillance services in 2007, the company has been expanding the share in the outdoor security sensor market through synergy effects with new subsidiaries including FIBER SENSYS INC. (U.S.) that carries out development and sales of fiber-optic intrusion detection system and RAYTEC LIMITED. (UK) that handles LED lighting for assisting surveillance cameras.

The total sales of three companies at the time of acquisition were about 2 billion yen, but, in 2018, sales grew to 3.4 billion yen.

The company will continue to strengthen M&A efforts and aim for double-digit growth.

For the MVL and FA businesses, the MVL business, together with the FA business, has become the second pillar of the company's business, after it acquired CCS Inc. that has the top market share of LED lighting for image processing, in 2016, Gardasoft Vision Limited (UK) that handles LED lighting controllers for the image processing, Effilux (France) that has an advantage in special LED lighting for image processing, and Tokyo Opto-Electronics Co., Ltd. which is a diameter measurement device manufacturer.

At the time of acquisition, the total sales of CCS, Gardasoft Vision and Effilux were approximately 8.3 billion yen, but, in 2018, sales grew to 10.7 billion yen.

The company will also strengthen M&A efforts in the FA and MVL businesses and aim for double digit growth.

5. Conclusions

While progress of the SS business was relatively robust, the FA and MVL businesses, which were healthy until the previous term, had the progress rates to the full-year forecast of 19.7% and 21.5% respectively. The company expects the situation to "change from the second-half of the term," and we would like to pay attention to how these two businesses improve their performances. In addition, we look forward to realization of M&A, which the company considers as one of the important growth strategies, in each business.

<Reference: Regarding Corporate Governance>

Organization type, and the composition of directors and auditors

Organization type	Company with audit and supervisory committee
Directors	11 directors, including 4 outside ones

Corporate Governance Report

The latest revision date: March 28, 2019

<Fundamental concept>

As the Group, we recognize that it is our greatest mission to continuously improve corporate value while earning the trust of our shareholders, investors, customers and society. To practice it, we consider enhancement of the corporate governance as one of important management tasks and aim to improve the transparency of management, maintain management systems accompanying fair and prompt decision making and strengthen management monitoring function.

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

Principle	Items to be disclosed
[Supplementary Principle 4-11-1. Balance, diversity and scale of the Board of Directors as a whole]	<p>We have been electing candidates for directors without regard to sex and nationality, and, consequently, we have never appointed female or foreign directors so far.</p> <p>However, our company's Board of Directors is composed of 7 (maximum number is set at 9) directors (not audit committee members), who effectively utilize their expertise in business management/administration, technological development, production, sales, overseas work experience, accounting and legal work, and 4 directors (maximum number is 4), who are audit committee members with distinguished insight and knowledge, having management or auditing experience at a major company or possessing qualifications of a certified public accountant, a licensed tax accountant, or the like and we consider that the current composition is balanced to pursue our medium-to-long-term management plan, taking the scale of our company and our corporate group into consideration.</p> <p>We will continue to examine optimization for the balance of diversity and expertise.</p>

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

Principle	Items to be disclosed
Principle 1-4 The strategically held shares	<p>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 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>Listed cross-shareholdings owned by the company: 1 brand, 38</p>

	<p>million yen (posted on the balance sheet)</p> <p>Regarding the exercise of voting rights for the shares, we will individually examine whether it will contribute to sustainable growth of the enterprise and enhance corporate value over the medium to long term as well as whether shareholder value is not significantly impaired. Based on the examination, we will decide approval or rejection of it in a comprehensive manner.</p>
Principle 5-1 Policy for the constructive dialogues with shareholders	<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>

This report is intended solely for information purposes and is not intended as a solicitation for investment. The information and opinions contained within this report are made by our company based on data made publicly available, and the information within this report comes from sources that we judge to be reliable. However, we cannot wholly guarantee the accuracy or completeness of the data. This report is not a guarantee of the accuracy, completeness or validity of said information and opinions, nor do we bear any responsibility for the same. All rights pertaining to this report belong to Investment Bridge Co., Ltd., which may change the contents thereof at any time without prior notice. All investment decisions are the responsibility of the individual and should be made only after proper consideration.

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