



President Akihiko Sakurai

Seika Corporation (8061)



Company Information

Market	TSE 1st Section
Industry	Wholesale
President	Akihiko Sakurai
HQ Address	Shin-Tokyo Bldg, 3-1, Marunouchi 3-chome, Chiyoda-ku, Tokyo
Year-end	End of March
Homepage	http://www.seika.com/en/

Stock Information

Share Price	Shares Outstanding	Total market cap	ROE Act.	Trading Unit	
¥1,409	12,820,650 shares	¥18,064 million	5.6%	100 shares	
DPS Est.	Dividend yield Est.	EPS Est.	PER Est.	BPS Act.	PBR Act.
¥45.00	3.2%	¥130.30	10.8x	¥2,246.34	0.6 x

*The share price is the closing price on December 2. The number of shares outstanding, DPS and EPS were taken from the brief financial report for the second quarter of the term ending March 2020. ROE and BPS are the actual value as of the end of the previous term.

Earnings Trend

Fiscal Year	Sales	Operating Income	Ordinary Income	Net Income	EPS	DPS
March 2016 (Actual)	127,101	2,174	2,426	1,750	128.28	45.00
March 2017 (Actual)	150,742	3,046	3,390	2,140	161.29	55.00
March 2018 (Actual)	165,585	2,598	2,877	1,655	128.38	55.00
March 2019 (Actual)	157,145	2,118	2,418	1,587	125.50	45.00
March 2020 (Forecast)	135,000	2,400	2,700	1,650	130.30	45.00

*Unit: million yen or yen. The company implemented a reverse stock split at 1:5 on October 1, 2017. EPS and DPS adjusted retroactively. Net income is profit attributable to owners of the parent. Hereinafter the same shall apply.

This report outlines the overview of Seika Corporation for the first half of the fiscal year March 2020 earnings results.

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Key Points

- The sales for the second quarter of the term ending March 2020 were 62.6 billion yen, down 35.9% year-on-year. The sales of the Chemicals & Energy Plant segment decreased dramatically due to the recoil from the delivery of a newly constructed power plant during the same period of the previous year. Operating income was 860 million yen, unchanged from the same period of the previous year. In addition to the effective marketing activities, the robust performance of subsidiaries contributed to these results. Sales were below the estimates, but, thanks to the subsidiaries' contribution, profit exceeded the estimate.
- The full-year earnings forecast is unchanged. The sales for the term ending March 2020 are estimated to be 135 billion yen, down 14.1% year-on-year. The decrease in sales for the Power Plant and Chemicals & Energy Plant segments can't be covered. Operating income is estimated to increase 13.3% year-on-year to 2.4 billion yen. Profit will see a double-digit increase thanks to the contribution of subsidiaries. The dividend is estimated to remain unchanged at 45 yen/share. The estimated payout ratio is 34.5%.
- This term is the final fiscal year of the "Mid-term Management Plan CS2020," which is to be the first step for the long-term management vision, but the net income is not expected to reach its goal. As the company is going to discuss the next mid-term management plan, which is set to start in April 2020, it will re-evaluate the business environment around each business segment, identify issues, and develop a more practical plan.
Moreover, we will pay attention to how far the company can get closer to its goals during the second half in order to smoothly proceed to the next mid-term management plan, which is going to be the second step for the long-term management vision.
- On the other hand, we are also paying attention to the development of environment-friendly products. As demand grows, it is naturally expected that competition will become fiercer, and our attention is attracted to how the company is going to reinforce its competitiveness and generate a larger volume of sales.

1. Company Overview

Under the corporate philosophy "To Contribute to Society Through the Expansion of Business," Seika Corporation sells equipment, devices, etc. and offers services in the fields of electric power, chemistry, energy, industrial machinery, material, and measurement as a general machinery trading company.

Its three characteristics and strengths are sales capability thoroughly versed in fields, extensive expertise in each business, and a wide network including 76 business bases both inside and outside Japan.

1-1 Corporate History

In July 1947, after the Pacific War, Mr. Douglas MacArthur, Supreme Commander for the Allied Powers, ordered the dissolution of the old Mitsubishi Corporation with a memorandum. In October 1947, the first president Koji Nakabayashi and staff of the machinery division of Moji Branch played a central role in founding Seika Corporation in Moji-ku, Kitakyushu-shi.

The corporate name is derived from “Essence of commerce: To pursue the quintessence of commerce, and offer benefits to others while earning money,” “Star company of the west: To aim to become a star company in western Japan,” and “China: It may become helpful if the trade with China increases.”

The company expanded business actively, establishing branches throughout Japan, including Tokyo and Osaka, and an overseas office in Dusseldorf, Germany (old West Germany), where only a few Japanese people resided around that time, in November 1954. The company was listed in the first section of Tokyo Stock Exchange in October 1961.

Then, it has grown as a general machinery trading company, by fortifying the sales base mainly in western Japan and establishing footholds in the U.S., Europe, and Asia.

In 2017, which was the 70th anniversary of the establishment of Seika Corporation, the company set a long-term management vision for the year 2027 “Envisioned Seika Group 10 years from now” and a new three-year plan “Mid-term Management Plan CS2020,” and these are ongoing.

1-2 Corporate Philosophy

Seika Corporation set up the following corporate philosophy and code of conduct.

Corporate Philosophy	<p>“Our Philosophy is to Contribute to Society Through the Expansion of Business.”</p> <p>No matter how society changes, we are committed to conducting business that rewards all stakeholders and being a Valuable Business that contributes to the realization of an affluent society.</p>
Code of conduct	<p>The following is the code of conduct for employees of Seika Corporation:</p> <ol style="list-style-type: none"> 1. Being trustworthy is a priceless asset. 2. To always have a high appreciation of the significance of existence is the basis of the business activities of a trading company. 3. Fast and accurate information activities and effective responses win everything. 4. To make decisions and handle things using objective consideration and pursue necessity and rationality without being influenced by intuition. 5. To be driven by a pioneering spirit, be challenged, and be proud to overcome all difficulties, barriers, and turbulent times.

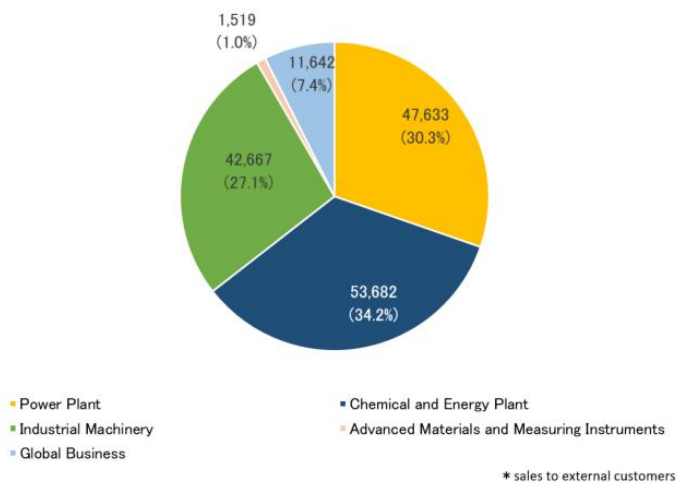
1-3 Business Description

(1) Business segments

As a general machinery trading company, Seika Corporation sells machinery, equipment, devices, and ancillary products and offers services in the fields of electric power, chemistry, energy, industrial machinery, material, and measurement.

The segments to be reported are “Power Plant,” “Chemicals and Energy Plant,” “Industrial Machinery,” “Advanced Materials and Measuring Instruments,” and “Global Business.”

Ratio of sales of each segment (term ended Mar. 2019; unit: million yen)



① Power Plant

The clients of Seika Corporation are electric power companies in western Japan, including The Kansai Electric Power, Kyushu Electric Power, The Chugoku Electric Power, Shikoku Electric Power, Electric Power Development Co.,Ltd. (J-POWER), and joint electric power companies, such as Wakayama Kyodo Power. The company sells industrial power generation equipment, such as boilers and gas turbines, environmental conservation equipment for treating discharged water and exhaust gas, anti-crime and anti-disaster equipment, such as security equipment and fire extinguishing equipment for nuclear power plants, etc.

The suppliers include Mitsubishi Hitachi Power Systems (MHPS), which is a joint venture of Mitsubishi Heavy Industries, Ltd. and Hitachi, Ltd. Seika Corporation possesses the distributorship for thermal power generation equipment of MHPS.



② Chemicals and Energy Plant

Seika Corporation procures in-house power generation equipment, such as boilers and turbines, environmental conservation equipment for treating discharged water and exhaust gas, and so on from MHPS, etc., and sells them to chemical companies, oil companies, paper-manufacturing companies, steelmakers, and railway companies.

In addition, the company procures equipment for manufacturing chemical products, etc. from Japanese and foreign manufacturers and sells them.



Chemical plant

③ Industrial Machinery

Seika Corporation provides clients in a broad range of industries with textile equipment, food processing equipment, brewing equipment, plant machinery, liquid crystal-related equipment, environment-related apparatus, uninterruptible power systems (UPS), etc. produced by Japanese and foreign manufacturers, and offers maintenance services.

These days, the company deals with lithium ion battery-related equipment and motor manufacturing equipment for electric vehicles (EV) and China.



④ Advanced Materials and Measuring Instruments

Seika Corporation sells printed circuit boards for electronic equipment, etc. to mainly domestic consumer electronics manufacturers, and delivers advanced technology-based measurement equipment, such as laser measurement instruments and pore size measurement instruments, to government offices and research institutes. The company also handles a wide array of products, including measurement equipment of industrial machinery for environmental conservation and equipment for water treatment.

Products are procured mainly from overseas manufacturers.



Laser-type gas concentration measurement equipment

⑤ Global Business

(Europe)

While selling industrial robots to automotive customers, Seika Corporation sells and leases submersible pumps used in construction, etc. These products are procured mainly from Japanese manufacturers.

(North America)

The company sells Japanese-made industrial machinery used in the PCB surface mount production line to clients affiliated with Japanese automotive manufacturers.

(Asia)

The company sells Japanese-made machinery and equipment to companies within the textile, chemical, and other general industries, and also procures raw materials outside Japan and sells them to textile manufacturers.

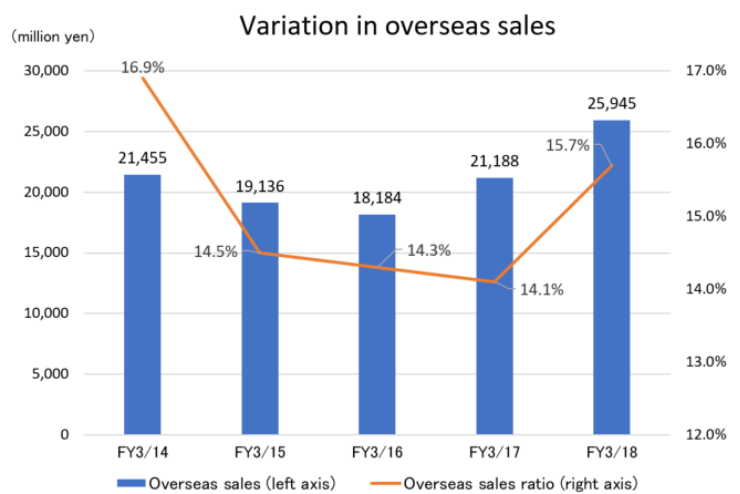
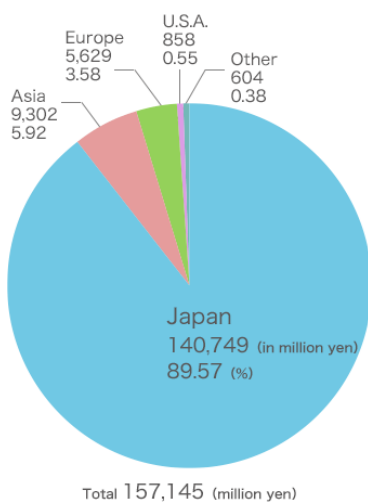


Tsurumi (Europe) GmbH
Underwater pump

(2) Sales in each region

Domestic sales account for over 80%, but the acceleration of global business expansion is included in the mid-term management plan CS2020 as a company-wide strategy, and the company aims to raise the ratio of overseas sales.

Ratio of sales in each region in term ended March 2019



(Taken from the website of the company)

1-4 Characteristics and strengths

(1) Hands-on sales capability

The capability of hands-on sales nurtured in their 70 years history is the company's greatest strength.

By building relationships of trust through meticulous customer services and forming personal connections, Seika Corporation is able to obtain a steady stream of orders.

(2) High level of expertise in each business

Although trading companies are sometimes thought of as middlemen, Seika Corporation has garnered excellent reputation as an essential business partner with a high level of expertise, including profound information gathering capabilities and the ability to develop proposals that stay one step ahead of clients.

(3) Extensive network comprised of 76 bases in Japan and overseas

Twenty years ago, the company only had a couple of dozen bases, but, thanks to M&A, they did not only expand their bases domestically, but also have been rapidly expanding the number of bases in Europe and Southeast Asia in anticipation of globalization. The speed and comprehensiveness of information have increased further, and by utilizing this, the company hopes to further improve its corporate value.

(4) Measures to strengthen employee education and sales capabilities

Seika Corporation primarily uses on-the-job training to develop its employees. Senior staff and those with more experience teach newer employees the essentials for business, and the company also focuses on overseas training programs and seminars for each skill level.

Nowadays, the company requests the former staff of manufacturers and client companies to provide its employees with consultation services and hands-on support for sales.

The advice the company receives allows them to further improve their expertise and sales capabilities.

1-5 ROE analysis

	FY 3/15	FY 3/16	FY 3/17	FY 3/18	FY 3/19
ROE (%)	8.5	6.6	7.9	5.9	5.6
Net income margin (%)	1.66	1.38	1.42	1.00	1.01
Total asset turnover (x)	1.76	1.52	1.45	1.53	1.71
Leverage (x)	2.90	3.13	3.82	3.83	3.42

Seika Corporation is still unable to keep its ROE over 8%, which is required for Japanese companies. Since leverage is relatively high, profit rate is expected to improve.

1-6 Efforts for ESG

<E: Environment>

The environmental policy of the company is to “make efforts to protect the earth environment and contribute to the realization of a sustainable society.”

Under this policy, the company obtained the ISO14001 certificate in 2005, and is promoting environmentally-friendly products.

The environmentally friendly products handled by the company are diverse, including equipment for treating exhaust gas from boilers and incinerators and organic solvent recovery equipment for chemical and semiconductor factories. The amount of orders in the term ended March 2019 was about 103 billion yen, as mentioned below.

The company will continue to contribute to the conservation of the earth environment through business activities, and not merely from the perspective of social contribution.

Orders for environmentally friendly products in the term ended Mar. 2019	No. of orders received	Amount of orders received
Energy saving/resource saving/efficiency improving	10,650	97.85 billion yen
Pollution control	963	4.92 billion yen
Recycling/reuse	596	0.84 billion yen
Total	12,209	103.62 billion yen



(Taken from the reference material of the company)

<S: Social Responsibility>

To fulfill its “social responsibility,” Seika Corporation engages in work-style reforms as follows.

“Promotion of women’s active participation in the workplace”

- To recruit more women in the main career track
- To support female employees in developing their careers
- To appoint female managers

“Enhancement of health of employees”

- To adopt Premium Friday (Casual day at the same time)
- To promote the use of paid holidays
- The company bears the expense for cancer screening (tumor marker option) in a health checkup
- The company bears the cost of influenza vaccinations

“Personnel development”

- Training at each level
- Overseas training system

<G: Governance>

The website of the company discloses the activities for each item of the Corporate Governance Code.

“The effectiveness of the board of directors” was evaluated, and in order to deal with the revised the Corporate Governance Code, the board of directors established the “review committee for appointment,” and “review committee for compensation,” which are composed of outside directors and outside auditors as an arbitrary system.

The company translated some convocation notices into English, and produced financial results briefing materials and a fact book in English.

In order to grow sustainably and improve its corporate value in the medium/long term, the company will strive to strengthen corporate governance, and pursue a sound, transparent management system.

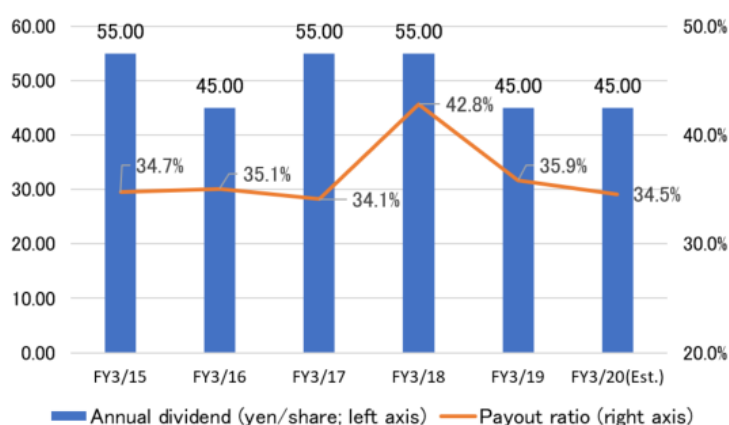
1-7 Shareholder return

The primary managerial mission of the company is to return profit to shareholders, and its basic policy is stable dividend payment.

Through the efficient business operation from the marketing and financial aspects, the company aims to fortify the management base. While dealing with the demand for funds for developing new businesses, etc., the company plans to achieve a consolidated payout ratio of 35%.

For the term ending March 2020, the company plans to pay an interim dividend of 20 yen/share and a term-end dividend of 25 yen/share, that is, a total of 45 yen/share, and the estimated payout ratio is 34.5%.

The company will actively return profit to shareholders while comprehensively considering the dividend policy, full-year results, etc.



2. First Half of Fiscal Year March 2020 Earnings Results

(1) Consolidated Business Results

	1H of FY 3/19	Ratio to sales	1H of FY 3/20	Ratio to sales	YoY	Compared with the initial forecasts
Sales	97,676	100.0%	62,651	100.0%	-35.9%	-6.5%
Gross profit	6,829	7.0%	6,866	11.0%	+0.5%	-
SG&A	5,969	6.1%	6,006	9.6%	+0.6%	-
Operating Income	860	0.9%	860	1.4%	0.0%	+32.4%
Ordinary Income	992	1.0%	986	1.6%	-0.6%	+31.5%
Net Income	837	0.9%	471	0.8%	-43.7%	+34.6%

*Unit: million yen. Net income is profit attributable to owners of parent.

Sales decreased while profit was unchanged.

Sales were 62.6 billion yen, down 35.9% year-on-year. The sales of the Chemicals and Energy Plant segment decreased dramatically due to the recoil from the delivery of a newly constructed power plant during the same period of the previous year.

Operating income was 860 million yen, almost unchanged from the same period of the previous year. In addition to the effective marketing activities, the robust performance of subsidiaries contributed to these results.

Sales were below estimate, but, thanks to the subsidiaries' contribution, profit exceeded the estimate.

(2) Overview of business performance in each segment

◎Sales and Profit

	1H of FY 3/19	Ratio to sales	1H of FY 3/20	Ratio to sales	YoY
Sales					
Power Plant	30,109	30.8%	21,203	33.8%	-29.6%
Chemicals and Energy Plant	40,799	41.8%	14,951	23.9%	-63.4%
Industrial Machinery	20,891	21.4%	20,456	32.7%	-2.1%
Advanced Materials and Measuring Instruments	552	0.6%	559	0.9%	+1.3%
Global Business	5,324	5.5%	5,480	8.7%	+2.9%
Total Sales	97,676	100.0%	62,651	100.0%	-35.9%
Profits in each segment					
Power Plant	823	2.7%	833	3.9%	+1.1%
Chemicals and Energy Plant	473	1.2%	267	1.8%	-43.5%
Industrial Machinery	530	2.5%	524	2.6%	-1.1%
Advanced Materials and Measuring Instruments	-230	-	-85	-	-
Global Business	106	2.0%	172	3.1%	+61.0%
Total profit in all segments	1,703	1.7%	1,712	2.7%	+0.5%

*Unit: million yen. Sales to external clients. The composition ratio of profit means the rate of profit to sales.

①Power Plant

Sales decreased and profit increased.

Sales decreased due to the postponement of the delivery of large-sized components for power plants, etc., to the second half, however, they were able to achieve an increase in profit thanks to the increase of small and medium projects in the nuclear power plant segment.

BRIDGE REPORT

②Chemicals and Energy Plant

Sales and profit decreased.

Equipment sales for general industries were unchanged year on year, however, the delivery of power generation equipment, which occurred in the same period of the previous year, did not occur in the first half of this term.

③Industrial Machinery

Sales and profit decreased.

The sales of lithium-ion battery-related equipment decreased, however, the decrease in sales and profit was mild thanks to the good performance of the consolidated subsidiary, Nippon Daiya Valve Co., Ltd.

④Advanced Materials and Measuring Instruments

Sales increased and loss shrank.

The sales of measurement instruments such as gas monitors were robust.

⑤Global Business

Both sales and profit increased.

The performance of the European subsidiary, Tsurumi (Europe) GmbH, was robust.

◎Orders and Order Backlog

	1H of FY 3/19	1H of FY 3/20	YoY
Orders			
Power Plant	19,871	28,945	+45.7%
Chemicals and Energy Plant	32,598	17,538	-46.2%
Industrial Machinery	22,393	21,890	-2.2%
Advanced Materials and Measuring Instruments	383	672	+75.6%
Global Business	5,481	6,048	+10.3%
Total	80,728	75,095	-7.0%
Order Backlog			
Power Plant	27,149	37,794	+39.2%
Chemicals and Energy Plant	58,135	65,068	+11.9%
Industrial Machinery	60,759	65,749	+8.2%
Advanced Materials and Measuring Instruments	1,217	551	-54.7%
Global Business	2,614	3,390	+29.7%
Total	149,877	172,554	+15.1%

*Unit: million yen.

BRIDGE REPORT

**(3) Financial standing and cash flows****◎Main BS**

	March 2019	September 2019		March 2019	September 2019
Current Assets	68,878	67,980	Current liabilities	51,500	50,779
Cash	12,957	14,383	Payables	31,474	28,367
Receivables	37,605	35,056	ST Interest-Bearing Liabilities	6,897	7,001
Inventories	5,634	5,109	Fixed Liabilities	5,175	4,863
Noncurrent Assets	16,863	16,347	LT Interest-Bearing Liabilities	2,147	2,040
Tangible Assets	4,606	4,576	Total Liabilities	56,675	55,643
Intangible Assets	749	643	Net Assets	29,066	28,685
Investment, Others	11,508	11,128	Retained earnings	17,508	17,722
Total assets	85,742	84,328	Total liabilities and net assets	85,742	84,328

*Unit: million yen. Interest-bearing debt does not include lease obligations.

Total assets decreased to 84,328 million yen, down 1,414 million yen from the end of the previous term due to the decline in receivables, inventories, etc. Total liabilities were 55,643 million yen, down 1,032 million yen due to the decrease in payables, etc.

Net assets were 28,685 million yen, down 381 million yen from the end of the previous term.

Equity ratio remained unchanged at 33.2% from the end of the previous term.

◎Cash Flow

	1H of FY 3/19	1H of FY 3/20	Increase/decrease
Operating Cash Flow	20	2,052	+2,032
Investing Cash Flow	-431	-218	+213
Free Cash Flow	-411	1,834	+2,245
Financing Cash Flow	-269	-585	-316
Cash and equivalents	13,281	12,666	-615

*Unit: million yen

The surplus of operating CF increased thanks to the increase in receivables, the decrease in inventories, etc., while free CF turned positive. The cash position declined.

(4) Topics**① Measures for environment-friendly products**

As ESG has become mainstream, the company aims to contribute to the achievement of a sustainable society by proactively handling the environment-friendly products below.

◎ Electric vehicle-related businesses aimed at China

The company is concentrating on the sales promotion of manufacturing equipment for drive motors and inverters, in addition to lithium-ion battery-related equipment, which has been handled since before.

(Background)

The Chinese government has announced its plan to ship over 7 million new energy vehicles (NEVs), including electric vehicles, by 2025 and is currently promoting it.

It is actively implementing measures such as encouraging foreign-affiliated companies to handle core components of NEVs, such as separators for lithium-ion batteries, motors, and drive systems.

(The business environment and the company's measures)

In the market of separators for lithium-ion batteries, the consolidation of separator manufacturers progressed due to the excessive competition and a cautious approach is observed in investments in new equipment.

However, there are great expectations from EVs such as extending the cruising range, etc., which entails constant claims to improve its performance, thus, the demand for products such as separator films for lithium-ion batteries with enhanced efficiency is increasing. By the first half of 2020, it is expected that markets for each product will be established and capital investments for high-efficiency separator films will increase.

The company plans to start well-studied marketing and increase orders to make use of the fact that lithium-ion battery-related equipment is already a core product for the EV market.

On the other hand, unlike the separator film market, EV motors suffer from an extreme supply shortage and the plan of installing new equipment is being gradually implemented.

Since the driving system of automobiles changed from an engine drive to a motor drive, the number of installed motors per vehicle is about 100, and the motor itself needs to be compact while offering higher precision.

The company uses Japanese manufacturers, which have advanced technology and an extensive track record, and makes business negotiations for motor coil winding instruments, rotor-stator machines, etc.

The orders in this term are expected to get about 3 billion yen in business negotiations for battery-related manufacturing equipment, and 1 billion yen for drive motor manufacturing equipment.

◎ Exhaust gas cleaning systems for ships

The regulations related to the concentration of Sulphur Oxides (SOx) in ships' exhaust gas were strengthened, according to MARPOL, the International Convention for the Prevention of Pollution from Ships, which aims to curb the marine pollution caused by accidents and regular navigation of ships.

One of the countermeasures that attract attention is the exhaust gas cleaning system "Scrubber."

The company cooperates with the manufacturer and provides shipbuilders with dumpers for Scrubber, high-efficiency bulbs, etc.

The amount of orders received in this term is expected to be about 1 billion yen and is estimated to expand more in the future.

◎ Laser-based gas concentration meter

The laser-based gas concentration meter measures the concentration of oxygen and carbon monoxide found in exhaust gas from thermal power plants and waste incineration plants; it features laser-based real-time measurement and maintenance-free operation.

It can improve combustion efficiency and contributes to the reduction of greenhouse gas and fuel. In addition, it is used for measuring the contents of nitrogen oxide, sulfur oxide, and other toxic substances found in the exhaust gas from production equipment in chemical plants.

The amount of orders is estimated to be 400 million yen this term, as it was 200 million yen in the previous term, and is expected to expand more in the future.

② Regarding the purchase of treasury shares

The status regarding the purchase of treasury shares based on the resolution of the board of directors in May 2019 are as follows:

	Resolution details	Current status (November 30)
Acquisition period	May 13, 2019 to March 19, 2020	May 13, 2019 to November 30, 2019
Acquired shares	400 thousand shares (upper limit)	288.4 thousand shares
Acquired amount	700 million yen (upper limit)	379 million yen

3. Fiscal Year March 2020 Earnings Forecasts

(1) Consolidated Earnings Forecasts

	FY 3/19	Ratio to sales	FY 3/20 Est.	Ratio to sales	YoY	Progress rate
Sales	157,145	100.0%	135,000	100.0%	-14.1%	46.4%
Operating Income	2,118	1.3%	2,400	1.8%	+13.3%	35.8%
Ordinary Income	2,418	1.5%	2,700	2.0%	+11.6%	36.5%
Net Income	1,587	1.0%	1,650	1.2%	+3.9%	28.5%

*Unit: million yen. The estimates were announced by the company.

The earnings forecast is unchanged. It is estimated that sales will decline and profit will grow.

Sales are estimated to be 135 billion yen, down 14.1% year-on-year. The decrease in sales for the Power Plant and Chemicals and Energy Plant segments is uncoverable.

Operating income is estimated to increase 13.3% year-on-year to 2.4 billion yen. Profit will see a double-digit increase thanks to the contribution of subsidiaries.

The dividend is estimated to remain unchanged at 45 yen/share. The estimated payout ratio is 34.5%.

(2) Trend in each segment

◎Sales and Profit

Segment	FY 3/19	FY 3/20 Est.	YoY	Progress rate
Sales				
Power Plant	47,633	38,500	-19.1%	55.1%
Chemicals and Energy Plant	53,682	34,500	-35.6%	43.3%
Industrial Machinery	42,667	47,000	+10.3%	43.5%
Advanced Materials and Measuring Instruments	1,519	2,000	+32.5%	28.0%
Global Business	11,642	13,000	+12.0%	42.2%
Total Sales	157,145	135,000	-14.1%	46.4%
Profits in each segment				
Power Plant	1,407	1,660	+18.0%	50.2%
Chemicals and Energy Plant	761	820	+8.3%	32.6%
Industrial Machinery	1,363	1,400	+3.1%	37.4%
Advanced Materials and Measuring Instruments	-174	70	-	-
Global Business	402	260	-33.3%	66.2%
Total profit in all segments	3,760	4,210	+12.6%	40.7%

*Unit: million yen. Sales to external clients

◎Orders and Order Backlog

	FY 3/19	FY 3/20 Est.	YoY
Orders			
Power Plant	40,298	65,000	+61.7%
Chemicals and Energy Plant	49,827	46,000	-7.6%
Industrial Machinery	47,724	59,000	+23.7%
Advanced Materials and Measuring Instruments	570	2,000	+250.8%
Global Business	12,008	13,000	+8.3%
Total	150,429	185,000	+23.0%
Order Backlog			
Power Plant	30,052	56,500	+88.3%
Chemicals and Energy Plant	62,481	74,000	+18.6%
Industrial Machinery	64,314	76,000	+18.2%
Advanced Materials and Measuring Instruments	438	500	+16.2%
Global Business	2,822	3,000	+6.4%
Total	160,110	210,000	+31.2%

*Unit: million yen.

①Power Plant

Sales are expected to decrease but profits are estimated to increase

The Power Plant segment has been performing well this term as well. Electric power companies, which are the company's clients, plan to make renewal work for the thermal power plants' large-sized components, work for restarting the operation of nuclear power plants, and renewal work for hydropower plants.

There is no delivery for the large-scale transaction in the previous term, but the company will have many small and medium scale transactions.

②Chemicals and Energy Plant

Sales are expected to decrease but profits are estimated to increase

In the first half, the company received an order for power generation equipment for a steel manufacturer, and expects to receive an order from a paper manufacturer to build a biomass power generation facility in the second half.

③Industrial Machinery

Both sales and profit are estimated to increase.

Sales of lithium-ion battery-related equipment are expected to reach 9 billion yen, and the subsidiary, Nippon Daiya Valve Co., Ltd., will maintain a healthy performance.

They expect to receive an order from a food company to construct a biomass power generation facility.

④Advanced Materials and Measuring Instruments

Sales are estimated to increase, and expect a turnaround to profitability.

They expect to get rid of the deficit by optimizing the business portfolio.

⑤Global Business

While sales are projected to increase, profits are estimated to decrease.

The performance of the subsidiaries, Tsurumi (Europe) GmbH, Seika Sangyo (Thailand) Co., Ltd, and TIANJIN DAIYA VALVE CO., LTD. is going to be favorable, however, due to the stagnation of some subsidiaries, the segment profit is estimated to be as stagnant as 260 million yen.

(3) Efforts in the final fiscal year of the “Mid-term Management Plan CS2020”

This term is the final fiscal year of the “Mid-term Management Plan CS2020,” which is to be the first step for the long-term management vision.

Net Income	FY 3/18	FY 3/19	FY 3/20 Est.
Goal	2,200	2,400	2,700
Results and forecasts	1,650	1,580	1,650

*Unit: million yen.

As of now, the company goals are not expected to be achieved. As for the subsidiaries that suffer from business depression, they are reconsidering their business strategy and adding in more personnel, however, the clear recovery is expected in the next term.

As the company is going to discuss the next mid-term management plan, which is set to start in April 2020, it will re-evaluate the business environment around each business segment, identify issues, and develop a more practical plan.

4. Conclusions

This term is the final year of the “Mid-term Management Plan CS2020,” and unfortunately the company goals are estimated to be unachieved.

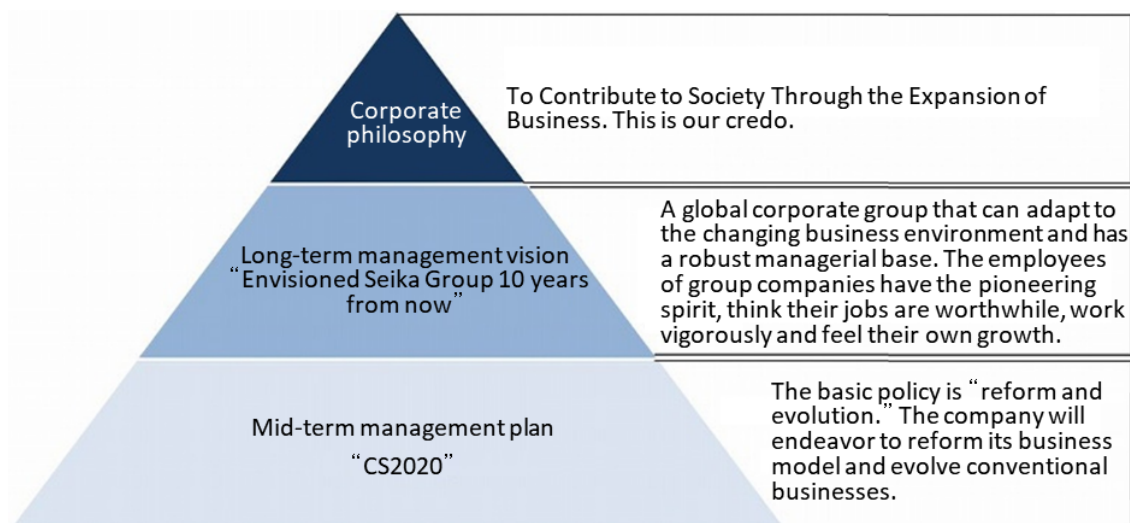
We will pay attention to how far the company can get closer to its goals during the second half in order to smoothly proceed to the next mid-term management plan, which is going to be the second step for the long-term management vision.

On the other hand, we are also paying attention to the development of environment-friendly products. As demand grows, it is naturally expected that competition will become fiercer, and our attention is attracted to how the company is going to reinforce its competitiveness and generate a larger volume of sales.

<Reference 1: The Long-term Management Vision and Mid-term Management Plan>

(1) Outline of The Long-term Management Vision and Mid-term Management Plan

Seika Corporation formulated a long-term management vision for the year 2027 “Envisioned Seika Group 10 years from now” and a new three-year plan “Mid-term Management Plan CS2020,” which was started in April 2017.



(Taken from the website of the company)

① Long-term management vision: “Envisioned Seika Group 10 years from now”

***Objective**

The year 2017 was a turning point, commemorating the 70th anniversary of the establishment of Seika Corporation, and the company set a long-term management vision “Envisioned Seika Group 10 years from now,” in addition to a mid-term management plan, which had been formulated every three years, in order to clarify the ideal path of the Seika group from the long-term viewpoint and realize drastic reform involving all employees.

***Overview**

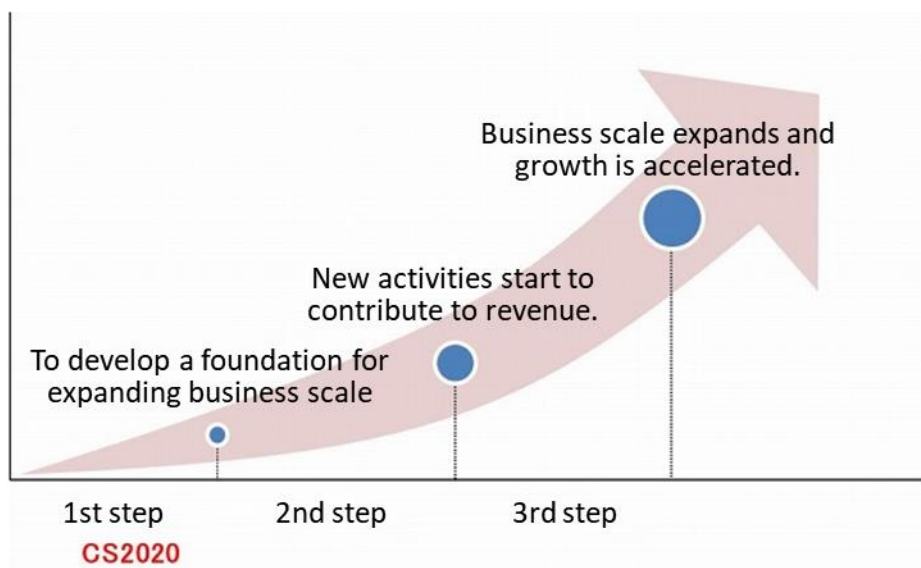
The following long-term policies have been set for actualizing the envisioned group.

Envisioned Seika Group 10 years from now	A global corporate group that can adapt to the changing business environment and has a robust managerial base. The employees of group companies have the pioneering spirit, think their jobs are worthwhile, work vigorously and feel their own growth.
Long-term managerial policy	<ol style="list-style-type: none"> 1. To reform and evolve business models, and enhance the earning capacity of the Seika group further. 2. To find and develop personnel who can respond to the change of the times and create new businesses and those who can flourish inside and outside Japan, and use managerial resources in an optimal manner. 3. To develop a working environment that is worthwhile and attractive to employees, and improve productivity.

② Mid-term management plan CS2020

***Overview**

Envisioning “Seika Group 10 years from now,” the company considers a period from April 2017 to March 2020 as the first step of the long-term management vision, and implement the “mid-term management plan CS2020.”



*Basic policy “reform and evolution”

The previous mid-term management plan CS2017’s basic policy “Diversification of business domains” is an important issue to be addressed for the Seika group, but in order to proceed with it, it is imperative that they reform its business model and evolve conventional businesses. Accordingly, “reform and evolution” has been set as the basic policy of the “mid-term management plan CS2020.”

*Group-wide strategies

① To establish new business models	To actively allocate human and financial resources to growing fields, in order to keep promoting the “diversification of business domains”
② To evolve existing businesses	To evolve existing businesses into staunch ones, with new ideas and an objective viewpoint
③ To streamline group management and accelerate global strategies	To promote the cooperation among group companies and localization, accelerate global business expansion, and strive to realize efficient group management
④ To develop personnel and enrich the working environment	To adapt to reform and evolution, develop personnel who can flourish inside and outside Japan, and enrich the attractive working environment where employees can work vigorously.

<Reference2: Regarding Corporate Governance>

◎Organization type, and the composition of directors and auditors

Organization type	Company with an audit and supervisory board
Directors	7 directors, including 2 outside ones
Auditors	4 directors, including 2 outside ones

◎Corporate Governance Report

Last update date: : June 26, 2019

< Basic Stance on Corporate Governance>

Our corporate philosophy is “To Contribute to Society Through the Expansion of Business.” We are committed to improving corporate value over the mid-to-long term while establishing a good relationship with all stakeholders. We believe that “soundness and transparency of management” and “prompt decision-making and action” are critical for achieving these goals, and we continually strive to strengthen corporate governance.

In addition, our company intends to strengthen its supervisory structure by appointing independent outside directors and independent outside corporate auditors.

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

Principles	Reasons for not implementing the principles
【Supplementary Principle 1-2-4】 Use of a platform for exercising voting rights, and the English translation of convocation notices	Our company will discuss whether or not to adopt the electronic exercise of voting rights. As for the English translation of convocation notices, we have been translating some convocation notices into English from the annual meeting of shareholders in 2017, and these translations are available in our website.

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

Principles	Disclosure contents
<p>【Principle 1-4 The so-called strategically held shares】</p>	<p>“Policy for strategically held shares”</p> <p>Considering the details, scales, periods, etc. of transactions with business partners, we hold their shares as necessary, in order to maintain and strengthen the relationships with them.</p> <p>Our company's basic policy is to dispose of and reduce held shares that are deemed to have little strategic purpose. Every year, the Board of Directors decides whether there is an appropriate reason for holding each share. We investigate whether the benefits and risks associated with holding a share are commensurate with the cost of capital, and disclose our findings in the securities report.</p> <p>Our company sold a portion of its held shares during the term ended March 2019.</p> <p>“Policy on exercising voting rights regarding strategically held shares”</p> <p>Regarding the exercise of voting rights for shares held by our company, while respecting these companies’ management policy, we will confirm whether each proposal contributes to the improvement of our corporate value over the mid-to-long term, and make a comprehensive decision.</p>
<p>【 Principle 5-1 Policy for constructive dialogue with shareholders】</p>	<p>In order to improve our corporate value in the medium/long term through active dialogue with shareholders and institutional investors, the president explains the financial results and the progress of the mid-term management plan at a session for briefing financial results, which is held twice a year, and a general meeting of shareholders has sufficient time for questions and answers, to answer questions from shareholders carefully.</p> <p>The sections of general affairs and personnel affairs deal with the applications for dialogue (interview) from individual shareholders, while the planning section replies to applications from corporate shareholders, including institutional ones.</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 provided 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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