



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	4-7-5, Nionohama, Otsu, Shiga Prefecture
Year-end	December
Homepage	https://www.optexgroup.co.jp/en/

Stock Information

Share Price	Shares Outstanding	Total market cap	ROE Act.	Trading Unit	
¥1,376	37,735,784 shares	¥51,924 million	6.8%	100 shares	
DPS Est.	Dividend yield Est.	EPS Est.	PER Est.	BPS Act.	PBR Act.
¥30.00	2.2%	¥64.20	21.4x	¥891.06	1.5x

*The share price is the closing price on February 26. Figures are from the brief financial report for December 2019.

Earnings Trend

Fiscal Year	Sales	Operating profit	Ordinary profit	Net profit	EPS	DPS
December 2016	31,027	3,015	3,086	1,809	54.67	22.50
December 2017	37,504	4,885	5,036	3,386	97.63	27.50
December 2018	40,113	4,989	5,038	3,775	104.85	30.00
December 2019	37,517	2,856	2,876	2,197	60.02	32.50
December 2020 Est.	40,000	3,200	3,250	2,350	64.20	30.00

*The estimated values are from the company. Net profit is net profit attributed to parent shareholders. 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 Fiscal Year Ended December 2019, its Medium-term management plan, and so on.

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Key Points

- The sales in the fiscal year ending December 2019 were 37,517 million yen, down 6.5% year on year. Sales dropped in all the 3 core businesses. A double-digit drop in sales was observed in the FA business, whose sales to SICK and China were sluggish. Domestic sales dropped 1.1% year on year to 16,971 million yen, while overseas sales declined 10.5% year on year to 20,546 million yen. Operating profit dropped 42.8% year on year to 2,856 million yen. Decreasing of profit was thought to be affected by the following reasons. The effect of sales drop about 1,000 million yen, the tariff hike caused by China-United States trade war, temporary cost increasing due to the factory relocation from China to Vietnam for products targeted at the U.S. market, the augmentation of cost for the product mix in the SS business, and the rise in SGA for the acquired subsidiary about 300 million yen.
- For the fiscal year ending December 2020, sales are estimated to grow 6.6% year on year to 40 billion yen and operating profit is projected to rise 12.0% year on year to 3.2 billion yen. The company aims to get back on a growth track with the MVL business being a growth driver. The dividend amount is to be 30.00 yen/share, including the dividend for commemorating the 40th anniversary of the establishment of the company (2.50 yen/share), unchanged from the previous year. The estimated payout ratio is 46.7%.
- The impact of coronavirus disease 2019 has not been considered like many other cases. Until now about 30% to 40% of factory workers have resumed work, and it is estimated that the stocks of completed parts will remain until the end of March. Unfortunately, it is difficult to predict the future situation.
- Accordingly, investors should judge medium-term directions. We would like to pay attention to the progress of each business, especially the speed of launch of “Visual verification solutions” that introduced a subscription business model.

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 50% 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 and development of applications and digital content).

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 and development of applications and digital content.

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 12/ 11	FY 12/ 12	FY 12/ 13	FY 12/ 14	FY 12/ 15	FY 12/ 16	FY 12/ 17	FY 12/ 18	FY 12/ 19
ROE (%)	6.0	4.6	8.2	8.6	8.7	7.4	12.6	12.3	6.8
Net profit margin (%)	5.58	3.99	6.87	7.39	7.38	5.83	9.03	9.41	5.86
Total asset turnover [times] (x)	0.85	0.91	0.92	0.89	0.91	0.91	0.95	0.95	0.86
Leverage [times] (x)	1.27	1.28	1.30	1.31	1.30	1.41	1.48	1.38	1.35

The company failed to achieve the target ROE: “10% or higher.” The net profit margin for this term is estimated to be 5.9%, unchanged from the previous term.

The company aims to recover it to over 10% by the final year of the medium-term management plan, which starts this term.

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. Fiscal Year Ended December 2019 Earnings Results

(1) Business Results

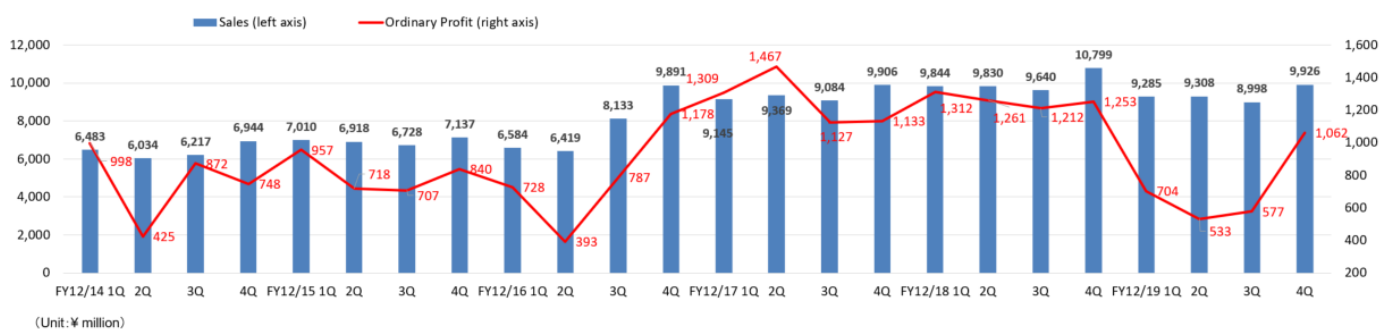
	FY 12/18	Ratio to sales	FY 12/19	Ratio to sales	YoY	Compared with initial estimates
Sales	40,113	100.0%	37,517	100.0%	-6.5%	-12.8%
Gross profit	22,305	55.6%	20,232	53.9%	-9.3%	-
SG&A	17,316	43.2%	17,376	46.3%	+0.3%	-
Operating profit	4,989	12.4%	2,856	7.6%	-42.8%	-46.1%
Ordinary profit	5,038	12.6%	2,876	7.7%	-42.9%	-46.7%
Net Profit	3,775	9.4%	2,197	5.9%	-41.8%	-45.1%

*Unit: million yen. The Net profit is the profit attributable to owners of the parent company. The same shall apply hereinafter.

Sales and profit declined

The sales in the fiscal year ending December 2019 were 37,517 million yen, down 6.5% year on year. Sales dropped in all the 3 core businesses. A double-digit drop in sales was observed in the FA business, whose sales to SICK and China were sluggish. Domestic sales dropped 1.1% year on year to 16,971 million yen, while overseas sales declined 10.5% year on year to 20,546 million yen. Operating profit dropped 42.8% year on year to 2,856 million yen. Decreasing of profit was thought to be affected by the following reasons. The effect of sales drop about 1,000 million yen, the tariff hike caused by China-United States trade war, temporary cost increasing due to the factory relocation from China to Vietnam for products targeted at the U.S. market, the augmentation of cost for the product mix in the SS business, and the rise in SGA for the acquired subsidiary about 300 million yen.

Trends in each quarter



In the fourth quarter (Oct. to Dec.), sales and profit declined year on year, but ordinary profit recovered significantly.

◎Average exchange rate

	FY 12/18	FY 12/19
USD	¥110.43	¥109.05
EURO	¥130.42	¥122.07

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**(2) Earnings by Segment****① Trends in each segment**

	FY 12/18	Ratio to sales	FY 12/19	Ratio to sales	YoY	Compared with initial estimates
SS Business	21,157	52.7%	19,802	52.8%	-6.4%	-10.4%
FA Business	8,548	21.3%	7,140	19.0%	-16.5%	-19.8%
MVL Business	9,484	23.6%	9,449	25.2%	-0.4%	-11.7%
EMS Business	565	1.4%	570	1.5%	+0.9%	-10.8%
Others	357	0.9%	553	1.5%	+54.9%	-15.7%
Sales	40,113	100.0%	37,517	100.0%	-6.5%	-12.8%
SS Business	2,789	13.2%	1,731	8.7%	-37.9%	-
FA Business	1,213	14.2%	596	8.3%	-50.9%	-
MVL Business	915	9.6%	532	5.6%	-41.9%	-
EMS Business	347	61.4%	76	13.3%	-78.1%	-
Others	7	2.0%	5	0.9%	-28.6%	-
Adjustments	-283	-	-86	-	-	-
Operating profit	4,989	12.4%	2,856	7.6%	-42.8%	-

*Unit: million yen. Ratio to sales of Operating profit refers to Sales Profit margin.

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②Trends in each segment and region

	FY 12/18	Ratio to sales	FY 12/19	Ratio to sales	YoY	Compared with initial estimates
SS: Security	14,382	100.0%	13,254	100%	-7.8%	-11.8%
Japan	2,377	16.5%	2,495	18.8%	+5.0%	-0.7%
AMERICAs	2,991	20.8%	2,648	20.0%	-11.5%	-13.0%
EMEA	7,407	51.5%	6,768	51.1%	-8.6%	-9.6%
Asia	1,607	11.2%	1,343	10.1%	-16.4%	-32.3%
SS: Automatic door	4,455	100.0%	4,439	100.0%	-0.4%	-2.1%
Japan	2,308	51.8%	2,267	51.1%	-1.8%	-3.4%
AMERICAs	1,099	24.7%	1,159	26.1%	+5.5%	+1.8%
EMEA	896	20.1%	878	19.8%	-2.0%	+0.3%
Asia	152	3.4%	135	3.0%	-11.2%	-22.9%
SS: Other	2,320	100.0%	2,110	100.0%	-9.1%	-16.6%
Japan	1,952	84.1%	1,840	87.2%	-5.7%	-10.3%
Asia	368	15.9%	268	12.7%	-27.2%	-44.3%
FA	8,548	100.0%	7,140	100.0%	-16.5%	-19.8%
Japan	3,763	44.0%	3,616	50.6%	-3.9%	-8.9%
AMERICAs	123	1.4%	113	1.6%	-8.1%	-28.0%
EMEA	3,218	37.6%	2,158	30.2%	-32.9%	-33.0%
Asia	1,444	16.9%	1,253	17.5%	-13.2%	-19.6%
MVL	9,485	100.0%	9,449	100.0%	-0.4%	-11.7%
Japan	6,207	65.4%	5,947	62.9%	-4.2%	-9.3%
AMERICAs	796	8.4%	844	8.9%	+6.0%	-3.9%
EMEA	1,342	14.1%	1,529	16.2%	+13.9%	-26.7%
Asia	1,140	12.0%	1,129	11.9%	-1.0%	-4.7%
EMS Business	565	100.0%	571	100.0%	+1.1%	-10.6%
Japan	194	34.3%	252	44.1%	+29.9%	+29.9%
Asia/Oceania	371	65.7%	319	55.9%	-14.0%	-28.3%

*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 due to the sluggish sales of sensors for important large-scale facilities in Latin America.

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

Asia: Sales declined due to the sluggish sales of security sensors by a Korean subsidiary that distributes the products of Optex.

(Automatic door-related)

Japan: The curtailment of opening of new shops in the retail industry affected the business, and the sales of sensors for automatic doors were sluggish and dropped.

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

EMEA: While the sales of automatic door sensors targeted at major clients in Europe had been steady, sales decreased due to fluctuation of exchange rates.

◎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 declined due to the lingering curtailment of investments on semiconductors and smartphones caused by the prolongation of the trade friction between the U.S. and China.

AMERICAs: Sales grew, as the company received large-scale orders for the smartphone industry.

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 remained flat as the growth of sales by the local subsidiaries was stagnant due to deceleration in demand for capital investment in China.

(3) Financial Conditions and Cash Flow

◎Main BS

	End of Dec.2018	End of Dec.2019		End of Dec.2018	End of Dec.2019
Current Assets	29,530	30,027	Current liabilities	6,470	8,066
Cash	11,563	12,396	Payables	1,997	1,754
Receivables	8,938	8,700	LT Interest Bearing Liabilities	1,409	3,368
Inventories	7,339	7,217	Noncurrent liabilities	4,477	3,528
Noncurrent Assets	13,760	13,939	ST Interest Bearing Liabilities	1,706	433
Tangible Assets	4,678	5,792	Net defined benefit liabilities	1,219	1,248
Intangible Assets	4,243	3,829	Liabilities	10,945	11,595
Investment, Others	4,837	4,317	Net Assets	32,345	32,372
Total assets	43,291	43,967	Total Liabilities and Net Assets	43,291	43,967

*Unit: million yen

Total assets were 43,967 million yen, up 676 million yen from the end of the previous year, due to the increase in cash deposits and tangible assets.

Total liabilities augmented 650 million yen to 11,595 million yen, due to the rise in short-term debts.

Net assets were 32,372 million yen, nearly unchanged from the end of the previous year, as retained earnings grew, but treasury shares increased, etc.

Capital-to-asset ratio dropped 1.3 points from the end of the previous term to 73.2%.

◎Cash Flow

	FY 12/18	FY 12/19	Increase/Decrease
Operating cash flow	1,955	3,621	+1,666
Investing cash flow	-1,588	-992	+596
Free Cash Flow	367	2,629	+2,262
Financing cash flow	-762	-1,721	-959
Cash and Equivalents at the end of term	11,563	12,396	+833

*Unit: million yen

Due to the decrease in inventory assets, etc., the surplus of operating CF expanded, the deficit of investing CF shrank, and the surplus of free CF increased. The deficit of financing CF expanded, as there was no longer proceeds from long-term loans payable. The cash position improved.

(4) Topics

◎Selection of candidates for outside directors

In Feb. 2020, the following three people were selected as candidates for outside directors. A formal resolution is to be made at the annual meeting of shareholders on March 26, 2020.

Name	Biography (current post)
Mr. Kazuhiro Yoshida	An assistant to the head of the Engineering Dept. of Eco Solutions Company, Panasonic Corporation, and in charge of energy
Ms. Nanako Aono	Representative Director / President of GEN Co., Ltd., an outside auditor of MISUMI Group Inc., and an outside auditor of Nippon Paper Industries Co., Ltd.
Mr. Yasushi Sakemi	A lawyer. An auditor of CCS Inc. and a director of OPTEX GROUP Co., Ltd. (not a member of the audit committee, etc.)

*Mr. Kazuhiro Yoshida and Ms. Nanako Aono were selected as outside directors who do not belong to the audit and supervisory committee members, while Mr. Yasushi Sakemi was selected as an outside director who belongs to the audit and supervisory committee member.

Mr. Kazuhiro Yoshida and Ms. Nanako Aono satisfy the requirements for independent executives in the regulations of Tokyo Stock Exchange, Inc. and the criteria for independence set by OPTEX GROUP Co., Ltd. If they are appointed, the company will report that they are independent executives defined by Tokyo Stock Exchange, Inc.

Mr. Yasushi Sakemi satisfies the requirements for independent executives in the regulations of Tokyo Stock Exchange, Inc. and the criteria for independence set by OPTEX GROUP Co., Ltd. If he is appointed, the company will report that he continues to be an independent executive defined by Tokyo Stock Exchange, Inc.

3.Fiscal Year Ending December 2020 Earnings Forecasts

(1) Earnings forecasts

	FY 12/19	Ratio to sales	FY 12/20 Est.	Ratio to sales	YoY
Sales	37,517	100.0%	40,000	100.0%	+6.6%
Operating profit	2,856	7.6%	3,200	8.0%	+12.0%
Ordinary profit	2,876	7.7%	3,250	8.1%	+13.0%
Net profit	2,197	5.9%	2,350	5.9%	+7.0%

*Unit: million yen.

It is estimated that sales and profit will grow. The company aims to get back on a growth track with the MVL business being a growth driver.

Sales are estimated to grow 6.6% year on year to 40 billion yen and operating profit is projected to rise 12.0% year on year to 3.2 billion yen.

The sales of all business segments are expected to rise. The MVL business will increase its sales by double digits, serving as a growth driver.

The dividend amount is to be 30.00 yen/share, including the dividend for commemorating the 40th anniversary of the establishment of the company (2.50 yen/share) in the previous year, unchanged from the previous year. The estimated payout ratio is 46.7%.

(2) Trends in each segment and region

	FY 12/19	Ratio to sales	FY 12/20	Ratio to sales	YoY
SS Business	19,802	52.8%	20,782	52.0%	+4.9%
FA Business	7,140	19.0%	7,588	19.0%	+6.3%
MVL Business	9,449	25.2%	10,456	26.1%	+10.7%
EMS Business	570	1.5%	591	1.5%	+3.5%
Others	553	1.5%	583	1.5%	+5.2%
Consolidated Sales	37,517	100.0%	40,000	100.0%	+6.6%

*Unit: million yen.

	FY 12/19	Ratio to sales	FY 12/20 Est.	Ratio to sales	YoY
SS:Security	13,254	100%	13,682	100.0%	+3.2%
Japan	2,495	19%	2,663	19.5%	+6.7%
AMERICAS	2,648	20%	2,836	20.7%	+7.1%
EMEA	6,768	51%	6,755	49.4%	-0.2%
Asia	1,343	10%	1,428	10.4%	+6.3%
SS:Automatic door	4,439	100.0%	4,659	100.0%	+5.0%
Japan	2,267	51.1%	2,336	50.1%	+3.0%
AMERICAS	1,159	26.1%	1,221	26.2%	+5.3%
EMEA	878	19.8%	937	20.1%	+6.7%
Asia	135	3.0%	165	3.5%	+22.2%
SS:Other	2,110	100.0%	2,441	100.0%	+15.7%
Japan	1,840	87.2%	2,092	85.7%	+13.7%

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Asia	268	12.7%	348	14.3%	+29.9%
FA	7,140	100.0%	7,588	100.0%	+6.3%
Japan	3,616	50.6%	3,926	51.7%	+8.6%
AMERICAs	113	1.6%	149	2.0%	+31.9%
EMEA	2,158	30.2%	2,080	27.4%	-3.6%
Asia	1,253	17.5%	1,433	18.9%	+14.4%
MVL	9,449	100.0%	10,456	100.0%	+10.7%
Japan	5,947	62.9%	6,308	60.3%	+6.1%
AMERICAs	844	8.9%	1,008	9.6%	+19.4%
EMEA	1,529	16.2%	1,886	18.0%	+23.3%
Asia	1,129	11.9%	1,254	12.0%	+11.1%
EMS Business	571	100.0%	591	100.0%	+3.5%
Japan	252	44.1%	247	41.8%	-2.0%
Asia/Oceania	319	55.9%	344	58.2%	+7.8%

*Unit: million yen.

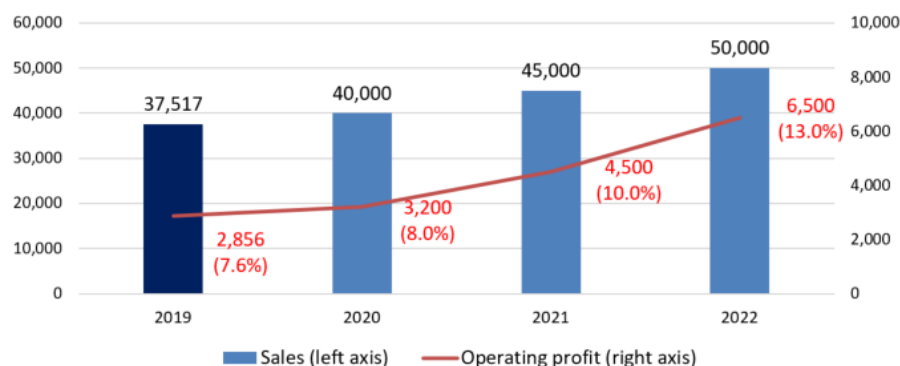
4. Medium-term management plan

The company launched a 3-year medium-term management plan, whose initial year is this term.

Under the group philosophy “We aim to become a corporate group full of Venture Spirit! Let’s do something new!,” the company will work on the “endeavor to reform business models” in each business, and aim to attain the following managerial goals.

Medium-term consolidated managerial goals

To achieve an operating profit margin of 15% in fiscal 2022
To reform the revenue structure and improve productivity per person
To keep increasing consolidated sales by 10% and achieve consolidated sales of 50 billion yen in fiscal 2022



* unit: Million yen. the figures in parentheses are operating profit margins.
In terms of years later than 2020, figures are based on the plan.

(1) Activities in each business segment

① Endeavor of the SS business: Shift from “sale of materials” to “sale of things”

The company has mainly offered products with good performance, quality, and specs, but under the recognition that customers and users

are demanding “solution services,” the resolution of challenges, with products rather than products themselves, the company set two growth strategies.

【Growth strategy 1: “Visual verification solutions” for the spread of prevention of crimes in outdoors】

(1) Scale, current situation, and problems of the market of alarm monitoring

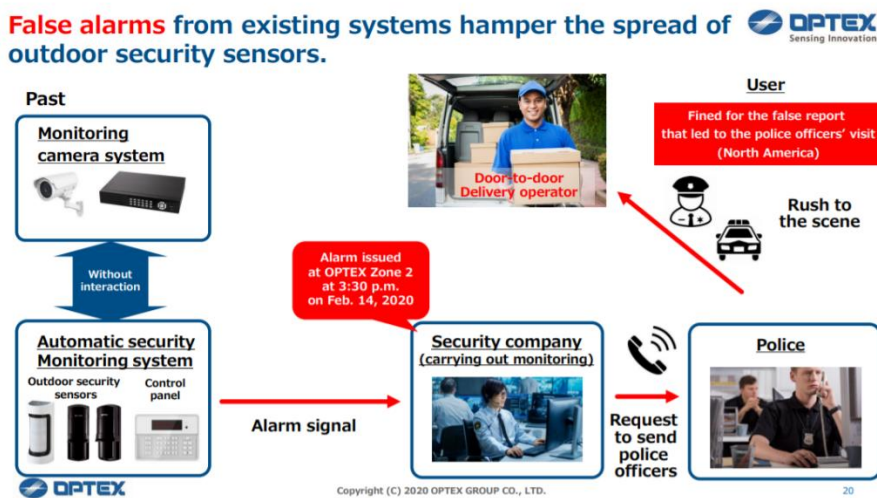
The number of contracts for alarm monitoring with outdoor sensors is over 90 million around the world. It is 40 million in North America and 20 million in EMEA (including 3 million in the U.K.). North America and the U.K. account for nearly half of them.

However, alarm monitoring has been adopted in many places outside Japan, 95% of security alarms are reportedly false. In most cases, users fail to operate the device, but in some cases that is malfunction of outdoor sensors.

In the current alarm monitoring system, alarm signals from sensors and videos from surveillance cameras are transmitted to a monitoring company without linkage, as shown in the figure below.

Accordingly, the monitoring company calls a user or the police without verifying the videos of the scene after receiving alarm signals. It leads to false alarms.

In the U.S., the police receive calls from monitoring companies. If the police move due to a false alarm, the user has to pay a fine. Like this, there are various problems with actual operation.



(Taken from the reference material of the company)

(2) Outline of the image check system

OPTEX GROUP Co., Ltd., which is highly evaluated and trusted for its outdoor sensors around the world, decided to develop a new alarm monitoring system, while considering that solving the false alarm problem would lead to the distribution of outdoor alarm monitoring and the expansion of the market.

① System

In the new system, a gateway is installed for linking an alarm monitoring system and a monitoring camera system. By adding a gateway and operation software to the existing system, a monitoring company can always receive camera videos linked to alarm signals, so it is possible to reduce false alarms significantly.



(Taken from the reference material of the company)

This system was embodied by utilizing a gateway that incorporates the Visual verification solutions of CHEKT (in the U.S.), with which the company formed a strategic alliance.

CHEKT is a venture firm established in 2014, and its CEO is the owner and CEO of a security company, so he is versed in the security industry.

Therefore, it is possible to offer solutions suited for on-site needs, which were developed based on the experience at the security company. In addition, there are a lot of advantages. Advanced IT skills are not required, a system that can be connected to the network camera with standard specs has been established, and charge-free, easy-to-use operation software is provided.

② **Business model**

OPTEX GROUP Co., Ltd. has the exclusive right to sell this system in North America and the U.K., and not only sells products, including the gateway, but also carries out the subscription-type charging business providing the system.

This system can be installed at low cost and rarely causes false alarms, so it is considered beneficial to all stakeholders, including users, monitoring companies, and the police. The company aims to diffuse a win-win business model.

③ **Targets and numerical goals**

In North America and EMEA regions, the company offers the system to high-end clients, including commercial facilities, offices, and luxury housing, etc.

The company aims to earn cumulative sales of around 2.5 billion yen in 2023.

【Growth strategy 2: The change of detection targets from “people” to “things”: “Car detectors” and “Occupancy/vacancy solutions”】

With the aim of actualizing a convenient, safe car society, the company offers two products and solutions.

(1) **“Car detectors”**

The company developed and released “car detectors” that do not need to be buried in the ground for coin-operated parking areas. Since they do not need to be buried, it is possible to halve the installation period and reduce labor and costs for maintenance. Based on the tie-up with a parking area equipment manufacturer, the company sells them to parking area operation firms.

(2) **“Occupancy/vacancy management solution”**

The company offers “occupancy/vacancy management solutions” for checking the vacancy information of parking areas.

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With wireless car detectors, the occupancy status of parking areas and vacant spaces are grasped, and occupancy/vacancy information is managed in the cloud.

Drivers can grasp the situation remotely, so convenience would improve considerably.

Creating an Automobile Society with Convenience and Safety **OPTEX**
Sensing Innovation

Developing and selling car detection sensors for coin-operated parking lots that do not need to be buried

Halving the installation period and cutting the maintenance workload and cost

Expansion of sales through tie-ups with parking lot equipment manufacturers

Vehicle detection sensors that do not need to be buried underground

For parking spaces

For gates

Offering a vacancy management solution for handling information on vacant spaces in the parking lot. This allows possible users in distant positions to learn how busy the parking lot is and whether it has vacant spaces.

Parking lots in various places

Vacancy information management in the cloud

Distant location

Improved convenience for drivers

Wireless vehicle

Large commercial facilities

tourist spot

Theme park

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(Taken from the reference material of the company)

In 2022, the company aims to achieve sales of around 1 billion yen.

【Growth strategy 3: The change of detection targets from “people” to “things”: “Hygiene control solution”】

While entrusting Kikkoman Biochemifa Company as an OEM, the company offers hygiene state monitoring solutions.

With sensors, the cleaning states of fingers, chopping boards, cooking tables, etc. are gauged, and results are checked. Potential risks in various places, including food product manufacturing sites, are visualized.

Measurement results can be checked immediately, so hygiene administrators can conduct unified management and analysis, reduce management costs, and shorten management hours.

It will contribute to hygiene control in various places.

Situations requiring hygiene management

Measuring instrument

Reagent

Specialized App

Checking the cleanliness of fingers, chopping boards, kitchen tables, etc. and viewing results

Measurement data managed on the cloud

Hygiene management representative

Centralized management and analysis help cut management costs and time.

x **OPTEX**
Sensing Innovation

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(Taken from the reference material of the company)

② Endeavor in the FA business: “Strengthening of highly functional products” and “Compatibility with Industry 4.0”

The company concentrates on image and displacement sensors, which are the strengths of the company.

As for image sensors, the company will proceed with the cultivation of overseas markets, which has not been started. As for displacement sensors, the company will upgrade them and release a new product with the industry's highest level in the current term. The company aims to meet the demand related to 5G and robots.

“Strengthening of highly functional products”

Focusing Energy on Image Sensors and Displacement Sensors

Image sensor
Displacement sensors
Photoelectric sensors

Image sensor

Japan Secure labor saving and automation projects from the food industry.

Overseas Strive to expand sales in Europe, the United States and China, where there is sales growth potential.

World leader in cumulative total shipments since release in 2007

Manufacturing line in a food factory
(This image is for illustrative purposes only.)

Displacement sensor

A new product with the industry's top-class performance is due to be released within FY2020.

Win orders amid the growing demand related to 5G and robots.

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(Taken from the reference material of the company)

“Compatibility with Industry 4.0”

Through the unified management of sensors, the company will release “IO-Link Sensor” and “IO-Link Gateway,” which are compatible with Industry 4.0.

With IO-Link, which is a communications technology for exchanging various data interactively between sensors and a superior control system, it is possible to grasp the status of each device remotely, estimate durability, and recover devices as soon as possible at the time of breakdown.

The company promotes distribution in cooperation with SICK, which is the No.1 sensor manufacturer in Germany.

IO-Link

A communication technology for interactive communication between the sensor and the high-order control system for the exchange of different data

Shortest recovery

Predictive maintenance

Remote monitoring

IO-Link sensors from Germany-based SICK

System configuration

Interactive communication

Make general-purpose sensors into high value-added ones

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(Taken from the reference material of the company)

③ Endeavor of the MVL business: From “a manufacturer of lamps for imaging tests” to “a comprehensive solution vendor”

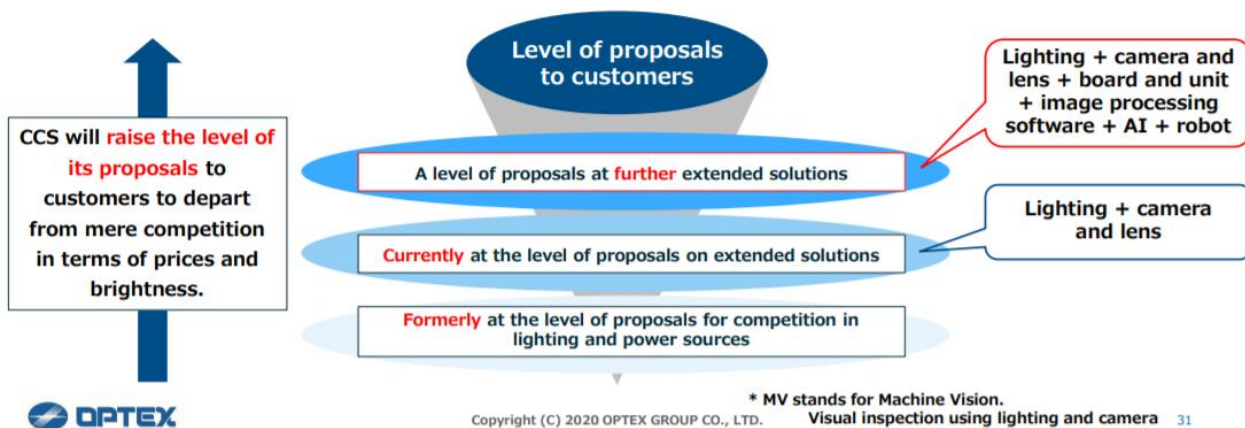
In the current medium-term management plan, this business is positioned as a driver.

CCS Inc., which deals with this business, offers lamps, power sources, and solutions with cameras and lenses, and aims to develop extended solutions combining boards, image processing software, AI, and robots, and go ahead with stages of giving proposals, under the basic concept that users demand “Visible!” and “Possible!” rather than power sources for lighting.

They consider speed is important in order not to fall into price competitions.

Basic idea behind CCS’s sales strategy

Users want **capabilities to see and do things**, not lighting power sources.



(Taken from the reference material of the company)

In addition, the company aims to cultivate the visual check market, whose scale is said to be 250 billion yen, by utilizing AI and robots.

5. Conclusions

The impact of coronavirus disease 2019 has not been considered like many other cases. Until now about 30% to 40% of factory workers have resumed work, and it is estimated that the stocks of completed parts will remain until the end of March. Unfortunately, it is difficult to predict the future situation.

Accordingly, investors should judge medium-term directions. We would like to pay attention to the progress of each business, especially the speed of launch of “image check solutions” that introduced a subscription business model.

<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 acquire and hold shares after the board of directors' deliberations and decision-making being processed only when it is judged that the holding of shares would contribute to strengthening of transaction relations and the improvement in corporate value in the business strategy of our 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, 34 million yen (posted on the balance sheet)</p>

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	<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>
<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, last 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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