



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
¥1,255	12,820,650 shares		¥16,089 million	-4.7%	100 shares
DPS Est.	Dividend yield Est.	EPS Est.	PER Est.	BPS Act.	PBR Act.
¥45.00	3.6%	¥134.51	9.3x	¥2,058.12	0.53x

*The share price is the closing price on June 29. The numbers were taken from the brief financial report for the term ended March 2020.

Earnings Trend

Fiscal Year	Sales	Operating Income	Ordinary Income	Net Income	EPS	DPS
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 (Actual)	140,677	2,809	3,122	-1,262	-100.73	45.00
Match 2021 (Forecast)	135,000	2,400	2,700	1,650	134.51	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 fiscal year March 2020 earnings results.

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Key Points

- The sales for the term ended March 2020 were 140.6 billion yen, down 10.5% year-on-year. Sales decreased due to the recoil from the delivery of a newly constructed generation equipment in the Chemicals and Energy Plant during the previous year. Overseas sales were 13.3 billion yen, down 18.8% year-on-year due to the decrease of negotiations for exports to the Chinese market, while the overseas sales ratio was 9.5%, down 0.9% year-on-year. Gross profit margin improved 1.7% and gross profit increased 6.2% year-on-year. However, SG&A expenses only increased 1.5% year-on-year and operating income increased 32.6% year-on-year to 2.8 billion yen. Net income changed to a loss of 1.2 billion yen as the company’s printed circuit boards manufacturing subsidiary posted an impairment loss and an adjustment amount, which was the result of revising the price of a part of domestic business transactions, was posted as an extraordinary loss. Both sales and profit exceeded estimates.
- The sales for the term ending March 2021 are projected to be 135 billion yen, down 4.0% year-on-year, and operating income is estimated to be 2.4 billion yen, down 14.6% year-on-year. Response to the spread of COVID-19, when the company investigated the impact of COVID-19 on orders received at the end of March, the company found no information of customers canceling their investment plans, thus the impact seemed minor, however, as infections continued to spread, some customers froze their new investments. The company is still investigating the situation. Nonetheless, the company expects that the company will be able to avoid the significant drop of its business performance because its main business has been related to social infrastructure, mainly power generation and the company’s operation bases, which are scattered nationwide, can perform meticulous operation activities, etc. Regarding the sales department, it works towards increasing the profit ratio for each business negotiation, aspires to make efficient operation, and secures the target operating income. The dividend is estimated to remain unchanged at 45 yen/share. The estimated payout ratio is 33.5%.
- The mid-term management plan, “CS2020,” which was the first step toward achieving the long-term management vision “Envisioned Seika Group 10 years from now” set in 2017, unfortunately, did not reach its goals. As a result, the company carefully examined its contents and formulated the mid-term management plan “Re-SEIKA 2023,” which will cover the period for the 3 years from April 2020 until March 2023.
- The company set the basic policy and basic strategy after clarifying its goals and the basis behind the set numbers in order to deepen all employees’ understanding of the mid-term management plan. Further, it analyzed the evaluation items of the stock market and studied the competency of each business. Although a sense of uncertainty is overwhelming the world due to the spread of COVID-19, the company announced that it is confident in the growth strategies it has been thoroughly refining over a long time. The company aspires to grow into a strong company with value by concentrating on change and challenge.
- The goals of the “Mid-term Management Plan CS2020” were not achieved, and the mid-term management plan “Re-SEIKA 2023,” which is the second step in the long-term management vision, had a rough start facing the global spread of COVID-19. However, attaining the goals is essential in order to gain the market’s trust and valuation. We will pay attention to the progress of the industrial machinery business and the global business, which are expected to achieve high growth.

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 78 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.

The company is currently implementing the long-term management vision “Envisioned Seika Group 10 years from now” and its second step 3-year plan “Mid-term Management Plan Re-SEIKA 2023,” in preparation for 2027, which will mark the 80th anniversary of the company’s founding.

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	<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

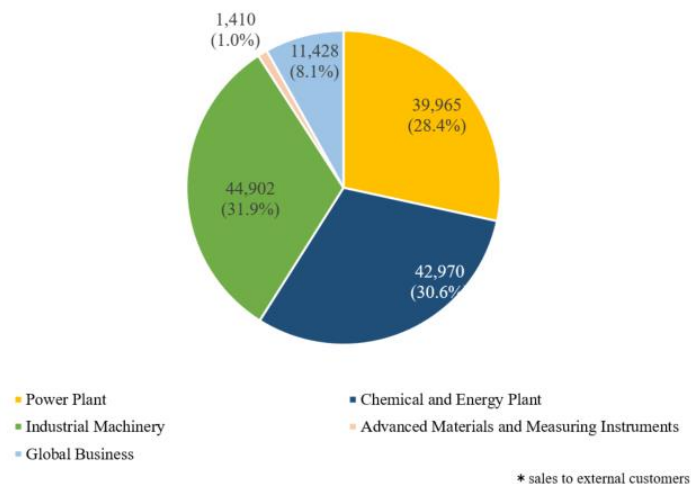
As a general machinery trading company, Seika Corporation sells machinery, equipment, devices, and ancillary products and offers services in the fields of electric power, chemistry, energy, industrial machinery, material, and measurement.

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

BRIDGE REPORT



Ratio of sales of each segment (term ended Mar. 2020; 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.

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 public 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.

Seika Sangyo GmbH

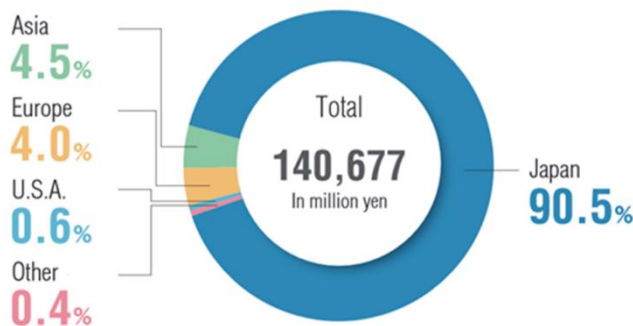
Industrial machinery, electronics equipment and information technology systems



(2) Sales in each region

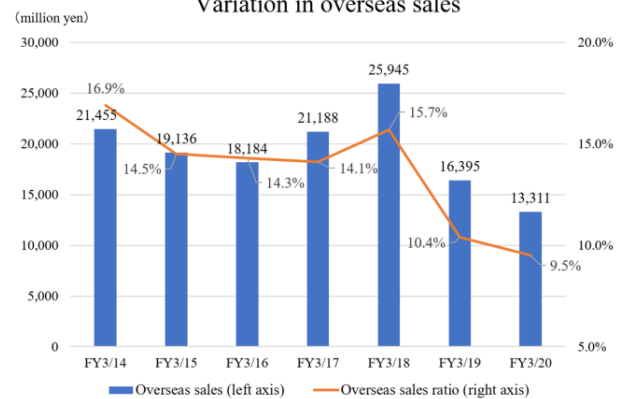
Domestic sales account for 90% or more, however, the cultivation of overseas markets where there is significant room for growth and expanding overseas sales ratio are challenges for the company.

Ratio of sales in each region in term ended March 2020



(Taken from the website of the company)

Variation in overseas sales



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 78 bases in Japan and overseas

Ten years ago, the company only had thirty 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	FY 3/20
ROE (%)	8.5	6.6	7.9	5.9	5.6	-4.7
Net income margin (%)	1.66	1.38	1.42	1.00	1.01	-0.90
Total asset turnover (x)	1.76	1.52	1.45	1.53	1.71	1.58
Leverage (x)	2.90	3.13	3.82	3.83	3.42	3.32

The negative ROE in the previous term is only temporary due to the posting of impairment loss. Assuming that the ratio of net income to sales for this term will be 1.2%, ROE will recover to the range of 5-6%, however, it will not be able to maintain the standard 8% in a stable manner, which is commonly required for Japanese companies.

Since leverage is relatively high, profit rate is expected to improve.

If the target net income of 2.5 billion yen for the term ending March 2023 is achieved in the mid-term management plan “Re-SEIKA 2023,” ROE will be 8% or more.

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 2020 were 13,479 (up 10.4% from the previous year) and 94.75 billion yen (down 8.6% from the previous year), 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.

Expand sales of environmentally friendly products		
Orders for environmentally friendly products in the term ended Mar.2020	No. of orders received	Amount of orders received (bil. Yen)
Energy saving/resource saving/efficiency improving	11,540	87.74
Pollution control	1,127	5.75
Recycling/reuse	812	1.25
Total	13,479	94.75

(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.

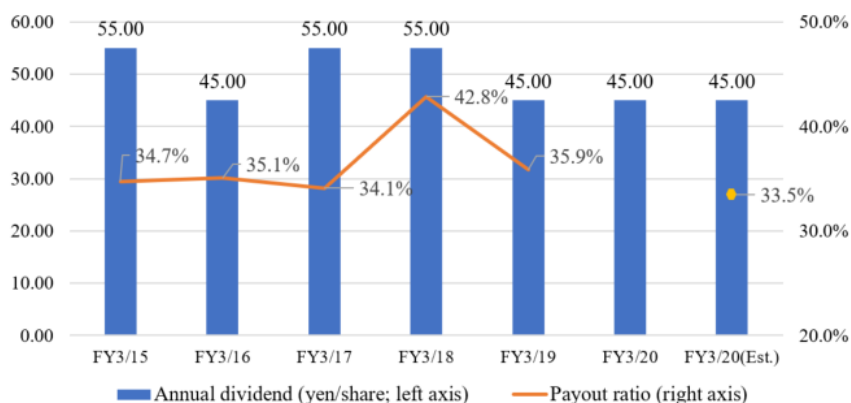
In order to grow sustainably and improve its corporate value in the medium/long term, the company will strive to strengthen corporate governance, and pursue a sound, transparent management system.

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 2021, 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 33.5%.

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



2. Fiscal Year March 2020 Earnings Results

(1) Consolidated Business Results

	FY 3/19	Ratio to sales	FY 3/20	Ratio to sales	YoY	Compared with the initial forecasts
Sales	157,145	100.0%	140,667	100.0%	-10.5%	+4.2%
Gross profit	14,035	8.9%	14,906	10.6%	+6.2%	-
SG&A	11,916	7.6%	12,096	8.6%	+1.5%	-
Operating Income	2,118	1.3%	2,809	2.0%	+32.6%	+17.0%
Ordinary Income	2,418	1.5%	3,122	2.2%	+29.1%	+15.6%
Net Income	1,587	1.0%	-1,262	-	-	-

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

Sales decreased and profit increased, exceeded estimates.

The sales for the term ended March 2020 were 140.6 billion yen, down 10.5% year-on-year. Sales decreased due to the recoil from the delivery of a newly constructed generation equipment in the Chemicals and Energy Plant during the previous year. Overseas sales were 13.3 billion yen, down 18.8% year-on-year due to the decrease of negotiations for exports to the Chinese market, while the overseas sales ratio was 9.5%, down 0.9% year-on-year. Gross profit margin improved 1.7% and gross profit increased 6.2% year-on-year. However, SG&A expenses only increased 1.5% year-on-year and operating income increased 32.6% year-on-year to 2.8 billion yen. Net income changed to a loss of 1.2 billion yen as the company's printed circuit boards manufacturing subsidiary posted an impairment loss and an adjustment amount, which was the result of revising the price of a part of domestic business transactions, was posted as an extraordinary loss. Both sales and profit exceeded estimates.

(2) Overview of business performance in each segment

◎Sales and Profit

	FY 3/19	Ratio to sales	FY 3/20	Ratio to sales	YoY	Compared with the initial forecasts
Sales						
Power Plant	47,633	30.3%	39,965	28.4%	-16.1%	+3.8%
Chemicals and Energy Plant	53,682	34.2%	42,970	30.5%	-20.0%	+24.6%
Industrial Machinery	42,667	27.1%	44,902	32.0%	+5.2%	-4.5%
Advanced Materials and Measuring Instruments	1,519	1.0%	1,410	1.0%	-7.2%	-29.5%
Global Business	11,642	7.4%	11,428	8.1%	-1.8%	-12.1%
Total Sales	157,145	100.0%	140,677	100.0%	-10.5%	+4.2%
Profits in each segment						
Power Plant	1,407	3.0%	1,617	4.0%	+14.9%	-2.6%
Chemicals and Energy Plant	761	1.4%	895	2.1%	+17.6%	+9.1%
Industrial Machinery	1,363	3.2%	1,556	3.5%	+14.1%	+11.1%
Advanced Materials and Measuring Instruments	-174	-	63	4.5%	-	-10.0%
Global Business	402	3.5%	317	2.8%	-21.2%	+21.9%
Total profit in all segments	3,760	2.4%	4,449	3.2%	+18.3%	+5.7%

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

BRIDGE REPORT



①Power Plant

Sales decreased and profit increased.

The sales of large-scale projects including each regular inspection work for electricity companies have decreased, however, the company increased the profit through small and medium scale projects including updating parts of thermal power plants and making new developments in the field of nuclear power.

②Chemicals and Energy Plant

Sales decreased and profit increased.

The sales of new power generation equipment aimed at oil companies, etc. decreased, however, profit increased thanks to orders of small to medium scale projects including upgrading manufacturing equipment.

③Industrial Machinery

Sales and profit increased.

The sales to domestic plants, manufacturers of synthetic fiber, and food products as well as export business negotiations have been producing good results, thus sales increased. Profit increased thanks to a significant contribution from the earnings of the subsidiary, Nippon Daiya Valve Co., Ltd.

④Advanced Materials and Measuring Instruments

Sales decreased and profit was restored.

The sales of measurement equipment, such as printed circuit boards and gas monitors, were on par with that of the previous term, however, the sales of the subsidiary, Seika Digital Image CORPORATION, declined and sales decreased. Thanks to structural reforms such as revising the business strategy and restructuring the organization, the company restored profitability.

⑤Global Business

Sales and profit decreased.

Sales in the U.S., Europe, and Southeast Asia, mainly by the Tsurumi (Europe) GmbH, were on par with that of the previous term, but profit decreased due to the poor business performance by subsidiaries such as Seika YKC Circuit (Thailand) Co., Ltd.

(3) Financial standing and cash flows

◎Main BS

	March 2019	March 2020		March 2019	March 2020
Current Assets	68,878	79,417	Current liabilities	51,500	62,141
Cash	12,957	15,062	Payables	31,474	32,883
Receivables	37,605	38,693	ST Interest-Bearing Liabilities	6,897	7,026
Advance payment	11,187	18,823	Fixed Liabilities	5,175	4,616
Noncurrent Assets	16,863	13,251	LT Interest-Bearing Liabilities	2,147	1,963
Tangible Assets	4,606	2,473	Total Liabilities	56,675	66,757
Intangible Assets	749	467	Net Assets	29,066	25,911
Investment, Others	11,508	10,310	Retained earnings	17,508	15,738
Total assets	85,742	92,668	Total liabilities and net assets	85,742	92,668

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

Total assets were 92,668 million yen, up 6,926 million yen from the end of the previous term thanks to the increase in cash, advance payments, etc. Total liabilities were 66,757 million yen, up 10,082 million yen year-on-year, thanks to the increase in advances received, etc.

Net assets decreased 3,155 million yen year-on-year to 25,911 million yen due to the decrease in retained earnings and such.

Equity ratio decreased 6.0% from the end of the previous term to 27.2%.

◎Cash Flow

	FY 3/19	FY 3/20	Increase/decrease
Operating Cash Flow	-734	3,400	+4,134
Investing Cash Flow	-1,127	-299	+828
Free Cash Flow	-1,861	3,101	+4,962
Financing Cash Flow	-559	-1,211	-652
Cash and equivalents	11,506	13,346	+1,840

*Unit: million yen

Net income before taxes and other adjustments turned to a loss, but thanks to the posting of impairment loss, the increase in payables, etc., operating CF and free CF turned positive.

The cash position improved.

(4) Topics

◎Environmentally friendly products

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

◎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.

◎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.

3. Fiscal Year March 2021 Earnings Forecasts

◎Consolidated Earnings Forecasts

	FY 3/20	Ratio to sales	FY 3/21 Est.	Ratio to sales	YoY
Sales	140,667	100.0%	135,000	100.0%	-4.0%
Operating Income	2,809	2.0%	2,400	1.8%	-14.6%
Ordinary Income	3,122	2.2%	2,700	2.0%	-13.5%
Net Income	-1,262	-	1,650	1.2%	-

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

Sales and profits are expected to decrease.

The sales for the term ending March 2021 are projected to be 135 billion yen, down 4.0% year-on-year, and operating income is estimated to be 2.4 billion yen, down 14.6% year-on-year. Response to the spread of COVID-19, when the company investigated the impact of COVID-19 on orders received at the end of March, the company found no information of customers canceling their investment plans, thus the impact seemed minor, however, as infections continued to spread, some customers froze their new investments. The company is still investigating the situation. Nonetheless, the company expects that the company will be able to avoid the significant drop of its business performance because its main business has been related to social infrastructure, mainly power generation and the company's operation bases, which are scattered nationwide, can perform meticulous operation activities, etc. Regarding the sales department, it works towards increasing the profit ratio for each business negotiation, aspires to make efficient operation, and secures the target operating income. The dividend is estimated to remain unchanged at 45 yen/share. The estimated payout ratio is 33.5%.

4. Mid-term management plan “Re-SEIKA 2023”

The mid-term management plan, “CS2020,” which was the first step toward achieving the long-term management vision “Envisioned Seika Group 10 years from now” set in 2017, unfortunately, did not reach its goals.

(Goals of the mid-term management plan, “CS2020,” compared to actual results)

Net Income	FY 3/18	FY 3/19	FY 3/20
Goal	2,200	2,400	2,700
Results and forecasts	1,655	1,587	-1.262

* Unit: million yen

As a result, the company carefully examined its contents and formulated the mid-term management plan “Re-SEIKA 2023,” which will cover the period for the 3 years from April 2020 until March 2023.

The company set the basic policy and basic strategy after clarifying its goals and the basis behind established numbers in order to deepen all employees' understanding of the mid-term management plan. Further, it analyzed the evaluation items of the stock market and studied the competency of each business. Although a sense of uncertainty is overwhelming the world due to the spread of COVID-19, the company announced that it is confident in the growth strategies it has been thoroughly refining over a long time. The company aspires to grow into a strong company with value by concentrating on change and challenge.

(1) Basic policy

The company set the basic policy as “we will change our conventional way of thinking and behavior (Re-formation), continue to challenge all kinds of hardships time after time (Re-challenge), establish a sustainable growth cycle (Re-gain), and create a new stage for improving the corporate value further (Re-start)”

(2) Basic strategy

① Increasing the Group's revenue	<p>The company defined the businesses run by the Seika Group as the 3 business units, the energy plant business unit, the industrial machinery business unit, and the global business unit, then, it allocated the 25 Group corporations that operates domestically and overseas in 14 countries to them.</p> <p>*Energy plant business unit: The power plant business, and the chemicals and energy plant business</p> <p>*Industrial machinery business unit: The industrial machinery business</p> <p>*Global business unit: The global business</p> <p>The company sets operating income targets for each unit and the companies belonging to the same unit will clarify common problems they face and effectively utilize each function to solve them while aiming to expand the profitability of the entire unit.</p>
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②Strengthening the earnings base	<p>The company divided the 3 business units into core earnings and growth earnings fields and made their roles clear.</p> <p>The energy plant business unit, which is classified as the core earning field, will be the pillar of profitability in the future, thus the company will efficiently devote management resources into it.</p> <p>As for the industrial machinery business unit and the global business unit, which are classified as the growth profitability field, the company will invest management resources aggressively and work to achieve constant business growth.</p>
③Cultivating new revenue sources	<p>The company thinks that it will be difficult to achieve a sustainable growth with current businesses alone, and developing new businesses is essential. The company's headquarters spearheads cultivating new sources of profitability, as on-site sales staff perceive securing profit in the present time as an urgent issue and vigorously working towards it while adhering to the dramatically changing business environment.</p> <p>Firstly, it sets renewable energy and life science fields as themes, which have a close affinity with existing businesses, and for which the company's past experiences will be effective. In addition, it will aim to make strategic partner alliances and dedicate more human resources. Actual projects are currently underway.</p> <p>Moreover, in order to improve the profitability of foreign-affiliated companies, the company will develop new products that take regional characteristics into account, and work towards building a base for sustainable business growth.</p>
④Strengthening the management base	<p>The company will improve the organizational capability by stabilizing the financial structure, increasing the work efficiency through promoting IT adoption, digital transformation, and such, enriching the work environment, developing the human resources, etc.</p> <p>Moreover, it will ensure that corporate governance is functioning effectively, ensuring business compliance and efficiency, which will lead to better profitability and make the management base all the more robust.</p>

(3) Management's Numerical targets

	FY 3/2020	FY 3/2023 (Forecast)	CAGR
Operating income	2,800	3,700	+9.7%
Energy plant business unit	1,780	1,950	+3.1%
Industrial machinery business unit	790	1,310	+18.4%
Global business unit	240	690	+42.2%
Developing new businesses	-	-250	-
Net income	-1,262	2,500	-

* Unit: million yen

The industrial machinery business unit and the global business unit, which are classified as revenue growth fields, will grow significantly and lead the business growth.

If the target net income of 2.5 billion yen for the term ending March 2023 is achieved, ROE will be 8% or higher.

5. Conclusions

The goals of the "Mid-term Management Plan CS2020" were not achieved, and the mid-term management plan "Re-SEIKA 2023," which is the second step in the long-term management vision, had a rough start facing the global spread of COVID-19. However, attaining the goals is essential in order to gain the market's trust and valuation. We will pay attention to the progress of the industrial machinery business and the global business, which are expected to achieve high growth.

<Reference 1: The Long-term Management Vision>

Seika Corporation formulated a long-term management vision for the year 2027 “Envisioned Seika Group 10 years from now”.

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

*Objective

The year 2027 is a turning point, commemorating the 80th 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.

<Reference2: Regarding Corporate Governance>

◎Organization type, and the composition of directors and auditors

Organization type	Company with an audit and supervisory board
Directors	8 directors, including 3 outside ones
Auditors	4 directors, including 2 outside ones

◎Corporate Governance Report

Last update date: : June 25, 2020

< 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
【Principle 1-4 The so-called strategically held shares】	<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 2020.</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>

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【Principle 5-1 Policy for constructive dialogue with shareholders】

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.

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.

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