

**NIPPO LTD. (9913 JP)****STATIC GROWTH EXPECTED IN FY24. DIVIDEND PAY-OUT RATIO WAS REVISED FROM 35% TO 50%.****FY23 RESULTS**

Nippo Ltd. [hereafter Nippo] produced FY23 operating profit [OP] of ¥1,918mil (+0.3% YoY) on sales of ¥41,922mil (+7.8% YoY). The FY23 results came in ahead of the firm's revised estimates made on 25 March for sales of ¥41,000mil and OP of ¥1,910mil. The better-than-expected performance is despite several headwinds such as:

- Prolonged issues with semiconductor shortages in certain industries and regions.
- Continued surges in the cost of raw materials and energy.
- Negative influences on supply chains from trade friction between the US and China.
- Fraud issues by Japanese OEMs led to the suspension of production.

Nippo Ltd. (9913 JP): Earnings Summary (Cumulative)							
¥mil	FY22		FY23				
	1H	FY	1H	FY	YoY (%)	FYCE (New)	FY vs FYCE (%)
Sales	18,606	38,886	20,215	41,922	7.8	41,000	2.2
COGS	15,296	32,076	16,696	34,751	8.3	N/A	N/A
Gross Profit	3,310	6,809	3,518	7,170	5.3	N/A	N/A
GPM (%)	17.8	17.5	17.4	17.1	-0.4ppt	N/A	N/A
SG&A	2,381	4,897	2,578	5,252	7.2	N/A	N/A
SG&A / Sales (%)	12.8	12.6	12.8	12.5	-0.1ppt	N/A	N/A
OP	929	1,912	939	1,918	0.3	1,910	0.4
OPM (%)	5.0	4.9	4.6	4.6	-0.3ppt	4.7	-0.1ppt
RP	905	1,871	1,097	2,150	14.9	2,140	0.5
NP*	590	1,269	755	1,457	14.8	1,440	1.2

Source: Nippon-IBR based on Nippo's FY22 and FY23 earnings materials  
\* Net profit attributed to the parent's shareholders

The Mobility Segment contributed +¥1,241mil (+8.1% YoY) to FY23 sales, supported by (1) the production recovery at domestic auto sector customers boosted orders and (2) a rise in orders at the Indonesian factory.

The Electronics segment contributed ¥2,050mil (+12.2% YoY) to sales as the firm saw solid growth in print circuit boards [PCBs] used in generative AI servers and base stations, dry film (Vietnam factory), and wafer polishing jigs (Okinawa factory).

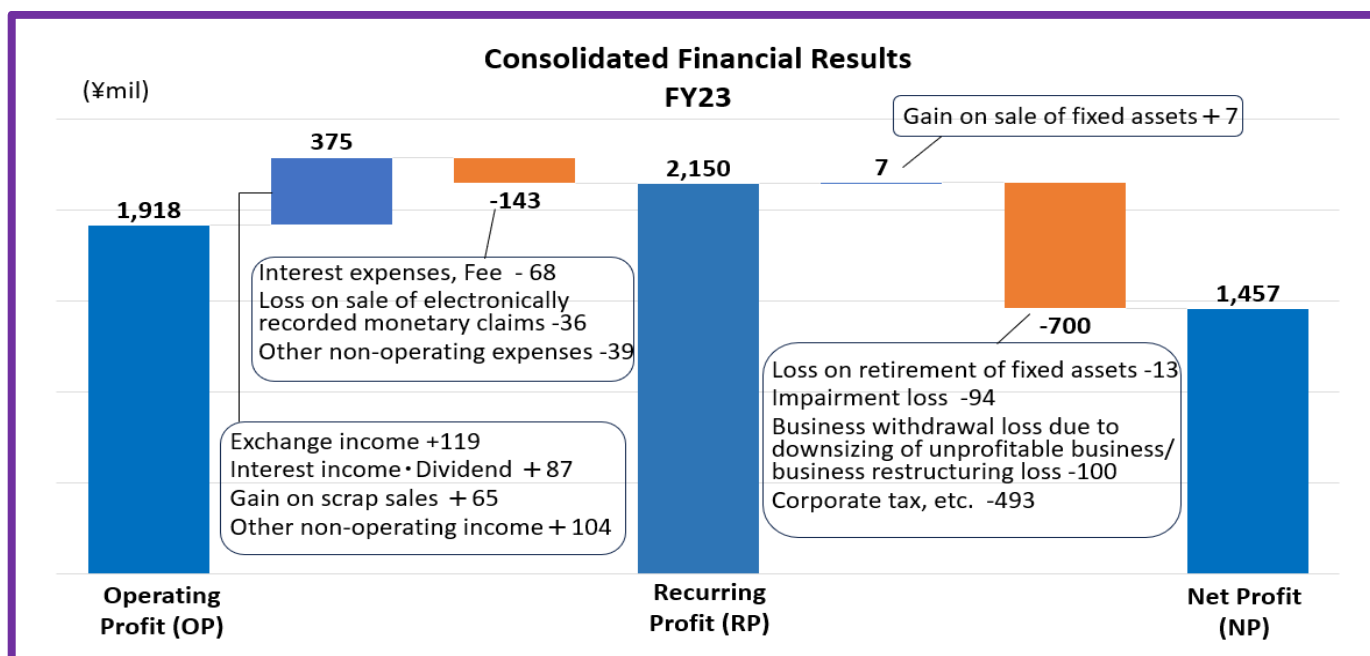
However, the Medical and Precision Devices segment saw sales fall -272mil / -3.9% YoY due to weak orders for printer parts on the back of changes in customers' production plans.

FY23 OP increased +¥6mil YoY / +0.3% YoY despite the -¥485mil hit from higher labour / personnel costs and other fixed costs, such as depreciation cost, distribution, and energy (-¥465mil YoY). Those negative factors were more than offset by improvements in capacity utilisation (+¥956mil).

**EXECUTIVE SUMMARY**

- Nippo Ltd. [hereafter Nippo] produced FY23 operating profit [OP] of ¥1,918mil (+0.3% YoY) on sales of ¥41,922mil (+7.8% YoY). The results beat the revised (on 25 March) estimates for sales of ¥41,000mil and OP of ¥1,910mil.
- Nippo is guiding for FY24 OP of ¥1,950mil (+1.7% YoY) on sales of ¥42,000mil (+0.2% YoY) based on the following assumptions:
  1. Electronics: Production adjustments in smartphone parts will likely continue.
  2. Mobility: Concerns on 1) utilisation rates remain low due to fraud-related production suspension at several OEMs, 2) weak auto demand in ASEAN countries.
  3. The firm plans to proactively invest in new products / merchandise which will lead to higher promotion costs.
- Both the shareholder returns policy, and the capital allocation policy were revised to reflect Nippo's stable earnings growth and solid balance sheet.
  1. FCF and debt of ¥6,000mil will be allocated to invest in 1) human capital, 2) new businesses, and 3) improve operation efficiency.
  2. Working capital of approx. ¥4,000mil.
  3. Interest-bearing debt can extend to approx. ¥7,400mil + $\alpha$ .
  4. Shareholders returns of ¥2,000mil and achieve a 50% pay-out ratio.
- Nippo is proposing to renew the anti-takeover measure to be voted at the next AGM in June 2024.

Nippo also announced changes to its shareholder return policy on 25 March. The dividend pay-out ratio has been revised up from the previous 35% to 50% and the FY23 annual cash DPS was revised from ¥42.00 to ¥74.00.



Source: Nippon-IBR based on Nippo's FY23 earnings materials

## FY24 OUTLOOK

Nippo is guiding for static growth in FY24 with OP of ¥1,950mil (+1.7% YoY) on sales of ¥42,000mil (+0.2% YoY) based on the following assumptions:

- **Electronics Segment:** Smartphone parts will continue to face production adjustments.
- **Mobility Segment:** 1) Lower factory utilisation rates due to production suspension at several OEMs related to the recent fraud issues, and 2) weak demand for automobiles in ASEAN countries.
- **Costs / Capex:** 1) Costs associated with building new business model. 2) The firm plans to proactively invest in new products and new merchandises and promotion costs for them.

Based on Nippo's revised dividend policy, the FY24 annual DPS is estimated at ¥76.00, which generates a dividend pay-out ratio of 49.3%.

Nippo Ltd. (9913 JP): Earnings Summary (Cumulative)						
(¥mil)	FY22		FY23		FY24	
	1H	FY	1H	FY	FYCE	YoY (%)
Sales	18,606	38,886	20,215	41,922	42,000	0.2
COGS	15,296	32,076	16,696	34,751	N/A	N/A
Gross Profit	3,310	6,809	3,518	7,170	N/A	N/A
GPM (%)	17.8	17.5	17.4	17.1	N/A	N/A
SG&A	2,381	4,897	2,578	5,252	N/A	N/A
SG&A / Sales (%)	12.8	12.6	12.8	12.5	N/A	N/A
OP	929	1,912	939	1,918	1,950	1.7
OPM (%)	5.0	4.9	4.6	4.6	4.6	+0.1ppt
RP	905	1,871	1,097	2,150	1,950	-9.3
NP*	590	1,269	755	1,457	1,380	-5.3

Source: Nippon-IBR based on Nippo's FY22 and FY23 earnings materials  
\* Net profit attributed to the parent's shareholders

## SEGMENT PERFORMANCE AND OUTLOOK

### Electronics Segment

The Electronics Segment FY23 OP improved +2.2% YoY to ¥1,272mil on sales of ¥18,904mil (+12.2% YoY). In Q4 alone, the segment earned OP of ¥293mil (+6.2% YoY / -21.7% QoQ) on sales of ¥5,258mil (+27.5% YoY / +8.8% QoQ). Approx 80% of segment earnings are derived from Nippo acting as a specialist trading company, handling electronics components and parts for household equipment.

The decline in demand for smartphone-related parts, on the back of extended production adjustments by customers, weighed on semiconductor-related materials. Furthermore, segment OP was squeezed due to upfront costs associated with the commencement of the dry film business at its Khorat Factory in Thailand.

On the other hand, the firm enjoyed solid demand for (1) circuit board materials for base stations and generative AI servers, (2) the slitting process of photosensitive dry films in Vietnam, and (3) wafer polishing jigs at its Okinawa facility.

Nippo guides for FY24 segment OP of ¥1,350mil (+6.1% YoY) on sales of ¥19,000mil (+0.5% YoY), reflecting concerns that 1) production adjustments of smartphone parts will continue, and 2) further CAPEX for the dry film business in the Khorat Factory in Thailand, but also positive factors such as 1) the ongoing strong demand for high-margin circuit board materials used in generative AI and base stations and 2) solid orders for semiconductor wafer polishing jigs.

### Mobility Segment

FY23 Mobility segment OP rose +0.5% YoY to ¥1,543mil on sales of ¥16,578mil (+8.1% YoY). Here, Nippo manufactures and sells moulded plastic parts and modules – used mainly in auto-use electronic control components – primarily to Tier 1 makers. During FY23, orders for power train parts manufactured in Nippo's Bangkok factory and shipped to China slowed. At the same time, the business was negatively affected by the suspension of operations at several OEMs, due to fraud. On the other hand, production of autos and auto parts in Japan recovered, leading to solid demand at Nippo's Indonesian factories.

The segment OP was further squeezed due to 1) higher costs of raw materials and energy, and 2) weak orders at the Bangkok factory lowered capacity utilisation. In Q4 alone, the segment earned OP of ¥364mil (+0.8% YoY / -11.4% QoQ) on sales of ¥4,153mil (+17.6% YoY / -3.4% QoQ).

Nippo is eyeing full-year FY24 OP of ¥1,550mil (+0.5% YoY) on sales of ¥16,600mil (+0.1% YoY). Management assumes static growth in sales to reflect 1) a slowdown in orders from China and 2) weak auto markets in ASEAN countries which will likely lead to lackluster order. However, despite the uncertainty surrounding operation due to the aforementioned fraud issues, orders from the domestic auto sector customers will likely remain solid and support domestic order growth.

### Medical and Precision Devices Segment

More than 80% of segment sales is generated from precision equipment parts – the main product is ink jet and laser printer units – and some 20% is from components used in medical equipment. The segment reported FY23 OP of ¥166mil (+31.7% YoY) on sales of ¥6,617mil (-3.9% YoY).

Nippo provides OEM services for medical equipment parts at its factory in Nakhon Ratchasima [a.k.a. Khorat], Thailand. While the OEM service for medical equipment parts saw solid orders, the printer parts business was affected by a decline in production due to changes in (1) its customers' supply chains and (2) the ongoing supply shortages in semiconductors and electronic parts.

As a result, orders at the Khorat factory declined, however that was offset by solid orders at Nippo's domestic factories and lower COGS in Vietnam. In Q4 alone, the segment produced OP of ¥62mil (-39.2 YoY / +148.0% QoQ) on sales of ¥1,619mil (-17.3% YoY / -1.3% QoQ)

Management is guiding for full-year FY24 segment OP of ¥200mil (+20.5% YoY) on sales of ¥6,700mil (+1.3% YoY). Segment sales are estimated to remain flat YoY, with solid orders for medical equipment parts offsetting the weakness in the printer parts business. However, although demand for printer-related parts is recovering, as well as having high seasonality in 2H, the firm remains cautious on the outlook given the uncertainty regarding printer makers' decisions to change production location and volumes. The firm started mass production in Japan for medical equipment parts in FY23, for which production capacity expansion costs are ongoing.

Nippo Sangyo (9913 JP): Sales and OP by Segment (Cumulative)								
¥mil		FY23					FY24 CE	
		Q1	Q2	Q3	Q4	YoY (%)	FY CE	YoY (%)
Electronics	Sales	4,309	8,814	13,646	18,904	12.2	19,000	0.5
	OP	282	605	979	1,272	2.2	1,350	6.1
	OPM (%)	6.5	6.9	7.2	6.7	-0.7ppt	7.1	+0.4ppt
Mobility	Sales	4,150	8,125	12,425	16,578	8.1	16,600	0.1
	OP	418	768	1,179	1,543	0.5	1,550	0.5
	OPM (%)	10.1	9.5	9.5	9.3	-0.7ppt	9.3	+0.0ppt
Medical and Precision Equipment	Sales	1,728	3,358	4,998	6,617	-3.9	6,700	1.3
	OP	36	79	104	166	31.7	200	20.5
	OPM (%)	2.1	2.4	2.1	2.5	+0.7ppt	3.0	+0.5ppt

Source: Nippon-IBR based on Nippo Sangyo's earnings presentation materials

Nippo Sangyo (9913 JP): Sales and OP by Segment (Quarterly)											
¥mil		FY22				FY23					
		Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	YoY (%)	QoQ (%)
Electronics	Sales	4,139	4,132	4,278	4,125	4,309	4,505	4,832	5,258	27.5	8.8
	OP	306	363	300	276	282	323	374	293	6.2	-21.7
	OPM (%)	7.4	8.8	7.0	6.7	6.5	7.2	7.7	5.6	-1.1ppt	-2.1ppt
Mobility	Sales	3,620	3,680	4,507	3,530	4,150	3,975	4,300	4,153	17.6	-3.4
	OP	378	434	362	361	418	350	411	364	0.8	-11.4
	OPM (%)	10.4	11.8	8.0	10.2	10.1	8.8	9.6	8.8	-1.4ppt	-0.8ppt
Medical and Precision Equipment	Sales	1,439	1,497	1,996	1,957	1,728	1,630	1,640	1,619	-17.3	-1.3
	OP	-14	-63	101	102	36	43	25	62	-39.2	148.0
	OPM (%)	NA	NA	5.1	5.2	2.1	2.6	1.5	3.8	-1.4ppt	+2.3ppt

Source: Nippon-IBR based on Nippo Sangyo's earnings presentation materials

## MEDIUM-TERM MANAGEMENT PLAN (FY23-FY25)

FY23 was the first year of the new three-year medium-term management plan which will end in FY25. Nippo considers this as a period during which the firm will focus on proactively promoting new products and materials that were developed through its new business model established during the previous medium-term plan. In the new business model, the firm aims to offer added value products based on Nippo's own ideas, rather than just responding to enquiries from clients.

## Summary of the new Medium-Term Plan (FY23~FY25)

In the new medium-term plan, Nippo has three fundamental principles:

1. Achieve the following two numerical KPIs:
    - Generate consolidated total OP of ¥5,730mil over FY23~FY25 vs. FY20~FY22 total OP of ¥3,880mil. In the final year (FY25), Nippo is targeting consolidated OP of ¥2,000mil (3-yr CAGR +1.5%).
    - ROE of 10.0%+ on average over three years vs previous plan's average of 7.3%.
  2. Introduce Business Portfolio Management
- In order to achieve sustainable earnings growth and enhance enterprise value over the medium-to long term, resources will be allocated to businesses with high growth potential and profitability.
3. Achieve a PBR of 1x by improving efficiency of the balance sheet and enhancing profitability.

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## CAPITAL ALLOCATION

Nippo had approx. ¥13,009mil in cash and cash equivalents on its balance sheet as of the end of FY23 (cf. ¥11,605mil as of the end of FY22). The required working capital is estimated at approx. 1-month of sales (i.e., approx. ¥3,500mil). Thanks to steady earnings growth and a solid balance sheet accumulated from the previous medium-term plan, Nippo revised its capital allocation policy as follows:

Previously, Nippo planned to allocate capital to the following areas through free cash flow [FCF] without increasing interest-bearing debt (which was ¥4,300mil at FY22-end):

- Investment on the existing businesses, which will be within annual depreciation costs.
- Investment on new businesses to enhance growth opportunities, patents, develop expertise, alliances, and M&A. Nippo plans to allocate approx. ¥3,000mil out of approx. ¥4,000mil free cash flow over the three years.
- Working capital of approx. ¥4,900mil
- Shareholders return of ¥1,060mil and aiming to achieve 35% pay-out ratio.

The revised capital allocation policy states that:

- Optimal levels of working capital and cash on the balance sheet will be regularly reviewed.
- FCF and debt will be utilised to invest approx. ¥6,000mil on 1) human capital, 2) new businesses, and 3) improve operations.
- Working capital of approx. ¥4,000mil
- Interest-bearing debt can extend to approx. ¥7,400mil
- Shareholders return of approx. ¥2,000mil and aiming to achieve a 50% pay-out ratio.

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## ANTI-TAKEOVER MEASURES

At a Board of Directors meeting held on 21 May 2024, the proposal to continue countermeasures against large-scale purchases of the company's shares (i.e., takeover defence plan "the Plan", which was initially introduced in May 2019) was put forward, subject to shareholder approval at the 73rd Ordinary General Meeting scheduled to be held on 25 June 2024. If the renewal of the Plan is voted for at the June 2024 AGM, it will be effective until the end of the next AGM in June 2025.

Nippo introduced a countermeasure policy based on the Plan and exercised countermeasures on the back of TOB attempts by its largest shareholder, Freesia Macros Corporation [FMC] (6343 JP) in January 2021. However, the firm suspended the countermeasures when FMC withdrew its bid.

While the firm's Board does not categorically refuse takeovers, the Plan was introduced to carefully consider proposals placed on the company in its duty to enhance enterprise value and protect shareholders' interest. Due to the nature of the business, which collaborates closely with its clients' product development projects, and, in some cases, manufactures under technological license agreements, Nippo believes measures are needed to evaluate potential acquirers and gain time to negotiate with them given the firm holds confidential information on its clients' technologies.

The Plan sets out prerequisites for the potential acquirers to submit which include 1) the Statement of Intention to the Company and 2) the Provision of Necessary Information. Upon submission, Nippo's Board will acknowledge receipt of the bid and disclose the proposal by the acquirer to the company. Subsequently, the Board will set the Board Assessment Period, and then an Independent Advisory Committee will be established regardless of whether any countermeasures will be triggered or not. Independent Advisory Committee will recommend to the Board of Directors whether to trigger the countermeasures. If the Board of Directors intends to pass a resolution to trigger the countermeasures, a general meeting of shareholders will be convened to ask shareholders whether to trigger the countermeasures.

On 29 April, Nippo received four proposals from one of its existing shareholders: 1) Increase the share of retained earnings, 2) change business articles to accommodate paying dividends out of retained earnings, 3) the termination of the anti-take-over measures, and 4) change business articulates to enable investors to meet Board directors. The said shareholder is demanding a payout of 100% or DOE of 10%, which Nippo has opposed since the firm has already revised the shareholder return policy and is seeking to secure investment for future growth. Nippo also opposed the proposal to terminate the anti-takeover measures for the aforementioned reasons.

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