



Optorun Co., Ltd.

**Earnings Announcement  
For the Fiscal Year Ended  
December 2018**

February 14, 2019

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# I. Outline of the financial results

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# Financial Highlights (Consolidated)



**Strong financial results -Sales and earnings up sharply**  
**Effect of U.S. – China trade friction insignificant on FY2018 performance**

(Million yen)

	FY12/2017	FY12/2018	YoY
Net sales	33,385	44,763	+34.1%
Operating profit	7,327	10,690	+45.9%
Operating margin	21.9%	23.9%	—
Ordinary profit	7,095	10,992	+54.9%
Profit attributable to owners of parent	4,815	7,745	+60.9%

# Comment on Net Sales

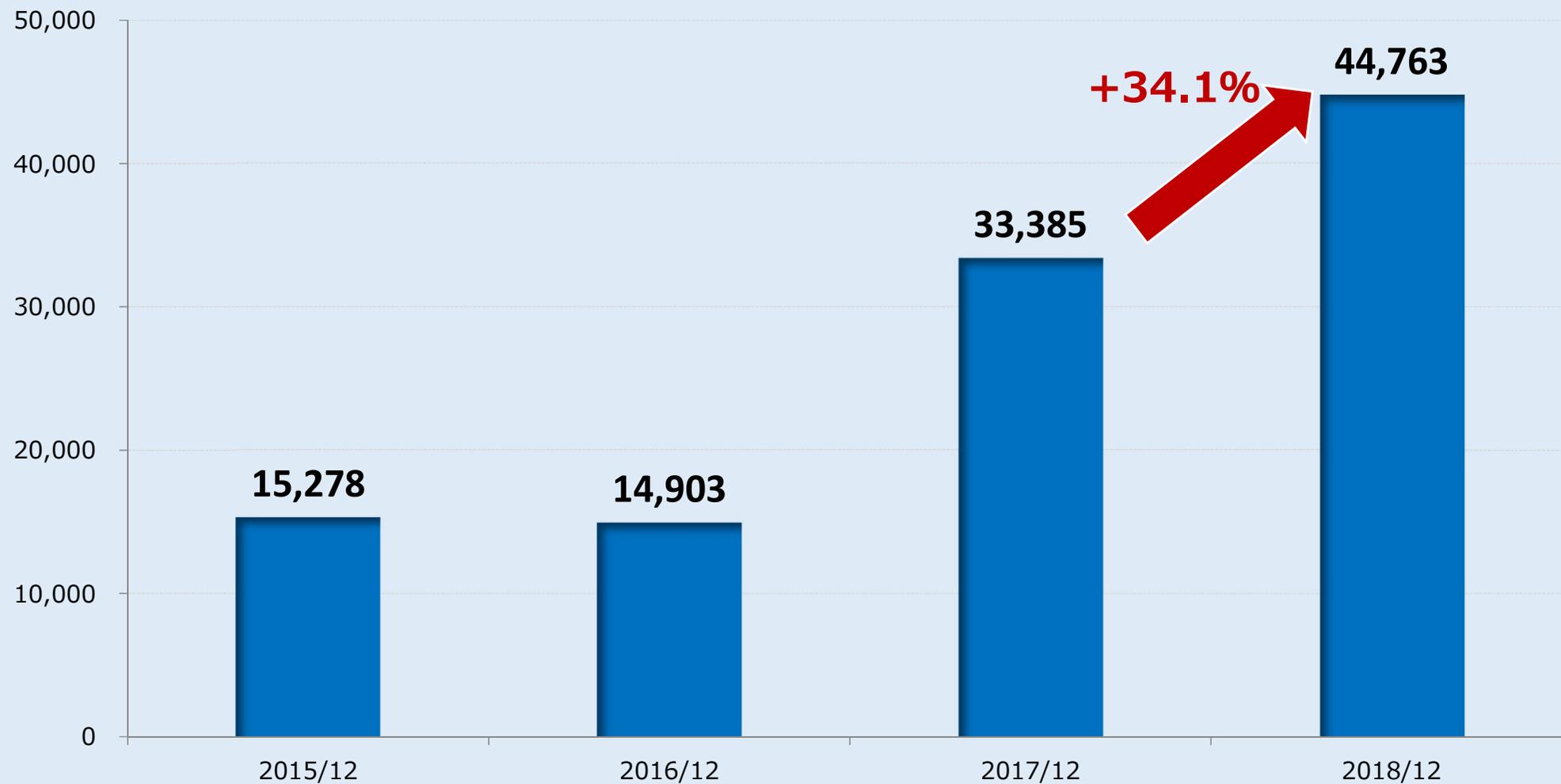


- Sales increased due to precise response to progressive and dynamic changes in demand sectors
- Customer base for thin-film sputtering coaters for smartphones and Vacuum deposition equipment shifted significantly from manufacturers in North America to those in China, Taiwan and S. Korea. Focused on evolving camera functions and decorative coverings.
- Share of optical thin film coaters for smartphones declined to less than 50% of total sales
- Sales in the IoT and AI sectors surged, led by biometric authentication applications. Sales to the automotive components sector were also higher.
- Sales of coaters for camera lenses were also favorable led by surveillance cameras and vehicle-mounted cameras kept pace with advancing camera functions.
- Sales to the LED sector were also favorable centering on strong sales to China. Sales in our newly developed field of expertise were also strong.
- Commenced shipments of equipment to the semiconductor sector, booking sales of device of semiconductor/optical integration for the first time.

# Net Sales

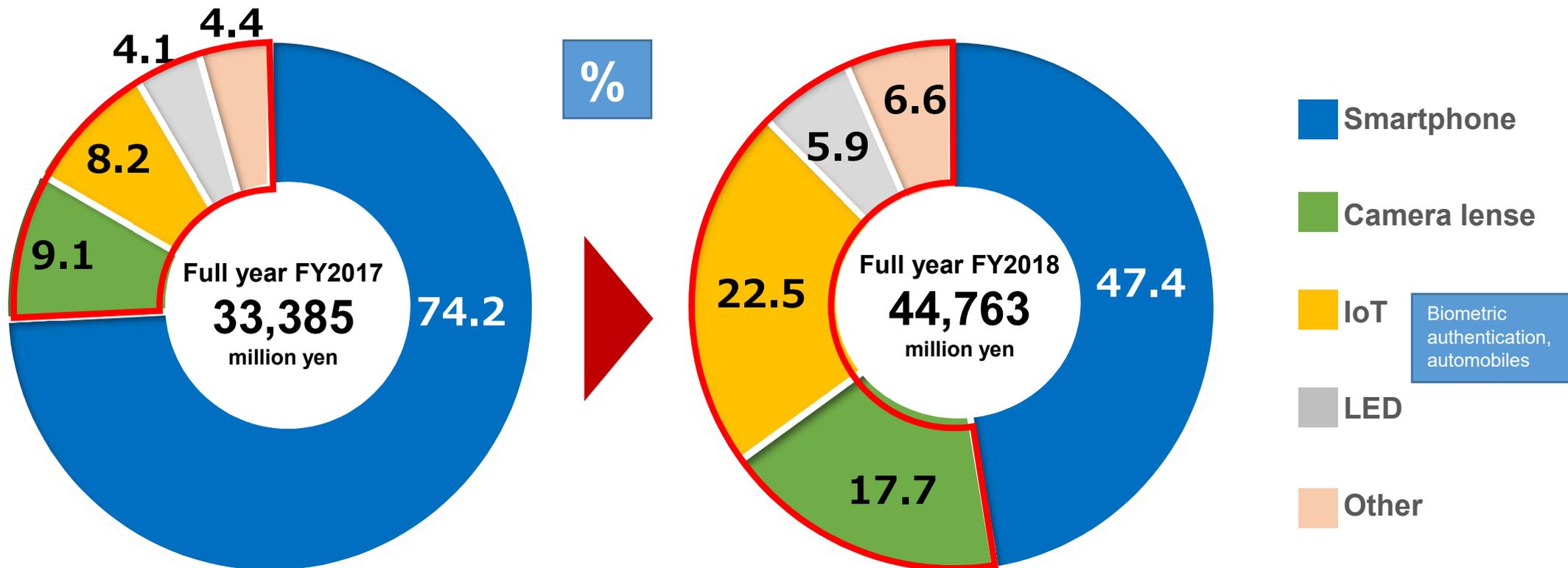


(Million yen)



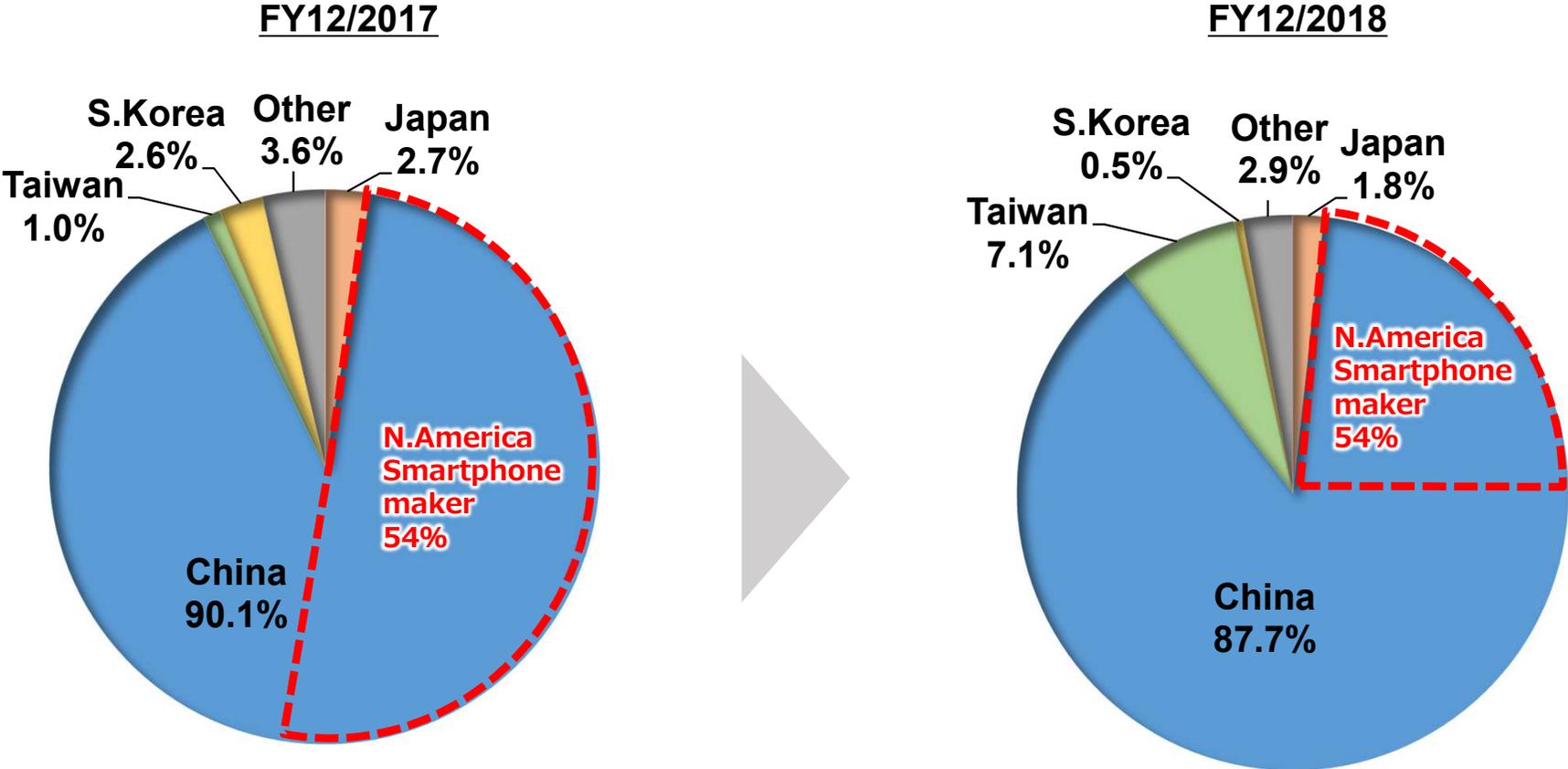
# Net Sales by Categories

- Diversity of users of optical thin film equipment in the smartphone industry demand diversified from North America to China, Taiwan, S. Korea and other regions.
- Demand for equipment for lenses for surveillance and vehicle-mounted camera lenses increased .
- There was a marked increase in IoT applications (biometric authentication, vehicle mounted cameras and semiconductors)
- In the LED sector, captured the needs arising from advanced functions.

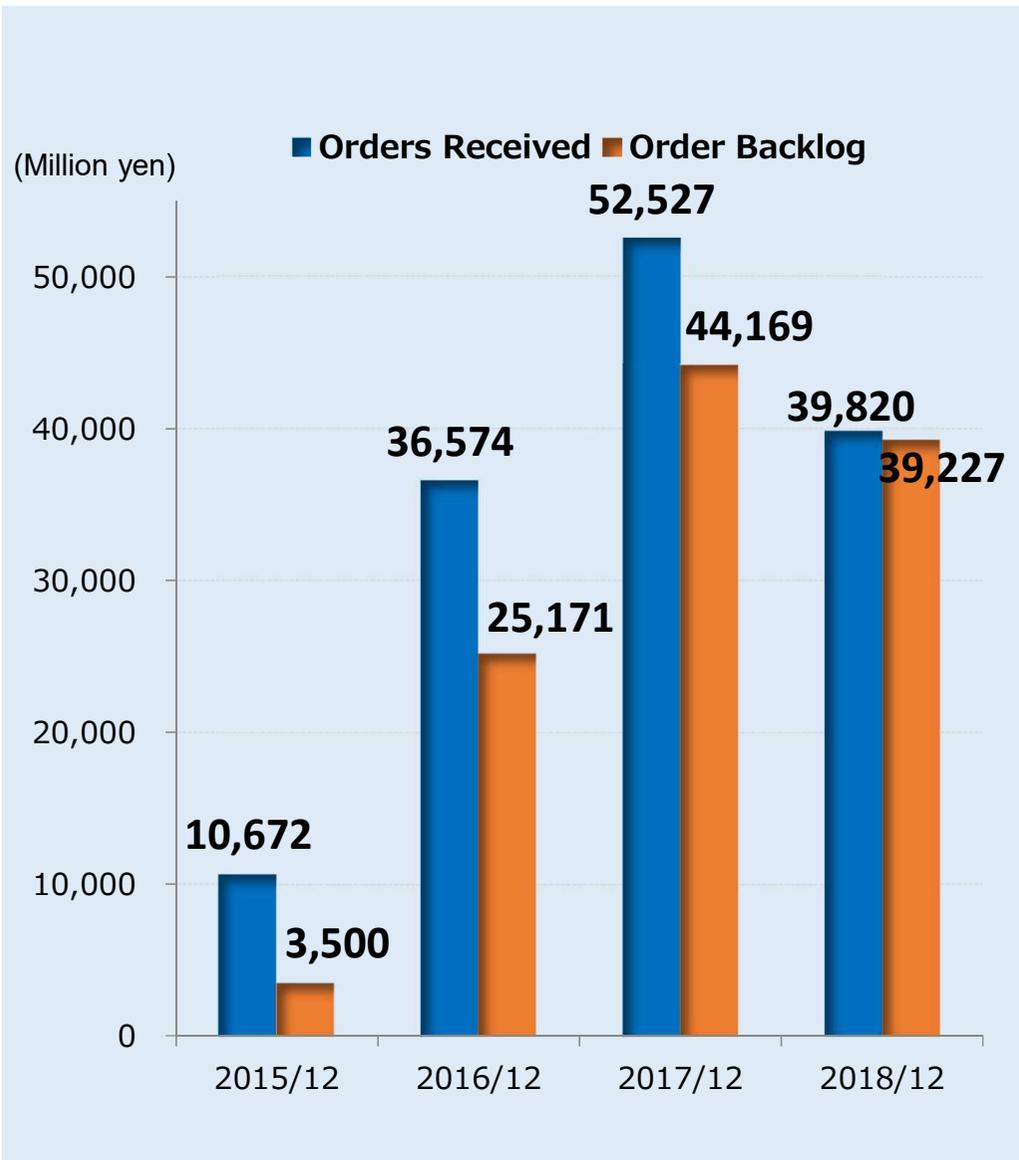


# Net Sales by Region

- China remains the largest market.
- However, demand from manufacturers in North American declined, increasing the weight of Taiwan in total sales.
- Sales diversified over multiple demand sectors, showing a trend away from **single-client centered sales** to an increasing diversity of users.

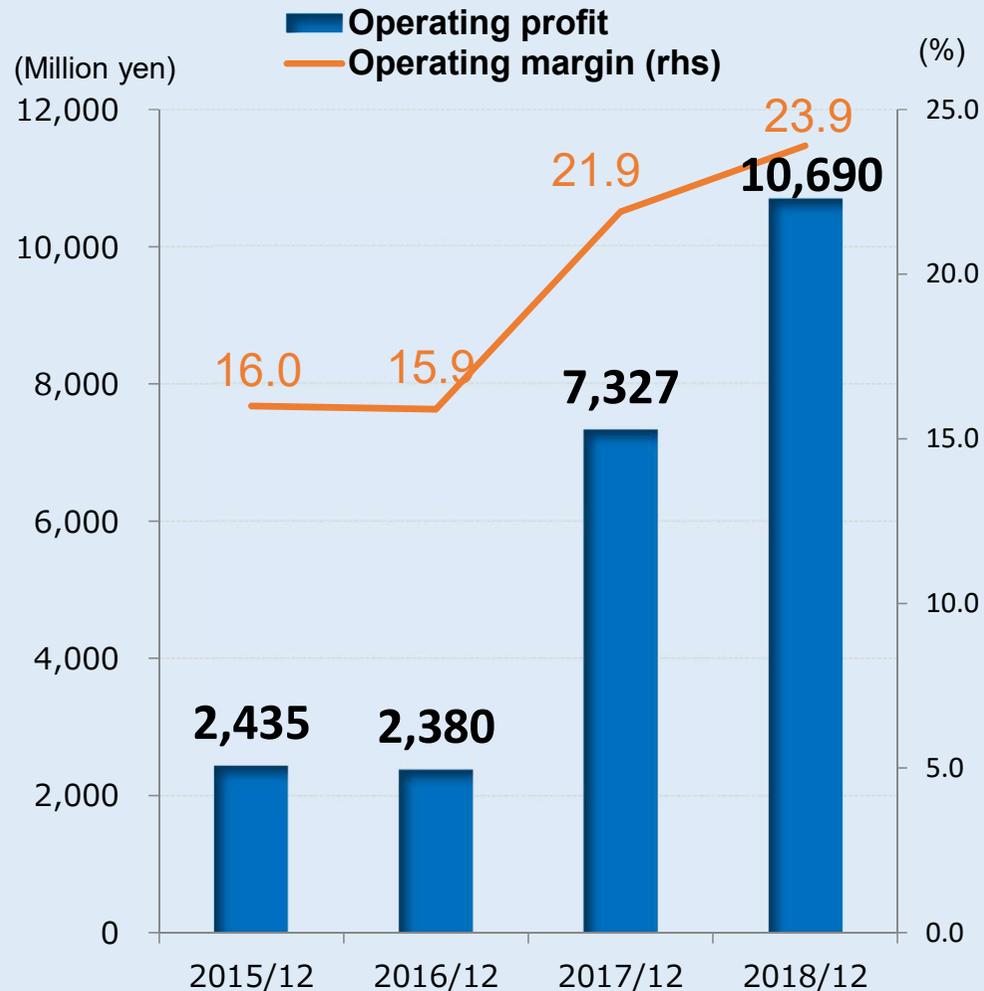


# Orders Received and Order Backlog



- In FY2017, there were particularly large orders related to new models of smartphones. In FY2018, orders were favorable in all regions, except North America.
- Have secured sufficient backlog of orders to support FY2019 business forecasts.
- Surge in orders for thin-file sputtering coaters from China, Taiwan, S. Korea and Japan. Applications diversified to smartphones, biometric authentication, vehicle-mounted cameras, and semiconductors/optical integration
- Orders from smartphone manufacturers in North America declined sharply
- Orders also increased for deposition systems for smartphone, vehicle-mounted cameras and LED sectors.

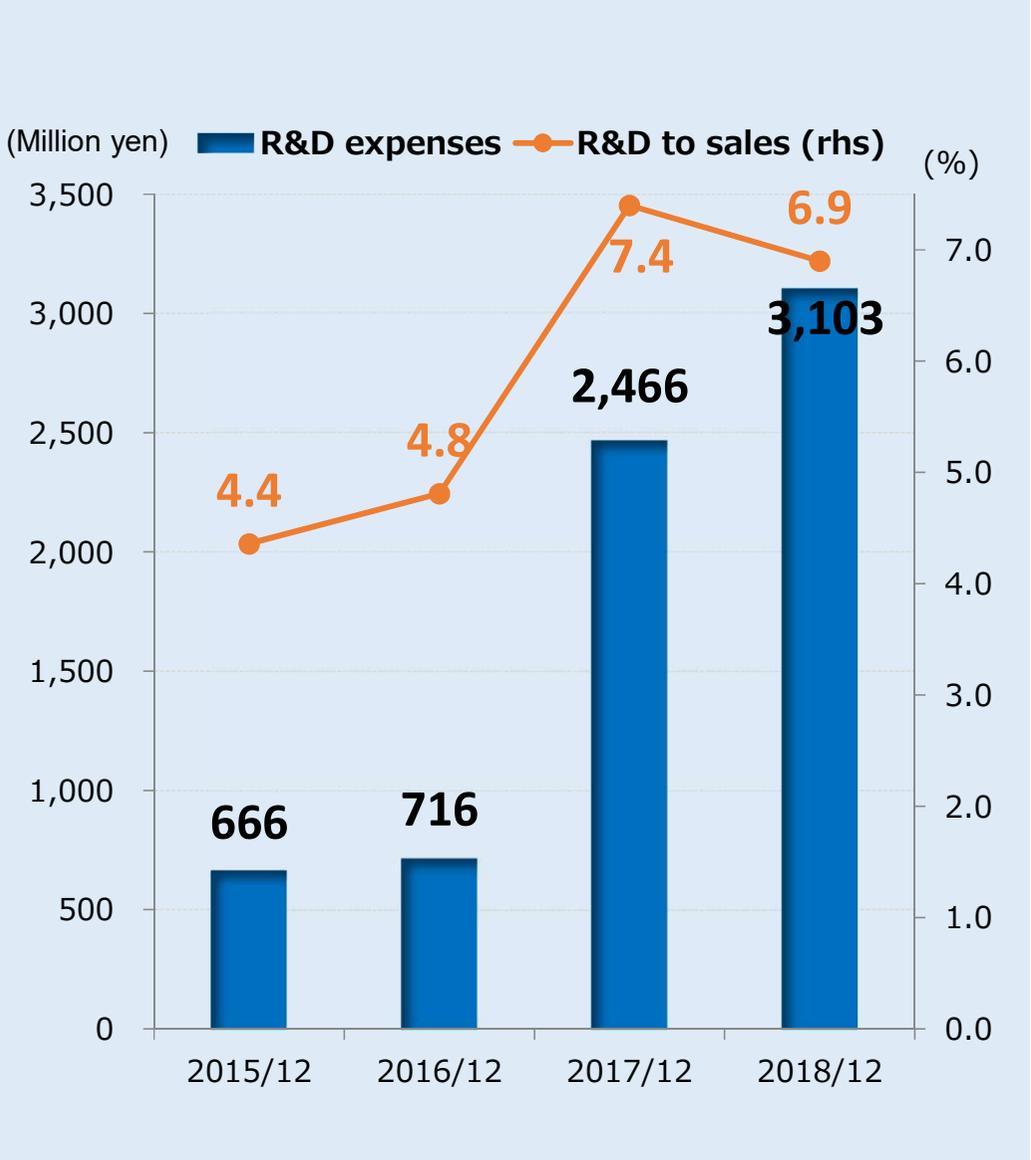
# Operating Profit



## Operating margin increased by 2% from previous year

- Higher sales drove down SG&A ratio (5.3%)
  - No more than 1% change in any SG&A items.
- CGS ratio increased slightly (3.4%)
  - Sales of thin-film sputtering coaters to China increased but declined to North America. Consequently, the share of thin-film sputtering coaters in total sales plunged 10%, caused an increase in CGS ratio.
  - Nevertheless, consolidated CGS ratio was steady at 61%, still at a favorable level

# Research and Development Expenses



## R&D is given the highest priority in the resources and pursuing the goal of R&D-driven company with continuous growth

- A cross-company R&D organization covering Kawagoe, Shanghai and Taiwan bases accelerates R&D. Head office concentrates on fundamental research and overseas bases application research.
- Developing advanced devices by adopting new technologies going beyond optical thin film technology to cope with needs resulting from advances in smartphones, IoT (biometric authentication, vehicle mounted cameras and semiconductors) and thin films for AI and LED. OPTORON is also exploring investment and tie-up options.
- R&D is focused on new industry areas including semiconductor/optical integration.

# Balance Sheet



(Million yen)

	Dec. 31 2017		Dec. 31 2018		
	Amount	%	Amount	%	Change
<b>Current assets</b>	<b>52,255</b>	<b>92.6%</b>	<b>49,567</b>	<b>88.7%</b>	(2,688)
Cash and deposits	19,893	35.3%	15,740	28.2%	(4,153)
Notes and accounts receivable - trade	3,380	6.0%	6,837	12.2%	+ 3,457
Inventories	25,107	44.5%	24,487	43.8%	(620)
Allowance for doubtful accounts	(181)	(0.3)%	(420)	(0.8)%	(239)
Other	4,055	7.2%	2,922	5.2%	(1,133)
<b>Non-current assets</b>	<b>4,169</b>	<b>7.4%</b>	<b>6,329</b>	<b>11.3%</b>	+ 2,160
<b>Total assets</b>	<b>56,425</b>	<b>100.0%</b>	<b>55,896</b>	<b>100.0%</b>	(529)
<b>Current liabilities</b>	<b>32,038</b>	<b>56.7%</b>	<b>25,935</b>	<b>46.4%</b>	(6,103)
Notes and accounts payable - trade	7,303	12.9%	1,652	3.0%	(5,651)
Short-term interest-bearing debt	9,193	16.3%	756	1.4%	(8,437)
Other	15,541	27.5%	23,526	42.1%	+ 7,985
<b>Non-current liabilities</b>	<b>1,780</b>	<b>3.2%</b>	<b>1,898</b>	<b>3.4%</b>	+ 118
Long-term interest-bearing debt	432	0.8%	233	0.4%	(199)
Other	1,347	2.4%	1,665	3.0%	+ 318
<b>Total liabilities</b>	<b>33,818</b>	<b>59.9%</b>	<b>27,834</b>	<b>49.8%</b>	(5,984)
<b>Total net assets</b>	<b>22,606</b>	<b>40.1%</b>	<b>28,062</b>	<b>50.2%</b>	+ 5,456
<b>Total liabilities and net assets</b>	<b>56,425</b>	<b>100.0%</b>	<b>55,896</b>	<b>100.0%</b>	(529)

- Retirement of debt
- Settlement of notes payable and accounts payable

- Increase in investments

- Rise in advances due to increase in accounts receivable on equipment shipped

- Increase in retained earnings

# Cash Flows



(Million yen)

	FY2017	FY2018		Major factors
	Amount	Amount	Change	
Cash flows from operating activities	4,695	9,572	+4,877	<ul style="list-style-type: none"> <li>• Increase in profit</li> <li>• Increase in advances received</li> </ul>
Cash flows from investing activities	(2,768)	(2,964)	(196)	<ul style="list-style-type: none"> <li>• Payment for investment</li> </ul>
Cash flows from financing activities	12,446	(10,053)	(22,499)	<ul style="list-style-type: none"> <li>• Net decline in short-term debt</li> <li>• Cash dividends paid</li> </ul>
Effect of exchange rate change on cash and cash equivalents	161	(707)	(868)	
Net increase (decrease) in cash and cash equivalents	14,536	(4,153)	(18,689)	
Cash and cash equivalents at beginning of period	5,357	19,893	+14,536	
Cash and cash equivalents at end of period	19,893	15,740	(4,153)	

# II. Outlook

- Forecast for FY12/2019
- Strategy
- Shareholder Distributions

# Forecast for FY12/2019



## Aim for higher sales and profit

(Million yen)

	FY12/2018 (Actual)	FY12/2019 (Forecast)	Change
Net sales	44,763	46,000	+2.8%
Operating profit	10,690	11,300	+5.7%
Operating margin	23.9%	24.6%	—
Ordinary profit	10,992	11,300	+2.8%
Profit attributable to owners of parent	7,745	8,400	+8.4%
R&D expenses	3,103	3,900	+25.7%

## 1. Aim at expanding application areas with optical thin film coaters

- In the smartphone sector, accelerate improving availability of optical thin-film technologies and accelerate development of new models in response to transition to 5G networks and emerging the needs of smartphone manufacturers
- In the semiconductor/optical integration, start full-scale sales of finished Optical Wafer Level Sputtering Coater.
- In vehicle mounted devices market, more orders for products related to vehicle-mounted cameras, sensors and in-panel devices are expected. The core markets are East Asia, including Japan.
- Accelerate the development and sales of devices for BPF filters for 5G applications.
- In the LED sector, increase luminous efficiency by adopting new model of DBR of optical thin film coaters, thus reducing LED production cost and boosting orders.
- Along with advances in IoT and AI technologies acquire new technologies in areas other than optical thin films in order to dramatically increase thin film coating efficiency and thus expanding application range

## 2. Medium-term targets

- Increase synergy benefits by consolidating companies acquired through M&A and increase corporate value.
- Step-up investments, tie-ups and acquisitions in order to obtain new technologies, markets and a customer base and thus increase corporate earnings power.

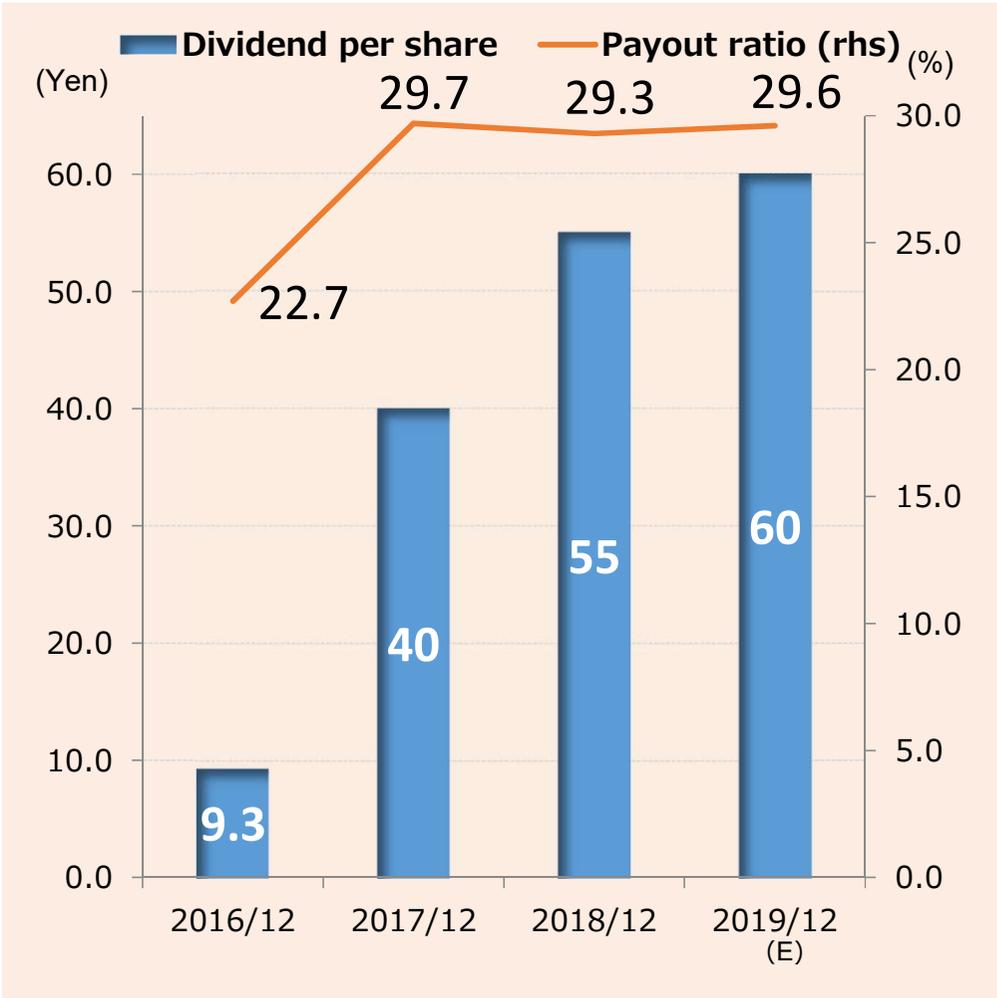
# Shareholder Distributions

- FY12/2018: Dividend paid: 55yen (Payout ratio 29.3%)
- FY12/2019: Estimated dividend: 60yen (Payout ratio 29.6%)

## Dividend Policy

The policy is maintain sufficient funds for R&D activities, strengthening manufacturing operations, starting new businesses and other requirements and to use remaining funds as much as possible for shareholder distributions.

The goal is consistent dividend payments with a **consolidated payout ratio of about 30%**.



\* There was a 1-to-1,000 share split on March 18, 2017 and a 1-to-3 share split on October 13, 2017. Earnings per share before 2017 have been adjusted to reflect these stock splits.

# Disclaimer, Precautions and Inquiries



This presentation was prepared by using assumptions based on economic, social and other conditions as of February 13, 2019 and the reasonable judgments of management. The information in this presentation may be revised without prior notice in the event of a change in the business climate or some other event.

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