

CMC CORPORATION (2185)

Consolidated FY (Million Yen)		Sales	OP	RP	NP	EPS (Yen)	DPS (Yen)	BPS (Yen)
FY09/2013		14,185	978	1,040	522	233.1	70.0	4,040
FY09/2014		16,039	1,466	1,570	906	399.1	80.0	4,282
FY09/2015CoE		16,879	1,478	1,524	909	392.6	80.0	-
FY09/2014	YoY	13.1%	49.9%	50.9%	73.5%	-	-	-
FY09/2015CoE	YoY	5.2%	0.8%	(2.9%)	0.2%	-	-	-
Consolidated Half Year (Million Yen)		Sales	OP	RP	NP	EPS (Yen)	DPS (Yen)	BPS (Yen)
Q1 to Q2 FY09/2014		8,119	715	757	481	-	-	-
Q3 to Q4 FY09/2014		7,920	750	812	425	-	-	-
Q1 to Q2 FY09/2015		8,595	896	940	534	-	-	-
Q3 to Q4 FY09/2015CoE		8,283	581	583	374	-	-	-
Q1 to Q2 FY09/2015	YoY	5.9%	25.2%	24.1%	11.1%	-	-	-
Q3 to Q4 FY09/2015CoE	YoY	4.6%	(22.5%)	(28.2%)	(12.1%)	-	-	-

Source: Company Data, WRJ Calculation

1.0 Executive Summary (10 June 2015)

Steady Auto-Related Sector

CMC, involved with marketing business mainly for auto-related sector, sees favorable earnings short-term. In regards to its expertise operations of planning, editing and producing manuals (user manuals, repair manuals, etc.), the Company sees steady increases in the number of projects domestically and overseas, contributing to sales and earnings for the Company a lot. As far as we could gather, merger with a competitor Maruboshi Group in January 2011 is one of the factors to have driven the increases overseas. The Company, having been involved also with support services for internal educations of sales representatives, sales promotions of the merchandises, etc. for customers belonging to auto-related sector, is now planning to horizontally expand knowhow, etc. earned in here to non-auto-related sector in a long-term view. In our rough estimates, auto-related sector accounts for 70% of sales and non-auto-related sector 30%, at the moment. The Company is trying to get at steady sales increases in both of them to drive earnings in a long-term view.

In Q1 to Q2 FY09/2015, sales came in at ¥8,595m (up 5.9% YoY), operating profit ¥896m (up 25.2%) and operating profit margin 10.4% (up 1.6% points). By business segment, Marketing Business saw sales ¥7,679m (up 6.2%) and segment profit ¥903m (up 18.3%), while sales ¥916m (up 3.1%) and segment profit ¥81m (up 100.7%) for System Development Business. In Marketing Business, having accounted for the bulk of the increases of collective segment profit for the Company, sales of customer support marketing, including operations of planning, editing and producing manuals for auto-related sector as the key constituents, came in at ¥4,407m (up 9.5%) to have driven sales of Marketing Business and thus sales of the Company as a

whole. Operations of planning, editing and producing of manuals are said to be those of the most value-added out of overall operations of the Company, implying they have contributed to earnings more substantially than in sales.

FY09/2015 initial Company forecasts have remained unchanged, calling for prospective sales ¥16,879m (up 5.2% YoY), operating profit ¥1,478m (up 0.8%) and operating profit margin 8.8% (down 0.4% points). Prospective dividend per share ¥80.0, implying payout ratio 20.4%, has also remained unchanged. Based on a conservative standing point, initial Company forecasts assume negative factors to come out, e.g., that negative impacts from consumption tax hike since April 2014 are to extend, that overseas economy may slow down, etc. Meanwhile, this has turned out to be too conservative in H1 (Q1 to Q2) results. Nevertheless, the Company believes that it is too early to upgrade full-year Company forecasts, as far as we could gather. That is to say, there are no negative factors to downgrade prospects in H2, but it just looks that prospects in H2 have been downgraded superficially and/or on a simple calculation basis.

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2.0 Company Profile

Planning, Editing and Producing Manuals for Auto-Related Sector

Company Name	CMC CORPORATION Website IR Information (Japanese) Share Price	
Established	25 May 1962	
Listing	4 December 2008: Tokyo Stock Exchange JASDAQ Standard (Ticker: 2185)	
Capital	¥593m (As of the end of March 2015)	
No. of Shares	2,318,500 shares, including 339 treasury shares (As of the end of March 2015)	
Main Features	<ul style="list-style-type: none"> ● Planning, editing and producing manuals (user manuals, repair manuals, etc.) as expertise operations ● Mainly exposed to automobile by sector and high share to supply a major domestic automobile manufacturer ● Supporting sales promotions, etc. of own customers, based on the use of own competent human resources with specialty skills 	
Businesses	<ul style="list-style-type: none"> . Marketing Business . System Development Business 	
Top Management	President & CEO: Yukiyasu Sasa	
Shareholders	Kayoko Sasa 20.2%, Kanji Hayashi 10.2%, ESOP 9.3% (As of the end of March 2015)	
Headquarters	Naka-ku, Nagoya, JAPAN	
No. of Employees	Consolidated: 817, Unconsolidated: 416 (As of the end of March 2015)	

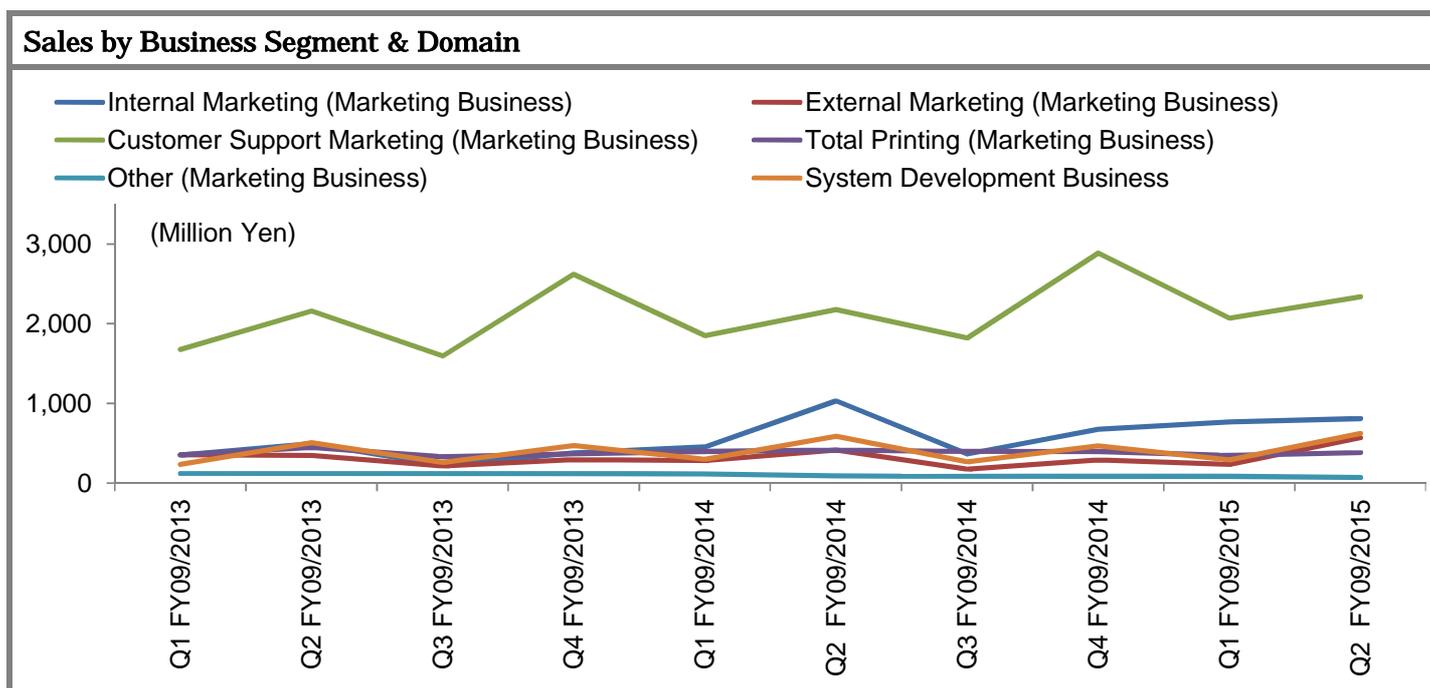
Source: Company Data

3.0 Recent Trading & Prospects

Q1 to Q2 FY09/2015 Results

In Q1 to Q2 FY09/2015, sales came in at ¥8,595m (up 5.9% YoY), operating profit ¥896m (up 25.2%), recurring profit ¥940m (up 24.1%) and net profit ¥534m (up 11.1%), while operating profit margin 10.4% (up 1.6% points).

Compared with initial Company forecasts, released on 10 November 2014, sales were better ¥572m (7.1%) and operating profit ¥423m (89.4%). Sales of the Company's expertise operations of planning, editing and producing manuals (user manuals, repair manuals, etc.) were better-than-expected and it was the key driver for substantial overshoots of earnings, as far as we could gather.



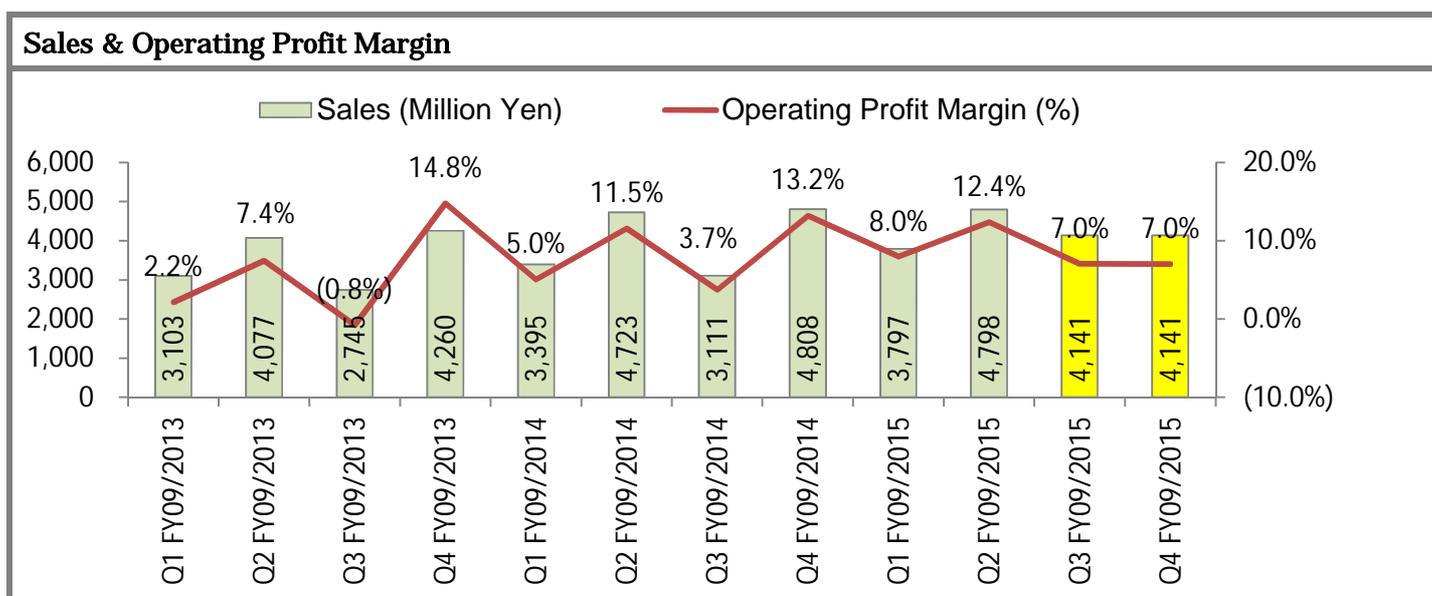
Source: Company Data, WRJ Calculation

The Company's business comprises two business segments, i.e., Marketing Business and System Development Business. Meanwhile, earnings of the Company heavily hinge on Marketing Business, in which the key business domain is customer support marketing. In here, the Company is involved with planning, editing and producing manuals (user manuals, repair manuals, etc.) mainly for automobile by sector. While user manuals are for car users and/or general consumers, repair manuals for engineers in car dealers, etc.

Sales of customer support marketing are far larger than the rest of business domains, while they are apt to be volatile, short-term. Volume and prices of projects for manuals, the key constituent in here, are directly in line with quantity and timing of changes and/or modifications for the contents, stemming from launch of new vehicles and model change by customers, i.e., manufacturers of automobile. On top of this, manuals for auto-related sector are highly valued added, being expertise operations of the Company as mentioned earlier. Thus, they have impacts to earnings as a whole for the Company more than in terms of sales. In recent trading, it appears that the Company saw changes and/or modifications for the contents of repair manuals more substantial than initially expected.

FY09/2015 Company Forecasts

FY09/2015 initial Company forecasts have remained unchanged, calling for prospective sales ¥16,879m (up 5.2% YoY), operating profit ¥1,478m (up 0.8%), recurring profit ¥1,524m (down 2.9%) and net profit ¥909m (up 0.2%), while operating profit margin 8.8% (down 0.4% points). Prospective dividend per share has also remained unchanged at ¥80.0, implying payout ratio 20.4%. The Company has a policy basically not to cut back dividend anyway and thus payout ratio based on Company forecasts is intentionally set at low level, as far as we could gather.



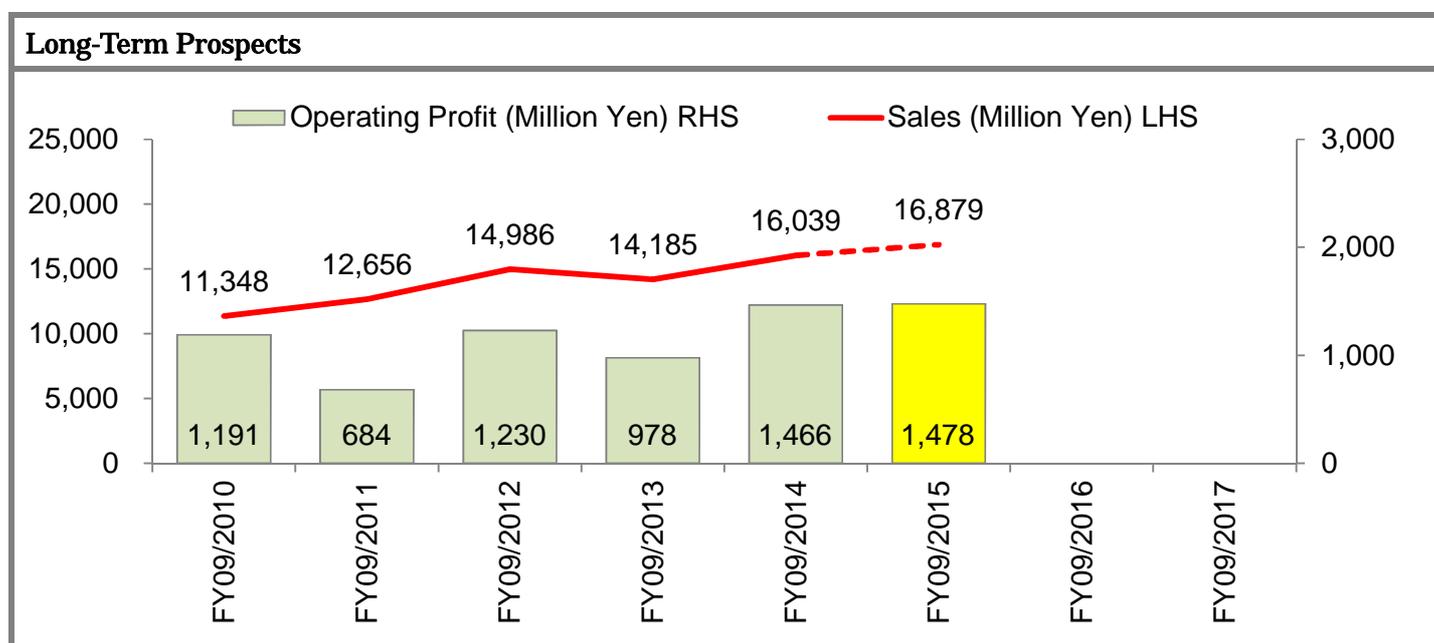
Source: Company Data, WRJ Calculation (Q3 and Q4 FY09/2015: half-year Company forecasts, pro rata)

As discussed earlier, while H1 (Q1 to Q2) results were better than expected, full-year Company forecasts have remained unchanged, having resulted in downgrade for prospects in H2 as much as overshoots in H1, superficially and/or on a simple calculation basis. Now, in H2, prospective sales ¥8,283m (up 4.6% YoY) and operating profit ¥581m (down 22.5%) are expected. More importantly, however, the reality is that this is nothing but a result from the Company's decision-making that it is too early to upgrade full-year Company forecasts, based on its reviews on various factors of the current situation. In other words, no unexpected negative factors are appearing in H2, as far as we could gather.

Meanwhile, as to be mentioned later, sales of the Company carry high marginal profit ratio and thus marginal changes of sales could have major impacts to earnings. In fact, this did take place in H1 (Q1 to Q2) as discussed. In regards to the Company's expertise operations of manuals for auto-related sector to create high value, the Company is the least exposed to variable costs and thus carrying the highest marginal profit ratio, as far as we could gather. As a result, it should be the case that Company forecasts are always supposed to be conservative.

Long-Term Prospects

Over the past five years, though FY09/2010 to FY09/2014, the Company saw increasing sales and operating profit as an underlying trend, although there were increases as well as decreases over the year in each year. Meanwhile, during the same period, net cash increased to ¥4,913m from ¥3,479m, having increased ¥287m pa on a simple average basis. This is what it should be in that the Company has maintained making money by means of utilizing own human resources to create value while rarely exposed to capital expenditures, etc.



Source: Company Data, WRJ Calculation

Going forward, the Company, aiming at sales enhancement and thus earnings both on auto-related sector and non-auto-related sector in a long-term view, is trying to get at efficient investments to do so while pursuing synergy, by taking advantage of net cash piling up. For example, the merger with Maruboshi Group, one of the competitors, in January 2011, suggests that mergers & acquisitions are one of the Company's strategies to be seriously considered to expand its business. Meanwhile, it is taken for granted that prospective earnings of the Company in a long-term view highly hinge on diverse details of future mergers & acquisitions, i.e., presence or absence for themselves, scale, presence or absence, period, method for goodwill, etc.

Meanwhile, in our estimates, sales ¥16,039m in FY09/2014 comprise, when SG&A expenses are all included in fixed costs, fixed costs (48.0% of total), variable costs (42.8%) and operating profit (9.1%). Thus, marginal profit ratio is 57.2%. Meanwhile, as far as the Company's business model is concerned, there is a substantial exposure to expenses for human resources in both fixed costs and variable costs in an effective sense, while hardly exposed to depreciation, etc., stemming from capital expenditures.

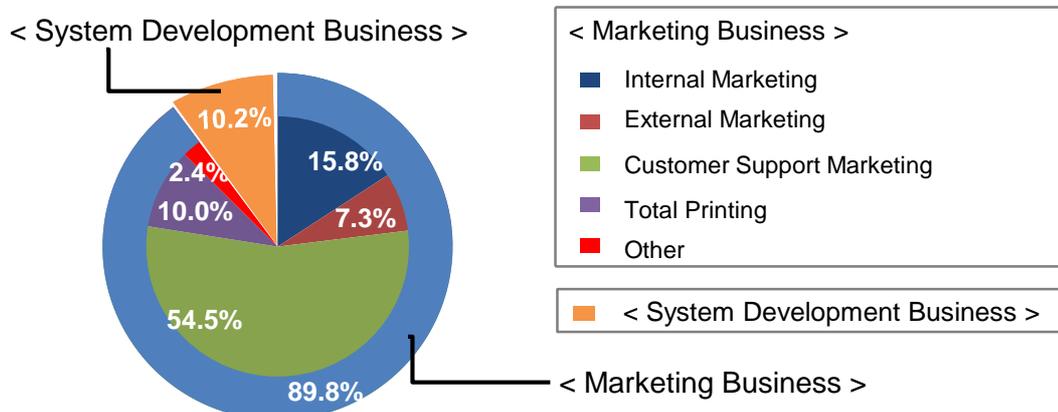
The bulk of variable costs for the Company is accounted for by subcontracting expenses. This mainly stems from the use of external subcontractors who are in charge of solving capacity constraints and helping the Company to enhance added value to be created by their own human resources. Thus, the bulk of variable costs is expenses for human resources in an effective sense. Meanwhile, added value to be created by the Company almost exclusively depends upon human resources with almost no positive impacts from assets like facilities and/or goods. In other words, "assets" for the Company are human resources.

4.0 Business Model

Planning, Editing and Producing Manuals

The Company's business comprises Marketing Business and System Development Business. In terms of FY09/2014 results, Marketing Business accounted for 89.8% of sales and 96.8% of segment profit, effectively having accounted for overall earnings for the Company. The key business domain in here is customer support marketing which mainly represents operations of planning, editing and producing manuals for auto-related sector. This business domain accounted for more than half of sales for the Company, i.e., 54.5%.

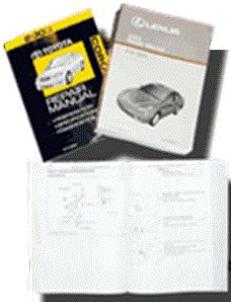
Sales Breakdown (FY09/2014 results)



Source: Company Data, WRJ Calculation

Meanwhile, the Company is so active in utilizing own human resources equipped with capability to read and understand technological information to be demanded for planning, editing and producing manuals for auto-related sector in own services to support internal educations and sales promotions for sales representatives of customers. Sales associated with the former are booked in internal marketing (sales composition ratio: 15.8%) and the latter external marketing (7.3%). In regards to total printing (10.0%), the Company sees sales associated with printing and bookbinding of manuals to have been planned and edited by the Company and/or by competitors. On the System Development Business side, the mainstay operations are contracted developments of software.

Manuals for Auto-Related Sector (Image Pictures)

		
<p>Manual editing image by self-developed application software, “Smart XML Creator”</p>	<p>Application-Cooperative Manual</p>	<p>Booklet Manual</p>

Source: Company Data

Disclaimer

Information here is a summary of “IR Information” of the Company, compiled by Walden Research Japan, from a neutral and professional standing point, in the form of a report. “IR Information” of the Company comprises a) contents of our interview with the Company, b) contents of presentations for institutional investors, c) contents of timely disclosed information and d) contents of the homepage, etc.

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