

## TOWA (6315)

Consolidated FY (Million Yen)	Sales	OP	RP	NP	EPS (Yen)	DPS (Yen)	BPS (Yen)	ROE (%)	Equity Ratio (%)
FY03/09	11,577	(3,337)	(3,677)	(4,163)	(166.5)	0.0	443.3	(26.1%)	41.4%
FY03/10	14,274	(338)	(345)	(330)	(13.2)	0.0	443.4	(2.9%)	42.0%
FY03/11CoE	22,500	3,600	3,500	3,400	135.9	10.0	-	30.2%	-
FY03/10 (YoY)	+23.3%	-	-	-	-	-	-	-	-
FY03/11 (YoY)	+57.6%	-	-	-	-	-	-	-	-
Consolidated Half Year (Million Yen)	Sales	OP	RP	NP	EPS (Yen)	DPS (Yen)	BPS (Yen)	ROE (%)	Equity Ratio (%)
Q1 to Q2 FY03/10	5,831	(867)	(1,037)	(979)	-	-	-	-	-
Q3 to Q4 FY03/10	8,443	529	692	649	-	-	-	-	-
Q1 to Q2 FY03/11	12,544	2,691	2,625	2,515	100.6	-	531.4	-	48.5%
Q3 to Q4 FY03/11CoE	9,956	909	875	885	-	-	-	-	-
Q1 to Q2 FY03/11 (YoY)	+115.1%	-	-	-	-	-	-	-	-
Q3 to Q4 FY03/11CoE (YoY)	+17.9%	+71.8%	+26.4%	+36.4%	-	-	-	-	-
Consolidated Quarterly (Million Yen)	Sales	OP	RP	NP	EPS (Yen)	DPS (Yen)	BPS (Yen)	ROE (%)	Equity Ratio (%)
Q1 FY03/10	2,641	(669)	(849)	(801)	-	-	-	-	-
Q2 FY03/10	3,190	(198)	(188)	(178)	-	-	-	-	-
Q3 FY03/10	3,538	109	209	183	-	-	-	-	-
Q4 FY03/10	4,905	420	483	466	-	-	-	-	-
Q1 FY03/11	5,317	941	993	950	-	-	-	-	-
Q2 FY03/11	7,227	1,750	1,632	1,565	-	-	-	-	-
Q1 FY03/11 (YoY)	+101.3%	-	-	-	-	-	-	-	-
Q2 FY03/11 (YoY)	+126.6%	-	-	-	-	-	-	-	-

Source: Company Data, WRJ Calculation

### 1.0 Executive Summary (24 December 2010)


#### A Recovery Expected in Q4

TOWA, the leading maker in the market for semiconductor molding equipment, saw favorable earnings recovery in Q1 to Q2 FY03/2011 results. Nevertheless, the order intake in Q2 (¥4.1bn) suffered from a sharp correction from Q1 order intake (¥9.0bn), while it seems the trend of correction has been going on, likely to lead to order intake of some ¥3.4bn in Q3. Still, the Company (i.e., TOWA) suggests a sequential recovery of order intake in Q4 over Q3, up to the levels in Q2 (¥4.1) or more. In the most recent order intake, another trend to be suggested is that the LED side is doing rather worse than expected, while the semiconductor side is doing rather better than expected. It could be discussed that the Company's order intake basically hinges on the trend of semiconductor capex (back-end) on a global basis, and thus that the levels of order intake are beyond the control by the Company to a large extent. In fact, having learned another lesson in the course of global economic recession, started in 2008, the Company has been reforming itself in order to set up "A Corporate Structure to Make No Deficit", even during the periods of order intake corrections, by means of carrying out full-fledged reductions in fixed costs. Now, after the trials so far since then, the Company spots that its break-even point is less than ¥16.0bn in terms of sales in FY03/2011 versus ¥21.0bn in FY03/2010. Another measure to set up "A Corporate Structure to Make No Deficit" is to make increasing exposure to markets other than semiconductors. For example, order intake with LED packaging equipment (based on technology of the Company's semiconductor molding equipment) started to surge in Q3 FY03/2010 in line with the surge in the market for LEDs. Thus, this was once expected to be the key driver to enhance

exposure to non-semiconductor markets with the Company, but order intake in Q2 FY03/2011 turned out to be of a massive correction. The current situation is that the Company waits and sees whether this correction is of one-off or not. Meanwhile, break-even point in FY03/2012 is set to rise from the levels in FY03/2011, as the latter incorporates some one-off factors to reduce the levels as a whole. In order to achieve any earnings growth in FY03/2012, the Company needs net increases in sales larger than certain levels.

## 2.0 Company Profile

### The Leader in the Market for Semiconductor Molding Equipment

<b>Company Name</b>	TOWA CORPORATION Company Information ( <a href="#">English</a> , <a href="#">Japanese</a> ) IR Information ( <a href="#">English</a> , <a href="#">Japanese</a> ) Share Price ( <a href="#">English</a> , <a href="#">Japanese</a> )	
<b>Established</b>	17 April 1979	
<b>Listing</b>	11 September 1996 (OSE1, TSE1: 6315)	
<b>Capital</b>	¥8,933m (As of the End of September 2010)	
<b>No. of Shares</b>	25,021,832 shares, including 8,713 treasury shares (As of the end of September 2010)	
<b>Main Features</b>	<ul style="list-style-type: none"> <li>● The leader in the market for semiconductor molding equipment, with a 40% market share on a global basis</li> <li>● Competitive with the manufacture of precision molds, while operating overseas production bases in China etc.</li> <li>● Involved with LED packaging equipment as well</li> </ul>	
<b>Segments</b>	I . Semiconductor Production Equipment II . Engineering Plastic Molded Products	
<b>Top Management</b>	Chairman & CEO Kazuhiko Bandoh, Vice Chairman Yoichi Kawahara and President & COO Hisao Nishimura	
<b>Shareholders</b>	KB Kosan Ltd. 7.9%, Japan Trustee Services Bank, Ltd. 7.7%, (As of the End of September 2010)	
<b>Headquarters</b>	Minami-ku, Kyoto, JAPAN	
<b>No. of Employees</b>	Consolidated: 939, Parent:448 (As of the End of September 2010)	

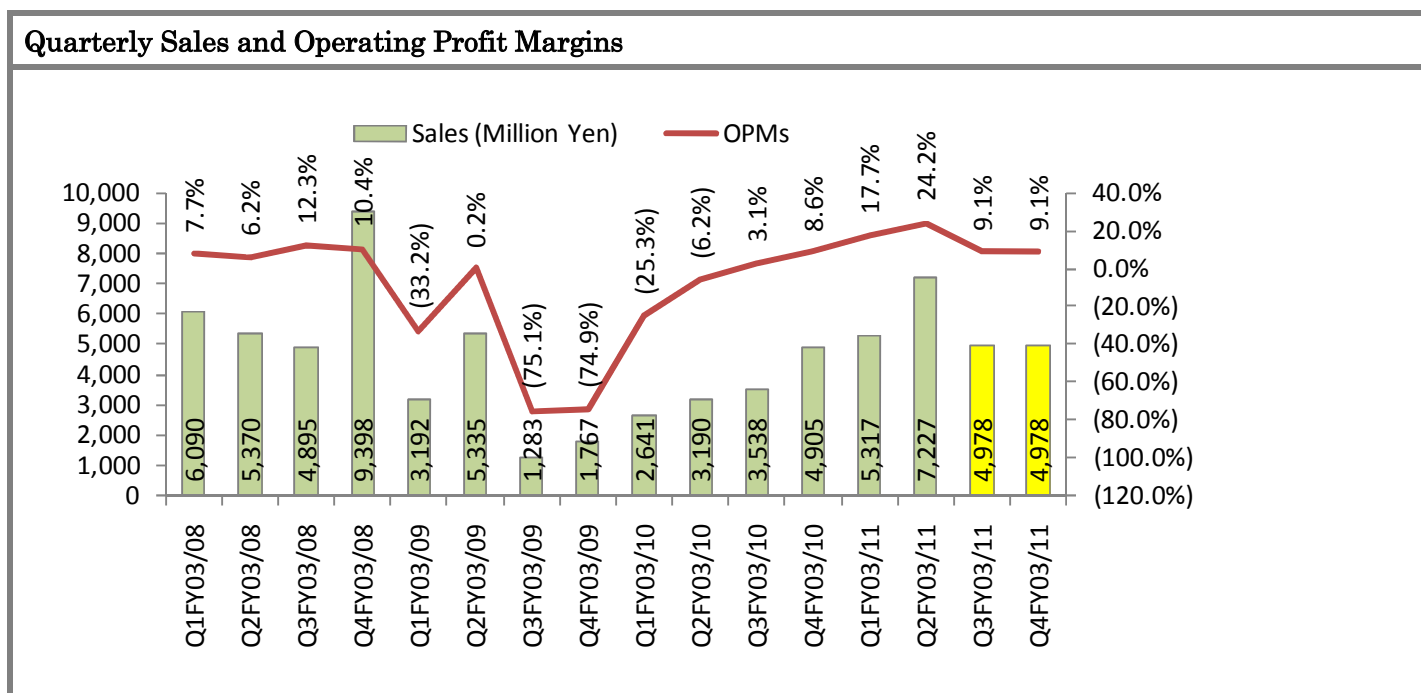
Source: Company Data

## 3.0 Recent Trading & Prospects

### Q1 to Q2 FY03/2011 Results

In Q1 to Q2 FY03/2011 results, sales came in at ¥12.5bn, operating profit ¥2.7bn, recurring profit ¥2.6bn and net profit ¥2.5bn. Company forecasts as of the release of Q1 results were exceeded by 4.5% (¥544m) in terms of sales and 41.6% (¥791m) in terms of operating profit. It could be the case that the assumptions on the cost side were conservative, given larger overshoots with operating profit than sales in terms of absolute value. When being viewed on a sequential basis through Q1 to Q2, sales increased from ¥5.3bn to ¥7.2bn, operating profit ¥0.9bn to ¥1.8bn and operating profit margins 17.7% to 24.2%, all nicely improving. The key clients, on the semiconductor side as well as on the LED side, all hurried to install new equipment to expand their productions, and thus the Company's sales associated with this expanded sharply. Combined with this, the fixed cost reduction measures have made a remarkable progress while capacity utilization

rates have gone up to very high levels, having resulted in such high operating profit margins 24.2% in Q2. On top of this, the Company, coping with increasing sales with no major new investments in own facilities while enhancing inventory turnover, sees favorable increases in net inflow in terms of free cash flow. Days for inventory turnover came in at 73 in Q2 versus 92 in FY03/2010, while net inflow, in terms of free cash flow based on our estimates, came in at ¥2.2bn in Q1 to Q2 FY03/2011 versus ¥1.8bn in FY03/2010. Such net inflow of cash is basically used to reduce exposure to interest-bearing debts, having resulted in ongoing decreases with net-debt-equity ratio: 38.8% as of the end of Q2 FY03/2011, coming down sharply from 69.1% as of the end of FY03/2010. The other thing is, when Q1 results were released, the Company upgraded its Company forecasts in FY03/2011 and announced to resume payments of dividends with shareholders, by paying ¥10.0 per share in FY03/2011. When Q2 results were released on 11 November, another upgrade for earnings came out, but prospective dividend per share remained unchanged, suggesting payout ratio 7.4% based on the most recent Company forecasts. Are such levels low, no doubts, when compared with the market average etc. The Company has an intention to clearly show a remarkable earning recovery from losses in FY03/2009 and FY03/2010 (with no dividend payments in those days) by resuming dividend payments, while the Company believes the further pursuit of lower interest-bearing debts outstanding should be advantageous with all the Company's stakeholders including shareholders. As a result, the resumption of dividend payments itself is an issue to be accomplished in FY03/2011. Payments of dividends based on the levels of net profit and/or shareholders' equity are expected to feed through in FY03/2012 and onward.



Source: Company Data, WRJ Calculation

**FY03/2011 Company Forecasts**

The Company is going for sales ¥22.5bn, operating profit ¥3.6bn, recurring profit ¥3.5bn and net profit ¥3.4bn in FY03/2011. When compared with the levels expected as of the release of Q1 results on 11 August, sale were upgraded by 2.3% (¥500m) and operating profit by 24.1% (¥700m). This upgrade is based on the Company's idea to reflect the overshoots at the stage of Q1 to Q2 results while making no effective changes in the assumptions for H2 FY03/2011, calling for sales ¥10.0bn, operating profit ¥1.0bn and operating profit margins 10.0%. When just simply divided into two quarters, the assumptions are sales ¥5.0bn, operating profit ¥0.5bn and operating profit margins 10.0%. Compared with such levels, sales were ¥7.2bn, operating

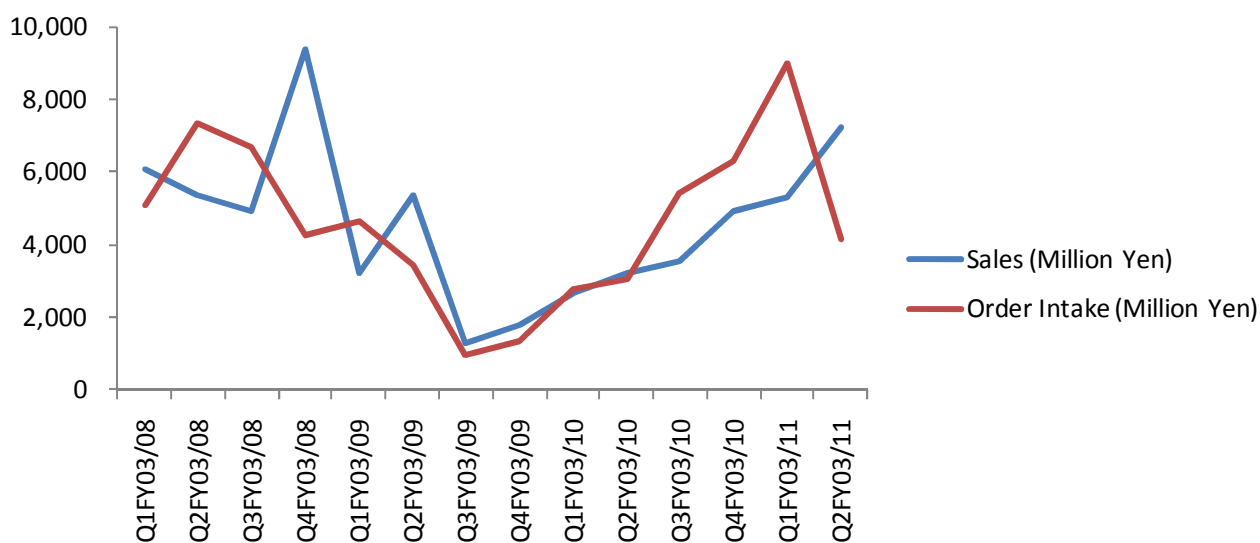
profit ¥1.8bn and operating profit margins 24.2% in the most recent quarterly results in Q2. Thus, prospective sales are supposed to suffer a large correction in H2 over H1, combined with deterioration with earnings. This is in line with a historical correction in terms of order intake: ¥4.1bn in Q2 from the peak of ¥9.0bn in Q1. Recent trading so far in Q3 suggests that the order intake in Q3 is likely to come in at some ¥3.4bn, implying another correction going on most recently. When assuming sales booking of some ¥5.0bn in Q3, the levels of order backlog would be some ¥5.0bn as of the end of Q3. Now, given that it takes some three months on average between booking order intake and booking sales with the Company, it should be the case that Company forecasts in FY03/2011 are just roughly met, almost regardless of the prospective levels of order intake in Q4. In other words, another earnings surprise is unlikely with the Company in FY03/2011. When the key issues with the Company are repeated here, the Company has been doing fixed cost reductions, tight inventory controls and the pursuit of net inflow of cash, all so seriously, together with all sort of numbers improved with the financial statements in reality. Still, it remains as the truth that the levels of prospective order intake or an external factor is the final determinant with overall prospective earnings with the Company.

#### Historical Changes in Company Forecasts

Consolidated FY (Million Yen)	Date	Event	Sales	OP	RP	NP
FY03/11CoE	13-May-10	4Q Results	20,000	1,000	900	800
FY03/11CoE	11-Aug-10	1Q Results	22,000	2,900	2,850	2,800
FY03/11CoE	11-Nov-10	2Q Results	22,500	3,600	3,500	3,400
	Amount of Gap		500	700	650	600
	Rate of Gap		2.3%	24.1%	22.8%	21.4%
Consolidated Half Year (Million Yen)	Date	Event	Sales	OP	RP	NP
Q1 to Q2 FY03/11CoE	13-May-10	4Q Results	10,000	500	450	400
Q1 to Q2 FY03/11CoE	11-Aug-10	1Q Results	12,000	1,900	1,900	1,900
Q1 to Q2 FY03/11Act	11-Nov-10	2Q Results	12,544	2,691	2,625	2,515
	Amount of Gap		544	791	725	615
	Rate of Gap		4.5%	41.6%	38.2%	32.4%
Consolidated Half Year (Million Yen)	Date	Event	Sales	OP	RP	NP
Q3 to Q4 FY03/11CoE	13-May-10	4Q Results	10,000	500	450	400
Q3 to Q4 FY03/11CoE	11-Aug-10	1Q Results	10,000	1,000	950	900
Q3 to Q4 FY03/11CoE	11-Nov-10	2Q Results	9,956	909	875	885
	Amount of Gap		(44)	(91)	(75)	(15)
	Rate of Gap		(0.4%)	(9.1%)	(7.9%)	(1.7%)

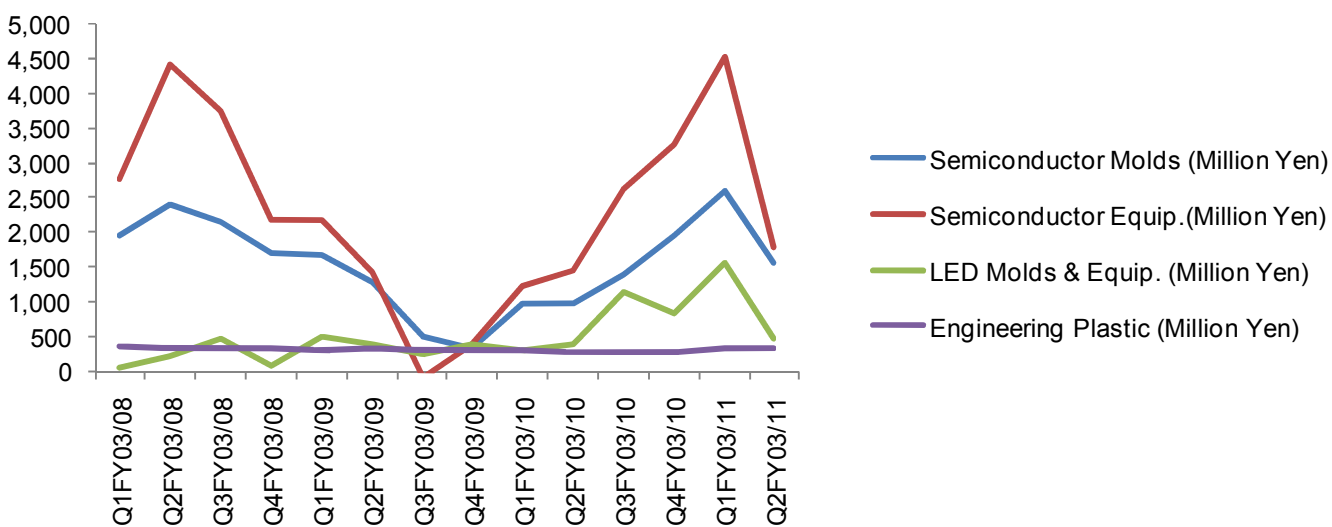
Source: Company Data, WRJ Calculation

### Quarterly Order Intake and Sales



Source: Company Data, WRJ Calculation

### Quarterly Order Intake by Product Category



Source: Company Data

### Income Statement (Quarterly, Cumulative)

Income Statement (Million Yen)	Cons.Act	Cons.Act	Cons.Act	Cons.Act	Cons.Act	Cons.Act	YoY
	Q1	Q1 to Q2	Q1 to Q3	Q1 to Q4	Q1	Q1 to Q2	Net Chg.
	03/2010	03/2010	03/2010	03/2010	03/2011	03/2011	
<b>Sales</b>	<b>2,641</b>	<b>5,831</b>	<b>9,369</b>	<b>14,275</b>	<b>5,317</b>	<b>12,544</b>	<b>+6,713</b>
CoGS	2,480	5,075	7,677	11,190	3,381	7,839	+2,764
Gross Profit	161	757	1,692	3,085	1,937	4,705	+3,949
SG&A	830	1,624	2,451	3,423	995	2,014	+390
<b>Operating Profit</b>	<b>(670)</b>	<b>(868)</b>	<b>(759)</b>	<b>(338)</b>	<b>941</b>	<b>2,692</b>	<b>+3,559</b>
Non Operating Balance	(180)	(170)	(70)	(7)	52	(66)	+103
<b>Recurring Profit</b>	<b>(850)</b>	<b>(1,037)</b>	<b>(828)</b>	<b>(345)</b>	<b>993</b>	<b>2,625</b>	<b>+3,663</b>
Extraordinary Balance	66	79	68	59	1	(6)	(84)
Pretax Profit	(784)	(959)	(761)	(286)	994	2,620	+3,578
Tax Charges etc.	(17)	(21)	36	44	(43)	(105)	(84)
<b>Net Profit</b>	<b>(801)</b>	<b>(979)</b>	<b>(797)</b>	<b>(330)</b>	<b>951</b>	<b>2,515</b>	<b>+3,494</b>
Sales YoY	-	-	-	-	+101.3%	+115.1%	-
Operating Profit YoY	-	-	-	-	-	-	-
Recurring Profit YoY	-	-	-	-	-	-	-
Net Profit YoY	-	-	-	-	-	-	-
Gross Profit Margins	6.1%	13.0%	18.1%	21.6%	36.4%	37.5%	-
(SG&A/Sales)	31.4%	27.9%	26.2%	24.0%	18.7%	16.1%	-
Operating Profit Margins	(25.4%)	(14.9%)	(8.1%)	(2.4%)	17.7%	21.5%	-
Recurring Profit Margins	(32.2%)	(17.8%)	(8.8%)	(2.4%)	18.7%	20.9%	-
Net Profit Margins	(30.3%)	(16.8%)	(8.5%)	(2.3%)	17.9%	20.0%	-
Tax Charges etc. / Pretax Profit	2.2%	2.1%	(4.8%)	(15.5%)	(4.3%)	(4.0%)	-

Source: Company Data, WRJ Calculation

### Capital Expenditure, Depreciation and R&D (Quarterly, Cumulative)

Capex, Depreciation and R&D (Million Yen)	Cons.Act	Cons.Act	Cons.Act	Cons.Act	Cons.Act	Cons.Act	YoY
	Q1	Q1 to Q2	Q1 to Q3	Q1 to Q4	Q1	Q1 to Q2	Net Chg.
	03/2010	03/2010	03/2010	03/2010	03/2011	03/2011	
Capital Expenditure	78	150	172	236	109	285	+135
Depreciation	320	639	979	1,309	286	577	(62)
R&D Expenditure	38	70	102	145	55	206	+136
Capex / Sales	3.0%	2.6%	1.8%	1.7%	2.0%	2.3%	-
Depreciation / Sales	12.1%	11.0%	10.4%	9.2%	5.4%	4.6%	-
R&D / Sales	1.4%	1.2%	1.1%	1.0%	1.0%	1.6%	-

Source: Company Data, WRJ Calculation

### Segmented Information (Quarterly, Cumulative)

Segmented Information (Million Yen)	Cons.Act	Cons.Act	Cons.Act	Cons.Act	Cons.Act	Cons.Act	YoY
	Q1	Q1 to Q2	Q1 to Q3	Q1 to Q4	Q1	Q1 to Q2	Net Chg.
	03/2010	03/2010	03/2010	03/2010	03/2011	03/2011	
Semiconductor Production Equipment	2,347	5,275	8,530	13,172	5,013	11,908	+6,632
Engineering Plastic Molded Products	294	556	839	1,103	304	637	+81
<b>Sales</b>	<b>2,641</b>	<b>5,831</b>	<b>9,369</b>	<b>14,275</b>	<b>5,317</b>	<b>12,544</b>	<b>+6,713</b>
Semiconductor Production Equipment	(726)	(964)	(901)	(517)	907	2,620	+3,584
Engineering Plastic Molded Products	56	96	142	179	34	72	(25)
<b>Operating Profit</b>	<b>(670)</b>	<b>(868)</b>	<b>(759)</b>	<b>(338)</b>	<b>941</b>	<b>2,692</b>	<b>+3,559</b>
Semiconductor Production Equipment	(30.9%)	(18.3%)	(10.6%)	(3.9%)	18.1%	22.0%	-
Engineering Plastic Molded Products	19.0%	17.3%	16.9%	16.2%	11.1%	11.2%	-
<b>Operating Profit Margins</b>	<b>(25.4%)</b>	<b>(14.9%)</b>	<b>(8.1%)</b>	<b>(2.4%)</b>	<b>17.7%</b>	<b>21.5%</b>	<b>-</b>

Source: Company Data, WRJ Calculation

### Cash Flow Statement (Quarterly, Cumulative)

Cash Flow Statement (Million Yen)	Cons.Act	Cons.Act	Cons.Act	Cons.Act	Cons.Act	Cons.Act	YoY
	Q1	Q1 to Q2	Q1 to Q3	Q1 to Q4	Q1	Q1 to Q2	YoY
	03/2010	03/2010	03/2010	03/2010	03/2011	03/2011	Net Chg.
Operating Cash Flow	49	739	1,452	2,494	1,203	2,605	+1,866
Investment Cash Flow	(354)	(319)	(237)	(291)	(89)	(238)	+80
<b>Operating CF + Investment CF</b>	<b>(306)</b>	<b>420</b>	<b>1,215</b>	<b>2,204</b>	<b>1,114</b>	<b>2,367</b>	<b>+1,947</b>
Financing Cash Flow	(1,184)	(1,710)	(2,005)	(2,733)	(1,189)	(2,564)	(854)
Pretax Profit	(784)	(959)	(761)	(286)	994	2,620	+3,578
Depreciation	321	639	980	1,309	286	577	(62)
Working Capital Changes	546	1,047	1,107	1,287	(144)	(799)	(1,845)
Tax Charges	(22)	(33)	(38)	(47)	(22)	(44)	(11)
Capital Expenditure	(326)	(394)	(414)	(470)	(31)	(110)	+283
<b>Free Cash Flow</b>	<b>(265)</b>	<b>301</b>	<b>873</b>	<b>1,793</b>	<b>1,083</b>	<b>2,244</b>	<b>+1,943</b>

Source: Company Data, WRJ Calculation

### Balance Sheet (Quarterly)

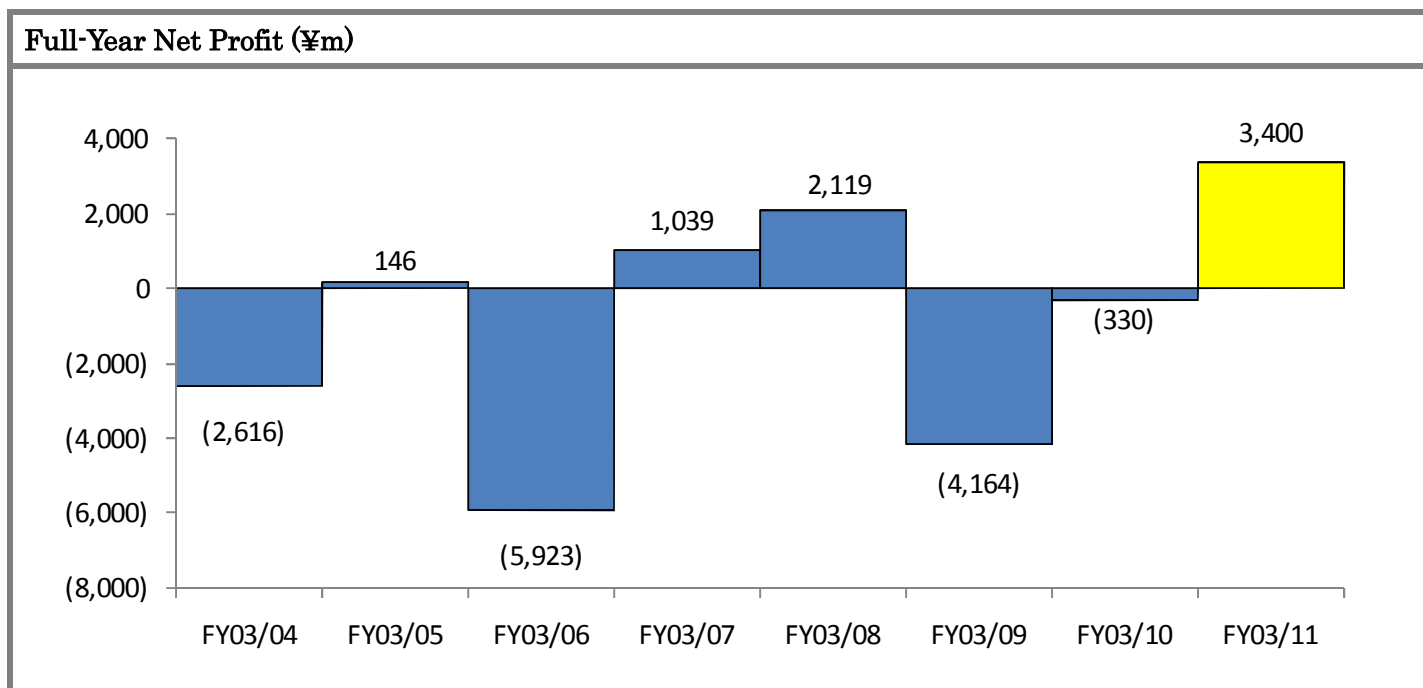
Balance Sheet (Million Yen)	Cons.Act	Cons.Act	Cons.Act	Cons.Act	Cons.Act	Cons.Act	YoY
	Q1	Q2	Q3	Q4	Q1	Q2	YoY
	03/2010	03/2010	03/2010	03/2010	03/2011	03/2011	Net Chg.
Cash & Deposit	2,926	3,071	3,626	3,897	3,696	3,751	+680
Accounts Receivables	3,552	3,870	4,542	5,623	6,202	7,523	+3,653
Inventories	4,231	3,397	3,094	2,807	3,202	3,155	(241)
Other	195	182	193	219	282	332	+150
<b>Current Assets</b>	<b>10,904</b>	<b>10,519</b>	<b>11,455</b>	<b>12,546</b>	<b>13,383</b>	<b>14,762</b>	<b>+4,243</b>
Tangible Assets	11,143	10,825	10,521	10,370	10,173	10,046	(779)
Intangible Assets	1,393	1,341	1,243	1,149	1,086	1,016	(325)
LT Investment Securities etc.	2,532	2,437	2,481	2,674	2,591	2,554	+117
<b>Fixed Assets</b>	<b>15,068</b>	<b>14,603</b>	<b>14,245</b>	<b>14,193</b>	<b>13,851</b>	<b>13,616</b>	<b>(987)</b>
<b>Total Assets</b>	<b>25,972</b>	<b>25,122</b>	<b>25,700</b>	<b>26,739</b>	<b>27,234</b>	<b>28,378</b>	<b>+3,256</b>
Accounts Payable	721	748	1,161	2,043	3,009	3,717	+2,969
Short Term Debt	7,248	7,159	7,721	7,362	6,745	5,650	(1,509)
Other	798	816	860	1,112	1,236	1,576	+761
<b>Current Liabilities</b>	<b>8,768</b>	<b>8,722</b>	<b>9,742</b>	<b>10,516</b>	<b>10,989</b>	<b>10,943</b>	<b>+2,221</b>
Long Term Debt	5,770	5,283	4,582	4,196	3,495	3,258	(2,025)
Other	915	917	905	935	890	885	(32)
<b>Fixed Liabilities</b>	<b>6,684</b>	<b>6,200</b>	<b>5,487</b>	<b>5,131</b>	<b>4,384</b>	<b>4,143</b>	<b>(2,057)</b>
<b>Total Liabilities</b>	<b>15,452</b>	<b>14,922</b>	<b>15,229</b>	<b>15,647</b>	<b>15,373</b>	<b>15,087</b>	<b>+164</b>
<b>Shareholders' Equity</b>	<b>10,770</b>	<b>10,592</b>	<b>10,774</b>	<b>11,241</b>	<b>12,192</b>	<b>13,756</b>	<b>+3,164</b>
(Adjusted Shareholders' Equity)	10,519	10,200	10,471	11,091	11,860	13,291	+3,091
Other	(251)	(392)	(303)	(149)	(332)	(464)	(72)
<b>Net Assets</b>	<b>10,519</b>	<b>10,200</b>	<b>10,471</b>	<b>11,092</b>	<b>11,860</b>	<b>13,292</b>	<b>+3,092</b>
<b>Total Liabilities &amp; Net Assets</b>	<b>25,972</b>	<b>25,122</b>	<b>25,700</b>	<b>26,739</b>	<b>27,234</b>	<b>28,378</b>	<b>+3,256</b>
Interest Bearing Debt	13,018	12,442	12,303	11,557	10,239	8,908	(3,534)
Net Debt	10,092	9,370	8,677	7,660	6,543	5,156	(4,214)
Total Assets Turnover	0.41	0.46	0.49	0.53	0.78	0.88	-
Inventory Turnover	2.3	3.0	3.3	4.0	4.2	5.0	-
Days of Inventory Turnover	156	122	110	92	86	73	-
Quick Ratio	74%	80%	84%	91%	90%	103%	-
Current Ratio	124%	121%	118%	119%	122%	135%	-
Equity Ratio	41.5%	42.2%	41.9%	42.0%	44.8%	48.5%	-
Net Debt Equity Ratio	95.9%	91.9%	82.9%	69.1%	55.2%	38.8%	-

Source: Company Data, WRJ Calculation

## Long-Term Prospects

In the Company's Second Long-Term Plan (FY03/2010 to FY03/2012), announced on 20 April 2009, prospective sales and recurring profit were, respectively, ¥15.0bn and ¥0.5bn in FY03/2011. At present, Company forecasts are going for, respectively, ¥22.5bn and ¥3.5bn in FY03/2011, and thus the Company is running well ahead of the Plan. The key factor for the overshoots is that the external environment has been better than expected. The Company's sales and earnings have a tendency to be driven by the volatility of silicon cycle. When FY03/2011 is the year of "peak" for silicon cycle, FY03/2012 or FY03/2013 should be the year of "bottom". Assuming that a cycle with the Company in the history starts with a turnaround to net profit from net losses in terms of annual performance, the last cycle started in FY03/2007 and ended in FY03/2010, having had suffered from cumulative net losses of ¥1.3bn during the same periods. This means that the Company failed to realize cumulative net profit (making losses of ¥1.3bn, instead) in a cycle based on the Company's business model, and the shareholders' equity was lost as much as the losses here. The Company, having considered this so seriously, implemented a changeover in top management as well as full-fledged fixed cost reduction measures, targeting to set up a structure to see some net profit even in the periods of "bottom" (the establishment of "Corporate Structure to Make No Deficit"), in a long-term view. According to the Company, break-even point was ¥20.0bn in FY03/2009 in terms of sales, ¥21.0bn in FY03/2010, while ¥18.0bn used to be expected in FY03/2011. So far in FY03/2011, it has been noticed that variable cost ratio to sales showed a trend to be smaller than expected (marginal profitability higher than expected), resulting in a prospect that break-even point would be ¥16.0bn or less in FY03/2011. Just simply speaking, a sharp pickup in demand for the Company's main products in Q1 FY03/2011 led to a shortage of supply, eventually resulting in smaller-than-expected negative impacts from pricing pressure. At the moment, such an issue is difficult to expect to reappear in FY03/2012, while extended suspension of regular compensation with managing directors is unlikely to persist in FY03/2012. Given these factors, break-even point is heading for the levels over ¥16.0bn in FY03/2012. Meanwhile, the trend of order intake, which is of external factor to a large extent, determines the levels of sales then eventually the levels of earnings, combined with the levels of break-even point. Based on the environment at the moment, it may be a touch too optimistic that sales and earnings in FY03/2012 are to be larger than equivalents in FY03/2011, while the Company's task is to set up "Corporate Structure to Make No Deficit". It is not quite appropriate for investors to measure the performance of the Company, highly exposed to silicon cycle, on an annual basis. The Company's performance should be measured on a few year basis, i.e., in a cycle based on the Company's business model where the period of "Peak" and "Bottom" are both included. As of the end of FY03/2010, the Company is exposed to some in-taxation losses carried-forward, and thus it takes three to four years for taxation to get normalized. After the normalization, the rate of tax with the Company is likely to be some 40% but this should be effectively nothing prior to the normalization.





Source: Company Data

## 4.0 Business Model



### Leading the Market for Semiconductor Molding

The mainstay business with the Company is to develop and manufacture semiconductor molding equipment and precision molds used in conjunction with the equipment. On this business, the Company holds the leading market share as much as 40% (CY2009 results) on a global basis (although ASM Pacific Technology, catching up with the Company, enhancing its share up to 23%). In particular, the Company holds overwhelming 70% share in Taiwan, and semiconductor production volume trends etc. in there are one of the key factors with this business and thus overall trading with the Company. “Molding” is one of the indispensable operations belonging to so-called “back-end” process for semiconductor production or encapsulating semiconductor chips with plastic etc. The Company’s “Multi-Plunger Design (The 2<sup>nd</sup> generation molding technology)” had turned out to be far superior to the conventional 1<sup>st</sup> generation equivalent in terms of a) automation capability, b) molding quality and c) efficiency in the use of resins, and the facts like these were an explosive for the Company to enhance its market share in its history. More recently, the Company well succeeded in the changeover to the 3<sup>rd</sup> generation technology of “Compression Molding”, and it maintained or even enhanced its competitiveness among peers, having resulted in the overwhelming market share to date.

### Advents of Non-Semiconductor Businesses

To date, it has remained unchanged that the Company’s earnings heavily depend upon the sentiment in the market for semiconductors, but the Company is trying to increase its exposure to non-semiconductor businesses, gradually reducing its exposure to semiconductors. For example, “Compression Molding” is adopted as the key technology for the Company’s LED packaging equipment & precision molds, while sales associated with them increased its contribution to overall sales in line with the expansion of the market for LEDs. When compared with Potting and other methods, the Company’s “Compression Molding” enables a dramatic cost cut in some specific applications and the market growth of the applications have been driving sales with the Company. “Specific applications”, typically, include backlights adopted in flat panel TVs and mobile PCs. In here, the suppliers are supposed to provide the customers with solutions like miniaturization

of packaged LEDs, efficient attachment of lenses and adoptions of ceramic boards for the sake of pursuit for higher brightness etc. The Company's LED packaging equipment & precision molds, based on "Compression Molding", provide the LED makers with the best solutions in all those respects, and peers with the same capability do not exist. It should be said, when focusing on this point, that the Company has 100% market share. A large maker in Korea is still using Potting method in the packaging of TV-use LEDs while this method is applied in the bulk of packaging for LEDs for general lighting. The Company is trying to enhance sales associated with LEDs by replacing such markets by suggesting adoptions of own technology like miniaturization, higher brightness etc. However, the Company is inevitably suffering from the most recent oversupply of TV-use LEDs. The number of LEDs adopted by TV is coming down, while the markets for the final products or flat panel TVs are correcting in China and USA. Given such trends, the most recent order intake associated with LEDs is correcting sharply, and thus the prospects associated with LEDs are not as convincing as before.

"Y1R"	"FFT1030W"
	
<p>Semiconductor molding equipment, capable of short-term delivery as well as processing of diversified products, with high reliability.</p>	<p>LED packaging equipment, suitable for processing of diversified products with small lot, based on the Company's proprietary liquid resin (silicone) handling technology.</p>

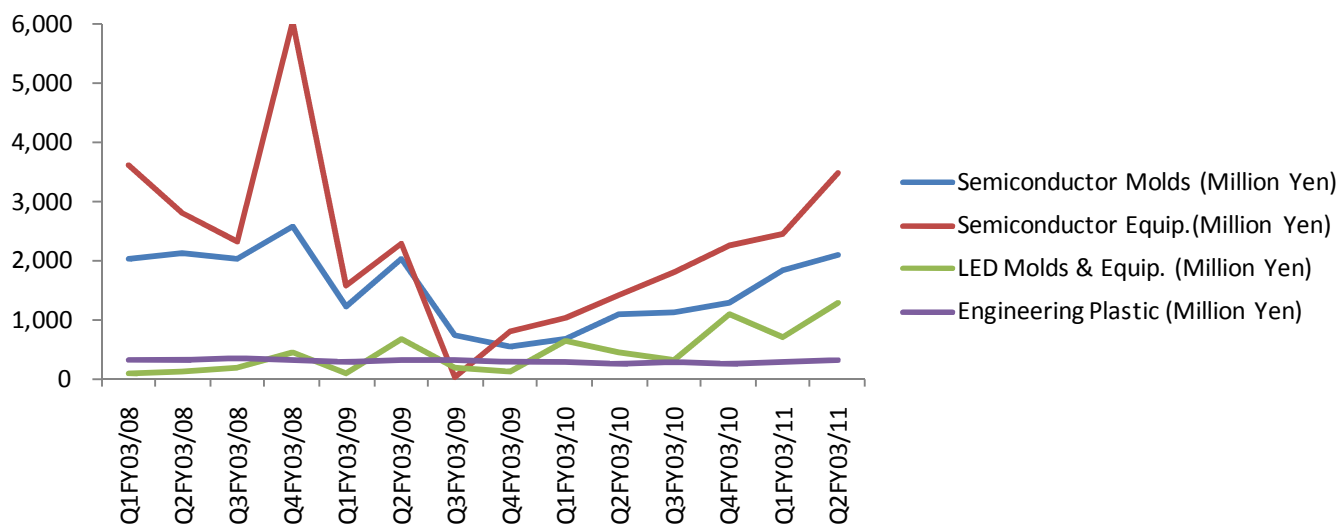
Source: Company Data

### Sales by Product Category

In terms of results in Q2 FY03/2011, sales comprised a) Semiconductor Molds 29% (mainly for semiconductor molding equipment), b) Semiconductor Equip. 48% (mainly semiconductor molding equipment, as well as singulation equipment), c) LED Molds & Equip. 18% and d) Engineering Plastic 5% (consulting-based development and manufacture of resin products for a medical company). Demand for a) Semiconductor Molds depends upon that of the shipment of new equipment as well as that of repeat orders with existing equipment at customers, and thus sales are relatively stable. On the other hand, sales of b) Semiconductor Equip. purely depend upon the trends of new capex among customers, and it could be the case that sales are effectively nothing as in Q3 FY03/2009 and that the sales are exceptionally high as in Q4 FY03/2008. While the Company manufactures a) Semiconductor Molds with machine tools etc., b) Semiconductor Equip. mainly relates to assembly of procured components, and thus profitability of a) Semiconductor Molds is higher than b) Semiconductor Equip. Sales of c) LED Molds & Equip. have been volatile on a quarterly basis, but its sequential trends used to suggest that sales were sequentially going up, given lower end of sales, on a quarterly basis, sequentially getting higher. Most recently, however, order intake is slowing down sharply, having made its prospects less convincing than before. The other thing is that c) LED Molds & Equip. appears to be more profitable than on the semiconductor side, together with

their even higher competitiveness in the market than on the semiconductor side. As for d) Engineering Plastic, the Company is heavily involved with a specific customer, and it used to see stable sales and profitability. Most recently, however, there is a trend of profitability deterioration, probably due to intensifying pricing pressure.

### Quarterly Sales by Product Category

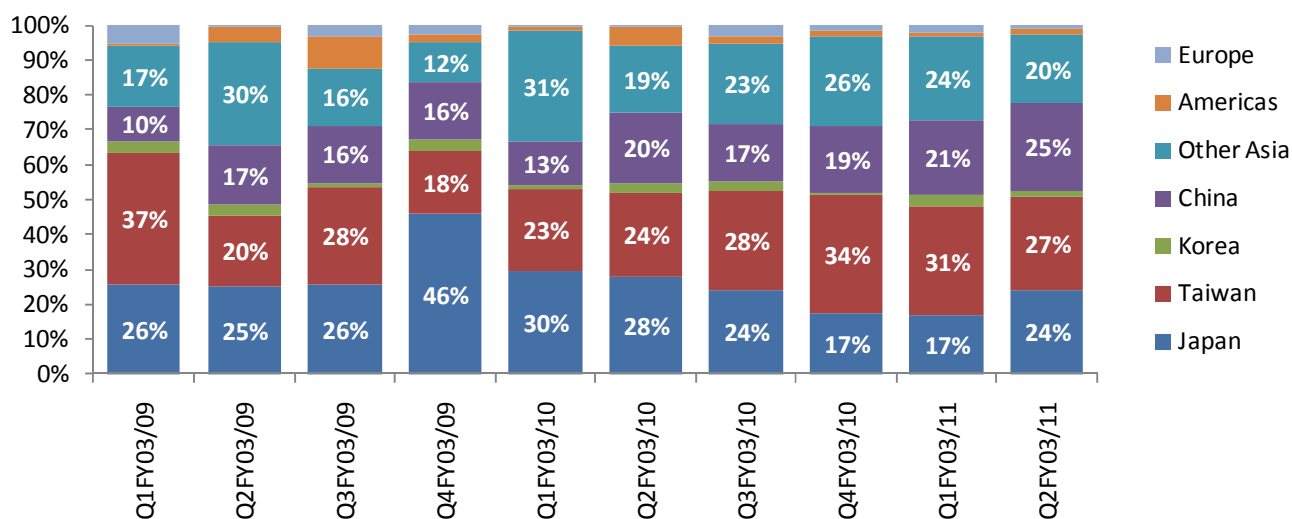


Source: Company Data

### Sales by Region

In terms of results in Q2 FY03/2011, sales in Japan accounted for 24% of total sales, Taiwan 27%, China 25% and other Asia 20%. Collective sales in Korea, Americas and Europe accounted for only 4%. In terms of sales by region, the Company has the largest exposure to Taiwan where it holds overwhelming 70% market share as mentioned earlier. In Taiwan where “Horizontal Specialization” is established for semiconductor production, the Company’s customers are all so-called “assembly houses” or companies dedicating themselves to back-end semiconductor production processes. The Company is the first vendor with almost all the major assembly houses in Taiwan, supplying molding equipment and molds with them. To a large extent, these assembly houses are in charge of the assembly on behalf of IDMs (Integrated Device Manufacturers) based in Americas and Europe. Thus, the Company has a limited exposure to sales in Americas and Europe. Still, the Company aggressively continues marketing to IDMs based in Americas and Europe as this is essential to maintain and enhance supply share with assembly houses in Taiwan who are placed orders with SPE makers with a high respect to technological suggestions from their customers including those of major IDMs based in Americas and Europe. Finally, sales in Korea also look small here. This is because of the fact that the Company has a joint operation with a local IDM in Korea, and that this operation is reflected in the Company’s accounts as an equity-method affiliate (sales not reflected here in Sales by Region). Therefore, effective sales in Korea are larger than indicated here.

## Quarterly Sales by Region



Source: Company Data

## Production Bases

The Company has collective 10 production bases, four in Japan and six overseas. The former includes those of Yamanashi, Kyoto (two bases) and Saga, and they almost dedicate themselves to the manufacture of precision molds. An exception relates to the manufacture of engineering plastic molded products in Yamanashi. Although the manufacture of precision molds has been automated to a large extent, the Company is trying to develop new technology to materialize further efficiency. The Company used to have a plan to set up a new base adjacent to the existing base in Saga in the pursuit of further production capacity, but this has been officially suspended. Here is the Company's measure materialized that it should keep the levels of any additional investments to the minimal levels by means of improving efficiency. Meanwhile, the assembly of equipment is effectively all carried out in its overseas bases in China (three) and Korea (two) and Malaysia (one) where wages are relatively lower than Japan, as there is a limited room for the pursuit of new technology on the assembly side.

## 5.0 Financial Statements

### Income Statement

Income Statement (Million Yen)	Cons.Act	Cons.Act	Cons.Act	Cons.Act	Cons.Act	Cons.CoE	
	FY 03/2006	FY 03/2007	FY 03/2008	FY 03/2009	FY 03/2010	FY 03/2011	YoY Net Chg.
<b>Sales</b>	<b>19,641</b>	<b>25,160</b>	<b>25,754</b>	<b>11,578</b>	<b>14,275</b>	<b>22,500</b>	<b>+8,225</b>
CoGS	17,278	19,455	18,220	10,680	11,190	-	-
Gross Profit	2,363	5,705	7,533	898	3,085	-	-
SG&A	5,376	4,481	5,152	4,235	3,423	-	-
<b>Operating Profit</b>	<b>(3,013)</b>	<b>1,224</b>	<b>2,381</b>	<b>(3,337)</b>	<b>(338)</b>	<b>3,600</b>	<b>+3,938</b>
Non Operating Balance	234	65	(255)	(340)	(7)	(100)	-
<b>Recurring Profit</b>	<b>(2,779)</b>	<b>1,290</b>	<b>2,126</b>	<b>(3,677)</b>	<b>(345)</b>	<b>3,500</b>	<b>+3,845</b>
Extraordinary Balance	(3,219)	(57)	39	(383)	59	-	-
Pretax Profit	(5,998)	1,233	2,164	(4,060)	(286)	-	-
Tax Charges etc.	(75)	194	46	103	44	-	-
<b>Net Profit</b>	<b>(5,923)</b>	<b>1,039</b>	<b>2,119</b>	<b>(4,164)</b>	<b>(330)</b>	<b>3,400</b>	<b>+3,730</b>
Sales YoY	(18.5%)	+28.1%	+2.4%	(55.0%)	+23.3%	+57.6%	-
Operating Profit YoY	-	-	+94.5%	-	-	-	-
Recurring Profit YoY	-	-	+64.8%	-	-	-	-
Net Profit YoY	-	-	+104.0%	-	-	-	-
Gross Profit Margins	12.0%	22.7%	29.3%	7.8%	21.6%	-	-
(SG&A/Sales)	27.4%	17.8%	20.0%	36.6%	24.0%	-	-
Operating Profit Margins	(15.3%)	4.9%	9.2%	(28.8%)	(2.4%)	16.0%	-
Recurring Profit Margins	(14.1%)	5.1%	8.3%	(31.8%)	(2.4%)	15.6%	-
Net Profit Margins	(30.2%)	4.1%	8.2%	(36.0%)	(2.3%)	15.1%	-
Tax Charges etc. / Pretax Profit	1.2%	15.8%	2.1%	(2.5%)	(15.5%)	-	-

Source: Company Data, WRJ Calculation

### Segmented Information

Segmented Information (Million Yen)	Cons.Act	Cons.Act	Cons.Act	Cons.Act	Cons.Act	Cons.CoE	
	FY 03/2006	FY 03/2007	FY 03/2008	FY 03/2009	FY 03/2010	FY 03/2011	YoY Net Chg.
Semiconductor Production Equipment	18,480	23,628	24,440	10,361	13,172	-	-
Engineering Plastic Molded Products	1,161	1,532	1,314	1,217	1,103	-	-
<b>Sales</b>	<b>19,641</b>	<b>25,160</b>	<b>25,754</b>	<b>11,578</b>	<b>14,275</b>	<b>22,500</b>	<b>+8,225</b>
Semiconductor Production Equipment	(3,156)	1,037	2,185	(3,465)	(517)	-	-
Engineering Plastic Molded Products	143	187	196	128	179	-	-
<b>Operating Profit</b>	<b>(3,013)</b>	<b>1,224</b>	<b>2,381</b>	<b>(3,337)</b>	<b>(338)</b>	<b>3,600</b>	<b>+3,938</b>
Semiconductor Production Equipment	(17.1%)	4.4%	8.9%	(33.4%)	(3.9%)	-	-
Engineering Plastic Molded Products	12.3%	12.2%	14.9%	10.5%	16.2%	-	-
<b>Operating Profit Margins</b>	<b>(15.3%)</b>	<b>4.9%</b>	<b>9.2%</b>	<b>(28.8%)</b>	<b>(2.4%)</b>	<b>16.0%</b>	<b>-</b>

Source: Company Data, WRJ Calculation

### Per Share Data

Per Share Data	Cons.Act	Cons.Act	Cons.Act	Cons.Act	Cons.Act	Cons.CoE	
(Before Adjustments for Split)	FY	FY	FY	FY	FY	FY	YoY
(Yen)	03/2006	03/2007	03/2008	03/2009	03/2010	03/2011	Net Chg.
No. of Shares (Thousand) FY End	24,022	25,022	25,022	25,022	25,022	-	-
Net Profit / EPS (Thousand)	21,493	24,970	25,014	25,014	25,019	25,013	-
Treasury Stocks (Thousand) FY End	6	6	8	8	9	-	-
Earnings Per Share	(275.6)	41.6	84.7	(166.5)	(13.2)	135.9	-
Earnings Per Share (Fully Diluted)	-	-	-	-	-	-	-
Book Value Per Share	541.4	597.3	655.4	443.3	443.4	-	-
Dividend Per Share	0.0	5.0	10.0	0.0	0.0	10.0	-
Payout Ratio	0.0%	12.0%	11.8%	0.0%	0.0%	7.4%	-

Per Share Data	Cons.Act	Cons.Act	Cons.Act	Cons.Act	Cons.Act	Cons.CoE	
(After Adjustments for Split)	FY	FY	FY	FY	FY	FY	YoY
(Yen)	03/2006	03/2007	03/2008	03/2009	03/2010	03/2011	Net Chg.
Stock Split Factor	1.00	1.00	1.00	1.00	1.00	-	-
Earnings Per Share	(275.6)	41.6	84.7	(166.5)	(13.2)	135.9	-
Book Value Per Share	541.4	597.3	655.4	443.3	443.4	-	-
Dividend Per Share	0.0	5.0	10.0	0.0	0.0	10.0	-

Source: Company Data, WRJ Calculation

### Cash Flow Statement

Cash Flow Statement	Cons.Act	Cons.Act	Cons.Act	Cons.Act	Cons.Act	Cons.CoE	
(Million Yen)	FY	FY	FY	FY	FY	FY	YoY
	03/2006	03/2007	03/2008	03/2009	03/2010	03/2011	Net Chg.
Operating Cash Flow	(166)	1,895	2,587	607	2,494	-	-
Investment Cash Flow	(1,548)	252	(1,084)	(1,491)	(291)	-	-
<b>Operating CF + Investment CF</b>	<b>(1,714)</b>	<b>2,147</b>	<b>1,503</b>	<b>(884)</b>	<b>2,204</b>	-	-
Financing Cash Flow	2,233	(2,203)	(1,948)	1,972	(2,733)	-	-
Pretax Profit	(5,998)	1,233	2,164	(4,060)	(286)	-	-
Depreciation	1,349	1,145	1,228	1,315	1,309	-	-
Working Capital Changes	955	(581)	3	3,303	1,287	-	-
Tax Charges	(166)	(224)	(89)	(47)	(47)	-	-
Capital Expenditure	(1,240)	(587)	(1,369)	(1,438)	(470)	-	-
<b>Free Cash Flow</b>	<b>(5,100)</b>	<b>985</b>	<b>1,938</b>	<b>(927)</b>	<b>1,793</b>	-	-

Source: Company Data, WRJ Calculation

### Capital Expenditure, Depreciation and R&D

Capex, Depreciation and R&D	Cons.Act	Cons.Act	Cons.Act	Cons.Act	Cons.Act	Cons.CoE	
(Million Yen)	FY	FY	FY	FY	FY	FY	YoY
	03/2006	03/2007	03/2008	03/2009	03/2010	03/2011	Net Chg.
Capital Expenditure	1,079	663	1,508	1,296	236	550	+314
Depreciation	1,349	1,144	1,227	1,315	1,309	1,300	(9)
R&D Expenditure	564	356	747	266	145	300	+155
Capex / Sales	5.5%	2.6%	5.9%	11.2%	1.7%	2.4%	-
Depreciation / Sales	6.9%	4.5%	4.8%	11.4%	9.2%	5.8%	-
R&D / Sales	2.9%	1.4%	2.9%	2.3%	1.0%	1.3%	-

Source: Company Data, WRJ Calculation

## Balance Sheet

Balance Sheet (Million Yen)	Cons.Act	Cons.Act	Cons.Act	Cons.Act	Cons.Act	Cons.CoE	
	FY 03/2006	FY 03/2007	FY 03/2008	FY 03/2009	FY 03/2010	FY 03/2011	YoY Net Chg.
Cash & Deposit	3,589	3,542	3,351	4,399	3,897	-	-
Accounts Receivables	8,725	8,617	9,871	3,313	5,623	-	-
Inventories	5,400	5,391	4,053	4,872	2,807	-	-
Other	580	163	375	220	219	-	-
<b>Current Assets</b>	<b>18,294</b>	<b>17,713</b>	<b>17,650</b>	<b>12,804</b>	<b>12,546</b>	-	-
Tangible Assets	13,748	12,596	11,932	11,372	10,370	-	-
Intangible Assets	696	607	1,153	1,441	1,149	-	-
LT Investment Securities etc.	3,864	4,010	3,625	2,333	<b>2,674</b>	-	-
<b>Fixed Assets</b>	<b>18,309</b>	<b>17,213</b>	<b>16,710</b>	<b>15,145</b>	<b>14,193</b>	-	-
<b>Total Assets</b>	<b>36,602</b>	<b>34,926</b>	<b>34,360</b>	<b>27,950</b>	<b>26,739</b>	-	-
Accounts Payable	3,405	2,535	2,931	549	2,043	-	-
Short Term Debt	9,865	8,070	7,798	10,797	7,362	-	-
Other	1,854	2,232	2,115	1,203	1,112	-	-
<b>Current Liabilities</b>	<b>15,124</b>	<b>12,837</b>	<b>12,844</b>	<b>12,548</b>	<b>10,516</b>	-	-
Long Term Debt	7,076	5,924	4,106	3,463	4,196	-	-
Other	1,400	1,225	1,016	849	935	-	-
<b>Fixed Liabilities</b>	<b>8,476</b>	<b>7,148</b>	<b>5,122</b>	<b>4,312</b>	<b>5,131</b>	-	-
<b>Total Liabilities</b>	<b>23,599</b>	<b>19,985</b>	<b>17,966</b>	<b>16,860</b>	<b>15,647</b>	-	-
<b>Shareholders' Equity</b>	<b>13,003</b>	<b>13,969</b>	<b>15,962</b>	<b>11,571</b>	<b>11,241</b>	-	-
(Adjusted Shareholders' Equity)	13,003	14,941	16,394	11,089	11,091	-	-
Other	0	972	433	(482)	(149)	-	-
<b>Net Assets</b>	-	-	<b>16,394</b>	<b>11,090</b>	<b>11,092</b>	-	-
<b>Total Liabilities &amp; Net Assets</b>	<b>36,602</b>	<b>34,926</b>	<b>34,360</b>	<b>27,950</b>	<b>26,739</b>	-	-
Interest Bearing Debt	16,941	13,993	11,903	14,259	11,557	-	-
Net Debt	13,352	10,451	8,552	9,860	7,660	-	-
ROA (Net Profit / Total Assets)	(15.4%)	2.8%	6.1%	(12.1%)	(1.2%)	12.7%	-
ROE (Net Profit / Adj.S.E.)	(37.0%)	8.0%	14.2%	(25.4%)	(3.0%)	30.7%	-
Total Assets Turnover	0.54	0.72	0.75	0.41	0.53	-	-
Inventory Turnover	3.2	3.6	4.5	2.2	4.0	-	-
Days of Inventory Turnover	114	101	81	166	92	-	-
Quick Ratio	81%	95%	103%	61%	91%	-	-
Current Ratio	121%	138%	137%	102%	119%	-	-
Equity Ratio	35.5%	40.0%	46.5%	41.4%	42.0%	-	-
Net Debt Equity Ratio	102.7%	69.9%	52.2%	88.9%	69.1%	-	-

Source: Company Data, WRJ Calculation

## 6.0 Other

### Founded in 1979

It was April 1979, when the current Chairman Kazuhiko Bandoh (born in 1935) set up TOWA Precision Industries Limited or the former entity of the Company as the president. Prior to this, Mr. Bandoh worked with a local precision mold company based in Kyoto. He is still the effective top shareholder with a collective 15.9% holding of the Company, when shares held by his assets management company etc. are all included (in the most recent data as of the end of September 2010). In 1980, he succeeded in the development of innovated semiconductor molding system based on the proprietary multi-plunger mold design, and this has been the key source of the Company's growth in its history. More recently, Mr. Hisao Nishimura (born in 1951) was appointed as the president & COO on 1 April 2010. He used to work with a local bank based in Kyoto, and then joined with the Company in 2003 as the head of accounting and then appointed as a director in 2005. As the new president of the Company, he believes his main tasks he has to carry out in the near future comprise a) establishment of stable financial background as well as of corporate structure where the Company would not suffer losses even when sales come down, b) combining development activities and sales & marketing and c) eventually appointing the next-generation leader out of the trueborn TOWA men after his trials for the selection. In fact, he has been working on these three tasks for a while, and now he is starting to do so, officially as the president. His measures appeared to have worked out well throughout the course of difficulties as a result of "Lehman Shock", in H2 FY03/2009 (October 2008 to March 2009).



## Company History

Date	Events
Apr 1979	With an initial group of 30 employees, Chairman Kazuhiko Bandoh founded TOWA Precision Industries Limited to manufacture and market “precision molds” and “semiconductor production equipment”. Started production at a temporary factory site in Yawata, Kyoto, and opened the Tokyo Office at the same time.
Feb 1980	Developed the world’s first fully automatic mold packaging system based on the multi-plunger mold design. The development opened the way to the mass production of high quality semiconductor devices on a molding front.
Feb 1987	Chairman Bandoh received the "Invention Grand Award" (Shirai Invention Prize) from the Japan Invention Society and the Nikkankogyo Shinbun for his invention of the multi-plunger molding system.
Sep 1996	TOWA Corporation became a publicly traded company on the Kyoto Stock Exchange and the Second Section of the Osaka Securities Exchange.
Mar 1998	Completed construction of new Headquarters/Factory in the Minami Ward of Kyoto City, and relocated operations to the new facility.
Apr 1998	Chairman Bandoh received the Ministry of Science and Technology Director's Award for the "invention of the multi-plunger mold design".
Dec 1998	Received ISO 9001 certification for the Headquarters/Factory and Kyoto East Plant. Established the Kyushu Factory (presently Kyushu Work) in Saga Prefecture, Kyushu.
May 1999	Chairman Bandoh received the Yellow Ribbon Award from the Prime Minister of Japan for his "invention of the multi-plunger mold design".
Mar 2000	Received ISO 9001 certification for the Kyushu Factory (presently Kyushu Work).
Sep 2000	Promoted from the Second Section to the First Section of the Osaka Securities Exchange.
Nov 2000	Listed on the First Section of the Tokyo Stock Exchange.
Mar 2001	Received ISO 14001 certification for the Headquarters/Factory.
Mar 2002	Received ISO 14001 certification for Kyoto East Plant, Kyushu Plant and Tokyo Office (presently Kyushu Work and Tokyo Sales Office).

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### Disclaimer

Based on “IR Information” of the Company, Walden Research Japan worked on an analysis of the Company from a neutral and professional standing point, and the results are described here in this report. “IR Information” of the Company comprises a) contents of our interview, b) contents of presentations for institutional investors, c) contents of timely disclosed information and d) contents of the homepage.

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