

## ODELIC (6889)

Consolidated Fiscal Year (Million Yen)		Sales	OP	RP	NP	EPS (Yen)	DPS (Yen)	BPS (Yen)
FY03/2012		25,131	1,142	1,185	1,181	196.1	25.0	2,749
FY03/2013		30,178	2,525	2,602	1,532	254.4	50.0	2,987
FY03/2014CoE		36,000	4,500	4,550	2,800	464.8	100.0	-
FY03/2013	YoY	20.1%	121.0%	119.4%	29.7%	-	-	-
FY03/2014CoE	YoY	19.3%	78.2%	74.8%	82.7%	-	-	-
Consolidated Half Year (Million Yen)		Sales	OP	RP	NP	EPS (Yen)	DPS (Yen)	BPS (Yen)
Q1 to Q2 FY03/2013		13,522	914	964	556	-	-	-
Q3 to Q4 FY03/2013		16,655	1,610	1,638	975	-	-	-
Q1 to Q2 FY03/2014CoE		16,400	1,800	1,830	1,120	-	-	-
Q3 to Q4 FY03/2014CoE		19,600	2,700	2,720	1,680	-	-	-
Q1 to Q2 FY03/2014CoE	YoY	21.3%	96.8%	89.8%	101.3%	-	-	-
Q3 to Q4 FY03/2014CoE	YoY	17.7%	67.6%	66.0%	72.2%	-	-	-

Source: Company Data, WRJ Calculation

### 1.0 Executive Summary (24 June 2013)

#### Ensuring Market Share

ODELIC, one of the three major players of residential-use LED lighting, is likely to maintain and/or enhance its share in the market for LED lighting, enabling itself to benefit from future growth in the market. The strengths with the Company have a lot to do with its established capability of quick-delivery supply for diversified lighting products through own sales channels, as far as the mainstay residential-use LED lighting, accounting for 70% of sales with the Company, is concerned. Meanwhile, the Company, specializing in lighting products, had no less than 49.8% exposure to those of LEDs in terms of sales in FY03/2013. That is to say, the Company has a high exposure to fast-growing market for LED lighting, together with distinguished competitiveness, generating a major driver for prospective earnings in a long-term view. According to mid-term management plan, the Company goes for prospective sales ¥40,000m, operating profit ¥5,500m and operating profit margin 13.8% in FY03/2016.

In FY03/2013, sales came in at ¥30,178m (up 20.1% YoY), operating profit ¥2,525m (up 121.0%) and operating profit margin 8.4% (up 3.8% points). While housing starts favorably increased 6.2% from the previous year, LED lighting whose selling prices are more than 1.4 times compared with existing equivalents was adopted far more often than before. As a result, average unit selling prices rose, resulting in high growth in sales with the Company. Given high exposure to fast-growing LED lighting, the Company is seeing increasing market share in the market for domestic lighting products, while it appears the Company maintains or marginally enhances its share in regards to LED lighting where competition is fierce. In spite of fierce competition, the Company almost maintained its gross profit margin (36.8%, down 0.3% points), while the ratio of SG&A expenses to sales came down (28.4%, down 4.1% points) due to surging sales,

eventually having resulted in improving operating profit margin and surging earnings with the Company.

Expanding demand for LED lighting is largely driven by replacement for fluorescent lighting. This will be the case with the Company and thus sales of fluorescent lighting are to come down, as a proportion to total sales. As a result, average unit selling prices with the Company are to rise, as in FY03/2013, going forward, which will be the key driver for sales with the Company in a long-term view. Meanwhile, this is unlikely to make improvements in product mix, as the Company suggests there is a limited gap for gross profit margin among difference products and this will be the case, going forward, as well.

IR Representative: Corporate Planning, General Manager, Yutaka Tanaka ([ytanaka@odelic.co.jp](mailto:ytanaka@odelic.co.jp))

## 2.0 Company Profile

### One of The Three Major Players of Residential-use LED Lighting

<b>Company Name</b>	ODELIC CO., LTD. <a href="#">Company Website</a> <a href="#">IR Information(Japanese only)</a> <a href="#">Share Price</a>	
<b>Established</b>	14 June 1951	
<b>Listing</b>	1 November 1996 JASDAQ (Ticker: 6889)	
<b>Capital</b>	¥3,106m (as of the end of March 2013)	
<b>No. of Shares</b>	7,611,000 shares, including 1,587,128 treasury (as of the end of March 2013)	
<b>Main Features</b>	<ul style="list-style-type: none"> <li>● Independently marketing own brand residential-use lighting, across Japan</li> <li>● Surging highly-value-added LED lighting devices</li> <li>● In the process of developing overseas markets for globalization</li> </ul>	
<b>Businesses</b>	I . “Manufacture and Sale of Lighting Products & Peripherals”	
<b>Top Management</b>	President & CEO : Masato Ito	
<b>Shareholders</b>	Treasury Shares 20.9%, AMASE Create Co. Ltd. 8.2% (as of the end of March 2013)	
<b>Headquarters</b>	Suginami-ku, Tokyo JAPAN	
<b>No. of Employees</b>	Consolidated: 589, Unconsolidated :424 (as of the end of March 2013)	

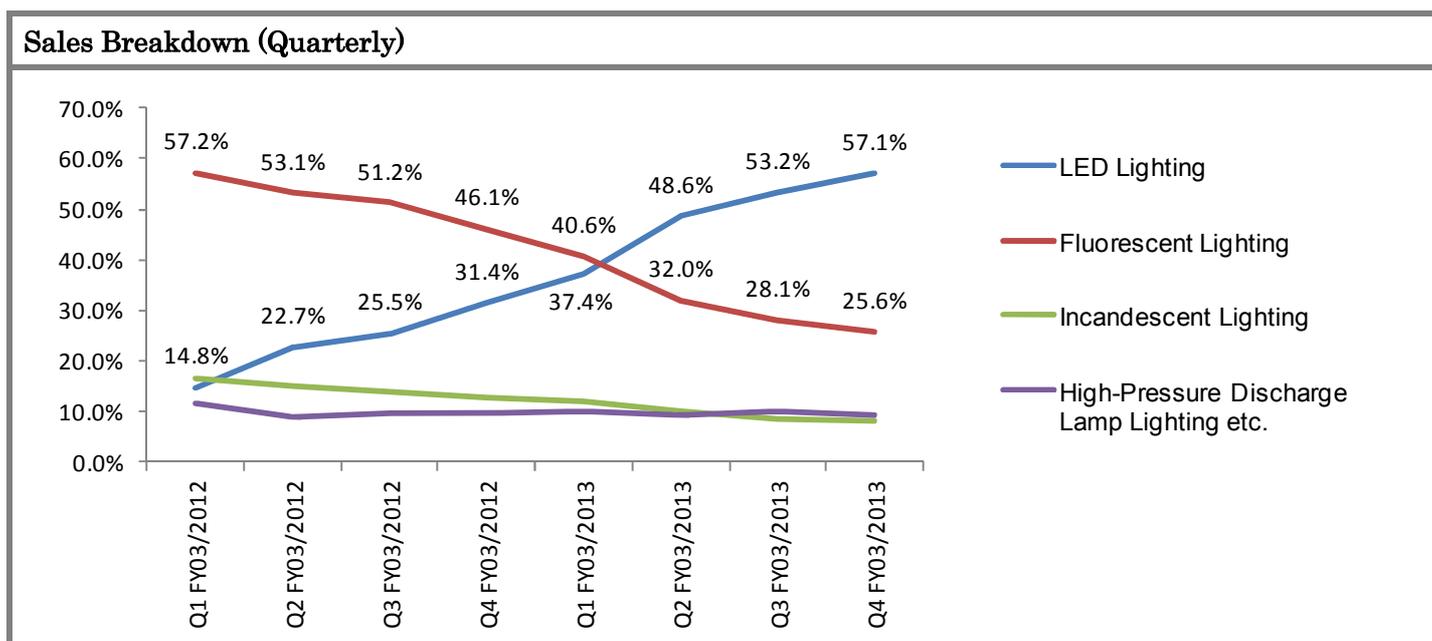
Source: Company Data

## 3.0 Recent Trading & Prospects

### FY03/2013 Results

In FY03/2013, sales came in at ¥30,178m (up 20.1% YoY), operating profit ¥2,525m (up 121.0%), recurring profit ¥2,602m (up 119.4%) and net profit ¥1,532m (up 29.7%). Company forecasts, revised up, on 6 February, were exceeded 5.2% at the operating level, due mainly to smaller-than-expected expenses associated with inventory write-offs etc. In regards to LED lighting, sales came in at ¥15,037m (up 147.0%). This business accounted for sequentially increasing proportion of overall sales with the Company, as in 37.4% in Q1, 48.6% in Q2, 53.2% in Q3 and 57.1% in Q4. Eventually, this business accounted for 49.8% of sales in FY03/2013 versus ¥24.2% in FY03/2012, doubling from the previous year.

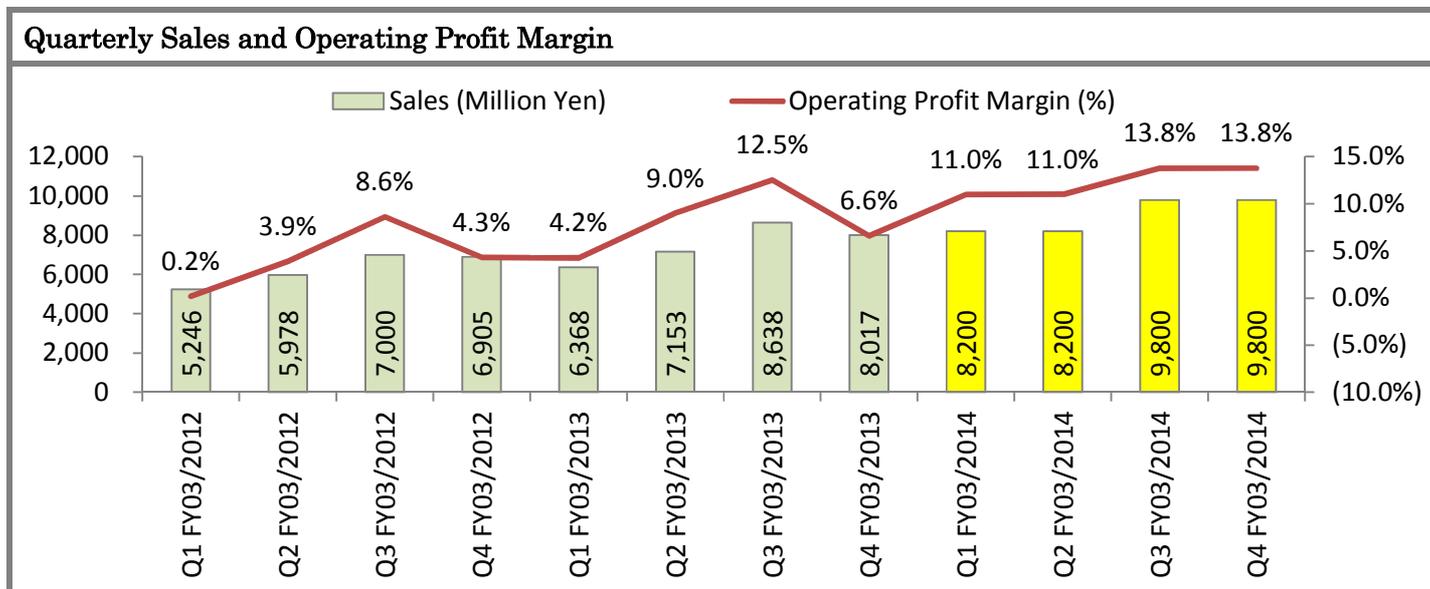
As the bulk of CoGS relates to procurement, the Company is exposed to variable costs to a large extent and thus gross profit margin and sales growth rates do not correlate very much. Gross profit margin over the past five years ranged from 36.3% to 37.2%, while 34.5% to 38.1% on a quarterly basis over the past two years, suggesting almost stable levels on an annual basis while some volatility on a quarterly basis in the history. It could be presumed that sales equates to CoGS, combined with a certain level of intended added-value (=gross profit), while this appears to materialize across the board. As far as we can see, this is not an exception for LED lighting where competition is fierce due to their high growth potential in the future. The strengths with the Company are, even so, that it maintains or marginally enhances market share, while almost maintaining gross profit margin.



Source: Data, WRJ Calculation

#### FY03/2014 Company Forecasts

In FY03/2014, Company forecasts are going for prospective sales ¥36,000m (up 19.3% YoY), operating profit ¥4,500m (up 78.2%), recurring profit ¥4,550m (up 74.8%) and net profit ¥2,800m (up 82.7%). Meanwhile, dividend per share is planned at ¥100.0, implying payout ratio 21.5%, doubling from ¥50.0, implying payout ratio 19.7%, in FY03/2013.



Source: Data, WRJ Calculation (Quarterly forecasts in FY03/2014, based on half year Company forecasts pro rata)

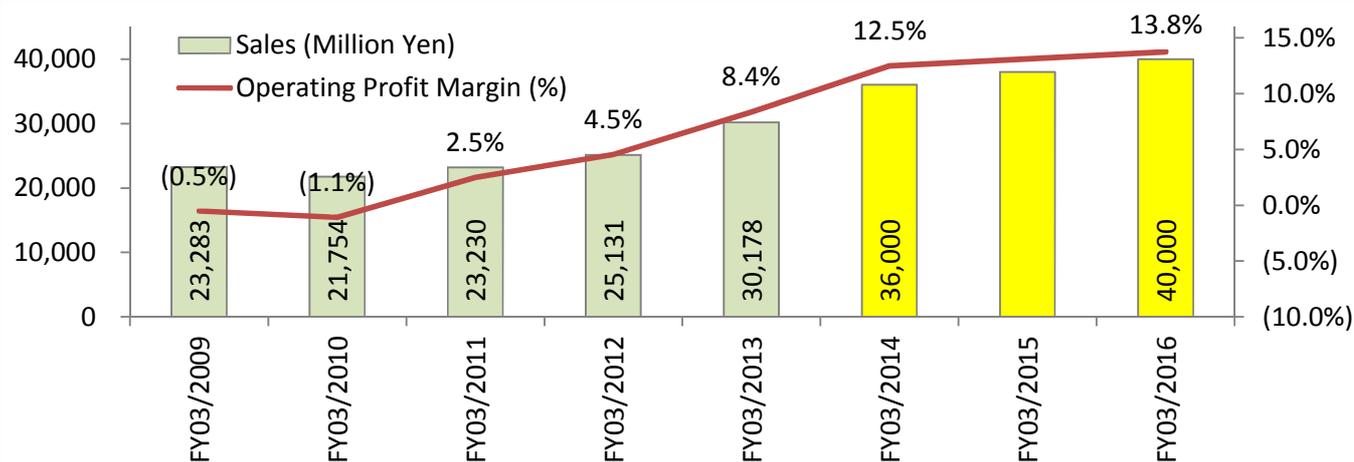
Sales are expected to be driven by ongoing increases in demand for LED lighting. It appears that LED lighting is anticipated to account for some 70% of sales versus 49.8% in FY03/2013. The Company is to manufacture so diversified LED lighting products in its consolidated subsidiary Yamagata Odelic Co., Ltd. which accounts for some 60% of overall production of lighting products, while this consolidated subsidiary is expected to play an important role for logistics with the Company. By means of making progresses in diversification of lineups for lighting products to cope with diversified customer needs, while pursuing further efficiency in logistics, the Company is aiming at enhancement of own competitiveness in the market for LED lighting, although competition will remain fierce.

Meanwhile, operating profit margin is expected to improve up to 12.5% (up 4.1% points), substantially contributing to surging earnings. Operating profit margin once contracted to 6.6% in Q4 FY03/2013, but this is due mainly to one-off adjustments in gross profit margin, while this is unlikely to reappearing in FY03/2014. Thus, it appears that prospective gross profit margin in FY03/2014 is to rise, albeit not much. In FY03/2013, payments of incentive rebates to direct purchasers rose (¥250m) unexpectedly, given unexpectedly increased sales, having given negative impacts to gross profit margin in Q4. In regards to the ratio of SG&A expenses to sales, further decreases are expected to feed through in line with further increases in sales, contributing to further improvements in operating profit margin.

#### Long-Term Prospects

The Company came up with mid-term management plan (FY03/2014 to FY03/2016), while releasing FY03/2013 results at a time (10 May 2013). The Company goes for prospective sales ¥40,000m, operating profit ¥5,500m and net profit ¥3,500m in the last year, i.e., FY03/2016. Taking into account that sales and earnings are to rise sharply in FY03/2014 Company forecasts, as discussed earlier, prospective sales growth rates are to slow down to 5.4% pa in terms of CAGR in FY03/2015 and FY03/2016, while improvements of operating profit margin will be limited.

## Long-Term Prospects



Source: Company Data, WRJ Calculation

Sales are expected to be driven by ongoing replacement of fluorescent lighting by expensive LED lighting, as in the current situations. Sales of LED lighting are expected to account for 80% of sales with the Company in FY03/2016 versus 49.8% in FY03/2013. Another important assumption is that rush demand prior to consumption tax rates hike is expected to drive housing starts as well as sales with the Company in FY03/2014, while a bounce effect from here will be unavoidable in FY03/2015. Thus, sales growth rates after FY03/2014 are expected to decelerate.

As well known, it has been decided by the Cabinet that consumption tax rates will be raised up to 8% from 5% in April 2014 and up to 10% from 8% in April 2015. It appears that the mid-term management plan assumes only the former, while reality will be influenced by more integrated impacts from the both, although it may be too early to predict the impacts at the moment.

## 4.0 Business Model

### Specializing in Lighting Products

The Company is a specialized maker of lighting products. It is suggested that residential-use accounts for 70% of sales in terms of applications, while exposure to LED lighting was 49.8% in terms of sales by product in FY03/2013. According to the Company's estimates, the domestic market for lighting products to which the Company is exposed equated to ¥640,000m (up 15.1% YoY), having risen nicely from the previous year. Investments in contraction were favorable across the board, including residences, stores, commercial facilities, while consumers' growing preference to save power and energy enhanced sales of lighting products incorporating LEDs, having resulted in steady shipment amount increases in the market as a whole. Given a background like this, the Company, highly exposed to LED lighting, increased its overall market share up to 4.7% from 4.5% in the previous year, while it appears that the Company maintained or marginally increased its market share in regards to LED lighting.

### Market Shipment Amount, The Company's Market Share



Source: Company Data, WRJ Calculation

The domestic shipment amount of lighting products ¥640,000m in FY03/2013 comprises residential 35%, commercial facilities & stores 30%, office building 25% and outdoor 10% in terms of applications. 70% exposure to residential-use for the Company implies that the Company's exposure here is high as one of the characteristics compared with peers. Out of the major participants in the market, there are two peers that have high exposure to residential-use and are heavily involved with LED lighting at a time, just like the Company, i.e., Panasonic Corporation (overall market share 31.0%) which is the largest in the market and Koizumi Lighting Technology Corp. (6.0%). Thus, the three major players of residential-use LED lighting comprise the Company and these two companies.

As far as the Company is concerned, distribution of own lighting products for final users, i.e., general consumers often goes through the stages as follows: from the Company to electrical material wholesalers, to electrical work operators, to house makers and/or house builders and eventually to final users. Final users here relate to consumers who would like solutions to quickly procure 30 to 40 units of lighting products, all coping with personal preferences, to be adopted in their new detached house, for example. Thus, it is crucial for sales with the Company whether the Company has capability to provide appropriate solutions with them or not. Indeed, this is so crucial when it is reviewed that it is effectively impossible to differentiate products among the three major players, for example, by any characteristics including prices.

While the Company has been persistently keen on marketing to house makers and/or house builders which directly speak to final users, it never fails to make corporate efforts to improve lineups for own lighting products and to improve efficiency in production and logistics for minimizing time for delivery in order to provide aforementioned solutions. Just because this is decently successful, the Company sees increasing market share, while almost maintaining gross profit margin.

LED Lighting Products	
<b>Ceiling Light</b> 	<b>Base Light</b> 
<b>Spotlight</b> 	<b>Pendant</b> 

Source: Company Data

Going forward, an issue to pursue is to make further progresses in sales activities on the residential-use side, as well as in capability to cope with demanded solutions, while it may be more important to pursue opportunities in applications other than residential-use. Sales with the Company comprise residential-use 70%, commercial facilities & stores 30%, office building 0% and outdoor 0%, in terms of aforementioned application-wise breakdown for the market shipment amount. Actually, the Company is a little exposed to office building and to outdoor like street lights, but they are nearly nothing at the moment. In regards to commercial facilities & stores, on the other hand, the Company is mainly exposed to small-&-medium-sized stores, while there is an exposure to libraries and some other facilities, as well.

Still, it should be the case that peers have strengths in their own main fields, just like the Company does for residential-use. For the Company, it will be crucially important whether it could make horizontal expansion or not, efficiently taking advantage of the strengths on the residential-use side. The Company is to develop overseas markets as one of strategies to pursue long-term earnings growth, while this issue will remain important for future successes in there.

### 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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