

Company Visit Memo

Company Visits (1 October 2010)

Company Visits in September 2010

Walden Research Japan goes to see listed companies in Japan and interviews with IR representatives, managing directors and top management, concerning business model, recent trading and future prospects. Here do we briefly refer to main points of our interviews with Iriso Electronics (6908), Riken (6462) and Cookpad (2193), all of which we visited in September 2010. Please go ahead and check up with the contents for your information. We will be happy to answer to questions and cope with requests when you let us know.

Iriso Electronics (6908)



[Share Price \(Japanese\)](#) [Company Information \(English\)](#) [IR Information \(English\)](#)

High Exposure to In-Car Connectors

Iriso Electronics, a connector maker with a high exposure to in-car connectors, is seeing favorable earnings growth. In Q1 FY03/2011 results, released on 10 August, sales came in at ¥6.0bn (up 37.4% YoY), operating profit ¥0.8bn (4.6x) and operating profit margins 14.0%. Full-year Company forecasts are going for sales ¥23.5bn (up 11.2%), operating profit ¥3.0bn (up 48.1%) and operating profit margins 12.7%. Recent trading is running ahead of assumptions with Company forecasts, but full-year Company forecasts have remained unchanged so far. The Company is in charge of developments, manufacturing and sales of variety of connectors, while being exposed to in-car connectors as much as 60% in terms of application (in Q1 results) as the key characteristics. Presumably, its exposure in terms of earnings is even higher. The Company's connectors are adopted as components of diversified in-car electronics and as those of electronic devices like car navigation, and its direct customers are so-called "Tier1", i.e., the first suppliers of car components for car makers. The Company develops its businesses both domestically and overseas, and the recent driving forces for sales include increasing supply shares among "Tier1" in Europe as well as increasing volume of cars in Japan due to eco-car tax deductions and the Government subsidies. Q1 sales of in-car connectors were ¥4.0bn, up 6.8% QoQ and up 56.1% YoY.

Targeting Operating Profit Margins 20%

The market for cars in Japan is likely to sequentially slow down after October, given the termination of the Government subsidies (although tax deductions continue), and thus the Company may suffer. On the other hand, increasing supply shares in Europe shall compensate for it to some extent in a short-term view, while it is expected be the key driver for the overall business with the Company in a long-term view. The Company's distinguished capability to cope with spec-in needs as well as its high quality services are highly appreciated among "Tier1" in Europe, and there are trends of changeover of order placements to the Company from existing local suppliers, while prospects are of further accelerations. In the market for connectors, needs of spec-in (customization) make it almost always the case that specific maker of final products just keeps on placing order with the same old specific suppliers of connectors. While there is an

ongoing consolidation in the market for semiconductors, for example, which is less exposed to customization, the market for connectors still remain so fragmented. This is because each player in the market for connectors has a tendency to protect own profit margins due to almost fixed relationship with its customers. However, the Company's recent invasions in Europe suggest future changes in the market for connectors. Meanwhile, the Company is currently setting up a system where the Company can cope with increasing sales with decreased administration expenses due to a pursuit of efficiency. On top of this, the Company is making a changeover to Vietnam from China (Shanghai) for its key production base, eventually setting up a full-line production system in Vietnam. These measures are expected to gradually cut back the ratio of SG&A to sales as well as that of CoGS over the next several years in a row, and thus the Company has a target to achieve sales ¥30.0bn, operating profit ¥6.0bn and operating profit margins 20% in FY03/2013.

Riken (6462)

RIKEN

[Share Price \(Japanese\)](#) [Company Information \(English\)](#) [IR Information \(English\)](#)

Leading the Market for Piston Rings in Japan

In Q1 FY03/2011 results, released on 4 August, sales came in at ¥18.5bn (up 36.6% YoY), recurring profit ¥1.9bn (6.3x). Compared with H1 Company forecasts, sales were achieved by 52.8% while recurring profit 75.1%, and thus earnings are running ahead of assumptions. Nevertheless, the environment for the domestic market for automobiles in H2 remains as a risk for full-year Company forecasts calling for sales ¥71.0bn (up 6.8%) and recurring profit ¥5.5bn (up 37.4%). The Government subsidies for eco-cars were a major driving in the domestic market for automobiles in H1, and this should lead to a correction in H2 to some extent. Riken is an independent auto-parts maker, mainly involved with piston rings with the leading 50% market share in Japan, as well as with camshafts, sealing etc. In the market for piston rings on a global basis, Riken (18% share) has a tie-up with Mahle (25% share), based in Germany, forming the world-largest group for producing piston rings, collectively accounting for 43% of the market. The second group comprises Federal-Mogul, based in the US, and TPR (6463), holding 25% share and 12% share, respectively, and accounting for collective 37% of the market. Mainly has Riken developed the domestic market in which own market share is high, while its exposure to the overseas markets to date often relates to cases through tie-up operations. Contribution to earnings from these overseas tie-up operations is booked as equity-accounted income at the non-operating levels with the Company's consolidated accounts, and this equated to as much as 22% of recurring profit in Q1 results. Still, this is not good enough, given that TPR, or one of peers, is more rapidly increasing its exposure to overseas markets like China in particular.

Consolidation

Demand for piston rings, the key components of internal combustion engines for automobiles, hinge on production volume of automobiles run by internal combustion engines, as easily imagined. Automakers used to try to internally manufacture piston rings, but currently 100% relying on procurement from suppliers including Riken, having had found out it was more efficient to procure. Piston rings are nothing but steel rings whose weight is only a few grams per unit, but they require decently high precision while automakers have different specifications for them each other. As a whole, when looking to the fact that the market for piston rings is protected by some entrance barriers while the market does not have inspiring prospects in the future, further consolidation among existing players appear unavoidable. On top of the two major groups, there is a third group through a tie-up of Nippon Piston Ring (6461) that holds 12% share, together with a Germany piston maker Kolbenschmidt. A scope for Riken to make progress with consolidation in Japan

looks almost impossible, when based on a view from Antimonopoly Law. Now, Riken's task is to quickly increase its exposure to long-term-high-growth regions on a global basis by consolidating more operations in there.

Cookpad (2193)



[Share Price \(Japanese\)](#) [Company Information \(English\)](#) [IR Information \(English\)](#)

810,000 Dish-Recipes

Earnings are surging with the Company, running a PC site "Cookpad" and a mobile site "Mobile Dish-Recipe". In Q1 FY04/2011, sales came in at ¥732m (up 75.6% YoY), operating profit ¥394m (up 120.5%). Contents of the Company's sites are dish-recipes as many as 810,000, while the number of unique users for "Cookpad" in July 2010 stood at 9.44 million (up 38.9% YoY), together with about half of this on mobile front. As far as females in their 30's in Japan are concerned, the Company penetration is as high as 47% with its services. Currently, the key driver for sales with the Company is increasing membership fees from all those users, collectively, over 400,000, to date. With a monthly charge of ¥294, the members are entitled to use high-functional services, making them take advantage of the contents with a high convenience. The sites are free for being accessed, but it turns out to be just advantageous to sign it up when assuming a case of everyday accesses, having resulted in ongoing sequential increases in the number of registered members. Out of the estimated number for collective unique users for the Company's sites, i.e., 15 million, the registered users equate to less than 3%, implying ongoing increases from the current low levels in the future. On top of this, the number of unique users also has a high potential to expand from now on.

Internet Media for Advertising

It used to be the case that the bulk of the Company's sales were accounted for by advertising revenues as an Internet media. Now, in Q1 results, "Membership Business" has become as large as Internet media revenues as a whole, comprising "Marketing Support Business" and "Advertising Business". The former accounts for 70% of sales here, and this business relates to highly cost-efficient advertising services for major foods/beverages makers by means of advertising their products directly in conjunction with appropriate dish-recipes of the Company's contents after consultation with customers. The core users with the Company's sites are females in their 20's and 30's, collectively accounting for over 70% of total, and they are not unhappy to let it in that the Company claims "Pursuing genuine smiles by enjoying cooking everyday". However, they do not have enough exposure to dish recipes in their knowledge to do so, trying to compensate for it by the use of the Company's services. They learn how to use all sorts of ingredients, for example, and they have a tendency to select specific products mentioned by the advertising when they actually buy them in for their dishes in reality. Such effects are pursued all over the place on the Company's sites for the sake of sales enhancement of the customers' products. "Advertising Business", on the other hand, relates to operations of (basically) standalone banner advertising on the Company's sites, and almost half of this business is exposed to industries other than foods and beverages. When compared with the overall advertising expenditure of some ¥600bn pa, the corresponding business with the Company is only 0.2% to 0.3% of the total, and thus there is a high potential to grow from low levers on this front too.

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 analyst 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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