

Alpha-Win Company Research Report

CCS (6669 TSE JQS)

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<http://www.awincap.jp/>

● Flash Report on Performance

◆ Company Overview: Market Leader in LED-based Technologies for Machine Vision

- CCS (the Company, hereafter) is a leading provider of LED lighting solutions for machine vision, holding the top market shares both in Japan and overseas. In the mainline MV (machine vision) business, the Company develops, manufactures, and sells LED lighting devices and related control devices used in production line processes such as visual inspection, positioning, and character recognition. The Company's strength lies in its ability to propose the optimal lighting solution to each client.
- In May 2016, the Company became a subsidiary of OPTEX GROUP (6914 TSE 1st Section) by a TOB. The Company is expected to improve its purchasing power in the short term and its efficiency in product development in the medium term.

◆ Performance in the December 2016 Term: Sales Expanded Successfully by 9% YOY, Owing to Growth in the Domestic Market

- In the December 2016 term (five-month irregular account settlement from August 2016), sales were Y3,103 mil (103.4%, compared with the Company's estimate at the beginning of the term), operating profit was Y258 mil (151.8%), recurring profit was Y236 mil (147.5%), and net profit was Y150 mil (150.0%).
- The high achievement rate for profit reflects the reduction of the selling, general and administrative expenses including R&D costs (SGA expenses, hereafter) as a result of focusing on selected business areas.
- In comparison with the same period in the preceding term based on monthly accounting, sales expanded steadily by 9.1%, thanks to the contribution of the domestic MV business. Operating profit decreased by 27.6%; however, in actuality, it increased slightly from Y356 mil to Y368 mil, when excluding the special term-end cost of Y110 mil associated with the irregular accounting (term-end bonuses, audit fee, etc.) which did not arise in the preceding term.
- Sales in the domestic MV business increased by 17.2% YOY to Y1,605 mil, with success in the business for the electronic, electrical, and semiconductor industries (including electronic automobile parts) and the three industries of food, cosmetics, and pharmaceuticals. The Company seems to have been able to steadily and successfully take in the increasing client needs by improving its solution proposal skill, as it expanded its product lineup by developing new products and cooperating with camera and power supply manufacturers. The Company also improved its solution proposal skill by effectively utilizing its testing rooms (the Company's consulting bases for the clients to directly test out the solutions), which are being added rapidly.

Performance Memorandum

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- Sales in the overseas MV business decreased by 5.2% YOY to Y1,148 mil. However, sales increased by 8.7% YOY when excluding the decrease of Y155 mil from the yen appreciation (compared with the same period in the preceding term, the average value of yen increased from Y121.60/USD to Y106.25/USD and Y134.26/EUR to Y116.25/EUR). Sales were stagnant in North America but strong in Europe and the ASEAN countries including Malaysia where the Company newly established a representative office.
- Sales in the new businesses increased by 33.7% YOY to Y350 mil, thanks to the large-scale project in the agri-biotech business and the expansion of the UV business (including the application of ultraviolet-curing resin in fixing print ink and gluing electronic parts).

◆ Estimates for the December 2017 term: Both Sales and Operating Profit Expected to Hit Their All-Time Highs

- In the December 2017 term, the Company expects that sales, operating profit, and recurring profit will hit their all-time highs for the first time since the July 2016 term (the all-time high for net profit was Y772 mil, achieved in the July 2015 term when the tax payment was irregular). The estimates are based on the assumption of 100 yen per dollar and 110 yen per Euro. One yen depreciation against USD will push up sales by Y8 mil and operating profit by Y5.8 mil, and likewise one yen depreciation against Euro will push up sales and operating profit by Y8.3 mil and Y6 mil, respectively.
- The breakdown of the estimated sales of Y8,100 mil (up 9.8% compared to the July 2016 term) is as follows: Y4,350 mil in the domestic MV business (up 14.8%), Y2,650 mil in the overseas MV business (down 9.2%), and Y1,100 mil in the new businesses (up 64.9%).
- In the domestic MV business, the Company expects that an enhancement of its solutions will further increase sales, assuming steady capital investment by the client industries (including the electronic automobile parts industry). For the overseas MV business, the estimates are conservative, presumably taking into consideration the possible changes in the forex rates and the capital investment plans that may occur in accordance with the measures to be set out by the new US administration. Regarding the new businesses, business expansion is anticipated, especially in the UV business.
- The Company expects that operating profit will increase to Y930 mil, up 2.9% compared to the July 2016 term. Gross profit is expected to increase by 7.4%, smaller than the sales increase (therefore, profit ratio will drop by 1.2 pts to 57.2%) due to the expected yen appreciation and increased purchase and sales in accordance with the reinforcement of solution-based sales. SGA expenses are estimated to increase by 8.7% (SGA expenses to sales ratio will decrease by 0.5 ppt to 45.7%).

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【 6669 CCS Sector : Electric Appliances 】

Term	Sales (Y mil)	change (yoy,%)	O.P. (Y mil)	change (yoy,%)	R.P. (Y mil)	change (yoy,%)	N.P. (Y mil)	change (yoy,%)	EPS (Y)	BPS (Y)	Dividend (Y)
2015/7	6,951	26.2	773	37.8	760	54.5	772	93.7	186.52	698.62	20.0
2016/7	7,376	6.1	904	17.0	880	15.9	615	-20.4	137.93	782.25	22.0
2016/12 irreg	3,103	9.1	258	-27.6	236	-32.2	150	-46.5	27.78	801.69	10.0
2017/12 CE	8,100	9.8	930	2.9	910	3.4	620	0.8	114.44	—	22.0

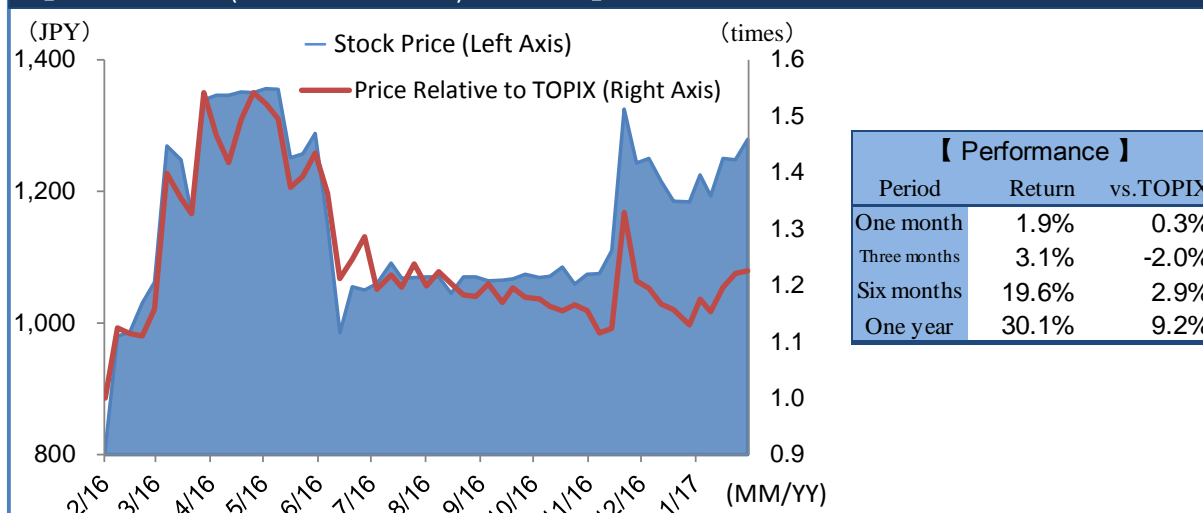
(Note) CE: the Company's estimate. The December 2016 term irregularly covers five months, and YOY changes for the term are compared with the same period in the previous year. YOY changes for the December 2017 term estimates are compared with the July 2016 term.

【 Stock Price and Valuation Indicators: 6669 CCS 】

Item	As of 02/10/2017	Item	P/E	P/B	Dividend Yield	Dividend Payout Ratio
Stock price (JPY)	1,279	12/2016	46.0	1.6	0.8%	36.0%
Shares Outstanding	5,417,829	12/2017E	11.2	—	1.7%	19.2%
Market capitalization (JPY mil)	6,929	Equity Ratio (12/2016-end)	64.5%	ROE (12/2016)	3.5%	

(Note) Valuation indicators for the December 2016 term are calculated based on the five-month irregular accounting period. Estimates (E) are based on the Company's estimates. For the July 2016 term, which was before the irregular accounting, ROE was 15.1%, P/E was 9.3, P/B was 1.6, dividend yield was 1.7%, and dividend payout ratio was 16.0%.

【 Stock Chart (End-of-Week Prices): 6669 CCS 】



(Note) From the second week of February 2016 to the second week of February 2017

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In this Report, we attempt to clearly illustrate the sources of competitiveness essential to attain sustainable growth, such as the company's unique products, services, and technologies. We also utilize the SWOT analysis, which categorizes the company's external and internal environment into strength, weakness, opportunity, and threat, in the evaluation of the corporate strategy, and verify the KPI (Key Performance Indicator) and the corporate governance.

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