



Isamu Oguni President and CEO

OPTEX GROUP (6914)



— Company Information —

Market	TSE 1st Section
Industry	Electric equipment (manufacturer)
President 兼 CEO	Isamu Oguni
HQ Address	5-8-12, Ogoto, Otsu, Shiga Prefecture
Year-end	December
Homepage	https://www.optexgroup.co.jp/en/

Stock Information

Share Price	Shares Outstanding		Total market cap	ROE Act.	Trading Unit
1,463	36,807,108 shares		53,848 million	12.3%	100 shares
DPS Est.	Dividend yield Est.	EPS Est.	PER Est.	BPS Act.	PBR Act.
32.50	2.2%	67.94	21.5 x	875.98	1.7 x

*The share price is the closing price on August 6, 2019. Shares Outstanding is the number of shares at the end of June 2019 excluding treasury shares. ROE and BPS are the results at the end of the previous term.

Earnings Trend

Fiscal Year	Sales	Operating profit	Ordinary profit	Net profit	EPS	DPS
December 2015	27,793	3,161	3,222	2,051	61.98	20.00
December 2016	31,027	3,015	3,086	1,809	54.67	22.50
December 2017	37,504	4,885	5,036	3,386	97.63	27.50
December 2018	40,113	4,989	5,038	3,775	104.85	30.00
December 2019 Est.	40,000	3,400	3,400	2,500	67.94	32.50

*The estimated values are from the company. Net profit is net profit attributed to parent shareholders. The same shall apply hereinafter. On April 1, 2018, a 2-for-1 stock split was implemented. Both EPS and DPS are revised retroactively.

This Bridge Report presents OPTEX GROUP's earnings results for the first Half of fiscal year ending December 2019.

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Key Points

- The sales in the second quarter of the fiscal year ending in December 2019 were 18,593 million yen, down 5.5% year on year due to the sales decrease from all of the 3 core businesses. The sales from the FA business have a double-digit decline due to the sluggish sale of the sensors targeted at SICK and China. Domestic sales amounted to 8,072 million yen, down 1.4% year on year, and overseas sales were 10,521 million yen, down 8.4% year on year. Operating profit dropped 49.6% year on year, to 1,315 million yen. Other than the decreased sales, the increase of cost due to the factory that produces sensor products exported to the US being transferred from China to Vietnam to avoid rising tariffs caused by China–United States trade friction, the rise in costs of product mix in the SS business and the increase in SGA of acquiring subsidiary are the factors led to the decrease in operating profit. As a result, both sales and profits fell short of the initial forecast.
- The forecast for the full fiscal year was revised downward. The sales for the fiscal year ending in December 2019 are expected to remain flat year on year at 40 billion yen. Domestic sales are projected to be 17.1 billion yen, up 0.1% year on year, and overseas sales are forecasted to decrease 0.6% year on year to 22.8 billion yen. Operating profit is expected to drop 31.9% year on year to 3.4 billion yen. Dividends are expected to be 32.50 yen/share. The expected payout ratio would be 47.8%.
- The financial situation is expected to be recovered from the second half of the term. The sales would increase 3 billion yen compared to the first half. Improvement in sales of the outdoor sensors (for Southern Europe) in the SS business (security-related), release of a new model for major security companies in Japan, the increased sales of UV-related products in the MVL business and synergy generated from acquiring a French startup called Effilux are the causes projected to improve sales. In addition, cost rate is also forecasted to drop by 3 points because producing location of sensors that are exported to the US is transferred from China to Vietnam, and the local manufacturing is getting on the right track.
- While sales declined and profit considerably dropped in the first half quarter, the company seems to be confident in the recovery of their financial situation from the second half period. Their confidence is reflected by their forecasts revising for not only the first half but also full fiscal year as of July. Nevertheless, as for the FA business, the effects caused by the trade friction between the U.S. and China are still unknown and unclear, consequently the report will firstly focus on the company's performance in the third quarter.
- On the other hand, the company's focus on image verification system by sensors and cameras working in conjunction with each other in the SS business which contributed to a new business model including the subscription model are noteworthy. While the business itself is considered to start officially from the next term, most investors have high expectations to its progress.

1. Company Overview

OPTEX GROUP Co., Ltd. is a holding company centered around OPTEX Co., Ltd. that manufactures and sells outdoor sensors (top share of 40% in the global market), automatic door sensors (30% share of the global market and 50% share of the domestic market) and environment-related products.

OPTEX GROUP holds subsidiaries including OPTEX FA CO., LTD., which deals with FA related sensing business; CCS Inc., which holds the global top share in the LED lighting business for image processing; Three Ace Co., Ltd., which specializes in the development of various systems, applications, and digital content; Optex MFG Co., Ltd., which is responsible for manufacturing Group products, RAYTEC LIMITED (UK), which has attained the largest global share (about 50 %) for supplemental lights for CCTV; and FIBER SENSYS INC. (US), which deals with optical fiber intrusion detection systems.

OPTEX CO., LTD.	Develops and sells sensors for various uses, such as security sensors and sensors for automatic doors
OPTEX FA CO., LTD.	Development and sales of photoelectric sensors, image inspection systems, displacement sensors and measuring instruments
CCS Inc.	Development, manufacturing and sales of LED lighting devices, and systems for image processing
THREE ACE CO., LTD.	Development of various systems, applications, and digital content
OPTEX MFG CO., LTD.	Manufactures products for the Group and provides contract manufacturing service for electronic equipment
SICK OPTEX CO., LTD.	Development of general-purpose photoelectric sensors. A joint venture of SICK AG (Germany) and OPTEX FA CO., LTD.
GIKEN TRASTEM CO., LTD.	Development, manufacturing and sales of people counting systems, customer traffic counting/management systems
ZENIC INC.	Contracted development of IC and LSI for image processing, and design and sales of FA systems
O'PAL OPTEX CO., LTD.	Management of membership sports clubs and environmental hands-on learning programs
FIBER SENSYS INC. (US)	Development, manufacturing and sales of fiber-optic intrusion detection systems
FARSIGHT SECURITY SERVICES LTD. (UK)	Security company providing remote video surveillance services
RAYTEC LIMITED. (UK)	Development, manufacturing and sales of supplemental lighting for surveillance cameras
GARDASOFT VISION LIMITED. (UK)	Development, manufacturing, and sale of LED lighting controllers for machine vision

1-1. Business Description

The Company's business is composed of its main Sensing Solution (SS) business (security-related business and automatic door-related business), Factory Automation (FA) business (sensors for industrial machinery), Machine vision lighting (MVL) business (LED lighting device and system for image processing), "EMS business," which was included in the SS business up until the previous term and provides contract manufacturing services for electronic equipment in China, and Other business (operation of sport clubs and development of applications and digital content).

Segment		Business Description
SS Business	Security-related	Main products include various indoor and outdoor sensors, wireless security systems and LED lighting control systems, etc. For outdoor sensors, the company has the leading share in the global market. Recently, it focuses on development of the automobile detection sensor using microwave technologies.

	Automatic door-related	The company developed the world's first automatic door sensor using infrared rays. Main products are automatic door opening/closing sensors, shutter sensors for factories, wireless touch switches, etc.
	Others	Equipment for measuring water quality. Manufacturing/marketing of measuring instruments, Transportation safety products, Customer traffic counting/management systems, developing/marketing of image processing-related products
FA Business		Main products include photoelectric sensors used for quality control and automation of production lines, displacement sensors, image sensors, LED lights, etc. In Japan, these products are provided to a wide range of industries such as food or pharmaceutical for quality control of production lines. In Europe, its products are sold broadly through its technological partner SICK AG (Germany) that has the largest share in industrial sensor market. Also, its house-brand products have been launched in Asia and North America.
MVL Business		The company has a significant share in the LED lighting business for image processing. The company offers solutions using the natural light LED developed by the company, which boasts the best color rendering property in the field.
EMS-related		Contract manufacturing services for electronic equipment, developed at a factory in China
Others		Operating sports clubs and development of applications and digital content.

1-2. Advantages: Diversified Technologies/Expertise on Sensing and Unique Sensing Algorithm

To produce stable and reliable sensors, it is essential to build on a number of elemental technologies and expertise, as well as “algorithms” to control physical changes. The company takes advantage of its technologies/expertise suitable for intended applications and its unique sensing algorithm to secure the largest share in the global market.

Noise abatement technology	<ul style="list-style-type: none"> • Hardware design to minimize various noises • Conduct a number of environmental assessments based on its own standard, and launch products that passed the assessments
Sophisticated optical design	<ul style="list-style-type: none"> • Make use of optical simulation to achieve high-density areas eliminating blind spots • Packaging technologies to enable downsizing
Compliant to public standards for reliability	<ul style="list-style-type: none"> • Adapted and compliant to any global standards • Adapted and compliant to industry standards and guidelines (CE marking, EN standard [TUV certified], ANSI, JIS, etc.)
Environment friendly design	<ul style="list-style-type: none"> • By identifying 15 restricted-use materials and 10 self-control materials, the company succeeded in excluding toxic substances in all products • Compliant to RoHS directive, lead-free solder alloy • Design to minimize the effect from CO2 when in use
Secure & safe control	<ul style="list-style-type: none"> • Adopt self-diagnosis functions in emergency or in failure to prevent system outage, and fail-safe devices for sensors • Propose preventive maintenance measures to maintain functions
Unique sensing algorithm	<ul style="list-style-type: none"> • Unique algorithm to eliminate the impact of noise ineliminable by hardware, detect, scan and analyze only the intended events • Various automatic correction functions to maintain performance in the field

1-3. Corporate History

OPTEX was established in 1979 and developed the world's first automatic door sensors using infrared rays in the following year. Back then, most of the automatic doors were using pressure sensitive rubber mats, which contained sensors, and sensors using infrared rays were very innovative. The company also showed unrivaled abilities in product maintenance and implementation, and captured the top share in the automatic door sensors market in only three years since its foundation (currently, about 60% share in the domestic market). The company expanded operations and got listed on the over-the-counter market (equal to listing on JASDAQ) in 1991. Then it got

listed on the second section of Tokyo Stock Exchange in 2001 and moved to its first section in 2003.

Recently, it has been working on enhancement of solutions based on image processing technologies and high-end security systems. In 2008, it acquired ZENIC INC., which specialized in contracted development of IC/LSI for image processing systems. Furthermore, it acquired FIBER SENSYS INC. (US) in 2010 and RAYTEC LIMITED (UK) in 2012, respectively. Also, CCS Inc. (6669, JASDAQ), which holds the largest market share in the world for LED lighting for image processing, was reorganized into a subsidiary in May 2016 (and became a wholly owned subsidiary in July 2018). On January 1, 2017, the company shifted to the holding company system, with the aim of advancing to next-generation management and pursuing group synergy.

1-4. ROE analysis

	FY 12/ 11	FY 12/ 12	FY 12/ 13	FY 12/ 14	FY 12/ 15	FY 12/ 16	FY 12/ 17	FY 12/ 18
ROE (%)	6.0	4.6	8.2	8.6	8.7	7.4	12.6	12.3
Net profit margin (%)	5.58	3.99	6.87	7.39	7.38	5.83	9.03	9.41
Total asset turnover [times] (x)	0.85	0.91	0.92	0.89	0.91	0.91	0.95	0.95
Leverage [times](x)	1.27	1.28	1.30	1.31	1.30	1.41	1.48	1.38

ROE in FY December 2018 achieved “10% or more” as targeted for two consecutive terms. Net profit margin for the current fiscal year is projected to be 6.3%. It is expected that the high ROE will continue due to accumulation of profits even if total assets and capital increase.

1-5 Efforts on ESG

The company actively responds to ESG issues and strives to improve corporate value.

E: Environment	In the SS business (automatic door-related), the company develops and sells the “e-Smooth Sensor” which is an automatic door sensor that controls unnecessary opening. This product improves the air conditioning efficiency of the building and reduces electricity consumption by about 30%. In the SS business (water quality measurement-related), the company has developed and marketed products to measure water quality such as turbidity. These products, which enable water quality management using IoT, contribute to global warming countermeasures globally.
S: Society	The company’s head office is located by Lake Biwa. Taking advantage of its location, one of its subsidiaries, O’PAL OPTEX Co., Ltd. implements the “Lake Biwa Active Learning Program” as part of social contribution activities. Approximately 10,000 people participate annually to experience sports such as canoes and learn the water environment such as lakeside creatures.
G: Governance	To enhance the quality of strategies through active discussions at the Board of Directors and realize further enhancement of corporate value, the company appoints external directors with diverse backgrounds and skills. In addition, there are four independent external directors accounting for more than one-third of the 11 directors and auditors. They constitute a management structure that balances management functions and monitoring functions of management.

2. First Half of Fiscal Year ending December 2019 Earnings Results

(1) Business Results

	1H FY 12/ 18	Ratio to sales	1H FY 12/ 19	Ratio to sales	YoY	Compared with the initial forecasts
Sales	19,674	100.0%	18,593	100.0%	-5.5%	-13.9%
Gross profit	10,960	55.7%	10,040	54.0%	-8.4%	-
SG&A	8,351	42.4%	8,725	46.9%	+4.5%	-
Operating profit	2,609	13.3%	1,315	7.1%	-49.6%	-50.4%
Ordinary profit	2,573	13.1%	1,237	6.7%	-51.9%	-54.2%

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Net Profit	1,950	9.9%	923	5.0%	-52.7%	-53.9%
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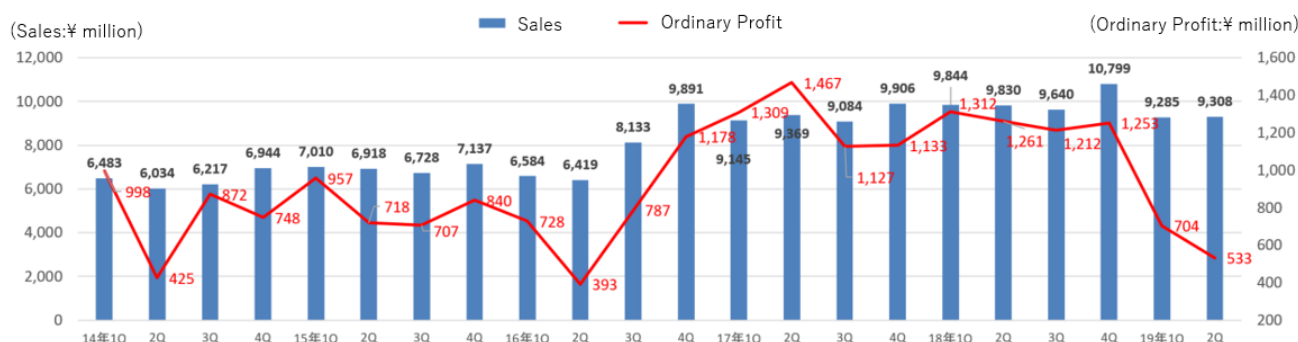
* Unit: million yen. The Net profit is the profit attributable to owners of the parent company. The same shall apply hereinafter.

Sales and profit decreased.

Sales were 18,593 million yen, down 5.5%, year on year due to the sales decrease from all of the 3 core businesses. The sales from the FA business have a double-digit decline due to the sluggish sale of the sensors targeted at SICK and China. Domestic sales amounted to 8,072 million yen, down 1.4% year on year, and overseas sales were 10,521 million yen, down 8.4% year on year.

Operating profit dropped 49.6% year on year to 1,315 million yen. Other than the decreased sales, the increase of cost due to the factory that produces sensor products exported to the US being transferred from China to Vietnam to avoid rising tariffs caused by China–United States trade friction, the rise in costs of product mix in the SS business and the increase in SGA of acquiring subsidiary are the factors led to the decrease in operating profit. As a result, both sales and profits fell short of the initial forecast.

Earnings result by quarter



◎Average exchange rate

	1H FY 12/ 18	1H FY 12/ 19
USD	108.68	110.05
GBP	149.72	142.42
EURO	131.64	124.32

(2) Earnings by Segment

① Trends in each segment and region

	1H FY 12/ 18	Ratio to sales	1H FY 12/ 19	Ratio to sales	YoY
SS Business	10,190	51.8%	9,821	52.8%	-3.6%
FA Business	4,273	21.7%	3,544	19.1%	-17.1%
MVL Business	4,896	24.9%	4,713	25.3%	-3.7%
EMS Business	277	1.4%	259	1.4%	-6.5%
Others	36	0.2%	254	1.4%	+605.6%
Sales	19,674	100.0%	18,593	100.0%	-5.5%
SS Business	1,225	12.0%	763	7.8%	-37.7%
FA Business	790	18.5%	293	8.3%	-62.9%
MVL Business	630	12.9%	304	6.5%	-51.7%
EMS Business	41	14.8%	-32	-	-
Others	0	0.0%	-9	-	-
Adjustments	-77	-	-3	-	-
Operating profit	2,609	13.3%	1,315	7.1%	-49.6%

*Unit: million yen.

②Trends in each segment and region

	1H FY 12/ 18	Ratio to sales	1H FY 12/ 19	Ratio to sales	YoY
SS Security	6,939	100.0%	6,581	100.0%	-5.2%
Japan	943	13.6%	1,151	17.5%	+22.1%
AMERICAs	1,584	22.8%	1,310	19.9%	-17.3%
EMEA	3,638	52.4%	3,437	52.2%	-5.5%
Asia	774	11.2%	683	10.4%	-11.8%
SS: Automatic door	2,170	100.0%	2,173	100.0%	+0.1%
Japan	1,094	50.4%	1,037	47.7%	-5.2%
AMERICAs	524	24.1%	609	28.0%	+16.2%
EMEA	472	21.8%	466	21.4%	-1.3%
Asia	80	3.7%	61	2.8%	-23.7%
SS: Other	1,082	100.0%	1,068	100.0%	-1.3%
Japan	930	86.0%	928	86.9%	-0.2%
Asia	152	14.0%	140	13.1%	-7.9%
FA	4,274	100.0%	3,544	100.0%	-17.1%
Japan	1,828	42.8%	1,663	46.9%	-9.0%
AMERICAs	57	1.3%	56	1.6%	-1.8%
EMEA	1,569	36.7%	1,234	34.8%	-21.4%
Asia	820	19.2%	591	16.7%	-27.9%
MVL	4,896	100.0%	4,713	100.0%	-3.7%
Japan	3,261	66.6%	2,952	62.6%	-9.5%
AMERICAs	412	8.4%	418	8.9%	+1.5%
EMEA	649	13.3%	770	16.3%	+18.6%
Asia	574	11.7%	573	12.2%	-0.2%
EMS Business	277	100.0%	260	100.0%	-6.1%
Japan	98	35.4%	87	33.5%	-11.2%
Asia/Oceania	179	64.6%	173	66.5%	-3.4%

*Unit: million yen.

◎SS Business
(Security-related)

Japan :Sales increased as the sales of the outdoor security sensors for security companies and important large-scale facilities such as airports were healthy.

AMERICAs :Sales dropped as the sales of the sensors for important large-scale facilities by the sales subsidiary in North America were sluggish.

EMEA :Sales decreased as the sales of the sensors for general residence in Southern Europe region by the sales subsidiary in the U.K. were sluggish.

Asia :Sales dropped as the sales of the sensors for Australia and South-east Asian countries were stagnant

The sale of sensors targeted at domestic security companies is on the track of recovery. New products are planned to be introduced in the second half quarter.

The sales of the outdoor sensors in Southern Europe had been sluggish until new products being introduced recently, which shows a

recovery in the number of orders.

(Automatic door-related)

Japan : Sales decreased as the sales of the sensors of automatic doors for major domestic customers were sluggish.

AMERICAS : Sales increased due to the steady sale of automatic door sensors targeted at major clients in North America.

EMEA : While the sales of automatic door sensors targeted at major clients in Europe had been steady, sales decreased due to fluctuation of exchange rates.

Orders related to Tokyo Olympic and Paralympic games have not contributed to sales yet.

◎FA Business

Japan : Sales declined as the growth of sales of the products for semiconductor, rechargeable battery and electronic parts-related industries was sluggish, while sales were steady for automobile-related industries.

EMEA : Sales dropped as the sales of the products to OEM were stagnant due to declining business confidence of the world's economy.

Asia: Sales decreased due to the sluggish growth of sales of displacement sensors as a result of deceleration of demand for capital investment caused by economic slowdown in China.

The business was considerably affected by the ongoing problems between the U.S. and China.

Decline in the sales quantity of displacement sensors which have high margin also resulted in the decrease of profit.

◎MVL lighting business

Japan : Sales dropped because of a slowdown in demand for capital investment mainly in semiconductor and smartphone industries.

AMERICAS : Even though new transactions has increased, sales remained flat after because backlash from large-scale projects for the existing customers occurred.

EMEA : A French LED lighting manufacturer for image inspection, which was made into a subsidiary in the fourth quarter in 2018, contributed to increased sales.

Asia: Sales remained flat as the growth of sales by the local subsidiaries was stagnant due to deceleration in demand for capital investment in China.

The total Sales dropped, but the sales of UV-related sensors rose in performance.

The company is actively investing in testing rooms to strengthen solution providing capability.

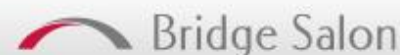
(3) Financial Conditions and Cash Flow

◎Main BS

	FY 12/ 18	FY 6/ 19		FY 12/ 18	FY 6/ 19
Current Assets	29,530	28,804	Current liabilities	6,470	6,771
Cash	11,563	11,682	Payables	1,997	1,779
Receivables	8,938	8,187	LT Interest Bearing Liabilities	1,409	2,380
Inventories	7,339	7,439	Noncurrent liabilities	4,477	3,675
Noncurrent Assets	13,760	14,172	ST Interest Bearing Liabilities	1,706	579
Tangible Assets	4,678	5,381	Net defined benefit liabilities	1,219	1,197
Intangible Assets	4,243	4,048	Liabilities	10,945	10,447
Investment, Others	4,837	4,743	Net Assets	32,345	32,529
Total assets	43,291	42,976	Total Liabilities and Net Assets	43,291	42,976

* Unit: million yen

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Total assets were 42,976 million yen, down 315 million yen from the end of the previous term due to a decline in receivables.
 Total liabilities dropped 498 million yen from the end of the previous term to 10,447 million yen, as a result of decreased payables.
 Net assets augmented 184 million yen from the end of the previous term to 32,529 million yen.
 Equity ratio improved 0.9 points from the end of the previous term to 75.4%.

◎Cash Flow

	1H FY 12/ 18	1H FY 12/ 19	Increase/decrease
Operating Cash Flow	-82	1,674	+1,756
Investing Cash Flow	-181	-531	-350
Free Cash Flow	-263	1,143	+1,406
Financing Cash Flow	8	-816	-824
Term End Cash and Equivalents	11,755	11,682	-73

* Unit: million yen

Operating CF and Free CF turned positive due to a decline in receivables, etc.
 The decrease in cash-inflow from long-term debt caused Financing CF to turn negative.
 The cash position was nearly unchanged.

(4) Topics

◎ Acquisition of treasury shares

The company decided to acquire treasury shares not only to improve shareholders' return, but also to implement a flexible capital policy in response to changes in the business environment.

Amount	Up to 1 billion yen
No. of shares	Up to 800,000 shares. 2.17% of the total number of outstanding shares (excluding treasury shares).
Period of acquisition	August 6, 2019 – October 31, 2019

◎Dividends payment plan in celebration of the company's upcoming 40th anniversary.

The company decided to distribute a dividend of 2.50 yen/share along with the interim dividend for the fiscal year ending December 2019 in celebration of its upcoming 40th anniversary to show their gratitude to the shareholders. The annual dividend is expected to be 32.50 yen per share, including the year-end dividend of 15 yen per share.

3. Fiscal Year ending December 2019 Earnings Forecasts

(1) Business Results

	FY 12/ 18	Ratio to sales	FY 12/ 19 Est.	Ratio to sales	YoY	Revision rate	Progress rate
Sales	40,113	100.0%	40,000	100.0%	-0.3%	-7.0%	46.5%
Operating profit	4,989	12.4%	3,400	8.5%	-31.9%	-35.8%	38.7%
Ordinary profit	5,038	12.6%	3,400	8.5%	-32.5%	-37.0%	36.4%
Net profit	3,775	9.4%	2,500	6.3%	-33.8%	-37.5%	36.9%

* Unit: million yen. Ratio to sales equals to Sales Profit margin.

Performance forecast was revised downward. Sales and profit are projected to decline.

The company revised its financial performance forecast downward. The sales for the fiscal year ending in December 2019 are expected to remain flat year on year at 40 billion yen. Domestic sales are projected to be 17.1 billion yen, up 0.1% year on year, and overseas sales are forecasted to decrease 0.6% year on year to 22.8 billion yen. Operating profit is expected to drop 31.9% year on year to 3.4 billion yen.

Dividends are expected to be 32.50 yen per share as described above. The expected payout ratio would be 47.8%

BRIDGE REPORT



	1H FY 12/ 19	2H FY 12/ 19 Est.	Change from 1H	YoY
Sales	18,593	21,407	+15.1%	+4.7%
Operating profit	1,315	2,085	+58.6%	-12.4%
Ordinary profit	1,237	2,163	+74.9%	-12.3%
Net profit	923	1,577	+70.9%	-13.6%

* Unit: million yen

The financial situation is expected to be recovered from the second half of the term.

The sales would increase 3 billion yen compared to last half term. Improvement in sales of the outdoor sensors (Southern Europe) in the SS business (security-related), release of a new model for major security companies in Japan, the increased sales of UV-related products in the MVL business and synergy generated from acquiring Effilux (France) are the causes projected to contribute to improve sales.

In addition, cost rate is also forecasted to drop by 3 points because producing location of sensors that are exported to the US is transferred from China to Vietnam, and the local manufacturing is getting on the right track.

(2) Trends in each segment and region

	FY 12/ 18	Ratio to sales	FY 12/ 19 Est.	Ratio to sales	YoY	Revision rate	Progress rate
SS Security	14,382	100.0%	14,267	100.0%	-0.8%	-5.1%	46.1%
Japan	2,377	16.5%	2,659	18.6%	+11.9%	+5.9%	43.3%
AMERICAs	2,991	20.8%	2,934	20.6%	-1.9%	-3.6%	44.6%
EMEA	7,407	51.5%	7,114	49.9%	-4.0%	-5.0%	48.3%
Asia	1,607	11.2%	1,560	10.9%	-2.9%	-21.4%	43.8%
SS: Automatic door	4,455	100.0%	4,704	100.0%	+5.6%	+3.7%	46.2%
Japan	2,308	51.8%	2,358	50.1%	+2.2%	+0.4%	44.0%
AMERICAs	1,099	24.7%	1,237	26.3%	+12.6%	+8.7%	49.2%
EMEA	896	20.1%	969	20.6%	+8.1%	+10.7%	48.1%
Asia	152	3.4%	140	3.0%	-7.9%	-20.0%	43.6%
SS: Other	2,320	100.0%	2,489	100.0%	+7.3%	-1.7%	42.9%
Japan	1,952	84.1%	2,049	82.3%	+5.0%	-0.1%	45.3%
Asia	368	15.9%	440	17.7%	+19.6%	-8.5%	31.8%
FA	8,548	100.0%	7,606	100.0%	-11.0%	-14.6%	46.6%
Japan	3,763	44.0%	3,513	46.2%	-6.6%	-11.5%	47.3%
AMERICAs	123	1.4%	161	2.1%	+30.9%	+2.5%	34.8%
EMEA	3,218	37.6%	2,475	32.5%	-23.1%	-23.1%	49.9%
Asia	1,444	16.9%	1,457	19.2%	+0.9%	-6.5%	40.6%
MVL	9,485	100.0%	9,759	100.0%	+2.9%	-8.8%	48.3%
Japan	6,207	65.4%	5,851	60.0%	-5.7%	-10.8%	50.5%
AMERICAs	796	8.4%	906	9.3%	+13.8%	+3.2%	46.1%
EMEA	1,342	14.1%	1,849	18.9%	+37.8%	-11.4%	41.6%
Asia	1,140	12.0%	1,153	11.8%	+1.1%	-2.7%	49.7%
EMS Business	565	100.0%	590	100.0%	+4.4%	-7.7%	44.1%
Japan	194	34.3%	169	28.6%	-12.9%	-12.9%	51.5%
Asia/Oceania	371	65.7%	421	71.4%	+13.5%	-5.4%	41.1%

*Unit: million yen.

4. Business Strategy: Visual Verification by sensors and cameras working in conjunction with each other

The company aims to realize well balanced growth between SS and FA businesses, so they established a new business model in the SS (security-related) field.

The company will release the new model in this year, under the expectation of the business contributing to sales and profits from the next term.

(1) Scale of the alarm monitoring market

The number of contracts for alarm monitoring using outdoor sensors has reached 90 million worldwide. The detailed numbers are as follows: 40 million contracts in North America and 20 million contracts in EMEA (including 3 million contracts in U.K.). These data show that North America and U.K. occupy almost 50% of the total number of contracts.

(2) Current situation and problems regarding alarm monitoring

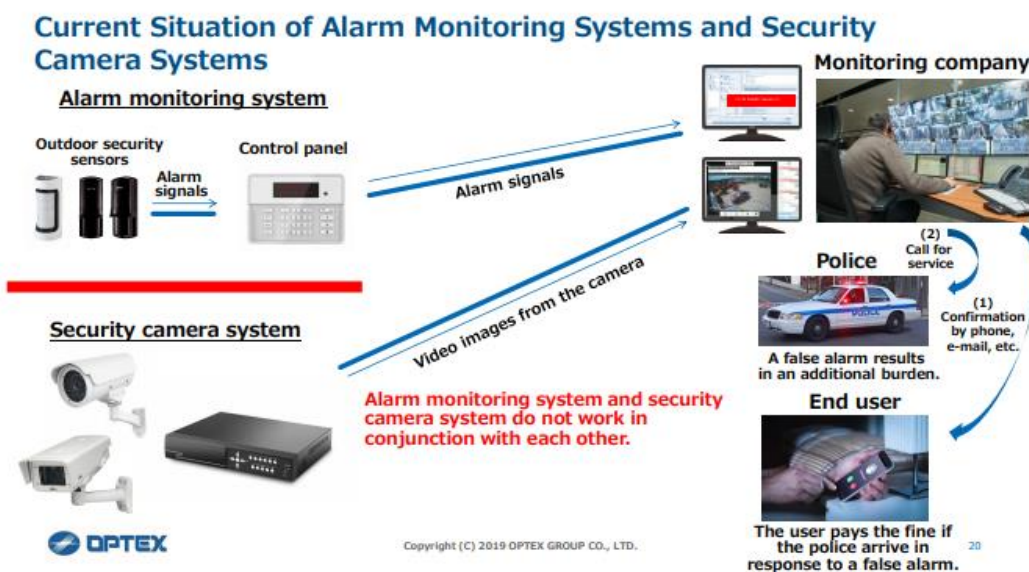
While alarm monitoring is widely installed overseas, still 95% of the security reports are said to be incorrect. Most of them are caused from operational mistakes by users, and some are resulted from malfunction of the outdoor sensors.

The current alarm monitoring systems are usually running through the processes that alarm signals from sensors and camera images from surveillance cameras are sent separately to the monitoring company, as shown in the figure below.

Therefore, the monitoring company need to look for camera images to report to users or the police even if they receive alarm signals right away.

However, depending on the situation, sometimes monitoring company reports without checking the camera images, which usually leads to false reports.

Also, in the U.S., it is the police who receive reports from monitoring companies, but the ones who get penalized for dispatch of police officers in case for false reports are usually those users. Likewise, there are various problems lie in the operation of alarm monitoring.



(Source: the company)

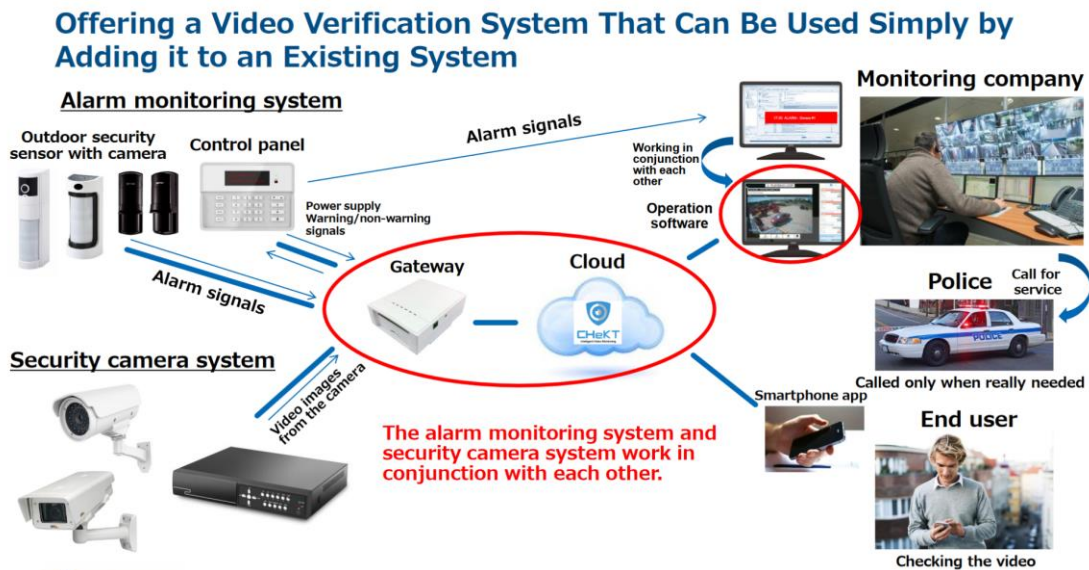
As OPTEX's outdoor sensors are highly rated and trusted globally, the company decided to develop a new alarm monitoring system that would solve the problems of false reports and lead to familiarization of alarm monitoring.

(3) Visual Verification System

①Mechanism

The new system comes with a gateway that interlocks the alarm monitoring system and the surveillance camera system.

By adding up gateway and operation software to the existing system, monitoring companies will be able to receive alarm signals linked with camera images, which will lower the chances of false reports.



(Source: the company)

This system was made by utilizing a gateway incorporated with image verification solutions created by CHEKT (U.S.), which is a strategical alliance company with the company.

CHEKT is a startup company established in 2014, which possesses great knowledge about the security industry as its CEO is also the owner and the CEO of a security company.

Therefore, CHEKT can provide appropriate solutions that are developed based on business experiences in the security company and meet the local needs. Also, it is one of their strengths that they provide free, easy-to-use operation software in addition to establishing a system that can be connected to network cameras of the industry standards without requiring advanced IT skills.

②Business model

OPTEX GROUP possesses an exclusive license to sell the system mentioned above in North America and the U.K. The company will not only sell them as a separate item, but also initiate a subscription-type billing business by providing the system.

The company considers that the system is beneficial for all related groups, including users, monitoring companies and the police, as it can be installed at low cost and has less chances of false reports, and aims to familiarize this win-win business model.

Aiming to Disseminate a Win-Win Business Model



(Source: the company)

③Target and quantitative goal

The company will provide the system for high-end customers such as commercial facilities, offices and high-class houses in North America and EMEA region.

The sales targets are 2.5 billion yen in 2023 (2 billion yen in North America and 500 million yen in the U.K.), and 10 billion yen in 2028 (8 billion yen in North America and 2 billion yen in the U.K.)

5. Conclusions

While sales declined and profit considerably dropped in the first half quarter, the company seems to be confident in the recovery of their financial situation from the second half period. Their confidence is reflected by their forecasts revising for not only the first half but also full fiscal year as of July. Nevertheless, as for the FA business, the effects caused by the trade friction between the U.S. and China are still unknown and unclear, consequently the report will firstly focus on the company’s performance in the third quarter.

On the other hand, the company’s focus on visual verification by sensors and cameras working in conjunction with each other in the SS business which contributed to a new business model including the subscription model are noteworthy. While the business itself is considered to start officially from the next term, most investors have high expectations to its progress.

<Reference: Regarding Corporate Governance>

◎Organization type, and the composition of directors and auditors

Organization type	Company with audit and supervisory committee
Directors	11 directors, including 4 outside ones

◎Corporate Governance Report

The latest revision date: March 28, 2019

<Fundamental concept>

As the Group, we recognize that it is our greatest mission to continuously improve corporate value while earning the trust of our shareholders, investors, customers and society. To practice it, we consider enhancement of the corporate governance as one of important management tasks and aim to improve the transparency of management, maintain management systems accompanying fair and prompt decision making and strengthen management monitoring function.

<Reasons for Non-compliance with the Principles of the Corporate Governance Code (Excerpts)>

Principle	Items to be disclosed
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<p>[Supplementary Principle 4-11-1. Balance, diversity and scale of the Board of Directors as a whole]</p>	<p>We have been electing candidates for directors without regard to sex and nationality, and, consequently, we have never appointed female or foreign directors so far.</p> <p>However, our company's Board of Directors is composed of 7 (maximum number is set at 9) directors (not audit committee members), who effectively utilize their expertise in business management/administration, technological development, production, sales, overseas work experience, accounting and legal work, and 4 directors (maximum number is 4), who are audit committee members with distinguished insight and knowledge, having management or auditing experience at a major company or possessing qualifications of a certified public accountant, a licensed tax accountant, or the like and we consider that the current composition is balanced to pursue our medium-to-long-term management plan, taking the scale of our company and our corporate group into consideration.</p> <p>We will continue to examine optimization for the balance of diversity and expertise.</p>
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<Disclosure Based on the Principles of the Corporate Governance Code (Excerpts)>

Principle	Items to be disclosed
<p>Principle 1-4 The strategically held shares</p>	<p>The company will hold shares after the deliberation and resolution by the board of directors, only when the shareholding is considered to contribute to the cementing of transaction relations and the improvement of corporate value under the business strategies of the company and its corporate group. Every year, the board of directors discusses the meanings of the holding of the shares, and if it is judged that the reasonable value of the shareholding is insufficient, the company will sell the shares while considering the market trend, etc. As for the exercise of the voting rights of shares the company holds, there are no specific standards, but each bill will be discussed, and dealt with based on comprehensive judgment.</p> <p>Listed cross-shareholdings owned by the company: 1 brand, 38 million yen (posted on the balance sheet)</p> <p>Regarding the exercise of voting rights for the shares, we will individually examine whether it will contribute to sustainable growth of the enterprise and enhance corporate value over the medium to long term as well as whether shareholder value is not significantly impaired. Based on the examination, we will decide approval or rejection of it in a comprehensive manner.</p>
<p>Principle 5-1 Policy for the constructive dialogues with shareholders</p>	<p>The company has the publicity and IR sections, and makes efforts to explain its managerial policy and situation in an understandable manner, so that it can talk with shareholders proactively and constructively. In addition, IR staff and officers hold briefing sessions for institutional and individual investors as planned, and respond to the request for an interview from institutional investors.</p> <p>In addition, each annual meeting of shareholders is held on Saturday, so that a broad range of shareholders can attend, and after the meeting, the company holds a briefing session and a convivial party for</p>

	shareholders, so that they can understand the policy of the company. In addition, last year, the venue of the general meeting of shareholders was changed to a hotel located inside the JR Kyoto Station building, in order to make it more convenient for shareholders to participate.
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