Device & Module Solutions Business (DMB)

Market Environment

Demand for electronic components in fiscal 2024 is patchy, depending on industries and areas. In the first half of the fiscal year, demand was somewhat weak due to the continued impact of inventory adjustments in the market and by customers. A resolution of this issue is expected in the second half due to an improvement in demand for factory automation equipment and building facilities, and in addition to a recovery in the semiconductor market, moderate recovery in demand is expected.
In addition, while environmental issues are becoming increasingly pressing due to the ongoing global warming, the energy management market is expanding, such as for solar power generation systems, storage batteries, and EVs, all of which contribute to the spread of renewable energy. In particular, the EV charger market is growing, underpinned by policies such as subsidies and tax incentives to promote the spread of EVs in various countries, and demand for electronic components to install in EVs is also increasing. As for the semiconductor market, growth is expected globally in the second half of fiscal 2024 amid the spread of data centers and the expansion of digital transformation (DX) initiatives among companies that utilize the latest technologies such as generative AI. Notably, we expect similar growth in business for semiconductor inspection in line with expansion of demand, especially for advanced semiconductors such as those for generative AI.
Thus, demand for electronic components is expected to grow steadily. DMB will strengthen its approach targeting rapidly growing applications in industries, capture orders, and aim for business growth that exceeds the rate of market growth.

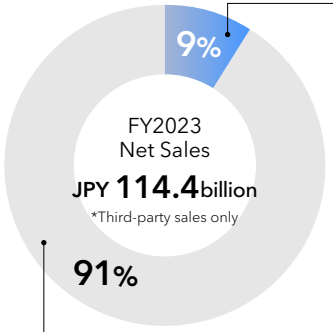
Our Strengths

DMB has three strengths. Firstly, a global sales network capable of providing leading companies in a wide range of industries with optimal solutions corresponding to customer assets and requirements. Having swiftly identified social changes and needs, we have been able to develop and provide products globally and ahead of our competition. Our customer base is a significant element that supports DMB. Our second strength is quality and performance reliability, which we have continued to refine in the course of transactions with leading companies. We provide products with stable quality by thoroughly evaluating quality in all manufacturing processes from development and design to completion, and by visualizing the quality status of our production lines worldwide. In terms of product performance, we are working to provide value that anticipates trends through product development based on a backcasting approach to capture the market and customer needs. This approach has enabled us to earn the trust of our customers and build long-term partnerships. The third is our technologies based on "connecting" and "switching." In addition to the technology for stable on/off switching, we possess microfabrication technology that we have cultivated since our founding as well as the technology for enabling various functional features packed in a compact-sized product. With a broad array of technologies, we can create unique, highly functional devices and modules that differ from those of specialist manufacturers. To further reinforce and leverage these strengths in the future, we practice high-cycle management, aiming to "strengthen our ability to make proposals and realize them quickly" and "improve our ability to effectively respond to change through data-driven decisions." Specifically, our aim is to shorten the lead time until new product releases by 50% through concurrent activities and to quadruple the speed of business control including procurement, production, and sales. We will further reinforce these three strengths to ensure that DMB is always the first choice among customers.

Growth Strategy to Achieve SF2030

Under NEXT 2025, we will strengthen our business portfolio and earnings structure to achieve SF2030. Our first objective is the "creation of new pillars for growth." By focusing on the domains that contribute to the achievement of carbon neutrality and the realization of a digital society as new pillars for growth, we aim to achieve sales of JPY 50 billion in these domains, accounting for 30% of DMB's net sales by fiscal 2027. The spread of new energy devices, such as solar power generation systems and EV chargers, is making advancements to accomplish reduced environmental impacts, and we are promoting high-capacity relays and modules to respond to these needs. In response to the demand for products for device testing due to the spread of advanced semiconductors for generative AI and high-speed communications, we will strengthen the provision of high-frequency relays and modules for testing equipment to increase sales. We are also engaged in the co-creation of modules that incorporate IoT communication technology to realize our customers' new data businesses, such as weather IoT sensors that contribute to effective responses to extreme weather events.
Our second objective is to "re-strengthen our core businesses." In addition to the strengths in quality and technical support that we have cultivated, we will enhance flexible delivery management in response to demand fluctuations by transitioning to an AI-based statistical forecasting model and investing in increased production based on demand forecasts. With a view to new value propositions as a step toward re-strengthening our core businesses, we are working to create new value based on "Green," "Digital," and "Speed." For example, as a Green value proposition, we are accelerating initiatives such as the provision of carbon footprint information of our high-capacity relay products in order to contribute to the reduction of CO_2 emissions throughout the supply chain.
Finally, our last objective is the reform of the earnings structure. DMB is also working to establish a strong earnings structure that can maintain ROIC of 10% or more by improving production efficiency through consolidation of commercial logistics, consolidation and elimination of product item numbers, and introduction of statistical demand forecasting, in addition to improvement of productivity through automation of production lines and digital transformation (DX) of indirect operations.

Sales Composition by Business Domains

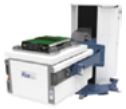


Core domain

Growth domain

EV charger that is safe for people to operate

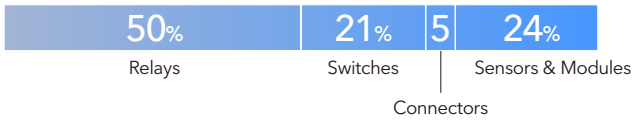
Low heat generation and safe shutdown of energy storage systems



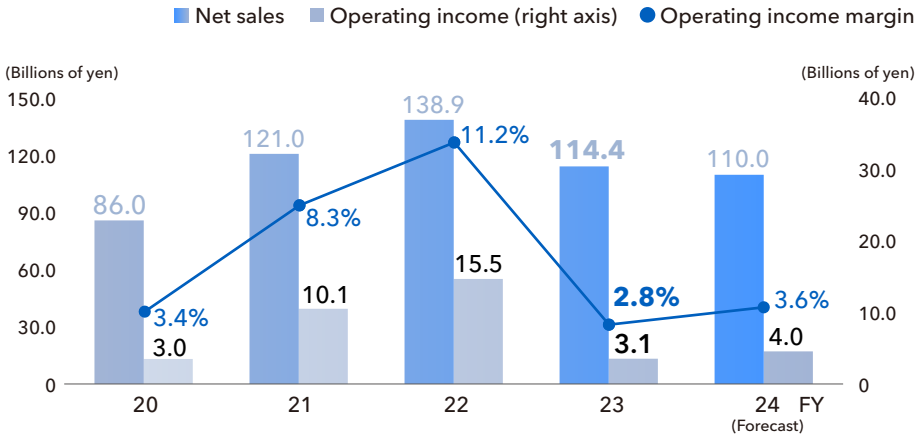
Solutions for highfrequency applications following the development of highspeed and high-capacity semiconductor devices

Proprietary IoT modules such as weather sensors

Sales Composition by Product



Net Sales / Operating income / Operating income Margin



Net Sales for Fiscal 2023

Demand for components for the consumer industry fell sharply, particularly in the Americas and China. This decrease was largely due to controlled investment, stagnant production activities, and inventory adjustments among our customers. Demand for automotive components was sluggish in general, although automobile production volume showed signs of recovery in certain markets in the second half of the year. As a result, sales were JPY 114.4 billion, significantly lower in terms of year-on-year.

Operating income for Fiscal 2023

Operating income declined significantly year-on-year to JPY 3.1 billion as a result of the decrease in sales and other factors.

INPUT

- R&D cost: JPY 4.9 billion (FY2023 results)
- Capital expenditure: JPY 6.1 billion (FY2023 results)
- Accelerated creation of new products by strengthening the R&D system
  - Reinforced product development system at the Shenzhen factory in China, and achieving the China National Accreditation Service for Conformity Assessment (CNAS) certification, an international laboratory accreditation standard
  - Accelerated development by strengthening industry-academia collaboration
- Promotion of sustainability
  - Conducted RBA-VAP audits in accordance with the Responsible Business Alliance (RBA) Code of Conduct at the Malaysia factory

OUTPUT

- Net sales: JPY 114.4 billion (-17.6% YoY)
- Operating income: JPY 3.1 billion (-79.7% YoY)
- Development of technologies and products that contribute to the achievement of carbon neutrality and the realization of a digital society
- Commercialization of Soratena Pro, a new type of IoT weather sensor that helps mitigate climate change and disaster risks
- Commercialization of EV Charging Smart Plug to promote the spread of EVs
- Expansion of clean energy production
  - GHG emissions: 48 Kt-CO_2 (-25 Kt compared to FY2021)
  - Obtainment of third-party certification for carbon footprint based on ISO14067

OUTCOME

- Contribution to the improvement of human life on Earth and the development of society through the diffusion of new energy and high-speed communications
- Social value KPI: 30 million units for DC devices, 120 million units for high-frequency devices (cumulative total for FY2022–FY2023)

SDGs 9.4.1