

Medium-Term Management Plan (FY2019~2023)

2019.Feb.7

Overview

~For Next Mid-Term Management Plan



Ongoing Mid-Term Management Plan

Achievement of Business Structural Reform.
Conversion of business portfolio by withdrawing from trading business.

Environment

Industrial production in China / Emerging markets will continue to increase with unpredictable situation.
Decrease of population will emphasize securing human resources and productivity.
Car electronics will continue to evolve further.
Corporate Governance will be more important.

Next Mid-Term Management Plan

Challenge for profit growth through increasing high-profit solutions and our own products' sales, based on our sales, marketing, and technological capabilities.

1 Ongoing Mid-Term Management Plan

2 Next Mid-Term Management Plan

Ongoing Mid-Term Management Plan

~Vision and Strategies for business structural reform~

Conversion of business portfolio

Expanding to overseas markets

Generating profit & cash flow

Strategies :

Focus on 4 growth sectors(Testing, MBD, Image processing, Embedded)
Exploring overseas market, reinforcement of investment
Product portfolio review from profit/cash-flow viewpoint

Quantitative Targets :

Sales: 35~40 billion Yen (FY2018)

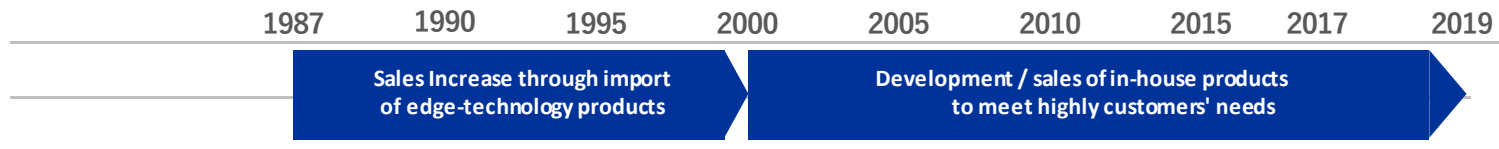
Operating Profit : 2.5~3.0 billion Yen (FY2018)

ROE : Short-Term 5% Mid-Term 8%+

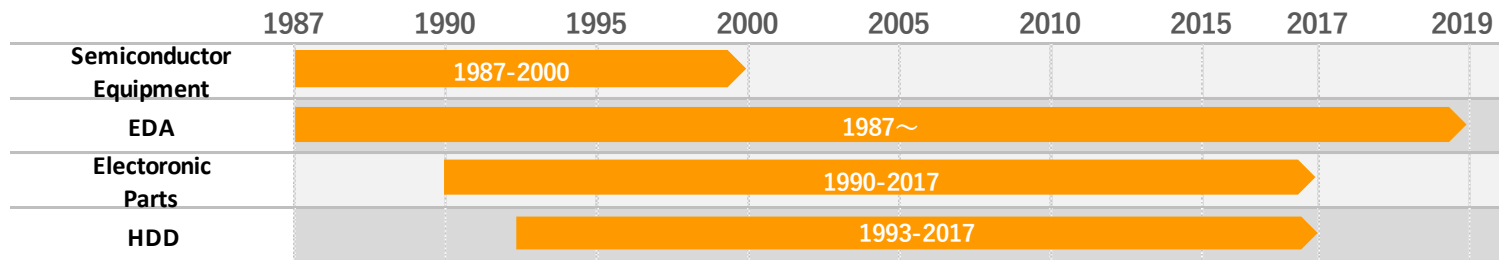
Conversion of business portfolio

Within ongoing Mid-term Plan, We achieved conversion of business portfolio from electronic parts trading business to in-house products business

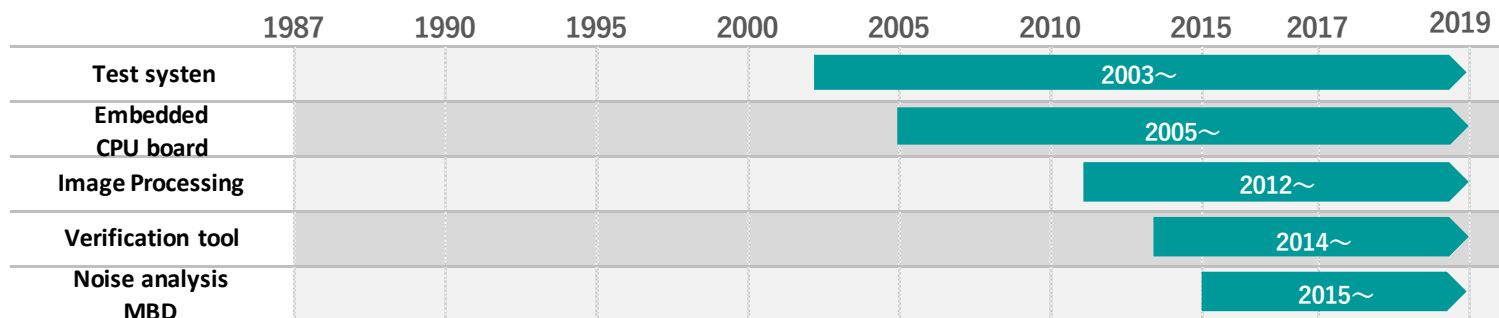
Conversion of business



Electronic parts trading business



In-house products business



EDA : Electronic Design Automation software

HDD : Hard Disk Drive, large-scale storage device

Ongoing Mid-Term Management Plan

~Achieve or not~



Conversion of business portfolio

Our Business Structural Reform resulted in achievement of business portfolio conversion such as withdrawal from electronic parts trading business, but still haven't reached creation of new business or execution of M&A enough to make up for such withdrawal.

→This part of ongoing mid-term plan was unreliable by nature, so resulted in a main reason to fail of sales amount.

Expanding to overseas markets

STAr grew up and expanded in U.S. markets, and Sanei-hytechs also expanded overseas business base. But only these.

→Necessary to improve development of our own solution, competitiveness, and marketing strengths in overseas markets.

Strategies: Focus on 4 growth sectors (Testing, MBD, Image, Embedded)

Our memory testers drove testing business growth along with STAr, and will reach almost the highest ever sales.

6

Gaio's verification tool software increased steadily.

Reglus developed a new camera system, and will start mass-production.

Quantitative Targets



Sales : 35~40 billion Yen

→29.5 billion Yen ※1

Operating Profit : 2.5~3.0 billion Yen

→1.9 billion Yen ※1

ROE : Short-term 5% Mid-term 8%+

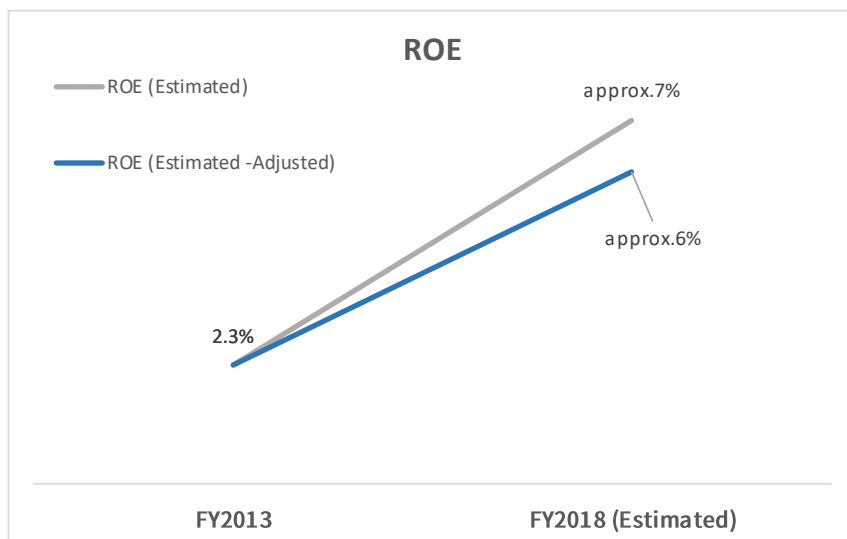
→ approx. 7% ※1

Note : Investment partnership profit (Non-operating income) by corporate venture capital ※2 etc., approx. 0.3 billion Yen is included.

Excluding this temporary factor

→ ROE: approx. 6%

Basic Outline for Capital Policy was announced at 2018 Feb. and conducted thereafter.



※1 Estimated

※2 Fenox Innotech Venture Company VI, L.P.

Basic Outline for Capital Policy

~ Implementation and achievement~



Increase in corporate value

ROE

Within ongoing Mid-Term Plan 5% Longer-Term 8~10% → 5% achieved

ROIC

Longer-Term 8~10%→ ROIC-WACC spread turned positive (an excess return)

Efficiency at Balance Sheet

D/E Ratio

D/E Ratio indicator 0.5 or less →0.23 (2018. Dec.)

Equity capital amount

Indicator: approx. 20 billion yen
→Equity capital 21 billion yen (2018.Dec.)

Dividend policy

Consolidated payout ratio: 30%+, Indicator:50% (Additionally, Total Return Ratio increase by Own Share Acquisition)

→Payout ratio: lower 40% range, Own Share Acquisition: 3.8 billion yen, TRR 300% (2019. March, estimated)

Stock Price Chart

Candle chart – Moving average line

Total Shareholder Return (TSR※)

Holding period	1-Year	3-Year	5-Year
Ratio	-14%	78%	114%



Turnover + balance of margin transactions



※ Holding period of TSR is based on 2018.Dec.28 as end of share price period.

TSR: Total Shareholder Return, a measure of the performance, which combines share price appreciation and dividends paid after purchasing.

1 Ongoing Mid-Term Management Plan

2 Next Mid-Term Management Plan

Environment ~ business opportunity and risk ~



China/Emerging markets

Continue to increase production capacity and demand for semiconductor.
Unpredictable protectionist trade policy.



Decrease of population

High demand for labor-saving technologies such as IoT/AI, efficient designing.
Difficulty for securing human resources.



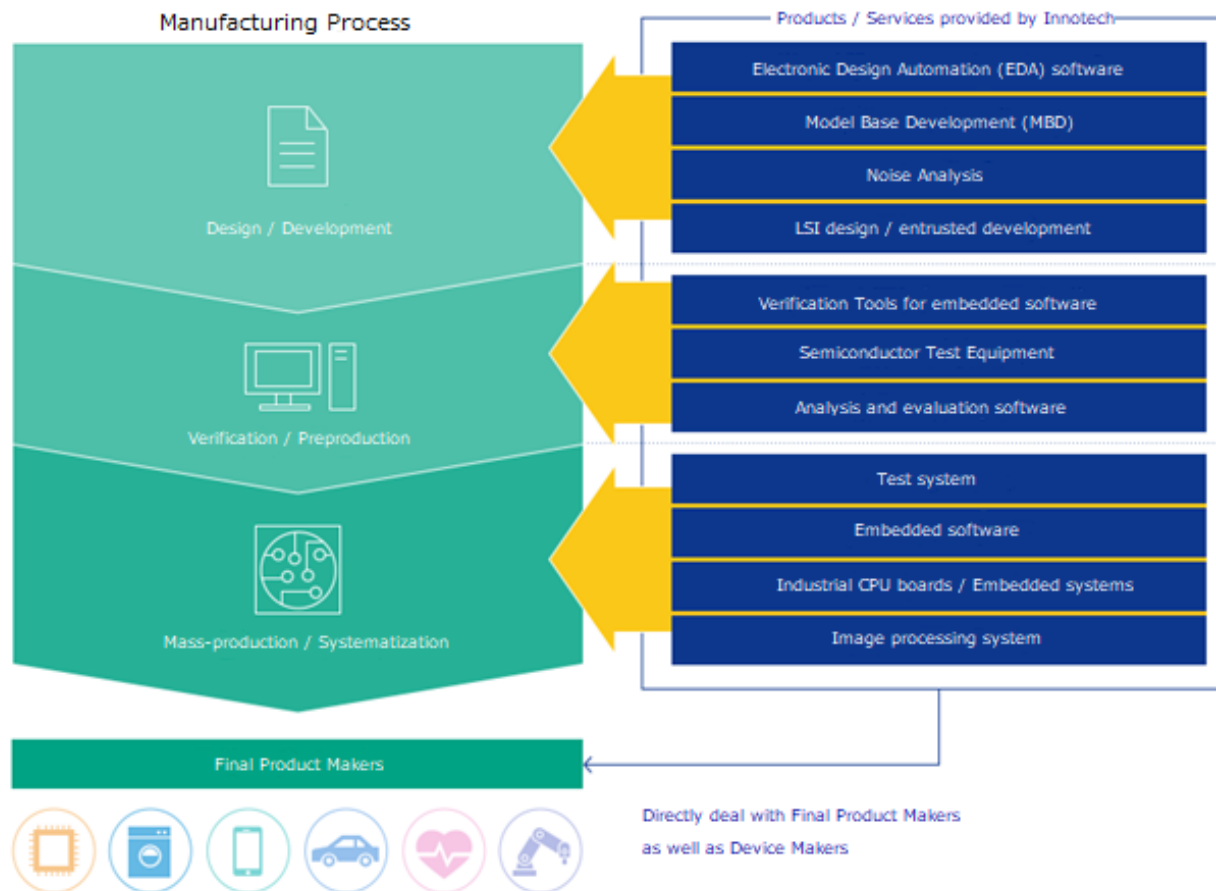
Automotive industry

Car-electronics changing and growing up.
Paradigm shift in a business diagram.



Will be more important in the future.

Business Model



Innotech supports for customers' needs, such as needs for design / development assistance, needs for verification, and needs for test, in a semiconductor, automotive and various industries .

In addition, Innotech provides solutions combining both hardware and software, based on our business experiences and advantages.

Outline of Next Mid-Term Management Plan

~FY2018

FY2019~2023

FY2024~

Business
Structural
Reform

Growth
- expanding our value -

Next
stage

Conversion of
business portfolio

Withdrawal from
electronic parts
trading business

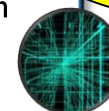


Major 5 strategies

Pursuit of growth in profits

- 1 Growth of Test solution business
- 2 Increase of In-house products / Enhancement of manufacturing function
- 3 Expansion of customer base / Expanding to overseas markets
- 4 Aggressive approach to next-generation business

ROE
8%+



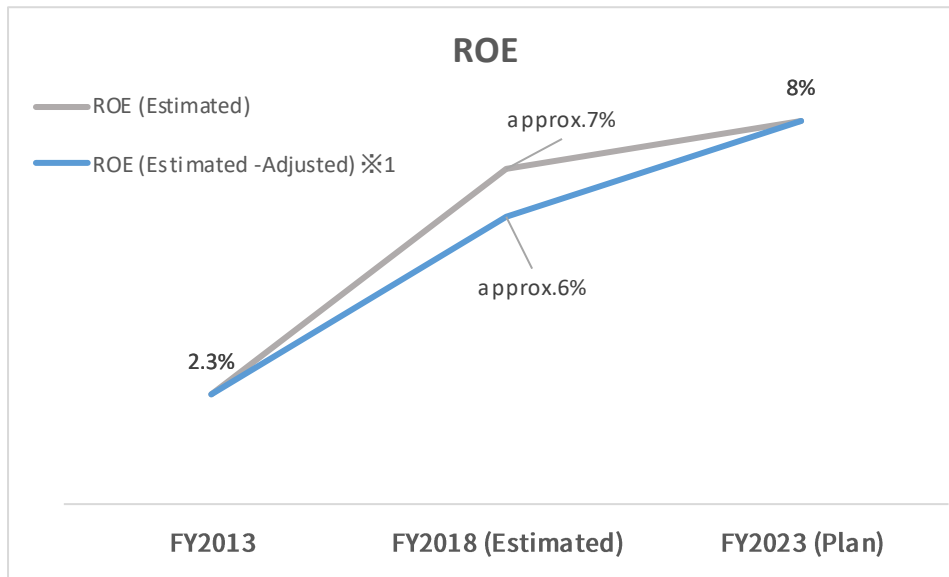
Capital policy / Investment strategy

- 5 Improvement of capital efficiency with Basic Outline for Capital Policy



Engagement with ESG activities





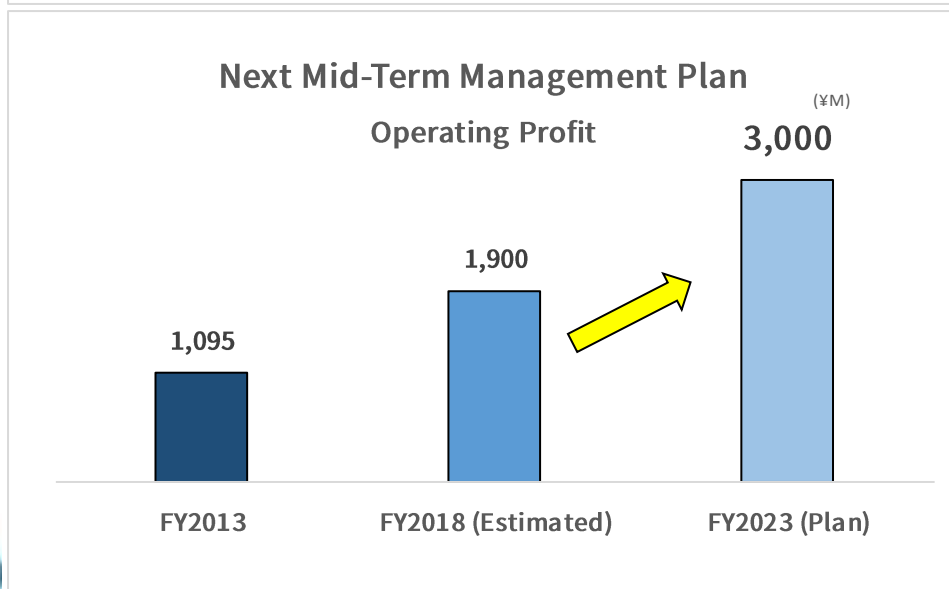
Next Mid-Term Management Plan

ROE target: 8%+



For achievement of this target,

- Operating profit : 3~3.5 billion yen
On top of this, a goal to reach for:
Breaking record-high profit※2
- Appropriate implementation of capital policy with profit



※1 ROE(Estimated -Adjusted)
Excluding investment partnership profit (cf. Page7)

※2 Record-high profit
FY2007 Operating Profit 3.33 billion Yen

Business Strategies

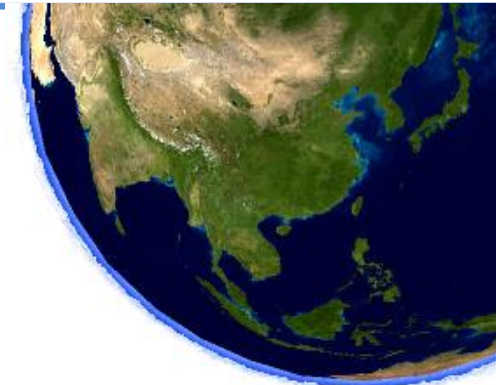
- 1 Growth of Test solution business**
- 2 Increase of In-house products /
Enhancement of manufacturing function**
- 3 Expansion of customer base /
Expanding to overseas markets**
- 4 Aggressive approach to next-generation business**

Financial Strategies

- 5 Improvement of capital efficiency
with Basic Outline for Capital Policy**

1 Growth of Test solution business

Expansion of a product lineup



Aries-γΣΔ
Wafer-Sort
Probe Card



Memory IC ATE



CMOS Image
Sensor ATE



Gemini
Hybrid 3D-IC ATE



Apollo
HTOL/HAST
Test System



Mercury
Mixed Signal
ICs ATE



Taurus-PDAT
Power Device
Analytical Tester



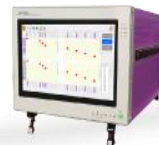
Virgo
WAT & Reliability
Probe Card



Leo-LAIT
LED/VCSEL Advanced
Integrated Tester



Scorpio
Reliability Test System



Taurus-SSS/STS
Modular Switch
& VIU Analyzer



Sagittarius-TMS/RMS/SPT
Intelligent Operating
Test System

**Market
development
in China etc.**

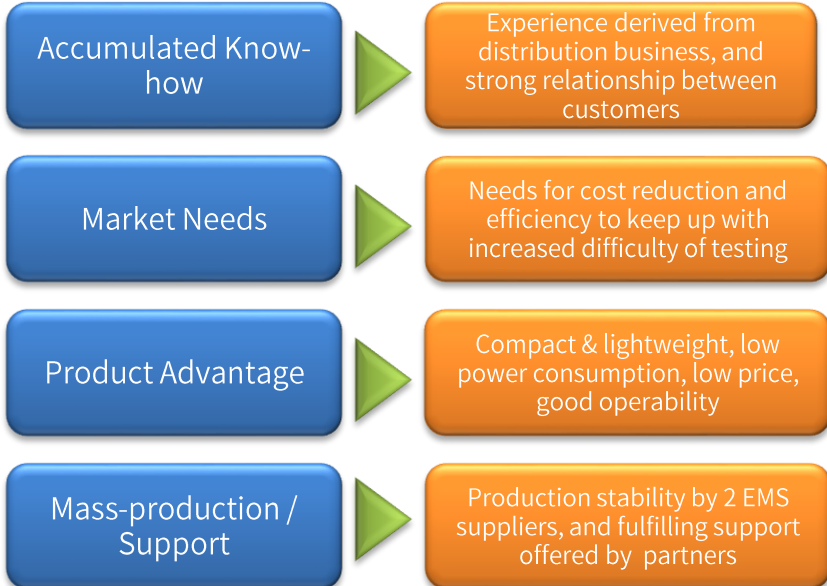
Enhancement of sales/marketing and technological capabilities, cooperating with our group companies

1 Growth of Test solution business

- Semiconductor tester is a equipment for testing if the device is defective or not, and is increasing in importance by accompanying technological evolution and market expansion of semiconductor
- Product lineup expansion from In-house flash memory tester to various sensor tester in a growing market.



Strength of Innotech Tester



1 Growth of Test solution business

- Enhancement of sales/marketing capabilities in overseas markets and Offer Turn-key solution(total solution), cooperating with STAr technologies (Taiwan)
- STAr's main products are reliability test equipment for evolving semiconductors and advanced probe cards



Strength of STAr solutions

Technological Capability

Offer various service from semiconductor design to analysis solutions

Market Needs

Turnkey solution including hardware and software

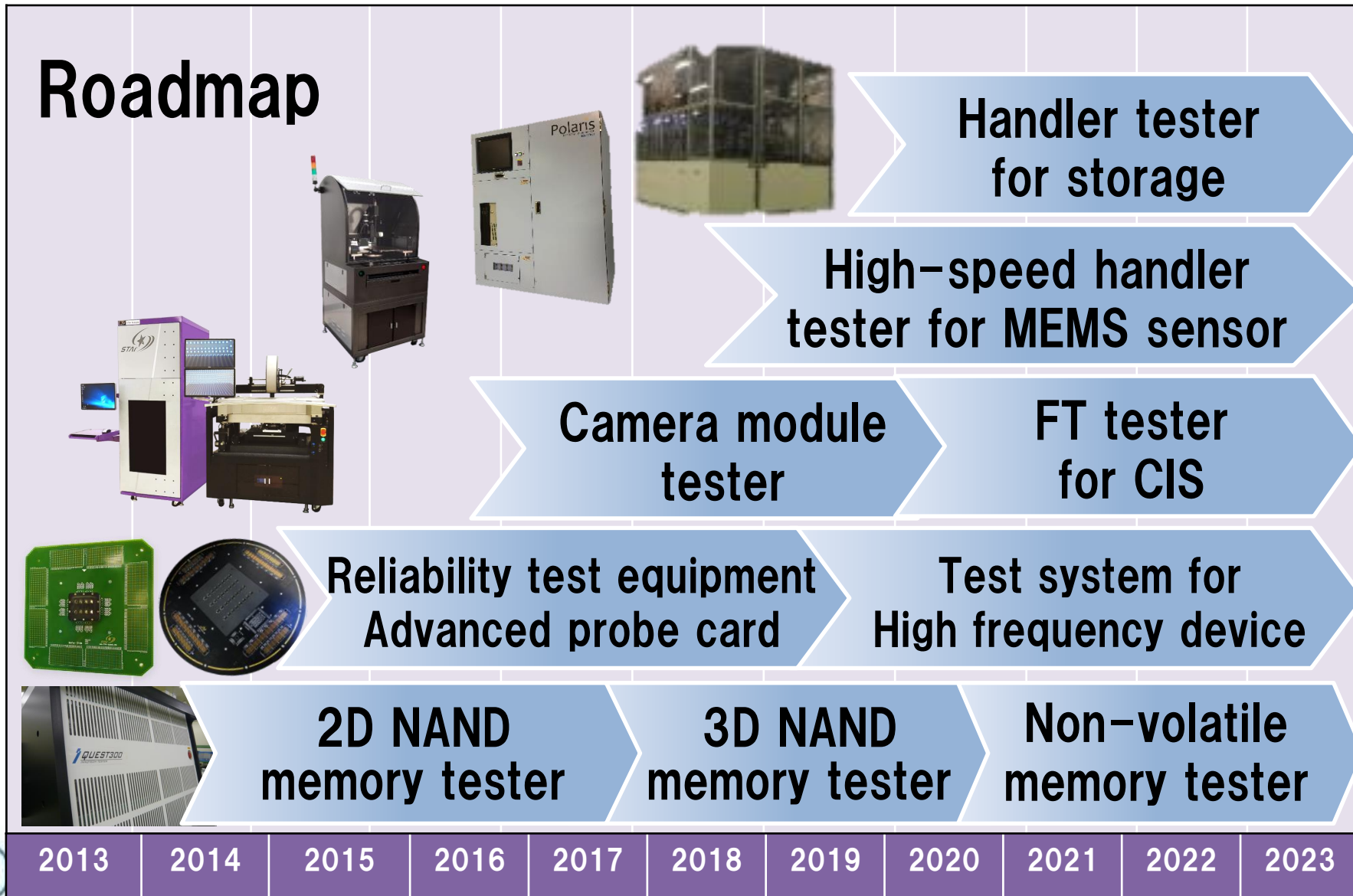
Product Advantage

High quality, leading-edge, wide range of temperature

Sales / Marketing Capability

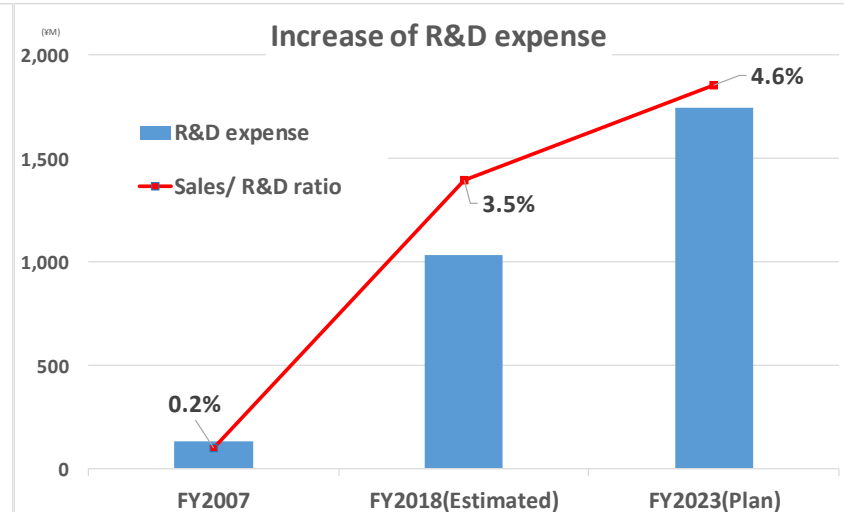
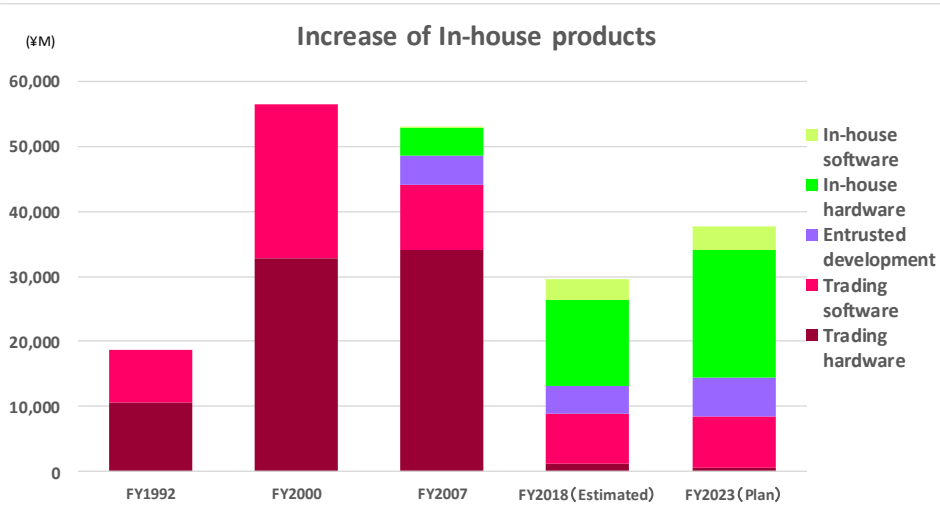
A broad customer base such as major foundries, and many global hubs for sales

1 Growth of Test solution business



2 Increase of In-house products / Enhancement of manufacturing function

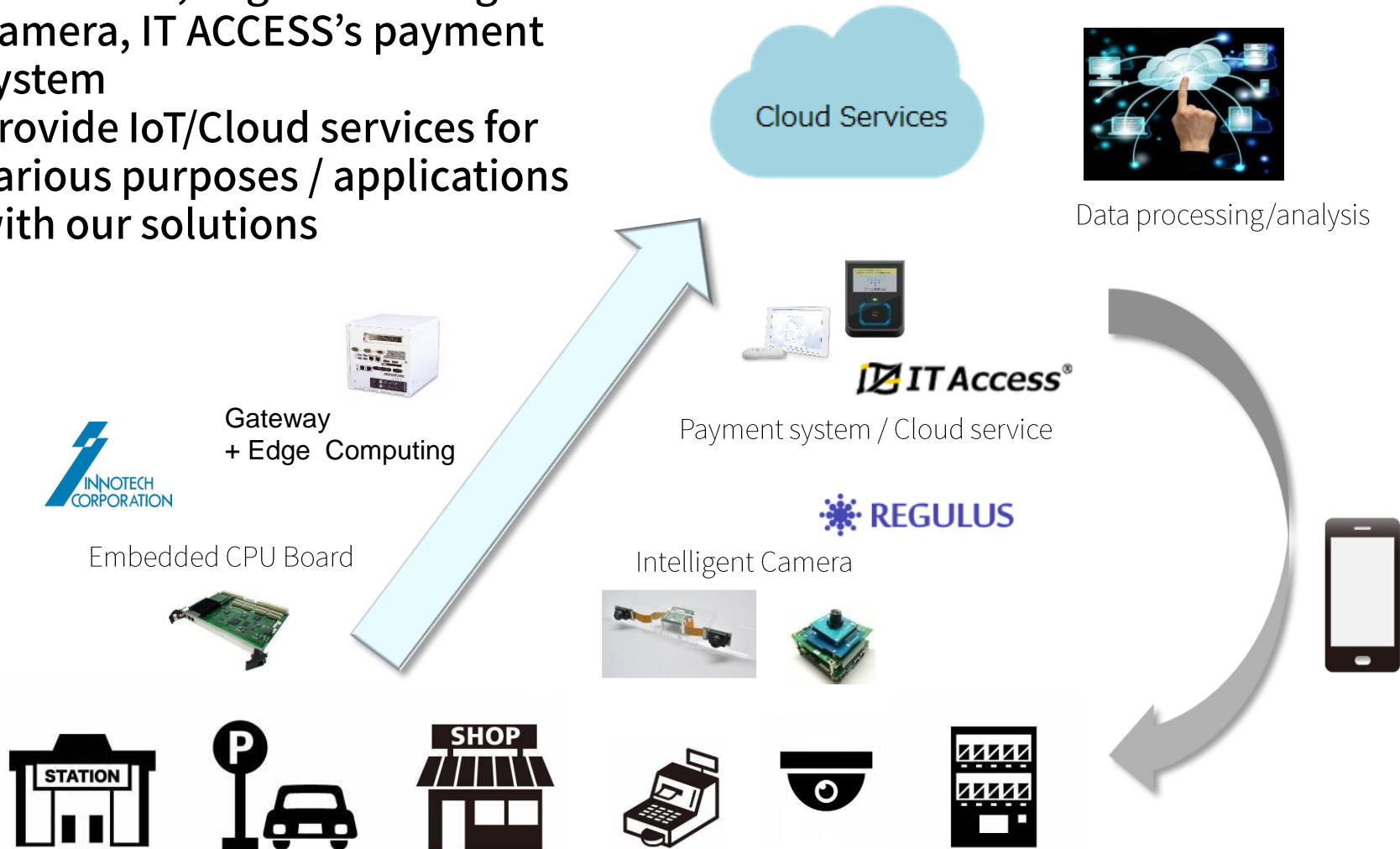
Encourage development / deployment of leading-edge In-house solutions and products, based on competitiveness of Innotech group



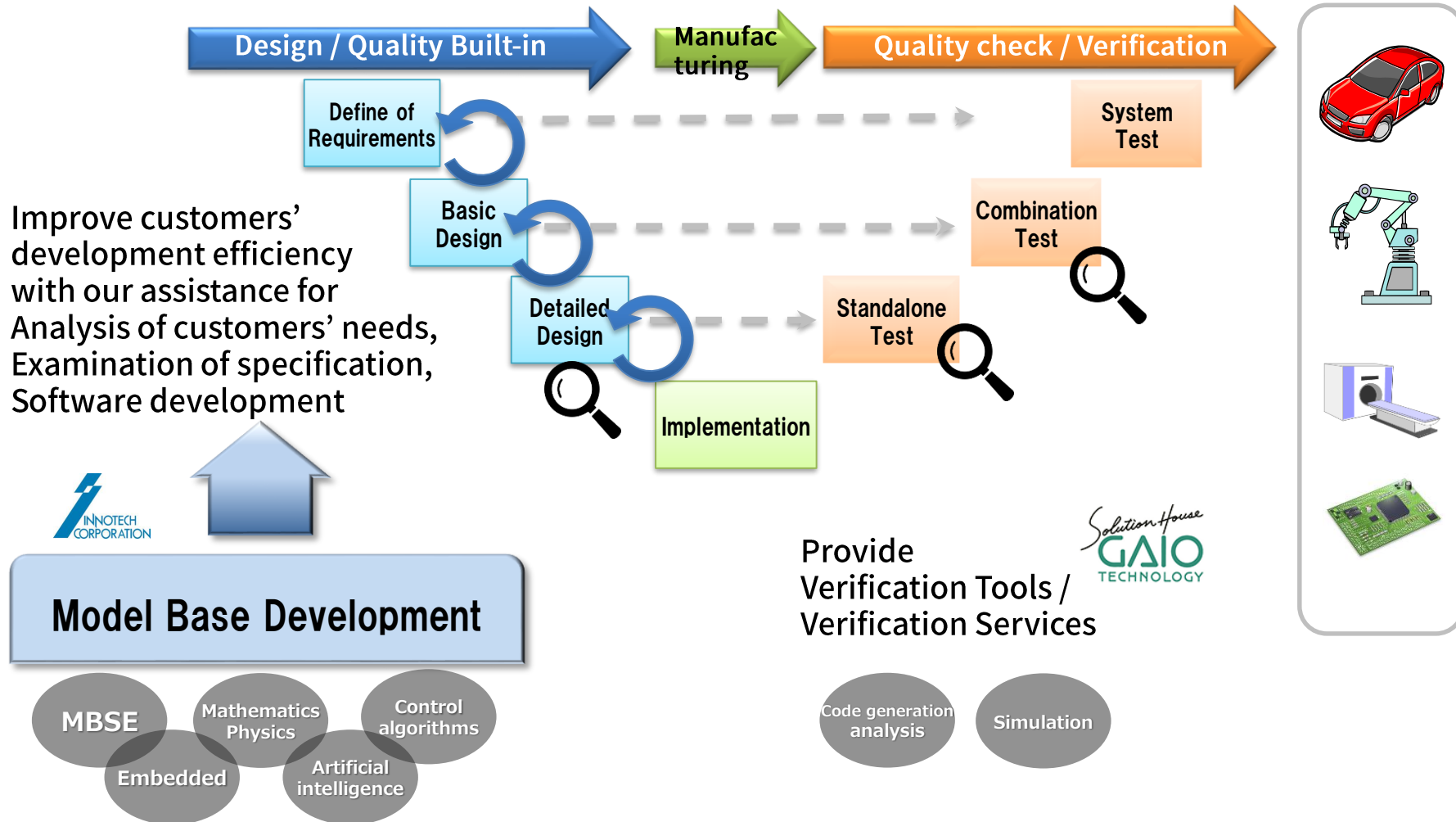
2 Increase of In-house products / Enhancement of manufacturing function

Provide Innotech's Embedded CPU Board, Reglus's Intelligent Camera, IT ACCESS's payment system

Provide IoT/Cloud services for various purposes / applications with our solutions

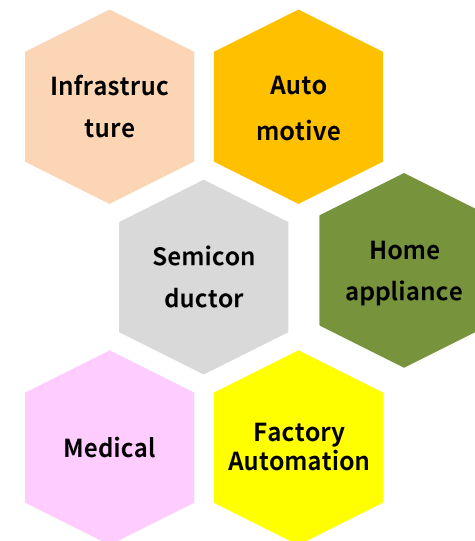


2 Increase of In-house products / Enhancement of manufacturing function



3 Expansion of customer base / Expanding to overseas markets

**Expand customer base
from electronics market
to automotive, infrastructure,
and healthcare market**

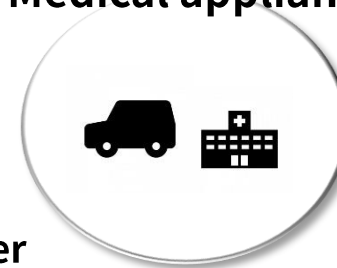


**Exploit overseas markets
such as test solution business
and IC design business**

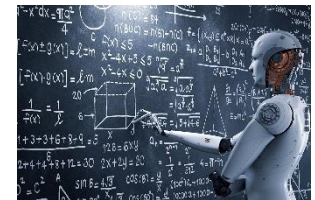
3 Expansion of customer base / Expanding to overseas markets

Expand customer base from electronics market to automotive, infrastructure, and healthcare market

In-vehicle system maker
Medical appliance maker



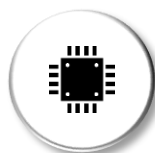
Infrastructure system maker
Vending machine and other machine maker



Home appliance maker



Semiconductor maker

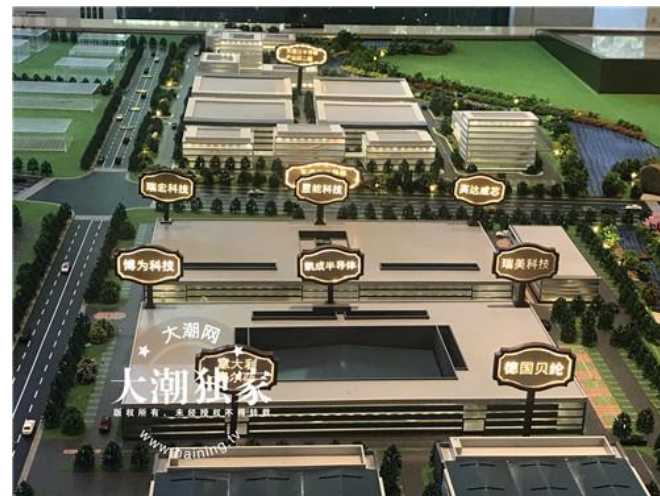


3 Expansion of customer base / Expanding to overseas markets



浙江芯暉設備技術有限公司
(Z-CSET)

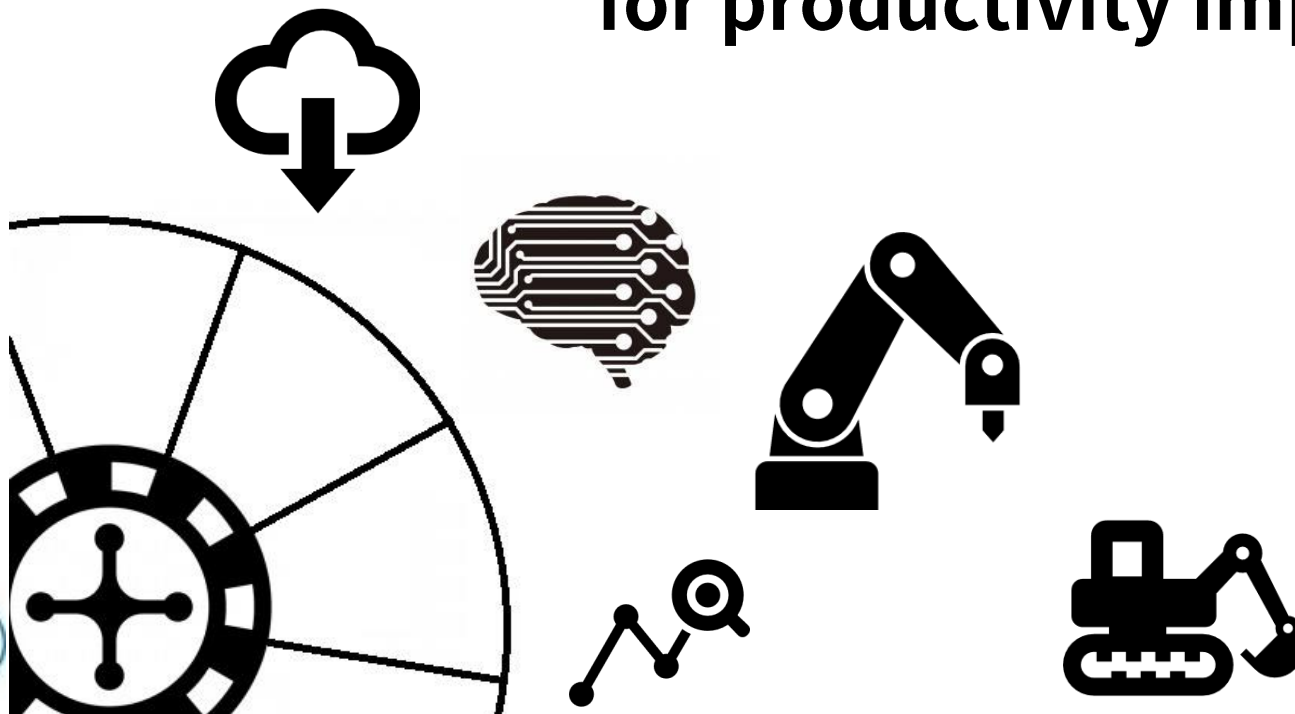
Capital participation in Z-CSET
Distribute our test systems etc.
in China through Z-CSET



4 Aggressive approach to next-generation business

Aggressive approach to markets with growth potential such as IoT, AI, Robotics etc.

Enhancement of our solution for productivity improvement



4 Aggressive approach to next-generation business

Case ①
launched an automation
solution with OSARO's
perception and action AI
software for industrial
robot



AI × Robot

Case ②
Roll out Reglus's AI
camera system for
GROOVE X's home
robot 『LOVOT™』



4 Aggressive approach to next-generation business

Case ③

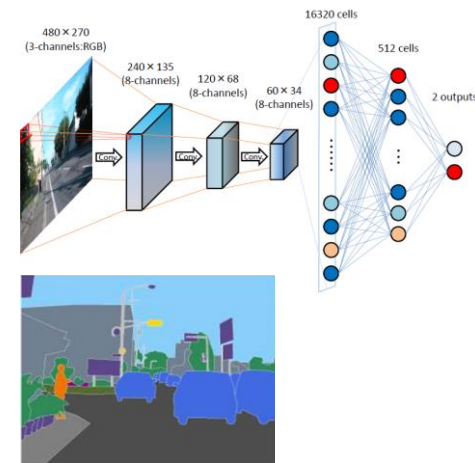
Developed and deployment of IT ACCESS's cloud payment system/service for vending machine



AI / IoT

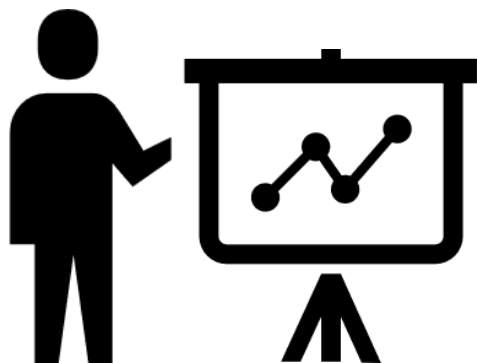
Case ④

Big data analysis and metadata attachment for image / sound recognition
Implementation of AI algorithms into devices



5 Improvement of capital efficiency with Basic Outline for Capital Policy

<Basic Outline for Capital Policy>※



Increase in corporate value

- Management keeping conscious of capital cost
- Improvement of ROE and ROIC
(Widening in ROIC-WACC spread)
- Increase of operating cash flow

Efficiency at Balance Sheet

- Equity capital amount suitable to business scale
- Appropriate balance of capital / liabilities
- Stable dividend
- Positive examination of own share acquisition comprehensively in view of the financial condition

5 Improvement of capital efficiency with Basic Outline for Capital Policy

<Capital policy and Investment strategy under Next Mid-Term Management Plan>



Increase in corporation value

ROE

Target: 8%+

ROIC

Widening in ROIC-WACC spread (Target: 8%)

Efficiency at Balance Sheet

D/E ratio (Equity capital amount)

D/E ratio indicator 0.5 or less (Equity capital ratio:60% level)
Flexible examination of own share acquisition

Payout ratio, Total Return Ratio

Consolidated payout ratio: 30%+, Indicator:50%

Investment strategy

Individual examination, based on following premises
– Investment return surpasses capital cost



Corporate Governance

Steps taken to strengthen corporate governance

- Appointment and increase of outside directors
- Establishment of a corporate governance guideline
- Establishment of optional advisory committee
- Streamlining decision-making, monitoring of meeting, remuneration reform, etc.

Up-to-date transformation will continue, future issues are

- Introduction of succession plan
- Diversity in board meeting
- Appropriate communication with all stakeholders



Environment / Social

- Involvement to community and energy-saving society
- Contribution to SDGs action
- Enhancement of disclosure

Caution about descriptions regarding future events

Please note that the above is an English translation of the Japanese version prepared for your reference and convenience only. This presentation documents include descriptions based on our expectation, estimation and forecast at present. These descriptions regarding future events include already-known or unknown risks, uncertainties and other factors, by which actual financial status or activities of our company will make a huge difference compared to express or implied representation regarding such future events.

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