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Elecom Co. (6750)

Designer and manufacturer of computer and smartphone peripheral devices/accessories; has a tie-up with French external hard drive maker La Cie to sell its products in Japan.

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Income Statement (Million Yen)	FY03/08 Cons.	FY03/09 Cons.	FY03/10 Cons.	FY03/11 Cons.	FY03/12 Cons.	FY03/13 Est.
Total Sales	52,210	49,313	48,439	52,310	62,547	66,000
YoY	8.7%	-5.5%	-1.8%	8.0%	19.6%	5.5%
Gross Profit	16,332	15,928	16,858	18,931	21,904	
YoY	21.8%	-2.5%	5.8%	12.3%	15.7%	
GPM	31.3%	32.3%	34.8%	36.2%	35.0%	
Operating Profit	3,870	3,121	4,002	5,752	6,806	7,200
YoY	38.6%	-19.3%	28.2%	43.7%	18.3%	5.8%
OPM	7.4%	6.3%	8.3%	11.0%	10.9%	10.9%
Recurring Profit	2,956	2,577	3,591	5,369	6,130	6,600
YoY	52.9%	-12.8%	39.3%	49.5%	14.2%	7.7%
RPM	5.7%	5.2%	7.4%	10.3%	9.8%	10.0%
Net Income	1,581	1,311	735	2,777	3,313	3,400
YoY	65.3%	-17.1%	-43.9%	277.7%	19.3%	2.6%
Net Margin	3.0%	2.7%	1.5%	5.3%	5.3%	5.2%
Per Share Data						
Number of Shares	16,479	24,879	20,498	20,498	20,498	
EPS	97.3	53.9	30.7	138.9	165.6	169.8
Dividend Per Share	20.0	15.0	15.0	20.0	30.0	25.0
Book Value Per Share	519.2	387.1	420.3	524.1	683.7	
Balance Sheet (Million Yen)						
Cash and Equivalents	5,198	5,476	6,087	16,206		
Inventories	4,767	4,742	5,344	6,677		
Total Current Assets	19,439	17,939	19,573	32,200		
Tangible Fixed Assets, net	1,048	996	851	1,026		
Other Fixed Assets	702	690	868	1,202		
Intangible Assets	2,034	1,751	430	920		
Total Assets	23,224	21,376	21,722	35,348		
Accounts Payable	7,455	6,718	7,313	7,486		
Short Term Debt	1,540	1,155	1,326	10,507		
Total Current Liabilities	13,830	11,301	12,529	23,998		
Long Term Debt	300	0	50	50		
Total Fixed Liabilities	862	643	723	792		
Total Liabilities	14,692	11,944	13,252	24,790		
Net Assets	8,531	9,432	8,470	10,558		
Interest Bearing Debt	1,840	1,155	1,376	10,557		
Cash Flow Statement (Million Yen)						
Operating Cash Flow	5,735	2,089	3,015	2,815		
Investment Cash Flow	-320	-284	-424	-1,570		
Financing Cash Flow	-3,200	-1,540	-1,995	8,901		
Financial Ratios						
ROA	6.7%	5.9%	3.4%	9.7%		
ROE	18.8%	14.6%	8.3%	29.4%		
Equity Ratio	36.7%	44.1%	39.0%	29.9%		

Source: Company Data Processed by SR Inc.

*Figures may differ from company materials due to differences in rounding methods.

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Recent Updates

Highlights

On **May 7, 2012**, Elecom released full year FY03/12 results: [click here](#) to go direct to the FY03/12 results section.

(For original Japanese-language only release in PDF format [please click here](#))

On **March 28, 2012**, the company announced it had upwardly revised its FY03/12 forecast and had restructured its European subsidiaries.

(For original Japanese-language only release in PDF format of forecast revision [please click here](#); and for original Japanese-language only release in PDF format of restructuring of its European subsidiary [please click here](#))

The new FY03/12 forecast was as follows:

- Sales: 62.0 billion yen (vs. previous forecast of 58.0 billion yen)
- Operating profit: 6.9 billion yen (vs. previous forecast of 6.2 billion yen operating profit)
- Recurring profit: 6.1 billion yen (vs. previous forecast of 5.8 billion yen recurring profit)
- Net income: 3.2 billion yen (vs. previous forecast of 3.0 billion net income)

The company cited the following factors behind the upward revision:

- Sales: were expected to come in higher than initially forecast due to strong sales of smartphone cases and other accessories; and higher-than-expected sales of domestic wireless LAN products and external HDDs used for recording of TV programs
- Operating profit: the increased forecast was due to the higher sales figures
- Recurring profit: upwardly revised due to higher operating profit as well as higher rebates from electronics retailers driven by higher sales volumes and lower foreign exchange losses due to the weakening of the yen
- Net income: the forecast revision was due to upward revisions to recurring profit, a 1.4 billion yen lower corporate tax burden from the dissolution of its European ednet group subsidiaries, However, this was partially offset by ednet group recording an 658 million yen extraordinary loss related to its business liquidation plus a further 216 million yen extraordinary loss factor stemming from cancelation of business software related to the dissolution of the group.

Restructuring of European Subsidiaries

It was decided at a March 28, 2012, board meeting that the company's European subsidiaries - ednet GmbH, ednet AG, ednet Nederland BV (collectively known as ednet group) – would be dissolved. The company was planning on establishing a new 100%-owned subsidiary company in mid-April 2012, called ELECOM Europe GmbH.

In view of the poor financial performance of ednet group, it was decided that sales of ednet branded products were to cease, and instead the company would refocus on selling its own brand-name products (i.e. Elecom branded) to raise brand awareness in Europe. In order to improve profitability and reducing operating costs at its new subsidiary, sales would be conducted via distributors and online.

For corporate releases and developments more than three months old please refer to the [News & Topics](#) section.

Trends & Outlook

Quarterly Performance (Million Yen)	FY03/11				FY03/12				FY03/12	
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	% of FY	FY Est.
Sales	12,010	11,361	14,911	14,028	14,537	14,348	17,598	16,064	100.9%	62,000
YoY	9.5%	4.8%	13.5%	3.9%	21.0%	26.3%	18.0%	14.5%		18.5%
Gross Profit	4,396	3,819	5,701	5,015	5,063	5,167	6,390	5,285		
YoY	15.5%	5.0%	22.9%	5.0%	15.2%	35.3%	12.1%	5.4%		
GPM	36.6%	33.6%	38.2%	35.8%	34.8%	36.0%	36.3%	32.9%		
SG&A	3,203	2,995	3,380	3,602	3,548	3,700	3,877	3,973		
YoY	-1.6%	-2.3%	4.6%	8.9%	10.8%	23.6%	14.7%	10.3%		
SG&A / Sales	26.7%	26.4%	22.7%	25.7%	24.4%	25.8%	22.0%	24.7%		
Operating Profit	1,193	824	2,321	1,413	1,514	1,467	2,513	1,312	99.4%	6,850
YoY	115.9%	44.5%	64.9%	-3.9%	26.9%	77.9%	8.3%	-7.2%		19.1%
OPM	9.9%	7.3%	15.6%	10.1%	10.4%	10.2%	14.3%	8.2%		
Recurring Profit	1,111	748	2,166	1,344	1,397	1,359	2,344	1,031	100.5%	6,100
YoY	137.6%	50.2%	63.3%	3.5%	25.7%	81.7%	8.2%	-23.3%		13.6%
RPM	9.3%	6.6%	14.5%	9.6%	9.6%	9.5%	13.3%	6.4%		
Net Income	479	357	1,164	777	486	492	1,149	1,186	105.2%	3,150
YoY	144.3%	-	65.8%	-11.8%	1.5%	37.8%	-1.3%	52.6%		13.4%
NPM	4.0%	3.1%	7.8%	5.5%	3.3%	3.4%	6.5%	7.4%		

Source: Company Data Processed by SR Inc.

Figures may differ from company materials due to differences in rounding methods.

Company forecast figures are based on the most recently issued company forecast

FY03/12 Results (announced on May 7, 2012; please refer to table above.)

Full year sales were up 19.6% YoY at 62.6 billion yen, operating profit rose 18.3% to 6.8 billion yen, and recurring profit climbed 14.2% to 6.1 billion yen.

The company posted 1.2 billion yen in extraordinary losses, including: 1) 400 million yen in doubtful accounts being recorded in relation to 400 million yen in convertible bonds the company underwrote for Idea International Co. (Jasdaq 3140) and Idea International's poor financial condition; 2) 233 million yen in losses on disposal of software and other fixed assets; and 3) ednet GmbH and two other European subsidiaries recording a 563 million yen extraordinary loss related to their business liquidation. The recognition of the European subsidiaries' liquidation-related loss meant a 1.4 billion yen lower corporate tax burden. Accordingly, net income surged 19.3% YoY to 3.3 billion yen.

Performance at the segment-level is as follows.

Supply: Sales, 21.7 billion yen (up 22.2% YoY)

Sales of smartphone cases and other accessories were strong.

Storage & Memory: Sales, 11.3 billion yen (up 55.0%)

Sales were robust for LaCie brand storage products used for recording TV programs, and contributions from memory products handled by Hagiwara Solutions Co. - established in July 2011 - since August 2011.

IO Devices: Sales, 6.2 billion yen (down 6.8%)

Steady sales of mouse and other new products were offset by negative impact of price competition in other IO devices.

Digital Home: Sales, 15.3 billion yen (up 9.3%)

Sales were driven up by terrestrial digital TV broadcasting and smartphone focused AV-accessories, network, and Bluetooth-related products.

Others: Sales, 8.1 billion yen (up 21.5%)

While sales of various PC products were strong, a number of products in new categories (rechargeable smartphone batteries, LED lighting systems) were launched.

Smartphone-related product sales in the Supply and Digital Home segments totaled 11.9 billion yen, a substantial increase from 4.9 billion yen in FY03/11 with quarter sales on a steady upward trend (Q1: 2.4 billion yen; Q2: 2.7 billion yen; Q3: 3.4 billion yen; Q4: 3.5 billion yen). Smartphone-related product sales were forecast at approximately 8.0 billion yen for full year FY03/12.

On balance sheets, short term debt stood at 300 million yen as of FY03/12-end, a significant decrease from 10.5 billion yen as of FY03/11-end. According to the company, this was thanks to lower current capital, which was temporarily accumulated after the earthquake. In line with this move, cash and deposits were at 8.9 billion yen at FY03/12-end, down from 16.2 billion yen at FY03/11-end.

Q3 FY03/12 Results (announced on February 6, 2012; please refer to table above.)

The company maintained its FY03/12 forecast.

Cumulative Q3 sales were up 21.4% YoY at 46.5 billion yen; operating profit rose by 26.6% to 5.5 billion yen, and recurring profit increased 26.7% to 5.1 billion yen. Net income though rose by a comparatively smaller 6.4%, to 2.1 billion yen, due to 413 million yen in extraordinary losses. The majority of this was due to 400 million yen in doubtful accounts being recorded in relation to 400 million yen in convertible bonds the company underwrote for Idea International Co. (Jasdaq 3140) and Idea International's poor financial condition.

At the segment-level, in the Supply business, top-line rose 24.0% YoY to 16.4 billion yen; Storage & Memory sales were up by 54.1% at 8.0 billion yen; and sales for the Digital Home improved 13.3% to 11.6 billion yen. IO Devices however posted a 6.1% YoY drop in sales to 4.6 billion yen.

By segment, the strong top-line figures were driven by:

- Smartphone-related products/accessories in the Supply business
- LaCie brand storage products and launch of USB3.0 compliant storage devices in Storage & Memory
- Terrestrial digital TV broadcasting and smartphone focused AV-accessories; network; and Bluetooth-related products in Digital Home

In IO devices, competition continued to intensify for sales of input equipment.

While there were concerns about the impact of flooding in Thailand in fall 2011 would have on procurement of storage components (specifically, HDD procurement), Elecom was able to procure items with no problems. It thus benefited from price rises in response to the supply shortage. Network-related products did well despite being impacted by declining demand for music players/iPods and peripherals due to the rise of the iPhone, and the drop-off in elevated demand following the end of the AVD/digital home eco-point program in 2010. With their storage and networking products both performing well, the company managed to confidently increase its market share in both areas.

There were, however, concerns that storage prices could fall, although as of February 2012 prices were stabilizing.

Sales of smartphone-related products (recorded in both the Supply and Digital Home segments) came in at 8.5 billion yen, notably above the 2.9 billion yen recorded for cumulative Q3 FY03/11. The quarterly breakdown of smartphone-related product sales shows these an upward trend:

Q1 – 2.4 billion yen

Q2 – 2.7 billion yen

Q3 – 3.4 billion yen

The company's initial full year sales forecast for smartphone-related products was approximately 8 billion yen, but it has already cleared this level as of end-Q3. Given smartphone-related product demand tends to quickly peak once a new model goes on sale with demand then going into decline thereafter, inventory control for the space is difficult. However, Elecom appeared to be controlling inventory levels well.

While sales have been good, Elecom's European subsidiary ednet GmbH Inc. continued to post an operating loss (at the geographical level, cumulative Q3 FY03/12 figures show Europe sales at 871 million yen, and an operating loss of 284 million yen). The company was hoping to address this going forwards.

Q2 FY03/12 Results (announced on November 7, 2011; please refer to table above)

The company had previously announced revisions to its 1H FY 03/12 forecasts on October 28, 2011.

Sales increased 23.6% YoY, to 28.9 billion yen; operating profit rose 47.7%, to 3.0 billion yen, and recurring profit was up 48.3%, to 2.8 billion yen.

Net income increased a comparatively smaller 17.0%, to 978 million yen, due to a 411 million yen extraordinary loss. This loss was primarily due to 400 million yen in doubtful accounts being recorded in relation to 400 million yen in convertible bonds the company underwrote for Idea International Co. (Jasdaq 3140) and Idea International's poor financial condition.

At the segment-level, in the Supply business sales were up 26.1% YoY at 9.8 billion yen; Storage & Memory rose 46.1% to 4.8 billion yen; and the Digital Home business notched up a 22.8% rise to 7.4 billion yen. IO Devices was the exception to the strong set of sales figures, declining 6.9% YoY to 3.0 billion yen.

By segment, the strong top-line figures were driven by:

- Smartphone-related products in the Supply business
- LaCie brand storage products and launch of USB3.0 compliant storage devices in Storage & Memory
- AV-related, network, and Bluetooth-related products in Digital Home

In IO devices, competition continued to intensify for sales of input equipment.

Sales of smartphone-related products (recorded in both the Supply and Digital Home segments) came in at 5.1 billion yen, a significant increase on the 1.8 billion yen recorded in 1H in FY03/11.

Q1 FY03/12 Results (announced on August 9, 2011; please refer to table above)

Sales increased 21.0% YoY to 14.5 billion yen, operating profit rose by 26.9% YoY to 1.5 billion yen, and recurring profit was up 25.7% YoY at 1.4 billion yen.

Breaking sales down by segment, top-line growth was strong across all businesses, except for IO Devices, which experienced a 10.6% YoY decline in sales to 1.5 billion yen. Sales in the Supply business were up 20.0% YoY at 4.7 billion yen; Storage & Memory sales came in at 2.3 billion yen, up 40.6% YoY; and the Digital Home business posted a 29.3% YoY rise in its top-line with sales of 4.0 billion yen.

Sales growth in the Supply segment was driven by smartphone-related products, while Storage & Memory's top-line growth was due to strong sales of LaCie storage products and in the Digital Home business demand for network, AV-related, and Bluetooth-related products was behind higher sales. However, in the input device market IO Devices continued to face increasing competition. Smartphone-related product sales (booked under the Supply, and Digital Home segments) came in above forecast, posting a sharp rise to 2.4 billion yen from 722 million yen in Q1 FY03/11.

Net income, however, was up just 1.5% YoY at 486 million yen hobbled by a 204 million yen extraordinary loss. This loss was primarily due to 200 million yen in doubtful accounts being recorded in relation to 400 million yen in convertible bonds the company underwrote for Idea International Co. (Jasdaq 3140) and Idea International's poor financial condition.

Full year (FY03/13) Outlook

FY03/13 Forecast (Million Yen)	FY03/12 Actual			Company Estimates		
	1H	2H	Full-Year	1H	2H	Full-Year
Sales	28,885	33,662	62,547	30,431	35,569	66,000
YoY	23.6%	16.3%	19.6%	5.4%	5.7%	5.5%
CoGS	18,649	21,950	40,599			
Gross Profit	10,229	11,674	21,904			
YoY	24.5%	8.9%	15.7%			
GPM	35.4%	34.7%	35.0%			
SG&A	7,249	7,849	15,098			
SG&A / Sales	25.1%	23.3%	24.1%			
Operating Profit	2,981	3,825	6,806	3,165	4,035	7,200
YoY	47.7%	2.4%	18.3%	6.2%	5.5%	5.8%
OPM	10.3%	11.4%	10.9%	10.4%	11.3%	10.9%
Recurring Profit	2,756	3,374	6,130	2,882	3,718	6,600
YoY	48.3%	-3.9%	14.2%	4.6%	10.2%	7.7%
RPM	9.5%	10.0%	9.8%	9.5%	10.5%	10.0%
Net Income	978	2,335	3,313	1,393	2,007	3,400
YoY	17.0%	20.3%	19.3%	42.4%	-14.1%	2.6%

Source: Company Data Processed by SR Inc.

Figures may differ from company materials due to differences in rounding methods.

Forecast sales are 66.0 billion yen, up 5.5% vs. FY03/12. Forecast sales at the segment-level are as follows.

- Supply: 22.9 billion yen (up 5.4% YoY)
- Storage & Memory: 13.3 billion yen (up 18.1%)
- IO Devices: 5.7 billion yen (down 7.1%)
- Digital Home: 15.6 billion yen (up 2.0%)
- Others: 8.5 billion yen (up 4.8%)

Future Outlook

The company does not publish a mid-term plan. However, in its FY03/11 annual report President Junji Hada set out a mid to long-term target of 100.0 billion yen in sales. Although there was no mention of profit targets, if the recurring profit margin were to remain at FY03/11 levels of around 10.0%, this would imply recurring profit of 10.0 billion yen.

The company sees smartphones as well as Storage, and Digital Home as its new growth engines. It also plans to start a number of new businesses, which it expects to contribute to the company's results. A specific example of a new business initiative is the restructuring of Hagiwara Solutions Co. The company aims to improve profitability at Hagiwara through an expanded product lineup and cut purchasing costs by leveraging Elecom's procurement channels.

Given the company appears to be planning overseas business expansion on a long-term perspective, the 100.0 billion yen sales goal is probably likely to be driven domestically.

Business

Business Description

Elecom is essentially a fabless manufacturer of PC/audio-visual/tablet (smartphones, e-book)-related equipment, President Hada likes to think of his company as providing solutions for the "interface between man and machine". This concept of "interface" includes equipment such as keyboards, and mice for PCs, as well as displays, printers, speakers, etc. for output devices.

Main Business Segments

The company groups its product sales into five segments outlined below (with examples of the products handled under each segment):

1. Supply

This sector covers PC consumables, such as paper, ink refills, and cleaners, as well as PC cases, bags, and racks; mouse pads, and smartphone-related accessories.

2. Storage & Memory

Storage covers products such as external hard disk drives (HDD) and Network-Attached Storage (NAS), while Memory refers to products such as USB memory devices, memory modules and memory cards for digital cameras and mobile phones.

3. IO Devices (Input-Output Devices)

Peripheral PC devices, such as mice, keyboards (excluding Bluetooth keyboards, which are part of the Supply segment), and numerical keypads.

4. Digital Home

This segment is split into Audio Visual Digital (AVD) and Network. AVD consists of headphones for portable audio devices, audio-visual accessories, and peripheral products for digital electric appliances. Network meanwhile covers products that support PC-network functionality, such as wireless LAN, LAN adapters, and switching hubs.

5. Others

Cables, monitors, etc.

The company boasts one of the highest domestic market shares as a PC accessory (Supply business) and peripheral device (IO Device business) manufacturer. Other business areas the company focuses on are the Storage (mainly external HDD) and Network (mainly wireless LAN) segments. (Please refer to the [Competition](#) section for more details on the company's external HDD and wireless LAN market share.)

Elecom Segment Sales (Million Yen)	FY03/08 Cons.	FY03/09 Cons.	FY03/10 Cons.	FY03/11 Cons.	FY03/12 Cons.
Sales	52,210	49,313	48,439	52,310	62,547
(YoY)	8.7%	-5.5%	-1.8%	8.0%	19.6%
Supply	16,068	16,513	16,692	17,788	21,737
(YoY)	18.1%	2.8%	1.1%	6.6%	22.2%
(Composition)	30.8%	33.5%	34.5%	34.0%	34.8%
Storage/Memory	12,126	8,324	6,504	7,278	11,278
(YoY)	-12.7%	-31.4%	-21.9%	11.9%	55.0%
(Composition)	23.2%	16.9%	13.4%	13.9%	18.0%
IO Device	6,616	6,334	7,212	6,622	6,173
(YoY)	9.2%	-4.3%	13.9%	-8.2%	-6.8%
(Composition)	12.7%	12.8%	14.9%	12.7%	9.9%
Digital Home	-	-	11,711	13,955	15,256
(YoY)	-	-	-	19.2%	9.3%
(Composition)	-	-	24.2%	26.7%	24.4%
Others	17,400	18,142	6,318	6,667	8,101
(YoY)	20.4%	4.3%	-	5.5%	21.5%
(Composition)	33.3%	36.8%	13.0%	12.7%	13.0%

Source: Company Data Processed by SR Inc.

Figures may differ from company materials due to differences in rounding methods.

"Digital Home" segment did not exist prior to FY09/03, results of this segment were previously booked under "Others"

In FY03/12, Supply constituted the highest percentage of sales at 34.8%, followed by Digital Home with 24.4%, while Storage & Memory remained roughly unchanged YoY at 18.0%. The Storage & Memory business' relatively low sales contribution partly due to the company having once pulled out of the business due to inventory control issues it ran into in the mid-90s (the company was a late entrant to the space). Elecom then re-entered the segment in the mid-2000s, yet occupies a relatively low share in the industry. Meanwhile, IO Devices were responsible for a relatively low 9.9% of sales due to it being a mature market, despite the company having been involved in the space since its founding.

While the company does not break out gross profit margin by product segment, it has remarked that gross profit margins for Supply and IO Devices are relatively high, as are those for Storage & Memory and Digital Home. SR Inc. believes Supply has been the company's cash cow given to its strong consumables feature: demand is fairly recession-proof and rates of price decline are low.

Smartphone-related products

Smartphones began to really take off in Japan in late 2010 and in response the company deals with numerous smartphone-related products (including tablet-related goods), such as cases, protective films, wireless headphones, battery chargers, and keyboards. Sales of these products are booked under either the Supply or the Digital Home segments. Smartphone-related products were about 19.0%, or 11.9 billion yen, of FY03/12 sales, according to the company.

The company notes, however, smartphone-related products are characterized by extremely short product cycles, with product demand peaking immediately after the release of a new smartphone model. Operating in this area thus is a challenge for companies in terms of whether they have the ability to utilize communication carrier networks, develop products, and control inventory.

Supply chain

The company is a fables manufacturer: it handles the planning, design, and development of products but owns no manufacturing facilities. Manufacturing is entrusted to external factories, and the products are procured in the form of OEM supplies, which are then sold under the Elecom brand.

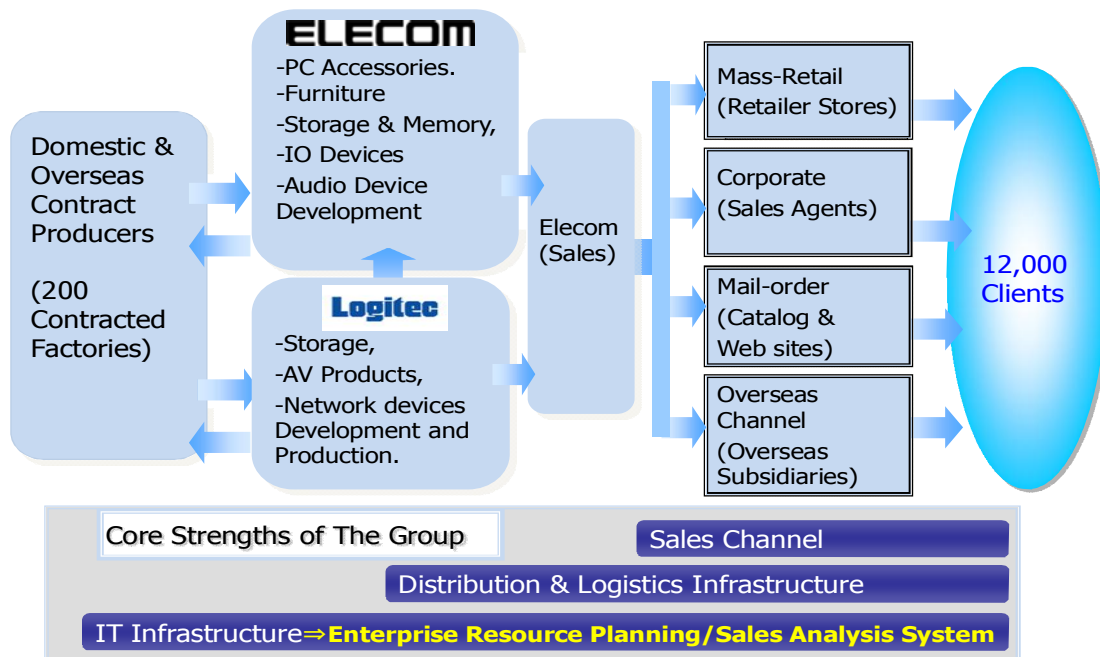
The company generally handles about 7,000–10,000 items. In addition, it launches 2,000 items or more annually (based on FY03/11 figures).

▪ **Manufacturing**

45.0% of the company's procurement is from overseas contract manufacturer, of which Chinese producers constitute about 76.0%, followed by Taiwanese makers at approximately 22.0%. The remaining 55.0% of the company's procurement comes via imports using Japanese trading companies.

Outsourced procurement from overseas manufacturers are denominated in U.S. dollars, so moves in the dollar-yen rate tend to affect the company's results. That having said, a strong yen does not always equate to solid earnings and performance also depends on how much of the cost the company can pass on to consumers.

Supply Chain Management



Source: the company's materials

▪ Distribution & Logistics

The company has domestic distribution & logistics centers in Koto-ku, Tokyo (East Japan Distribution Center) and in Nishi-Yodogawa-ku, Osaka (West Japan Distribution Center). The company already has a system that enables additional orders from customers to be made automatically by Electronic Data Interchange (EDI), which allows for next day delivery for each customer, sorted by type, number of items, and delivery date. As for overseas distribution and logistics, the company has a site in Shenzhen's Yantian Port Bonded Logistics Park, which it is looking to turn into its main international distribution site. Products manufactured by OEM factories are distributed directly overseas from this site.

▪ Marketing

There are essentially four sales channels:

- 1) Mass-retail channel – mainly comprised of electronic appliance mass retailers, but also drug stores and general stores
- 2) Corporate channel involving Office Appliance (OA) trading companies and System Integrators (SI)
- 3) Mail-order involving catalogues and websites
- 4) Overseas channel conducted via overseas subsidiaries, etc.

The company has no stores of its own. Domestically, the mass-retail channel is responsible for approximately 70.0% of sales, the corporate channel about 20.0%, and mail-order for the remaining 10.0%.

Yamada Denki Co. (TSE 9831) is the company's largest customer, accounting for 16.9% of FY03/11 sales.

Sales and Shelf Space Management



Mice
Sales
Floors



Earphones
Sales
Floors



Smart
Phones
Sales
Floors

Source: the company's materials

The company's sales and marketing ability is one of its key strengths, for mass retailers it can sell more than just single products; rather it can offer to provide them with a large range of merchandise for their sales floor. Elecom's sales staff will propose everything from store fixtures to product layout, in return mass retailers will grant Elecom responsibility for the selling space. Sales-staff then provide feedback to product development personnel based on information from customers, thus sales staff also assume a development role when it comes to the next line of products.

The company has 16 domestic sales sites with around 500 sales staff (including temporary workers) that can cover electronic appliance mass retailers and corporate customers nationwide.

▪ Product Development

The company has a development division of about 50 personnel (as of end-March 2011) who work on concept and design development for new products.

Design is a key element for product development at the company. President Junji Hada is keen on design and as a result it has been a major focus since the company's founding. A good example of this was the company's introduction of an egg-shaped mouse in 1988, when square ones were mainstream. And in 2006 the company also introduced earphones targeted at women. The company's product design is handled by its internal product development team but some of the design process is also entrusted to designers outside of the company.

According to the company, turnaround time from development to a product hitting a store shelf varies by item but is generally less than a month. On the other hand, while the company had become convinced that smartphone-related product demand would increase by end-2010 it took a number of months to develop the necessary products for this market, but by FY03/11 smartphone related sales were around 5.0 billion yen.

▪ Support Center

The company has a support center in Sapporo that deals with around 2,000 inquiries daily, according to the company.

▪ Inventory Management

The PC peripherals market is characterized by rapid technical innovation and short product lifecycles, resulting in a high risk of inventory obsolescence for companies. To mitigate against this, Elecom disposes of inventory monthly, based on the market situation and rules it has developed from its experience in handling inventory risk. Additionally, it also carries out set quarterly inventory write-downs.

However, the challenge in building a top-end supply chain management (SCM) system is possessing accurate data on the status of its customers' inventory. While the company has almost perfect knowledge of trends in the products it has sold to customers it can't precisely understand their own inventory trends without access to their point of sale (POS) data. As of October 2011, the company said it was seeking ways to solve this challenge.

Inventory Management	FY03/08 Cons.	FY03/09 Cons.	FY03/10 Cons.	FY03/11 Cons.	FY03/12 Cons.
Inventory Turnover (%)	13.3	14.2	16.9	20.0	17.4
Inventories (Month)	1.1	1.2	1.4	1.7	1.5

Source: Company Data Processed by SR Inc.

Figures may differ from company materials due to differences in rounding methods.

Average inventory turnover for FY03/12 was 1.5 months. The company notes it maintains more inventory than normal due to enhanced product line-up for smartphone-related products and to counter any lost opportunities in storage products.

Main affiliates

▪ LaCie S.A. (France LAC)

In October 2009, the company entered into a business alliance with France's LaCie in the Storage business, starting exclusive sales in Japan for LaCie brand products from January 2010 (LaCie also closed its Japan office). With both in-house hardware and software engineers that conduct product development and design at its center in Paris, LaCie is a storage-focused manufacturer. The company is also among the world's top three external Hard Disk Drive (HDD) makers with 30 million plus users globally.

For Elecom the tie-up enables it to expand its product lineup and leverage LaCie's economy of scale to purchase at low prices, thereby bolstering Elecom's sluggish Storage business, which had been lagging behind competitors. LaCie meanwhile benefits from using Elecom's domestic sales platform. According to the company, LaCie chose it as its Japanese partner over other manufacturers due to the pair's shared corporate philosophies, such as their focus on product design.

The company had previously procured storage products from subsidiary Logitech Corp., following its business tie-up with LaCie it now procures exclusively from the French company and Elecom's purchasing costs subsequently appear to have fallen by around 30.0%. According to the company, this alliance has meant it is now competitive enough on price to compete with its peers.

Overseas business

The company has subsidiaries in Europe (ednet GmbH), Korea (Elecom Korea, and China (Elecom (Shanghai) Trade Co.). It has also established a Singaporean joint venture with local company South Sea Enterprise Pte.

Segment by Location (Million Yen)		FY03/08 Cons.	FY03/09 Cons.	FY03/10 Cons.	FY03/11 Cons.	FY03/12 Cons.
Japan	Sales	48,902	46,189	46,209	50,477	61,230
	Operating Profit	4,767	4,767	5,819	7,147	8,362
Europe	Sales	3,309	2,970	2,310	1,815	1,303
	Operating Profit	-112	-388	-622	-377	-362
Others	Sales	1,969	1,787	1,314	1,282	1,685
	Operating Profit	-1	-6	-34	19	41

Source: Company Data Processed by SR Inc.

Figures may differ from company materials due to differences in rounding methods.

The table above shows sales and operating profit by geography – the lion's share of sales and operating profit comes from Japan. As of FY03/12, Europe (Germany, Holland, Switzerland, Austria, and Belgium) posted an operating loss, while Others (South Korea and China) eked out a small operating profit.

Main group companies

- Hagiwara Solutions Co.

In July 2011 Elecom acquired parts of Hagiwara Sys-Com Ltd., a company that fell into financial trouble and was undergoing civil rehabilitation. The newly formed Hagiwara Solutions Co. that Elecom acquired inherited such Hagiwara Sys-Com's industrial equipment storage device manufacturing unit, parts of the consumer flash memory product manufacturing and sales business, and parts of the device management services related to manufacturing equipment. Elecom felt there was substantial potential for it to leverage Hagiwara Sys-Com's technological and development capabilities in the SD card and flash memory space, as well as its distribution network to the advantage of its existing business.

- Logitech Corp. (Stake: 100.0%)

Logitech became a subsidiary in 2004 and focuses on the wireless LAN business.

(Note: this business is unrelated to Logitech International S.A. (Switzerland LOGN)).

- ELECOM Europe GmbH (Stake: 100.0%)

This German subsidiary is seeking to expand Elecom-brand sales in Europe, focusing on PC accessories and AV-related products.

- Elecom (Shanghai) Trade Co. (Stake: 100.0%)

- Elecom Korea Co. (Stake: 100.0%)

- Idea International Co. (Jasdaq 3140) (Stake: 19.7%, treated as an equity method-affiliate)

In August 2010, the company underwrote a third-party allotment (about 100 million yen) and convertible bonds (total value issued: 400 million yen) from Idea International, which designs, develops, and sells electronic appliances and interior decorations.

Profitability Snapshot, Financial Ratios

Profit Margins (Million Yen)	Elecom		Melco HD		I-O Data Device	
	FY03/10	FY03/11	FY03/10	FY03/11	FY03/10	FY03/11
Sales	48,439	52,310	116,911	123,749	44,632	45,344
YoY	-1.8%	8.0%	-2.8%	5.8%	-2.5%	1.6%
Gross Profit	16,858	18,931	23,445	27,231	6,531	6,642
Gross Profit Margine	34.8%	36.2%	20.1%	22.0%	14.6%	14.6%
SG&A	12,856	13,179	15,902	16,487	6,218	6,624
SG&A / Sales	26.5%	25.2%	13.6%	13.3%	13.9%	14.6%
Operation Profit	4,002	5,752	7,542	10,743	312	18
OPM	8.3%	11.0%	6.5%	8.7%	0.7%	0.0%
Net Income	735	2,777	4,990	9,277	566	-601
Net Margin	1.5%	5.3%	4.3%	7.5%	1.3%	-
ROA	3.4%	9.7%	8.7%	13.8%	1.9%	-
ROE	8.3%	29.4%	15.3%	26.3%	3.2%	-

Source: Company Data Processed by SR Inc.

The above table compares the profitability of Melco Holdings Inc. (TSE 6676), which sells under the Buffalo brand name; I-O Data Device Inc. (Jasdaq 6916), and Elecom. A noteworthy feature of Elecom is its higher gross profit margin compared to the other two, and, after accounting for the SG&A to sales ratio, a high operating profit margin.

SR Inc. believes the difference in gross profit margins is likely attributable to the trio's differing product portfolios and revenue management approaches. Elecom boasts a high share of accessories and PC peripherals in its product portfolio, while the other two companies have a high percentage of storage, memory and network-related products in their mix.

While a direct side-by-side comparison between the three companies is difficult, Elecom also employs a business management system that allows it to manage marginal profit according to product and customer group. The company introduced this system company-wide in 2008 and uses it in its negotiations with electronic appliance mass retailers.

Strengths & Weaknesses

Strengths

- **Responsiveness to change:** The company has been adept at adapting to changes in the industry landscape, adjusting both products and the way it does business to fit the times. For instance, Elecom's strong FY03/11 performance was the result of it shifting its product portfolio to the smartphone and digital home markets and away from PCs.
- **Strong marketing capabilities:** The company's domestic market strength stems in a large part from its ability to provide not just a product, but also its management of shelf space and merchandising solutions to mass retailers nationwide. Elecom's sales force makes proposals to stores regarding their sales space, making the company to some extent irreplaceable for retailers, given this approach saves the retailer operational costs and increases their sales efficiency. Consequently, Elecom has a 'sticky' presence among retailers, which it can leverage to catch up with competition in new market niches (an example being smartphone accessories).
- **High market share across multiple products categories:** Elecom has a high market share in such areas as smartphone accessories and PC peripherals and supplies and this has allowed it to foster close relationship with clients. This in turn allows the company to stay one step ahead of rivals in aggressively developing products to match changing consumer demand.

Weaknesses

- **Low profitability overseas:** Elecom acknowledges the poor performance of its overseas businesses, and attributes this to its inability to use its successful domestic sales approach abroad. The company has made various attempts to tackle this issue, such as developing product designs for overseas markets and establishing joint ventures with local companies, but these have yet to contribute meaningfully to sales.
- **Weak brand compared to its potential strength:** SR Inc. feels Elecom's brand could be much stronger and better recognized given its high market share and acclaimed products. The company counters that giving Elecom a defined brand image would constrain the product mix and its development flexibility. While it may be true that a strong and well-defined brand image could act as a constraint, it is also true that there are plenty of companies globally with prominent brands that have successfully changed with the times. SR Inc. thinks that building a stronger brand could further boost Elecom's position and growth potential.
- **Dependency on its president:** A key strength of the company, its ability to change, owes a lot to President Junji Hada, who has been instrumental in reading shifting market trends in and providing the leadership the company needs to change in response. Whether anyone can eventually replace him in this role is an important issue for sustainability of Elecom's success. Born in 1953, Hada plans to stay in his role till he turns 65. There is time to find a solution to the succession problem. However, the difficulty and importance of this task should not be underestimated.

Market and Value Chain

Market Overview

Elecom is in the “man-machine interface” business and changes in the ‘machine’ element of the equation have caused the company to change its product line-up over time. The company began by selling PC desks and then shifted its product focus to PC peripherals, such as mice and keyboards, and up until its 2006 IPO company sales grew in tandem with the spread of the PC market.

Following the saturation of the PC market, the company once again shifted its product lineup in response to the expansion of home networking devices, and smartphone and tablet PC-related products. Consequently, in FY03/11 the company posted record sales and operating profit. In this respect, the critical factor for the company is not the success trajectory of any one particular device but its ability to assess what devices have likely growth potential and then it offering a product range to fit these trends.

Barriers to Entry

At first glance, barriers to entry appear low. However, the niche markets Elecom operates in initially tend to have multiple competitors but as the market evolves most of the players are weeded out and give way to a handful of players. One of the best examples of this is the development of the PC peripherals and accessories market.

The challenge for future market entrants is in building a customer network (relationship with retailers) – something that cannot be developed overnight. Elecom has succeeded in raising its importance to retailers, particularly electronic appliance mass retailers, by supplying them not only with merchandise but also by providing them with integrated product displays featuring its goods. Strict inventory control has also helped the company survive, in contrast to the multitude of companies initially in the same business that have fallen by the wayside.

The current situation in the smartphone-related product space is similar; when a market is in its infancy there will be a large number of players. However, the company’s view is that weaker players who cannot achieve the above features will be weeded out of the market.

Competition

Elecom’s competitors include Melco HD, I-O Data Device, and Sanwa Supply Inc. (unlisted). SR Inc. analysis leads it to believe Sanwa Supply has a similar business model to Elecom’s, while Melco HD is only really a competitor with the company in parts of the Storage & Memory business. (I-O Data Device’s business model also appears to be similar to Melco’s.) The differences in the business model relate primarily to the extent to which these companies deal with accessories, and the structure of their supply chains – whether they are fabless manufacturers or more akin to trading companies.

▪ *Storage and Network*

The company has been striving to expand its market share in the storage and network areas. Competitors Melco HD and I-O Data Device both occupy a relatively high market share in this space. According to BCN Rankings, for the 12-months ending March 2011 Melco HD had 46.7% domestic market share of the external HDD market, and IO Data Device 44.6%. Elecom (LaCie brand) had just 2.8%. The company said its low share was due to it being a latecomer to the segment, and storage and networking are areas in which it is difficult to differentiate itself through product design.

However, the company has made efforts to rapidly improve its share of the external HDD market. As of October 2011, its market share had jumped to 15–20.0%, according to the company. The rapid rise in its market share was the result of increased price competitiveness through exclusive sales of LaCie products and a joint campaign it has run since February 2011 with Sharp Corp. (TSE 6753) at the stores of electronic appliance mass retailers.

In terms of the network product space, Melco HD has an overwhelming share of 49.3% of the wireless

LAN space, according to BCN Rankings (as above). Nonetheless, efforts by Elecom to increase its low market presence over the past year have resulted in it rapidly growing its share and as of October 2011 it claimed about 20.0% of the market.

Amid the recent commoditization of wireless LAN, the company cited its aggressive marketing strategies, such as sales promotion activities at outlets and enhanced after-sales service, as the drivers behind the ramp up in its market share.

- *Accessories, PC peripheral devices*

Elecom boasts a relatively high share in accessories and PC peripheral devices. The company has won multiple BCN Awards, which are given out for top annual market share in PC and digital electronic appliance sales. (These awards are based on point-of-sale (POS) data gathered from Japanese mass retailers nationwide, please refer to the table below). In addition to claiming the highest share for mice and USB devices for 11 consecutive years, in recent years Elecom has also taken the pole position for market share in PC cameras (peripherals) and card readers.

BCN AWARD 2011 Category	Market Share	Consecutive no. of years prize awarded
Mice	25.1%	11 consecutive years
USB Memory	41.9%	11 consecutive years
Key Boards	22.7%	9 consecutive years
Speakers	19.6%	8 consecutive years
Video Game Controlors	42.8%	7 consecutive years
Numeric Keypads	39.3%	7 consecutive years
Mobile Phone Headsets & Earphones	24.8%	4 consecutive years
Webcams	29.9%	2 consecutive years
Card Readers	33.6%	1st time Awarded

Source: Company Data Processed by SR Inc.

- *Smartphone-related products*

As of October 2011, there were a number of businesses involved in smartphone-peripheral products. The market for smartphone-related products can be broadly divided into two:

1. Accessories, such as smart-phone cases, touch screen protective films
 2. Peripheral devices, such as networking, Bluetooth and other input devices,
- Elecom has the highest sales share in the accessories segment.

As the leading company for accessories, the company has an advantage over its competitors in being able to identify trends and demand earlier, and develop and launch new products in response. The company believes this advantage coupled with its strength in inventory control should further heighten its market dominance over the coming few years resulting in a further weeding out of the competition.

Strategy

The company's president, Junji Hada, has explained Elecom's strategy as focusing on the interface between man and machine and from there continuously adjusting its product portfolio by reading the changes in the trends of the time. Product design, and its sales & procurement abilities are also particular strengths of the company, and have served as the basis for the company's ability to evolve.

Hada has said the period from 1986 (the year of the company's establishment) to 2010 can be viewed as the company's first phase of growth, which corresponded to the spread of the PC market. 2010 through August 2011 was the second important period characterized by the company's response to demand for the smartphone and tablet PC related peripherals. According to the president, Elecom has now entered its third period of development, as the company is looking for new growth drivers, both domestically and overseas.

Other Information

History

The company was founded in 1986 in Osaka by the current president Junji Hada as a manufacturer of home office computer furniture for electronic appliance mass retailers. Before setting up Elecom, Hada initially worked in a timber yard selling timber used to prevent tunnels under construction collapsing from landslides. However as tunnel construction technology changed using timber in the construction process became redundant. Learning from this experience Hada felt that a company should be constantly evolving and not remain wedded to one business, a philosophy that he has applied to Elecom.

The company began by selling PC desks, and then expanded its product lines to deal in office equipment accessories, computer mice, LAN equipment etc. The company has commented that its establishment of offices across Japan immediately after its foundation in order to operate as a community-based business led to one of its key strengths—its sales ability.

On the other hand, unable to leverage its domestic sales strengths overseas, Elecom has found it difficult to grow internationally. Despite entering the North American market twice in 1991 and 1999, and the UK in 2003, the company had to withdraw from both markets due to sluggish growth. In November 2006, on the 20th anniversary of its foundation, the company listed on the JASDAQ Securities Exchange and shortly afterwards made another overseas foray. In February 2007, using its IPO capital, it acquired German PC-related products manufacturer ednet GmbH. As of end-2011, the pattern of steady domestic growth but struggling directly managed overseas operations appeared to be continuing with ednet still seeking financial success.

News & Topics

February 2012

On **February 6, 2012**, the company released Q3 FY03/12 results.

In addition, the company raised its forecast year-end dividend payout having decided to conduct a 25-year founding anniversary special commemorative dividend payout. The special dividend is five yen per share, bringing up the forecast year-end payout from 12 yen to 17 yen per share. The total annual dividend payout thus comes to a forecast 30 yen per share (interim dividend of 13 yen per share), vs. previous forecast of 25 yen per share.

Major Shareholders

Top Shareholders	Amount Held
Junji Hada	30.57%
Sons Ltd.	27.56%
Justin Ltd.	9.61%
Elecom Employee Shareholding Association	5.05%
Elecom Co.	2.44%
Bank of Tokyo-Mitsubishi UFJ Ltd.	2.28%
Sumitomo Mitsui Banking Corp.	1.22%
Mizuho Corporate Bank Ltd.	1.22%
Japan Trustee Services Bank Ltd. (Trust account)	0.97%
Sachio Shibata	0.89%

Source: Company Data Processed by SR Inc.

As of end-March 2011, President Hada owned 67.7% of the company directly and indirectly via Sons Ltd. and Justin Ltd., two holding vehicles owned by him.

Dividends and Shareholder Benefits

The company has a consolidated dividend target payout ratio of at least 20.0%.

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