



Vol . 156

High-tech Sector

Week ended Mar. 20, 2005

Public Telephones on the Way Out

The number of public telephones in Japan is expected to drop to around 440,000 at the end of March, a steep decline from the more than 800,000 at peak. The decline is expected to continue with the number of public telephones projected to drop to 400,000 by March 2006. The drop is due mainly to the popularization of mobile phones. In recent years, NTT made profit on public phones only in 1995 and 1996. The number of mobile phones in Japan is ten times what it was in 1995.

More Electric Power Deregulation Coming in April

Effective from April, the scope of retailing electric power will be expanded to include more smaller users and a new electric power exchange, the first of its kind in Japan, will start at the same time. Whether this will spur competition and lure more firms into power retailing remains to be seen as it will have an important bearing on the decision to fully deregulate electric power two years from now. At present power distribution to customers using more than 500kw has been deregulated. Now the limit is being lowered to customers using just 50kw. Following the earlier deregulation some 10-20 companies entered the power distribution business.

Japan's Electronic Components Sector Consolidating

If the growing number of mergers and acquisitions in the sector is any guide, Japan's electronic components sector is clearly consolidating. M&A deals so far include the merger of NEC Electronic Components and Tokin, the conversion of Kinseki into a wholly owned subsidiary of Kyocera and a similar move by Nihon Densan which converted Sankyo Seiki into a wholly owned subsidiary. In another deal Seiko Epson and Toyo Tsushinki merged their crystal oscillator operations. Elsewhere, Sumida Corporation has drawn up plans to aggressively boost sales, mainly through M&As. Japan's electronic components sector is characterized by a large number of small family owned firms, which had carved out niches for themselves. But consolidation started as major set assemblers are reducing the number of suppliers in a bid to tap economies of scale.



Ad Billings to Increase in 2005

Total ad billings in fiscal 2005 are expected to increase 1.5% year-on-year, registering their second consecutive gain, according to *Nikkei Kokoku Kenkyusho*, a research firm specializing in the advertising market. The research firm sites strong corporate profit as the main factor driving the increase. The highest gain will come from the financial sector, which is expected to up ad spending by 8.2% compared to fiscal 2004. The transportation and distribution sector will spend 3.9% more on advertising in the next fiscal year. Ad billings are expected to grow 3.3% in the cosmetics and toiletries sector.

Machine Tool Orders Up Sharply

Machine tool orders in February jumped 26% year-on-year to ¥106.7 billion, according to the Japan Machine Tool Builders Association. This was the 29th consecutive year-on-year increase in monthly machine tool orders and the tenth month in a row that the orders have stayed above the ¥100-billion mark. Machine tool manufacturers are bullish, expecting orders to rise to the ¥110 billion level in March. Domestic orders jumped by 34.3% and overseas orders were up 16.4%. Of the 11 major industrial sectors in Japan, orders were up from eight of them.

EAI/BPM Demand Rising

Vendors of EIA/BPM software are bullish on 2005, with some vendors expecting demand, led by SOA (service-oriented architecture), to double and others expecting it to rise between 25% and 50%. Victoria Technologies expects sales to rise 50% – 60%. SAP Japan expects sales to increase more than 20%.

LED Market Poised for Explosive Growth

The LED market is set for strong growth through 2015. Up to around 2010, the market will be driven by demand from the automotive sector and thereafter by the consumer sector as LED applications diversify. The global LED market is expected to reach \$7,000 million in 2008, up from an estimated \$4,800 million in 2004. Leading suppliers are Nichia Kagaku, Osram, Citizen Electronics, Agilent Technologies and Toyoda Gosei. Citizen Electronics became the third largest supplier in 2003. It was ranked sixth in 2002.

Earnings Roundup

Electrical Equipment Manufacturers to Raise Dividends

Japan's major electrical equipment manufacturers plan to raise dividends applicable to the current fiscal year ending March 31. Hitachi is planning to raise its dividend by ¥3 per common share. The company paid ¥11 per common share in dividends last year. This will be the third consecutive increase in annual dividends for the company. Toshiba will be raising its annual dividend by ¥1 to ¥4 per common share. Fujitsu plans to raise dividend by ¥3 to ¥6 per common share. Oki Electric is planning to resume dividends for the first time in four years. Japan's electrical equipment manufacturers are expected to see substantial increases in their earnings in the current fiscal year.



Profit Likely to Plunge at Konika Minolta(4902 TSE 1)

Consolidated net income at Konika Minolta is likely to be ¥7 billion, a 64% drop from the previous fiscal year and way below the projected ¥25 billion. Poor performance of digital cameras and photographic film due to falling prices is hurting profit. A ¥5.4 billion extraordinary loss for writing off goodwill will also hurt profit. There will also be a ¥40 billion shortfall in consolidated net sales, which are now likely to come in at ¥1.06 trillion.

Initial Public Offerings News (For detailed information, go to:

<http://www.tokyoipo.com/top/en/index.php?id=&seqid=>

Kyokuto Securities (8706 TSE 2)

Kyokuto Securities Co., Ltd., a Japanese a Japanese securities company, will list on the Second Section of the Tokyo Stock Exchange on April 20. The company will offer three million shares in its initial public offering. Of those, two million are newly issued shares and one million are shares currently held in private. Nomura Securities, the lead underwriter, also has a green shoe option allowing it to offer an additional 450,000 shares in the event of exceptional demand. The tentative price range will be announced on April 1. The fixed offering price will be announced on April 11. The company expects to net ¥1.24 billion from the IPO and plans to use the proceeds for working capital. For the fiscal year ending March 31, 2005, the company expects to post consolidated net income of ¥2.71 billion on revenues of ¥8.58 billion and an earnings per share of ¥88.76. The company plans a dividend of ¥20 per common share. For the fiscal year through March 2006, the company forecasts consolidated net income of ¥1.91 billion on revenues of ¥8.01 billion and an earnings per share of ¥58.78.

AVIX (7836 JASDAQ)

AVIX Co., Ltd., a Japanese company specializing in the manufacture and marketing of electronic equipment, will list on the JASDAQ Securities Exchange on April 21. The company will offer 1,500 issued shares in its initial public offering. Of those, 1,000 are newly issued shares and 500 are shares currently held in private. The company plans to use the proceeds from the IPO to repay debt. The tentative price range will be announced on April 4. The fixed offering price will be announced on April 12. Nomura Securities is the lead underwriter of the offer.

Japan Telecommunications (9424 Hercules)

Japan Telecommunications Co., Ltd., a Japanese company offering mobile phone services to the corporate sector and data communication services to the consumer sector, will list on the on the Osaka Securities Exchange's Hercules market on April 21. The company will offer 34,000 newly issued shares in its initial public offering. The tentative price range will be announced on April 1. The fixed offering price will be announced on April 12. Daiwa Securities SMBC is the lead underwriter of the offer.



Fujita Corporation (3370 JASDAQ)

Fujita Corporation, a retailer operating original brand stores as well as a franchise chain, will list on the JASDAQ Securities Exchange on April 20. The company will offer 1,900 shares in its initial public offering. Of those, 1,500 are newly issued shares and 400 are shares currently held in private. The company will use the proceeds from the IPO for capital investment, mainly opening new stores. The tentative price range will be announced on March 31. The fixed offering price will be announced on April 11. Daiwa Securities SMBC is the lead underwriter of the offer.

Basic Electronics Industry Statistics

	Prod	Ship.	Inv.	Capacity utilization	H. Elec. machinery	Cons. appliances	Electronics Sector	Cons. electronics	Industrial electronics	Electronic devices	Semicon (Production)	Consumer electronics (sales)
Feb.	95.7	99.0	80.1	84.9	2,153	1,554	16,577	1,812	6,774	8,022	3,575	195
Mar.	94.2	95.1	81.2	108.1	3,233	1,744	20,681	2,337	9,428	8,916	4,021	241
Apr.	102.0	107.2	85.1	100.8	2,060	1,792	15,745	2,079	5,535	8,132	3,604	224
May	105.7	107.6	84.3	95.1	1,961	1,728	15,549	1,969	5,434	8,145	3,750	219
June	102.0	107.4	82.1	112.9	2,287	2,013	17,641	2,362	6,525	8,754	3,938	248
July	102.1	106.4	81.0	114.0	2,226	2,005	16,722	2,165	6,057	8,499	3,847	296
Aug	108.4	108.8	82.0	79.2	2,101	1,435	15,383	1,860	5,455	8,068	3,761	237
Sep.	98.2	101.4	82.4	84.5	2,604	1,447	18,193	2,251	7,487	8,455	3,712	217
Oct.	99.9	106.1	81.5	74.9	2,116	1,419	15,088	2,369	5,014	7,705	3,721	253
Nov	102.3	107.1	81.8	81.0	2,223	1,553	15,872	2,496	5,625	7,751	3,674	251
Dec.	99.0	106.0	79.1	78.3	2,250	1,422	15,471	2,022	6,046	7,403	3,306	329
Jan.	101.1	107.2	79.4									302
YoY	-5.2	1.7	-2.6	-4.2	6.2	-7.3	-11.5	-11.7	-14.1	-9.3	-8.1	10.5

Base year 2000 = 100 (seasonally adjusted); 100 million yen, YoY: Year-on-year percentage change

Source: Ministry of Economy, Trade and Industry, Japan Electronics Industry Association and other trade associations

