



Vol . 165

## *High-tech Sector*

Week ended May. 22, 2005

### *IP Telephone Penetration Rate Rising*

As of the end of 2004, the number of households using IP telephones increased by 5.4 percentage points from the end of 2003 to 12.7% of all households in Japan. In the corporate sector, the penetration rate increased by 16.7 percentage points to 27.8%. The numbers suggest that IP telephone is taking off in Japan in both the consumer and corporate sectors.

### *Connector Shipment Stay Favorable*

The worldwide shipments of connectors in the period from April 2004 through February 2005 were up 9% to ¥595,800 million. Shipments have stayed favorable, compared with other electronic components, even after December last year, although there is some weakness. However, manufacturers expect shipments to accelerate again in the second half of 2005.

### *Cell Phone Supporting the Transaction Settlement Function Well Received*

Cell phones designed for making payment for goods and services were introduced by NTT DoCoMo in July 2004 and the company has sold 3.34 million such phones. Of all those who purchased such phones, 88% said they have used it to make payments, 49% consider them to be very convenient and 93% say they would use it. Consumers are using these phones at convenience stores, coffee shops, bookstores and rental shops, for the payment of daily use products and services. KDDI and Vodafone are also expected to follow suit as they also search for new revenues in a mature market.

### *Machine Tool Orders Up 18% in April*

Machine tool orders in April rose 18.2% from the same month a year earlier to ¥117,167 million, according to the Japan Machine Tool Builders Association. This is the 31<sup>st</sup> consecutive year-on-year gain in monthly orders. Orders have stayed above the ¥100,000 million mark for 12 months in a row. The association expects the current trend to remain unchanged in May. Overseas orders increased 44%, the first gain in four months.



**Japanese Firms to Boost Capex**

Japanese firms are planning to increase capital investment by 10.1% in the current fiscal year to March 2006, according to a survey by a major economic daily. Automobile manufacturers and raw material producers are planning to invest more aggressively.

**Bankruptcies Lower in Japan's Electronics Sector**

Bankruptcies in Japan's electronics sector in April fell 22.8% from the same month a year earlier to 27. The debt left behind by the failing firms was also 16.1% lower. Most bankruptcies were small scale with liabilities of less than ¥100 million.

**Earnings Roundup****Nikon(7731 TSE 1) Reports Record Net Income**

Nikon's consolidated net income for the fiscal year ended March 2005 increased 10-folds from the previous year to ¥24,100 million on sales of ¥638,000 million, up 26%. Sales were driven by steppers, demand for which increased as semiconductor manufacturers boosted capital investment. The company sold 192 semiconductor steppers, a 21% Y-o-Y increase and 87 LCD steppers, up 67%. The company is forecasting a 7% increase in sales to ¥680,000 million and a ¥11,000 million net income, down 54% due mainly to the absence of extraordinary income that lifted profit in the previous fiscal year.

**Ordinary Income Rises 20% at Keyence(6861 TSE 1)**

Consolidated ordinary income for the fiscal year ended March 2005 was up 20% year-on-year to ¥58,100 million. Sales increased 16% to ¥171,100 million. Operating income margin was 52.6%, sustaining the 50% margin. Sales of factory automation sensors to the semiconductor sector were somewhat sluggish but those to the automobile sector stayed strong. Overseas sales were also favorable, with sales in China showing a strong 70% jump. New products accounted for 34% of the total sales in the fiscal year.

**Overview of Results in the IT Service Sector**

The financial results of the 39 listed IT service sector firms were a mixed bag, although the sector is clearly on the recovery trend. Companies benefiting from the IT security-related services, outsourcing and network-related services posted higher sales and earnings. On the other hand, system developers suffered as the size of projects became smaller and competition heated up, driving down prices. Operating profit was at only 60% of the firms, as unprofitable projects contracted in 2004 were still a drag on profit.

**Operating Income Up 2.18-fold at Yamada Denki(9831 TSE 1)**

Consolidated net sales increased 17.4% to ¥1.1 trillion in the fiscal year ended March 2005, according to Yamada Denki. This is the first time that a specialist retailer in Japan has posted sales of more than one trillion yen. Operating income rose 118.1% to ¥29,157 million. Ordinary income was up 57.2% to ¥48,186 million. The company is projecting sales of ¥1.28 trillion, a 16.1% Y-o-Y increase, for the current fiscal year, with ordinary income rising 10.4% to ¥53,197 million.



**Machine Tool Manufacturers Set for Double-digit Operating Income Gains**

The combined operating income of Japan's listed machine tool manufacturers in fiscal 2005, the year ending March 2006, is expected to increase 15.2% to ¥67,200 million. The trend is likely to continue for the next two to three years as demand from China increases and Japan's automobile manufacturers continue to invest heavily in new production facilities. With inventory adjustment largely over, demand from the electronics sector should also pick up.

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

[http://www.tokyoipo.com/top/en/index.php?id=&seqid=\)](http://www.tokyoipo.com/top/en/index.php?id=&seqid=)

**ZOA (3375 JASDAQ)**

Zoa Co., Ltd., a, information devices retailing chain, will list on the JASDAQ market on June 17. The company will offer 4,100 shares in its initial public offering. Of those, 2,100 are newly issued shares and 2,000 are shares currently held in private. The company plans to use the funds from the IPO for capital investment, including the expansion of its in-house systems for customer strategy and customer strategy support, expansion of its logistics center and for opening new stores and closing some existing stores that is, consolidation of its store network. The tentative price range will be announced on May 31. The fixed offering price will be announced on June 8. Nomura Securities is the lead underwriter of the offer.

**E Context (2448 Hercules)**

E Context Co., Ltd., a provider of complete e-commerce support services, including e-commerce settlement service and logistics services, will list on the Hercules market of the Osaka Securities Exchange on June 23. The company will offer 3,488 shares in its initial public offering. Of those, 2,000 are newly issued shares and 1,488 are shares currently held in private. The tentative price range will be announced on June 2. The fixed offering price will be announced on June 13. Ichiyoshi Securities is the lead underwriter of the offer.

**Wiz (7835 JASDAQ)**

Wiz Co., Ltd., a Japanese toy maker, will list on the JASDAQ market on June 17. The company will offer 1,400 shares in its initial public offering. Of those, 900 are newly issued shares and 500 are shares currently held in private. The tentative price range will be announced on May 30. The company expects to net ¥658 million from the IPO and plans to use the proceeds for business investments. For the fiscal year ending May 31, the company expects a non-consolidated net profit of ¥294 million on sales of ¥5.2 billion and earnings per share of ¥31,991.83. The company is projecting dividend at ¥1,500. The fixed offering price will be announced on June 8. Daiwa SMBC Securities 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) |
|-------|-------|-------|-------|----------------------|--------------------|------------------|--------------------|-------------------|------------------------|--------------------|----------------------|------------------------------|
| April | 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                          |
| Sept  | 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                | 252                          |
| Dec   | 99.0  | 106.0 | 79.1  | 78.3                 | 2,250              | 1,422            | 15,471             | 2,022             | 6,046                  | 7,403              | 3,306                | 330                          |
| Jan   | 101.0 | 107.2 | 79.3  | 71.4                 | 2,098              | 1,169            | 14,138             | 1,509             | 5,549                  | 7,080              | 3,135                | 301                          |
| Feb   | 96.5  | 102.3 | 80.5  | 87.5                 | 2,310              | 1,424            | 15,537             | 1,823             | 6,497                  | 7,216              | 3,249                | 204                          |
| Mar   | 92.9* | 98.4* | 81.0* |                      |                    |                  |                    |                   |                        |                    |                      | 234                          |
| YoY   | -1.4  | 3.5   | -0.2  | 3.2                  | 7.3                | -8.4             | -6.3               | -0.6              | -3.7                   | -10.0              | -9.1                 | -3.3                         |

*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*

