

For Institutional Investors/Analysts

Kaga Electronics Co.,Ltd.

Financial Results Briefing Material

for the Fiscal Year ended March 2019

May 23, 2019

KAGA ELECTRONICS CO., LTD.

TSE 1st section 8154

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Consolidated Financial Results for the Fiscal Year ended March 2019

Kaga Electronics Co., Ltd.
Managing Director
Eiji Kawamura

Summary of Financial Results for the Fiscal Year Ended March 31, 2019

Results for FY2019/3

- Fujitsu Electronics consolidated from 4Q
- Operating income and ordinary income did not meet forecasts, but net sales and net profit exceeded forecasts.
- Net income reaching a record-high level for the first time in 13 years, in part due to the negative goodwill and tax reduction.
- Despite negative factors such as product adjustments resulting from model switching, upfront expenses for the start-up of new overseas factories, supply/demand pressures on some parts and materials, and lower demand due to a slowdown in China's economy, results were generally passable.

Overview of the main business segments

- Electronic components: Solid results in the EMS business for automotive and air conditioning devices; the component sales business was sluggish.
- Information equipment: In PC sales, although sales were low in the housing-related home electric appliance business, the commercial facilities-related LED installation business was robust.

Shareholder return

- Dividend policy: make stable dividend payments while securing a consolidated dividend payout ratio of 25% to 35%
- Year-end dividend of ¥45, which includes an extraordinary dividend of ¥5. Annual dividend of ¥80 representing a ¥10 increase.

Financial Highlights

(million yen)

	FY2018/3 Results	FY2019/3 Previous Forecast	FY2019/3 Results	YoY	vs Forecast
Net sales	235,921	290,000	292,779	24.1%	1.0%
Gross profit	32,498	35,500	35,546	9.4%	0.1%
Gross profit margin	13.8%	12.2%	12.1%		
SG&A	24,379	27,800	27,976	14.8%	0.6%
Operating income	8,119	7,700	7,570	-6.8%	-1.7%
Ordinary income	8,740	8,000	7,859	-10.1%	-1.8%
Profit attributable to owners of parent	6,490	7,300	8,014	23.5%	9.8%
EPS (Yen)	236.58	266.04	292.07	–	–
ROE	9.5	9.9	10.9	14.7%	10.1%

Financial Results by Business Segment

(million yen)

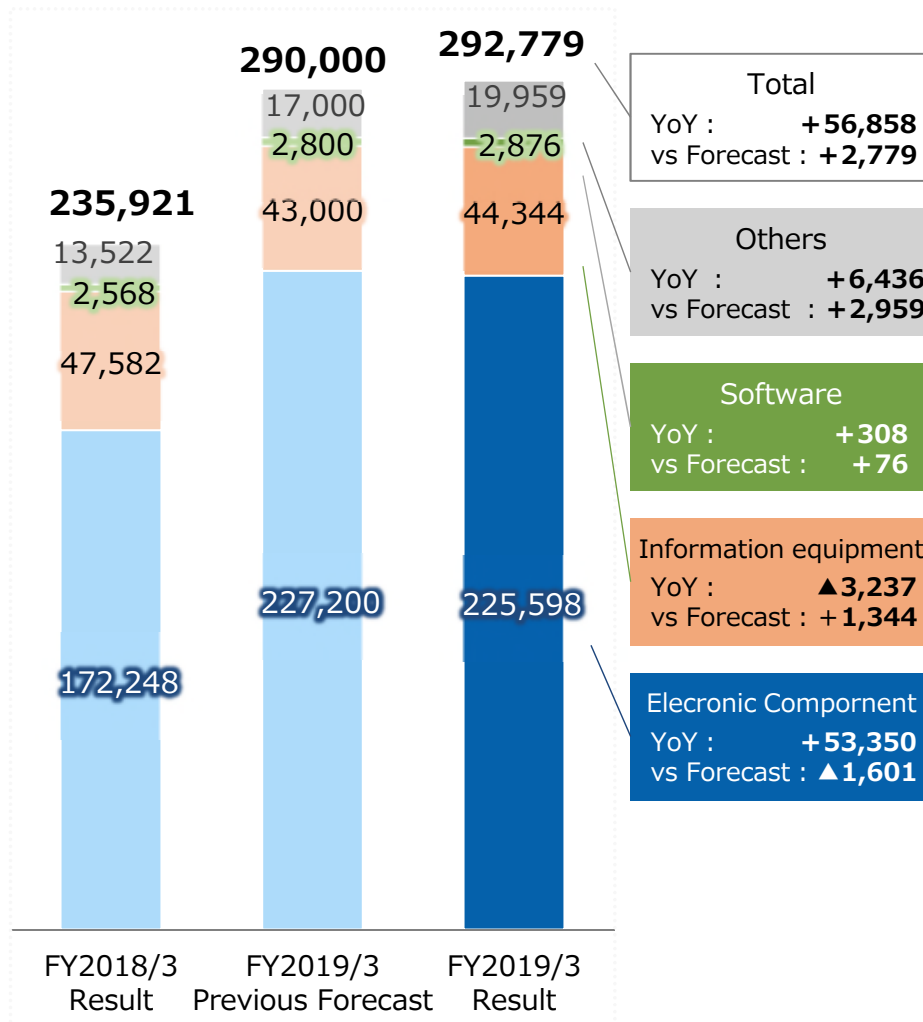
		FY2018/3	FY2019/3	FY2019/3		
		Results	Previous Forecast	Result	YoY	vs Forecast
Electronic Components	Net Sales	172,248	227,200	225,598	31.0%	-0.7%
	Segment income	5,312	5,200	4,761	-10.4%	-8.4%
Information Equipment	Net Sales	47,582	43,000	44,344	-6.8%	3.1%
	Segment income	2,202	1,700	1,906	-13.4%	12.1%
Software	Net Sales	2,568	2,800	2,876	12.0%	2.7%
	Segment income	172	300	247	43.6%	-17.7%
Others	Net Sales	13,522	17,000	19,959	47.6%	17.4%
	Segment income	308	500	490	59.1%	-2.0%
Total	Net Sales	235,921	290,000	292,779	24.1%	1.0%
	Segment income	8,119	7,700	7,570	-6.8%	-1.7%

Note: Figures of each segment income are not inter-segment adjusted.
Total amount is inter-segment adjusted (operating income).

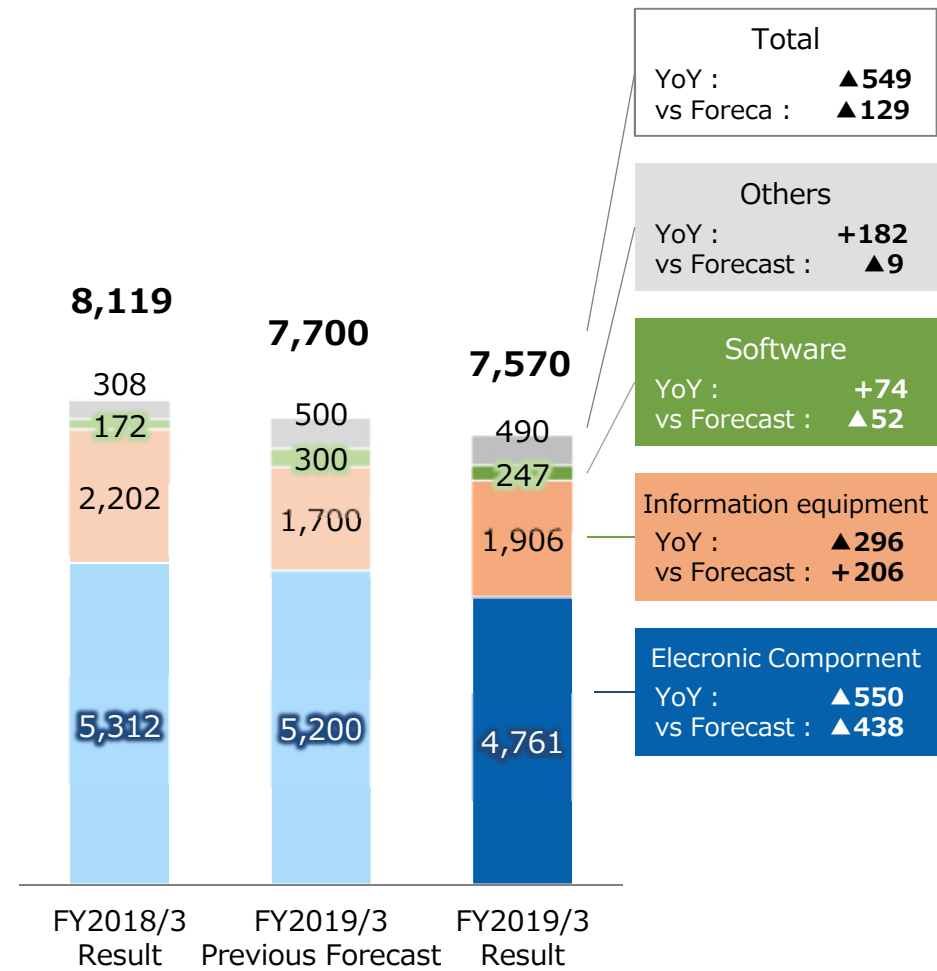
Financial Highlights by Business Segment

(Million Yen)

Net Sales



Segment Income



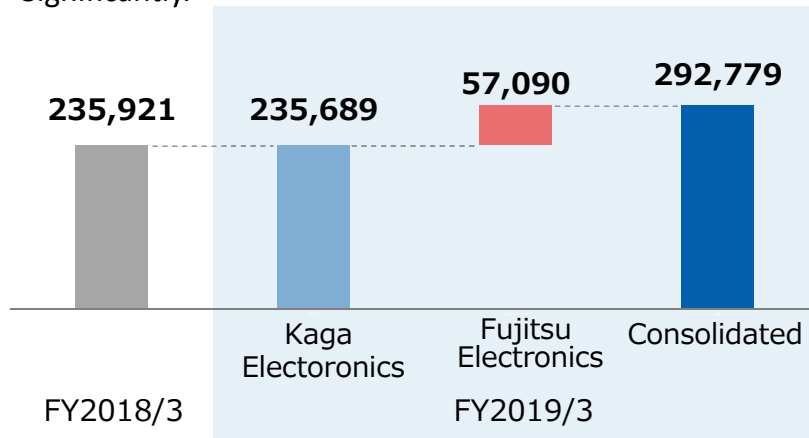
Note: Figures of each segment income are not inter-segment adjusted.
Total amount is inter-segment adjusted (operating income).

Effect of Fujitsu Electronics conversion to subsidiary

(million yen)

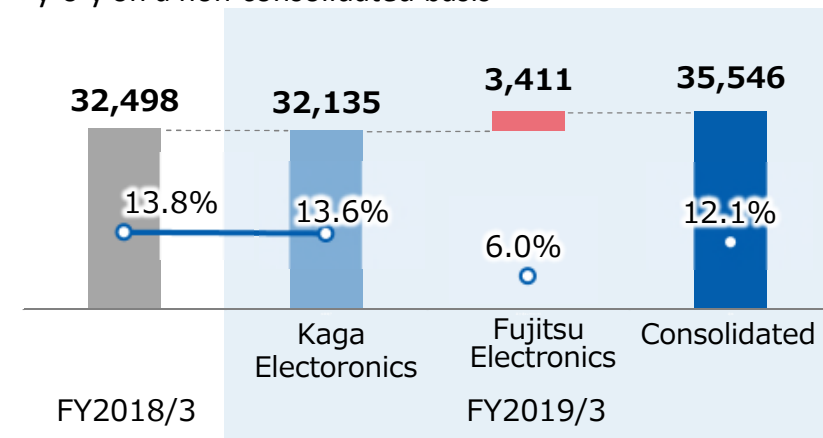
Net Sales

Fujitsu Electronics consolidated from 4Q, sales increased significantly.



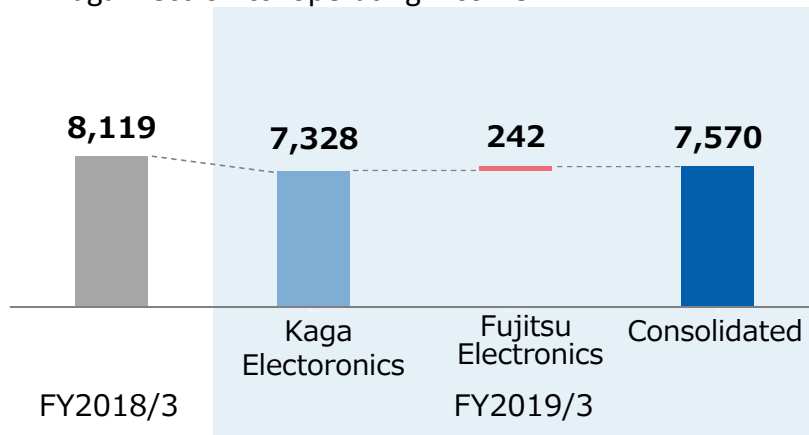
Gross profit / Gross profit margin

Gross profit margin declined on a consolidated basis, but flat y-o-y on a non-consolidated basis



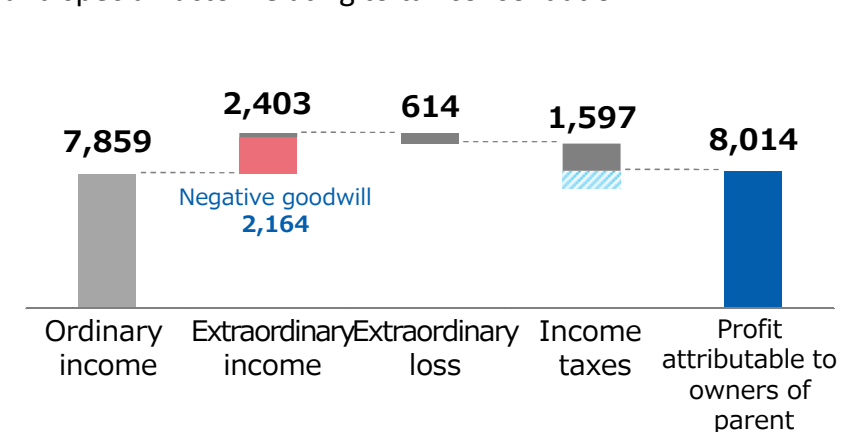
Operating income

Consolidation of Fujitsu Electronics could not offset decrease in Kaga Electronics' operating income



Profit attributable to owners of parent

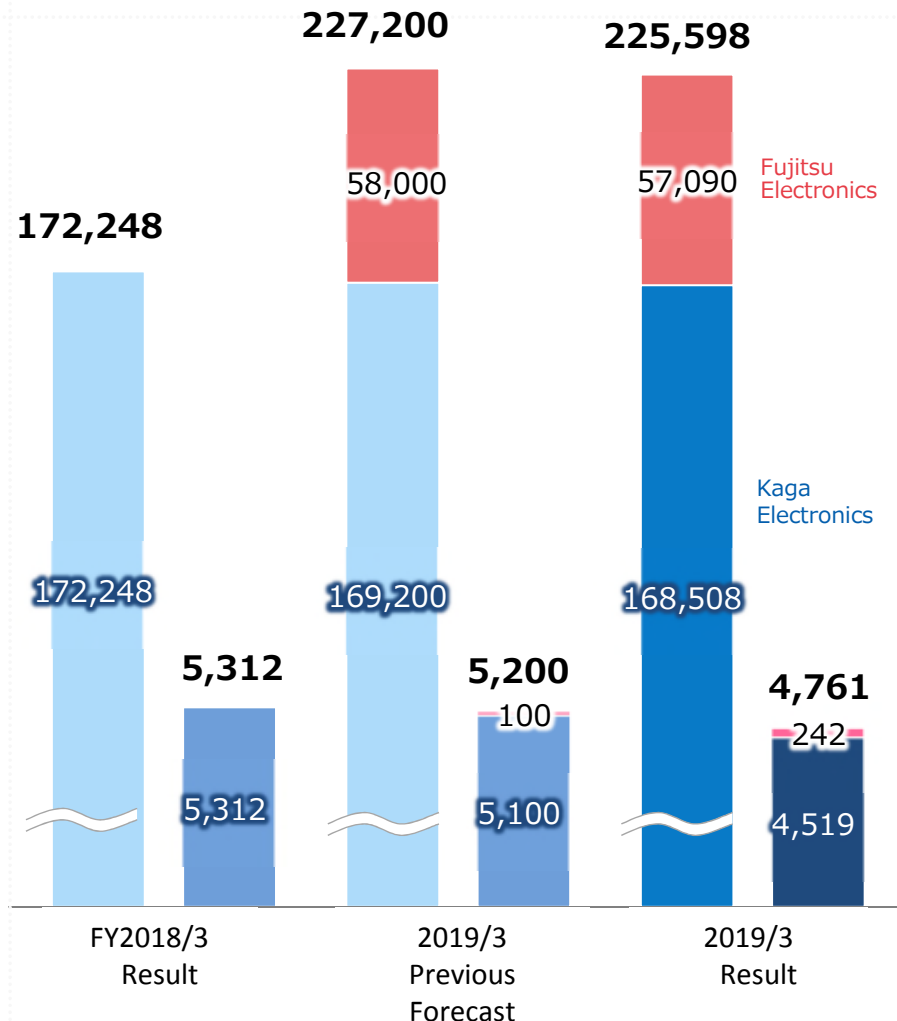
Incorporating "negative goodwill" arising from the consolidation and special factor relating to tax consolidation



Financial Highlights: Electronic Component Segment

(million yen)

Net sales/Segment income



YoY

- Net sales ▶ **+53,350** million Yen **31.0%**up
- Segment Income ▶ **▲550** million Yen **10.4%**down

vs Forecast

- Net sales ▶ **▲1,601** million Yen **0.7%**down
- Segment Income ▶ **▲438** million Yen **8.4%**down

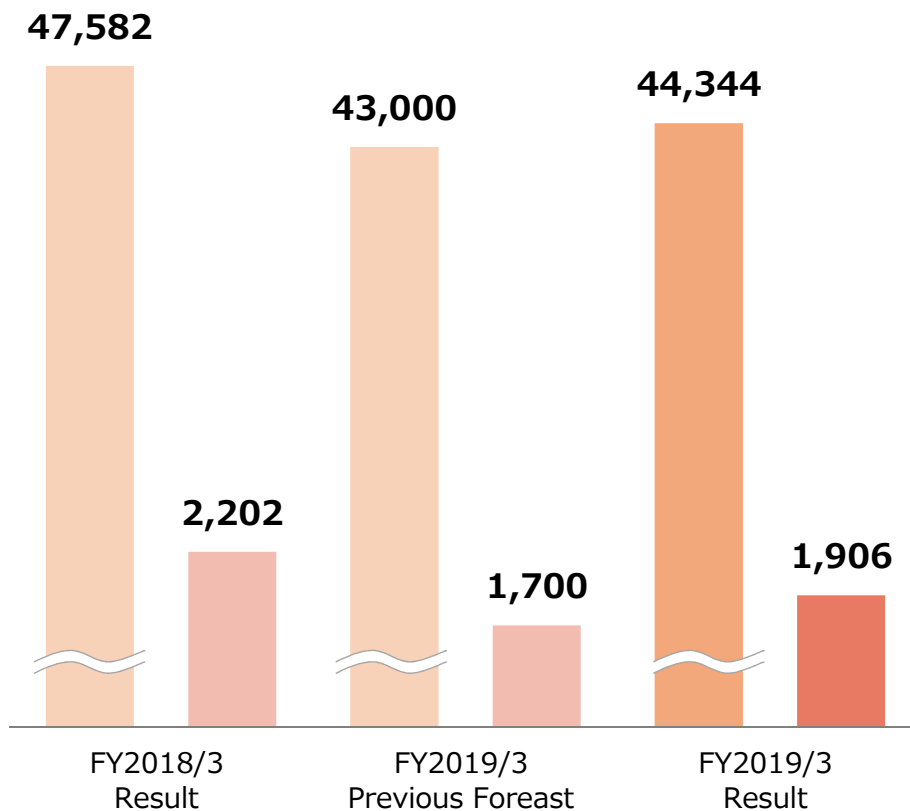
- Significant increase in net sales resulting from conversion of Fujitsu Electronics to subsidiary
- Steady performance of EMS business for automotive and air conditioning devices.
- Sluggish components sales business, notably for home electric appliances, from the effect of production adjustments at major customers.



Financial Highlights: Information Equipment Segment

(million yen)

Net sales/Segment income



YoY

- Net sales ▶ ▲**3,237** million Yen **6.8%**down
- Segment Income ▶ ▲**296** million Yen **13.4%**down

vs Forecast

- Net sales ▶ **+1,344** million Yen **3.1%**up
- Segment Income ▶ **+206** million Yen **12.2%**up

- The commercial facilities-related LED installation business showed robust growth.
- The housing-related home electric appliance business declined due to delivery date adjustments by customers. Although sales of PCs to individuals were solid, sales of PCs to corporate customers were slow.



Net Sales by Region

(million yen)

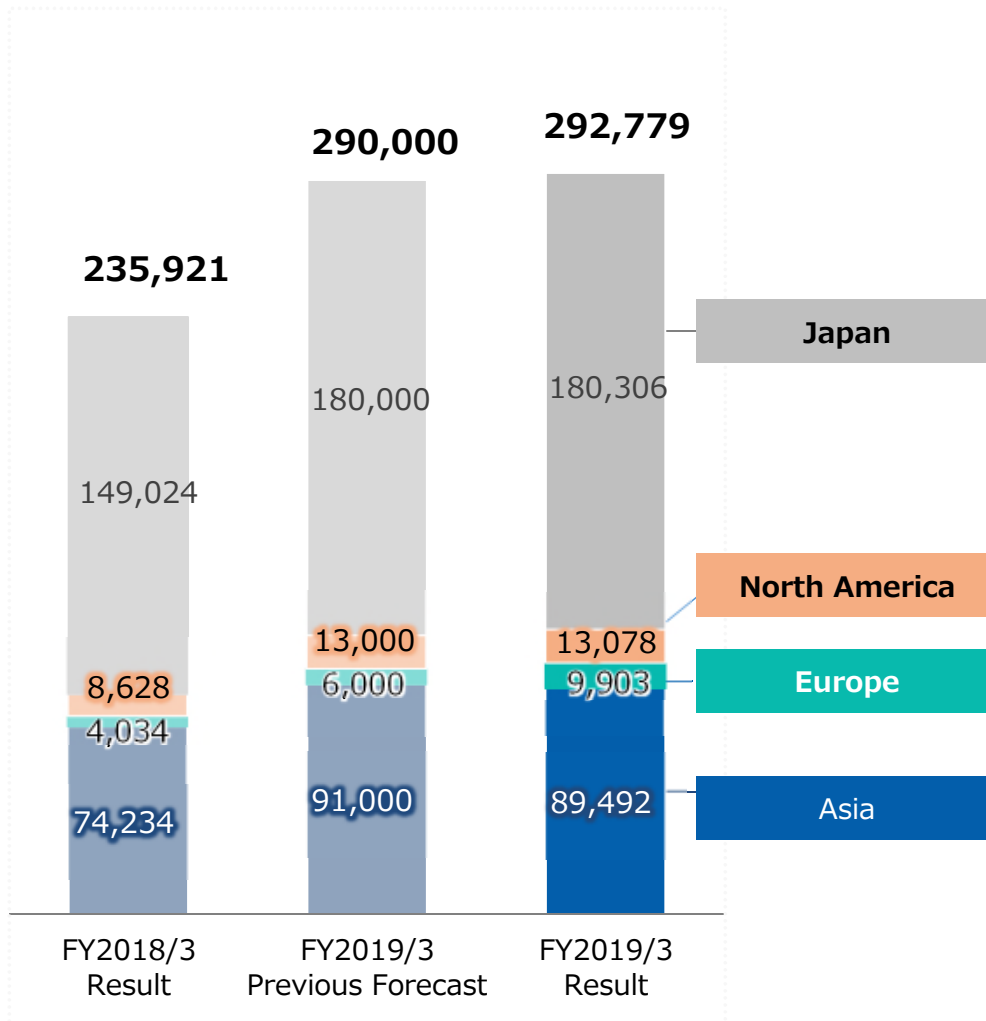
Net sales

YoY

- Japan ▶ **+31,281**million yen **21.0%**up
- North America ▶ **+4,449**million yen **51.6%**up
- Europe ▶ **+5,869**million yen **145.5%**up
- Asia ▶ **+15,258**million yen **20.6%**up

vs Forecast

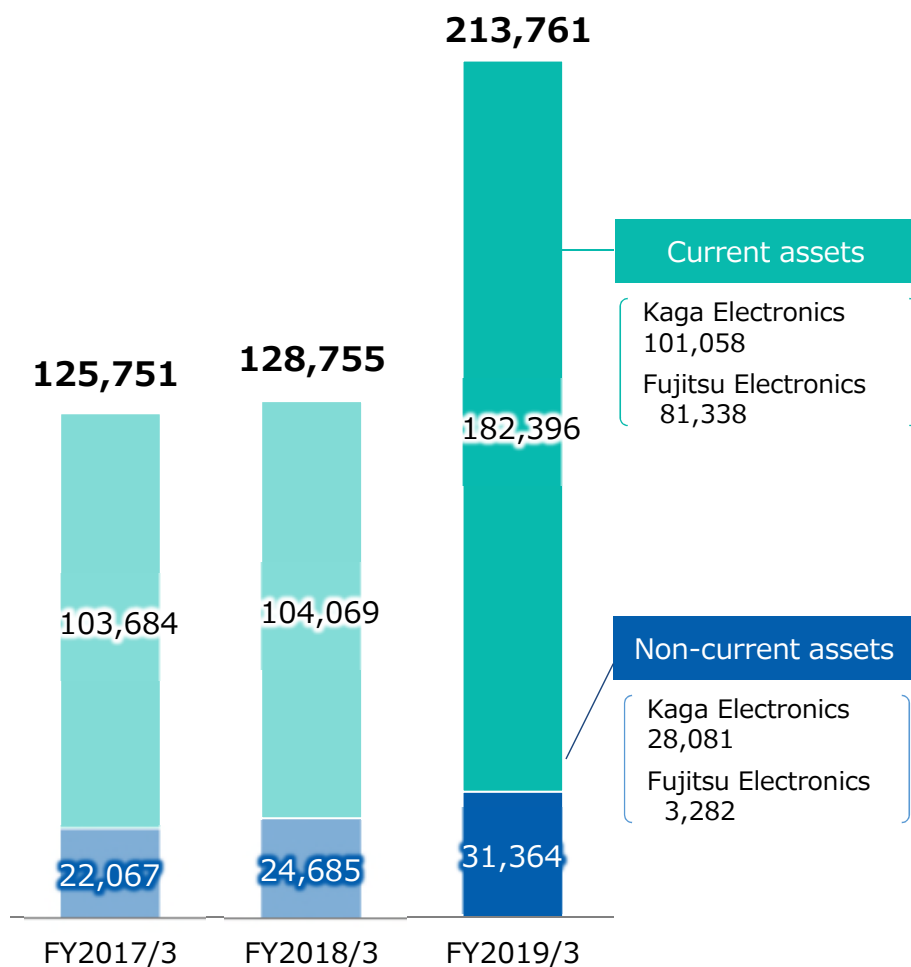
- Japan ▶ **+306**million yen **0.2%**up
- North America ▶ **+78**million yen **0.6%**up
- Europe ▶ **+3,903**million yen **65.1%**up
- Asia ▶ **▲1,508**million yen **1.7%**down



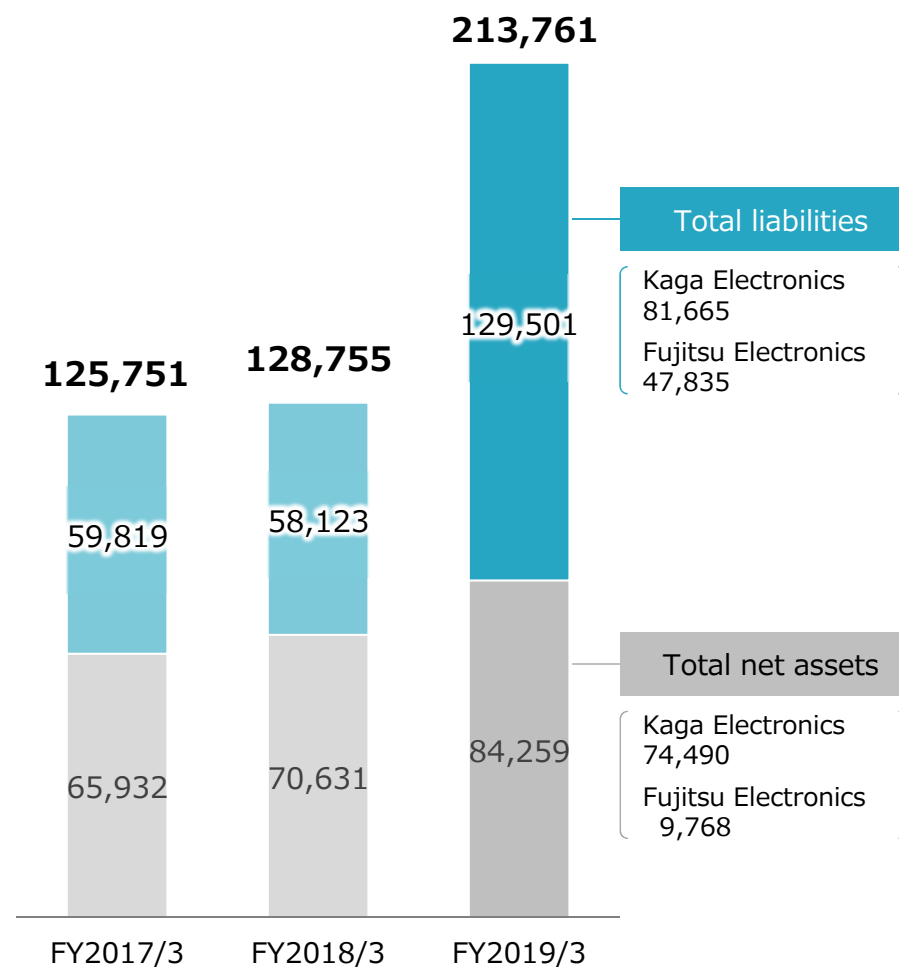
Balance Sheet Main Items

(Million Yen)

Total assets

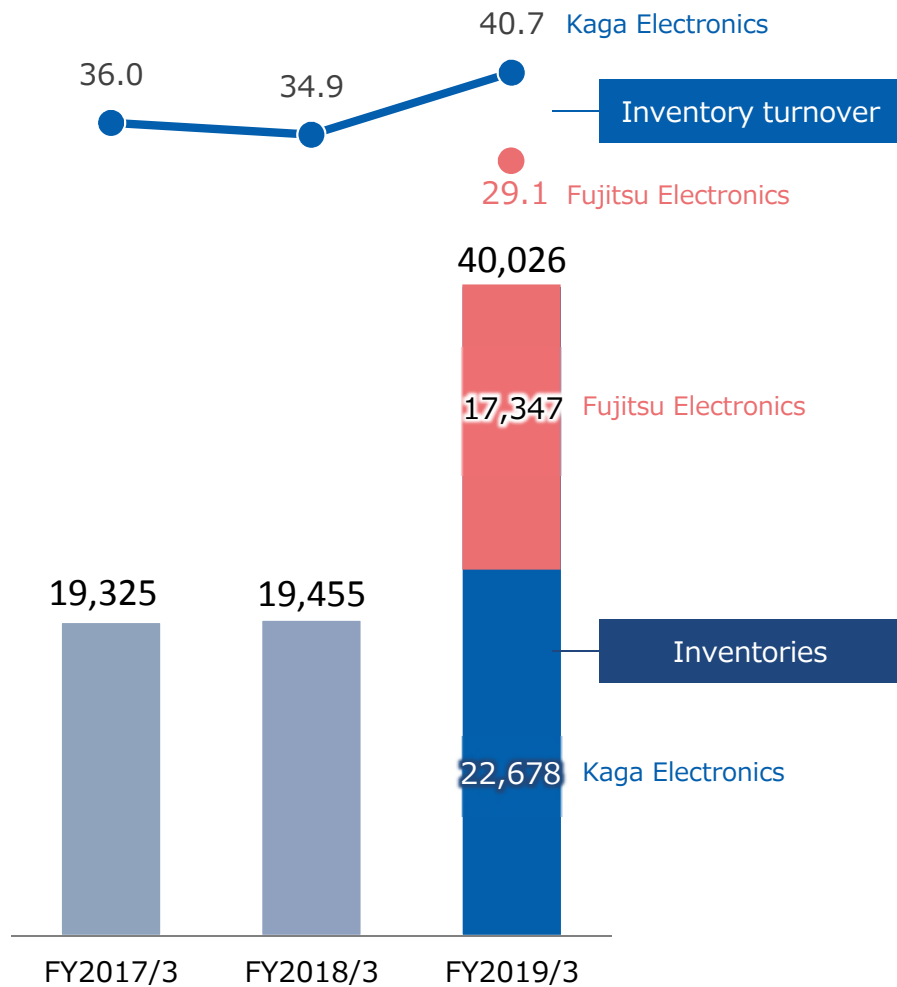


Total liabilities and net assets



Balance Sheet Main Items

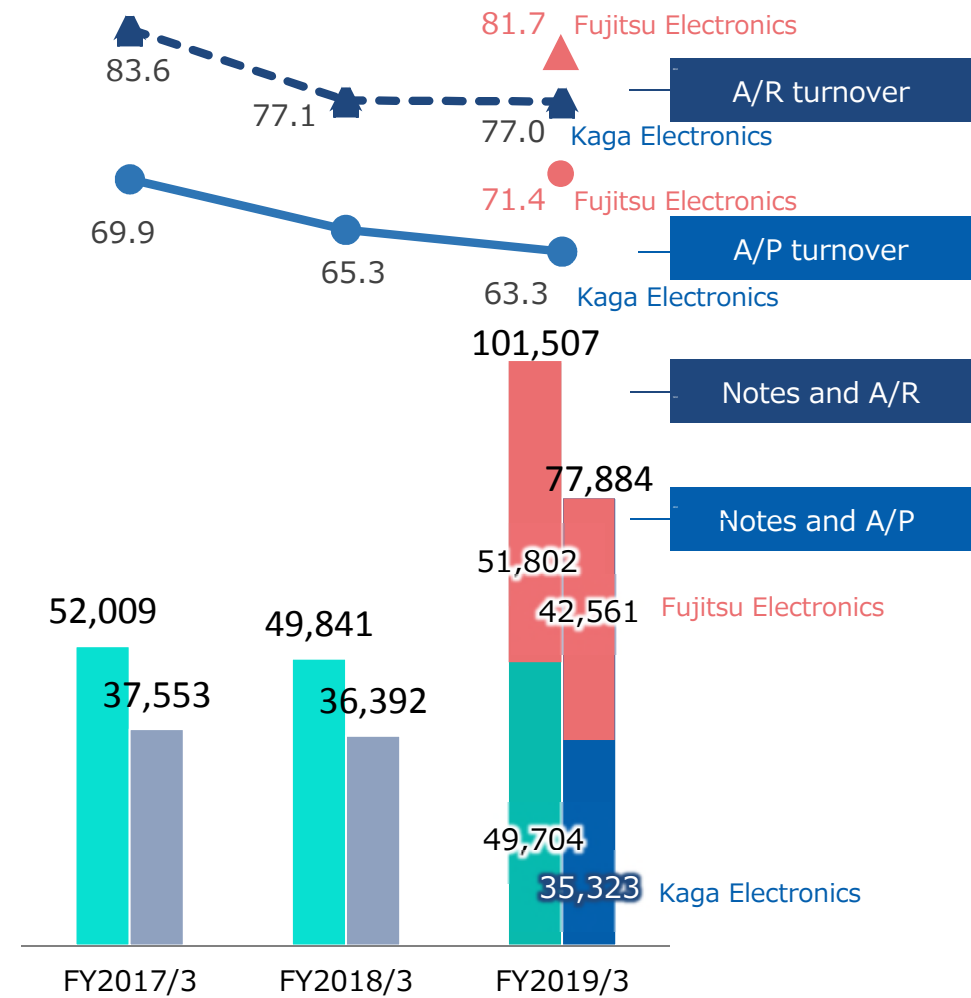
Inventories



注: Inventory turnover = Inventories ÷ Cost of Sales × 365 (day)

(Million Yen, Day)

Accounts receivable/Accounts payable



notes : •Notes and A/R are amounts including Electronically recorded monetary claims-operating

•A/R turnover = Notes and A/R ÷ Net sales × 365 (day)

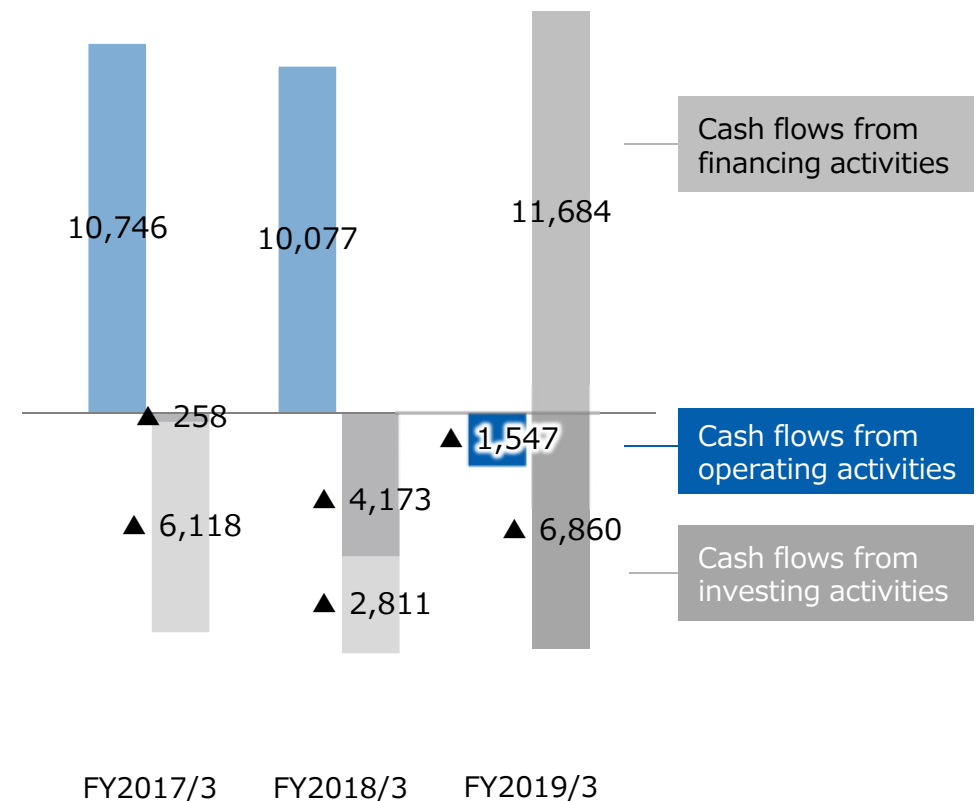
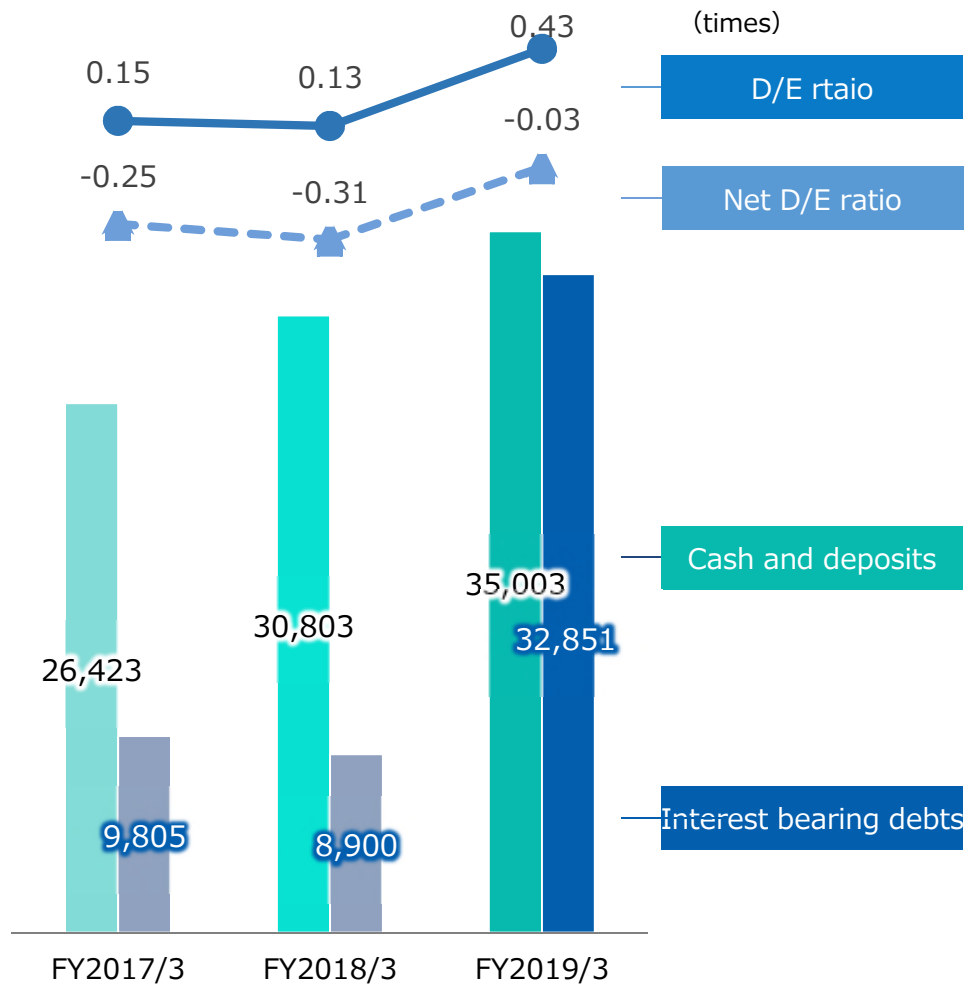
•A/P turnover = Notes and A/P ÷ Cost of sales × 365 (day)

Cash and Deposits/Interest Bearing Debt/Cash Flows

(million yen)

Cash and deposits

Cash flows



note : D/E ratio = Interest bearing debts ÷ Shareholder's equity

Net D/E ratio = (Interest bearing debts - Cash and deposits) ÷ Shareholder's equity

Supplementary information on cash flow

Although in FY2019/3, cash flow in operating activities recorded a temporary increase in outflow due the conversion of Fujitsu Electronics to subsidiary, reaction to this is anticipated in FY2020/3.

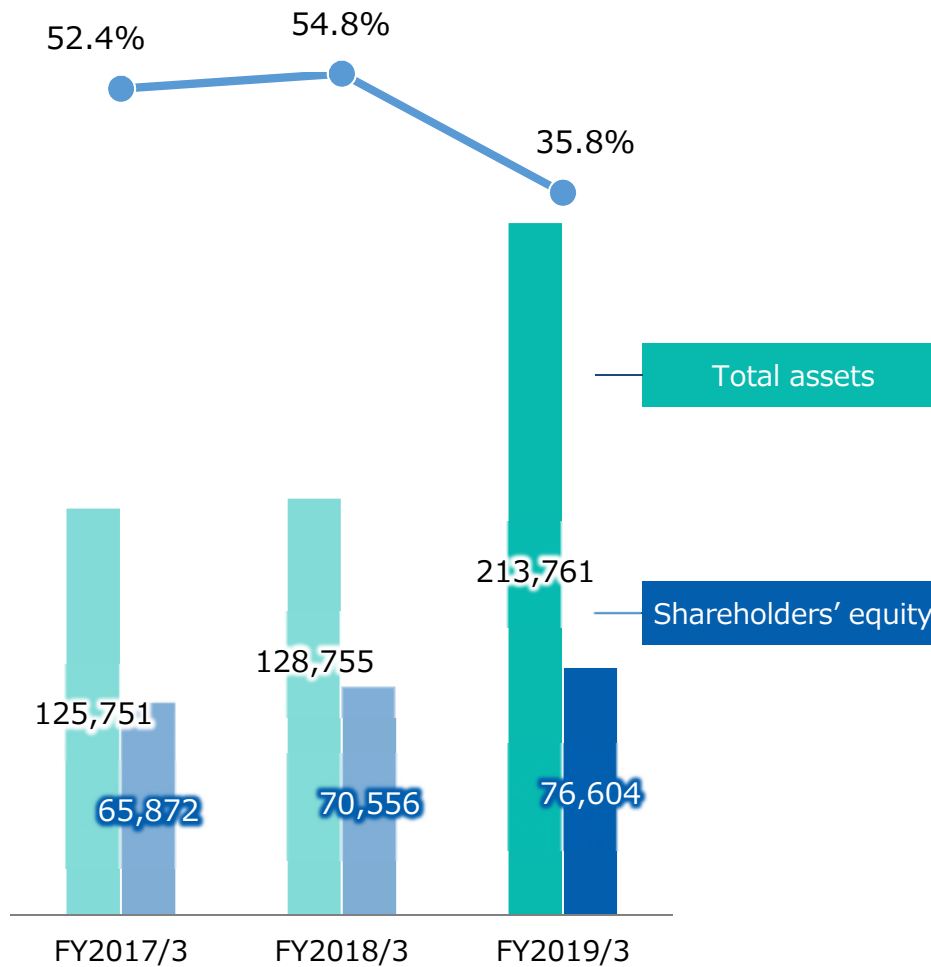
	Main variation items	<u>FY2018/3</u>	<u>FY2019/3</u>	
Cash flows from operating activities	● Profit before income taxes	9,300	9,649	
	● Gain on negative goodwill	—	△2,164	…①
	● Decrease (increase) in notes and accounts receivable - trade	2,076	△1,152	…②
	● Decrease (increase) in inventories	△226	△2,145	…③
	● Increase (decrease) in notes and accounts payable - trade	△1,101	△6,746	…④
	● Decrease (increase) in accounts receivable - other	1,087	△207	
	● other	△1,059	1,218	
	Net cash provided by (used in) operating activities	10,077	△1,547	

Main factors		
① Gain on negative goodwill	→	Due to the acquisition of Fujitsu Electronics 70% stock
② Increase in notes and accounts receivable -trade	→	of which, - 1,040 due to consolidation of Fujitsu Electronics
③ Increase in inventories	→	Mainly in response to customer inventory adjustment and sales increase in EMS
④ Decrease in notes and accounts receivable -trade	→	of which, - 5,192 due to consolidation of Fujitsu Electronics

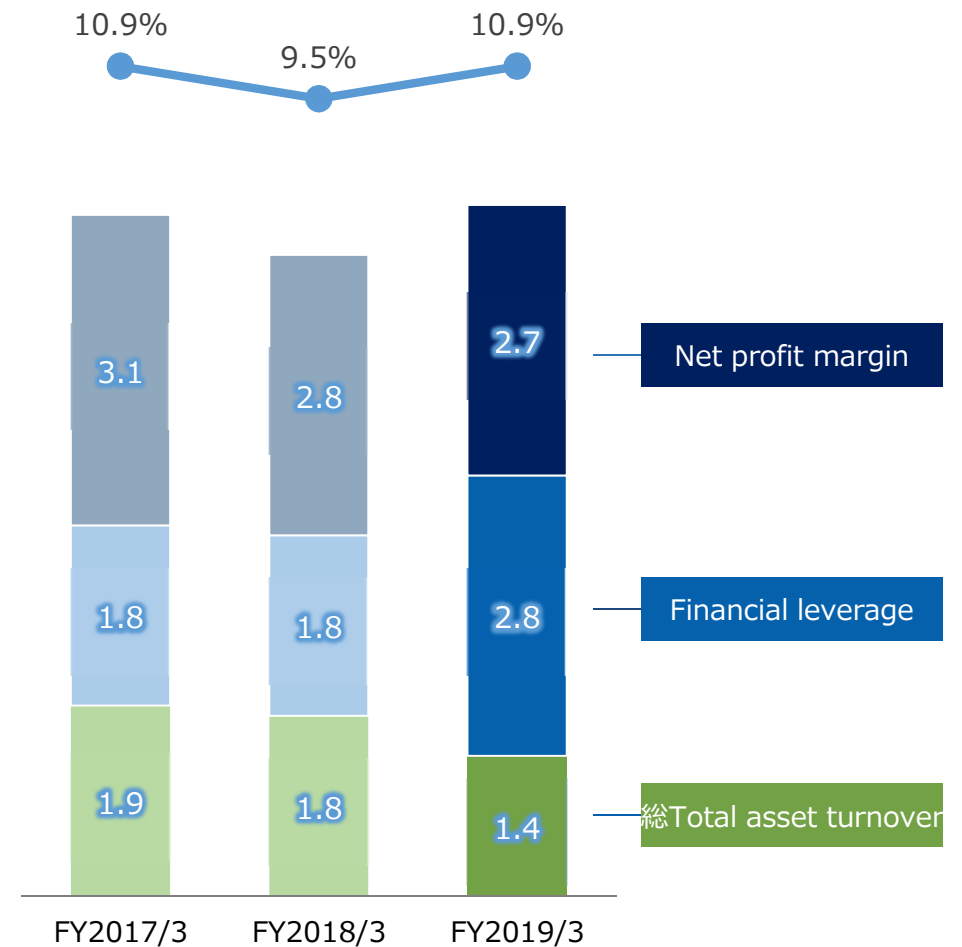
Major Business Indicators

(million yen)

Equity ratio



ROE



Summary of Forecast for the Fiscal Year ending March 31, 2020

Forecast for FY2020/3

- The Group overall is conservative in its projections due to uncertain domestic and overseas conditions going forward.
- In the case of Fujitsu Electronics, we expect a risk of the cancellation of large-lot commercial rights and thus forecast lower sales and income.
- We predict a reactionary decline in net income due to the negative goodwill posted in the previous fiscal year and the loss of the tax effect.

Perception of Environment for the Main Segments

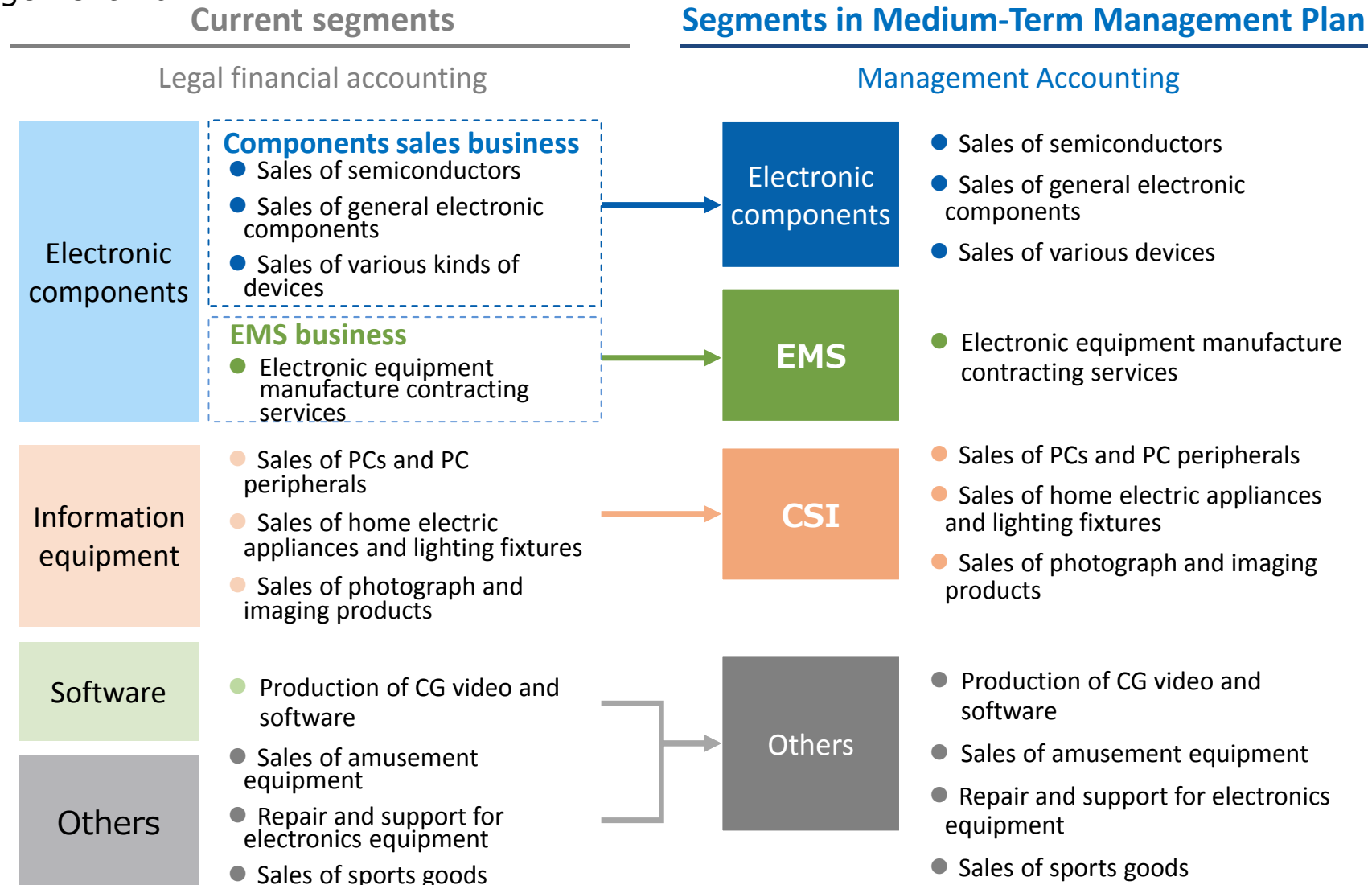
- Electronics Components Business: Slowdown in China-related business is a concern, but sales is likely to continue expanding led by “automotive devices.
- EMS business: Growth of demand is expected for automotive and air conditioning devices in the new overseas factories.
- CSI business: Decline in demand is likely to continue in housing-related home electric appliances business.

Shareholder return

- We shall perform **stable dividends**, while securing a **consolidated dividend payout ratio of 25 to 35%**.
- In light of current performance forecast, annual dividend of 60 yen is planned (dividend ratio of 32.9%)

Segment disclosure associated with the start of the Medium-Term Management Plan

Continuous disclosure based on current segmentation according to legal financial accounting, along with voluntary disclosure based on segmentation in line with the new Medium-Term Management Plan



Forecast for the Fiscal Year ending march 2020

(million yen)

	FY2019/3 Results	FY2020/3 Forecast	YoY
Net sales	292,779	430,000	46.9%
Gross profit	35,546	46,500	30.8%
Gross profit margin	12.1%	10.8%	
SG&A	27,976	39,500	41.2%
Operating income	7,570	7,000	-7.5%
Ordinary income	7,859	7,000	-10.9%
Profit attributable to owners of parent	8,014	5,000	-37.6%
EPS (Yen)	292.07	182.17	
ROE	10.9	6.4	-

Forecasts by Business Segment for the Fiscal Year ending march 2020

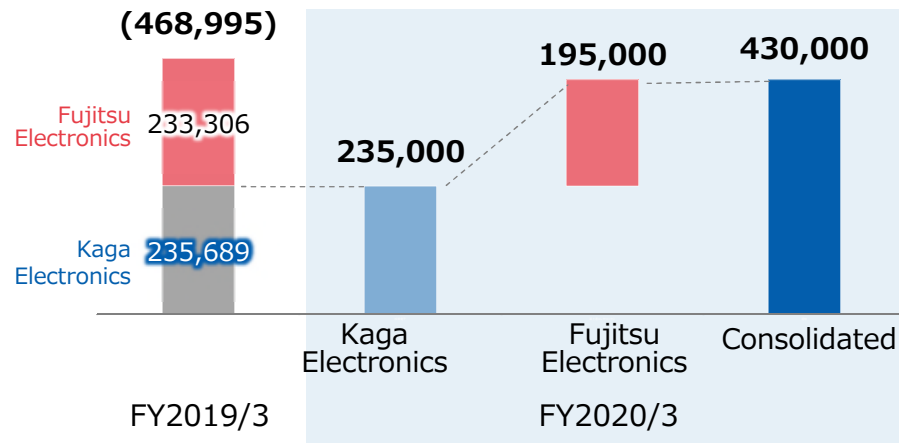
		(million yen)		
		FY2019/3	FY2020/3	
		Results	Forecast	YoY
Electronic Components	Net Sales	145,042	282,000	94.4%
	Segment income	2,278	2,200	-3.4%
EMS	Net Sales	89,481	95,000	6.2%
	Segment income	2,667	2,800	5.0%
CSI	Net Sales	44,344	40,000	-9.8%
	Segment income	1,906	1,500	-21.3%
Others	Net Sales	13,912	13,000	-6.6%
	Segment income	554	500	-9.7%
Total	Net Sales	292,779	430,000	46.9%
	Segment income	7,570	7,000	-7.5%

Note: Figures of each segment income are not inter-segment adjusted.
Total amount is inter-segment adjusted (operating income).

Effect of Fujitsu Electronics conversion to subsidiary (FY2020/3 Forecast)

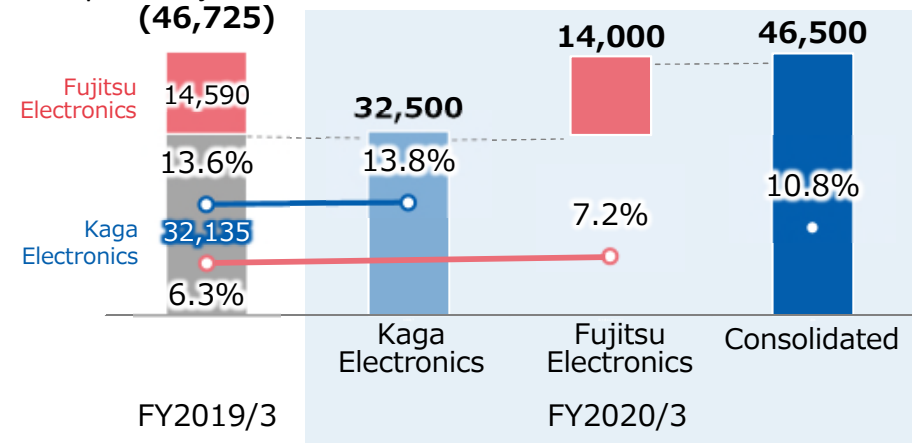
Net Sales

Prudent projection for net sales in view of uncertainty in the future business environment



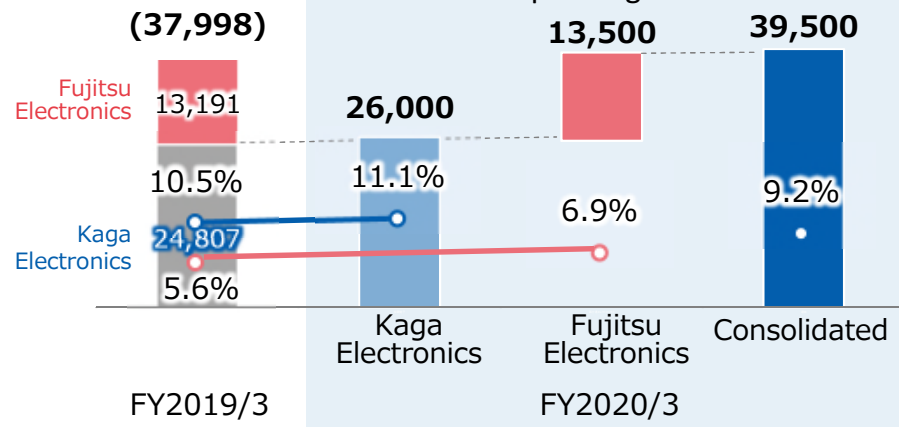
Gross profit / Gross profit margin

Gross profit margin to be flat y-o-y for Kaga Electronics, up 1 pt for Fujitsu Electronics



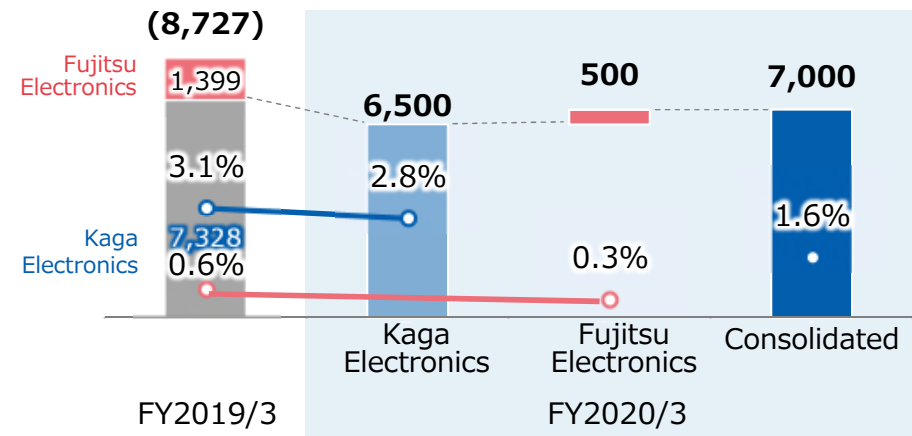
SG&A / SG&A ratio

Expenses to increase for both companies due notably to launch of new facilities and IT-related spending



Operating income / Operating income margin

Fujitsu Electronics' contribution to income to remain limited




Kaga Electronics Group's Growth Scenario Medium Term Management Plan 2021 Outline

(announced on November 6, 2018)

Kaga Electronics Co., Ltd.
President & Representative Director
Ryoichi Kado

Medium to Long Term Vision of the Kaga Electronics Group

Through the establishment and taking hold of “profit-focused management”,

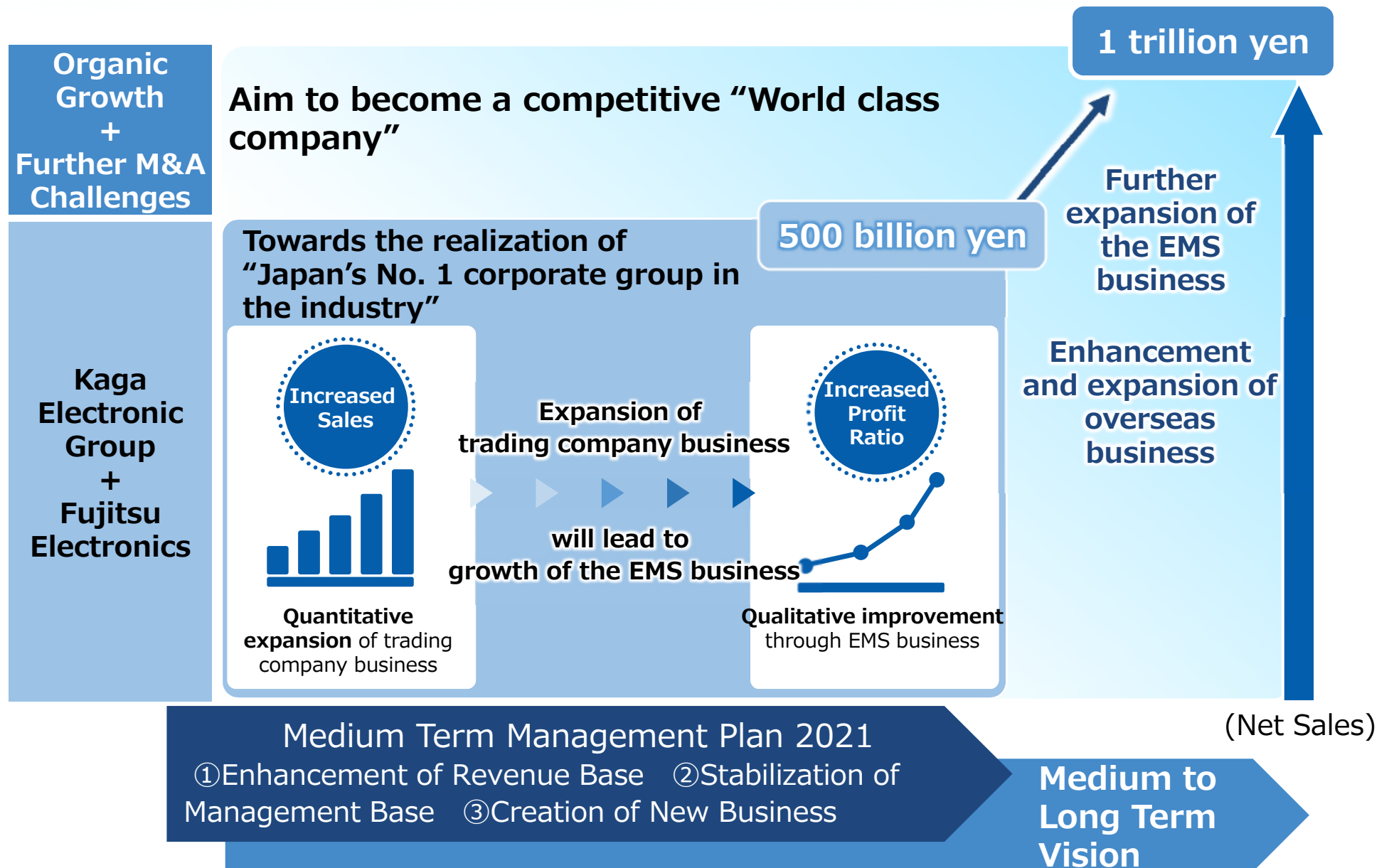


forming Japan' No.1 corporate group
in the industry,



and furthermore,
aiming to become a competitive
“World class company”.

Positioning of “Medium Term Management Plan 2021 (2019 - 2021)”



“Medium Term Management Plan 2021 (2019 - 2021)” Basic Policies

Key Issues

1 Enhancement of Revenue Base

Utilizing the Group’s DNA to see things ahead of time, we shall **focus on markets and customers forecast to have high growth potential and profitability**, and will aim to strengthen the revenue base

- Strengthening initiatives for growth sectors: In-vehicle, communications, environment, industrial equipment, medical and healthcare
- Enhancement and expansion of EMS business and overseas business

2 Stabilization of Management Base

Aiming to stabilize the management base towards **early improvement of efficiency and financial soundness** after conversion of Fujitsu Electronics to subsidiary

- Continuation of group-wide cost reduction measures
- Promotion of improve group management efficiency through the preparation of an organizational structure
- Enhancement of corporate governance, cultivating human resources to lead the next generation

3 Creation of New Business

In order to enhance resistance to changes in the external environment, we shall endeavor to create new business through the proactive use of our own resources and M&A

- Launching of social issues (childcare, welfare, nursing care, etc.) business and materials business
- Promotion of open innovation through venture investment
- Proactive use of M&A activities

“Medium Term Management Plan 2021” Management Targets

	FY2018 Result	FY2019 Forecast	Management Targets FY2021
Net Sales	292.8 billion yen	430 billion yen	500 billion yen
Operating Income	7.6 billion yen	7 billion yen	13 billion yen
ROE	10.9%	6.4%	8% or higher

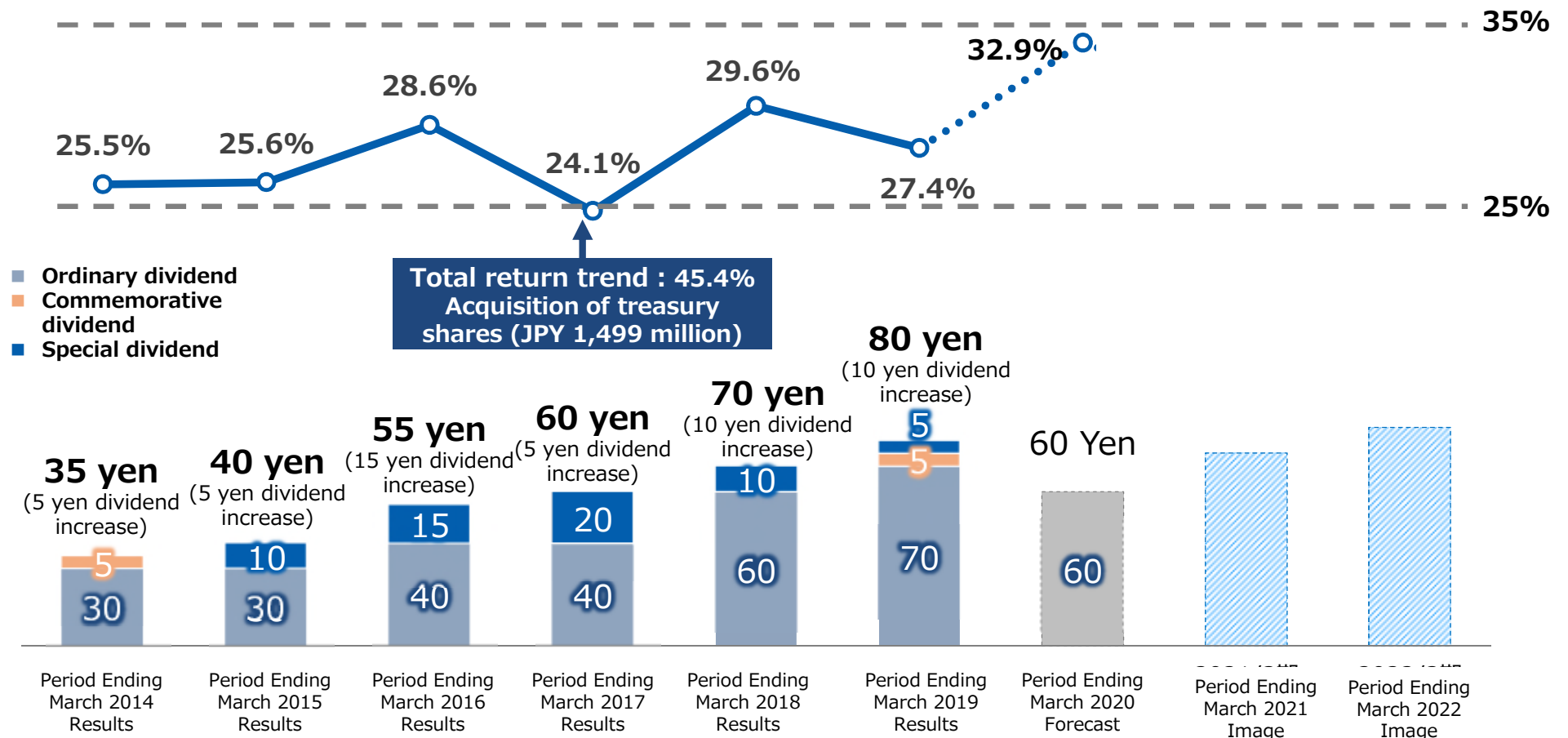
FOREX

• Plan forecast : US\$1.00 = ¥ 110

Shareholder Return Concept

Basic Policy on Dividends of Surplus

- We shall perform **stable dividends**, while securing a **consolidated dividend payout ratio of 25 to 35%**.
- We shall use **funds for business investments, capital investments, and M&A**, etc. in order to contribute to future growth.
- Decisions on the **acquisition of treasury shares** shall be made appropriately, in consideration of capital efficiency and share price, etc.

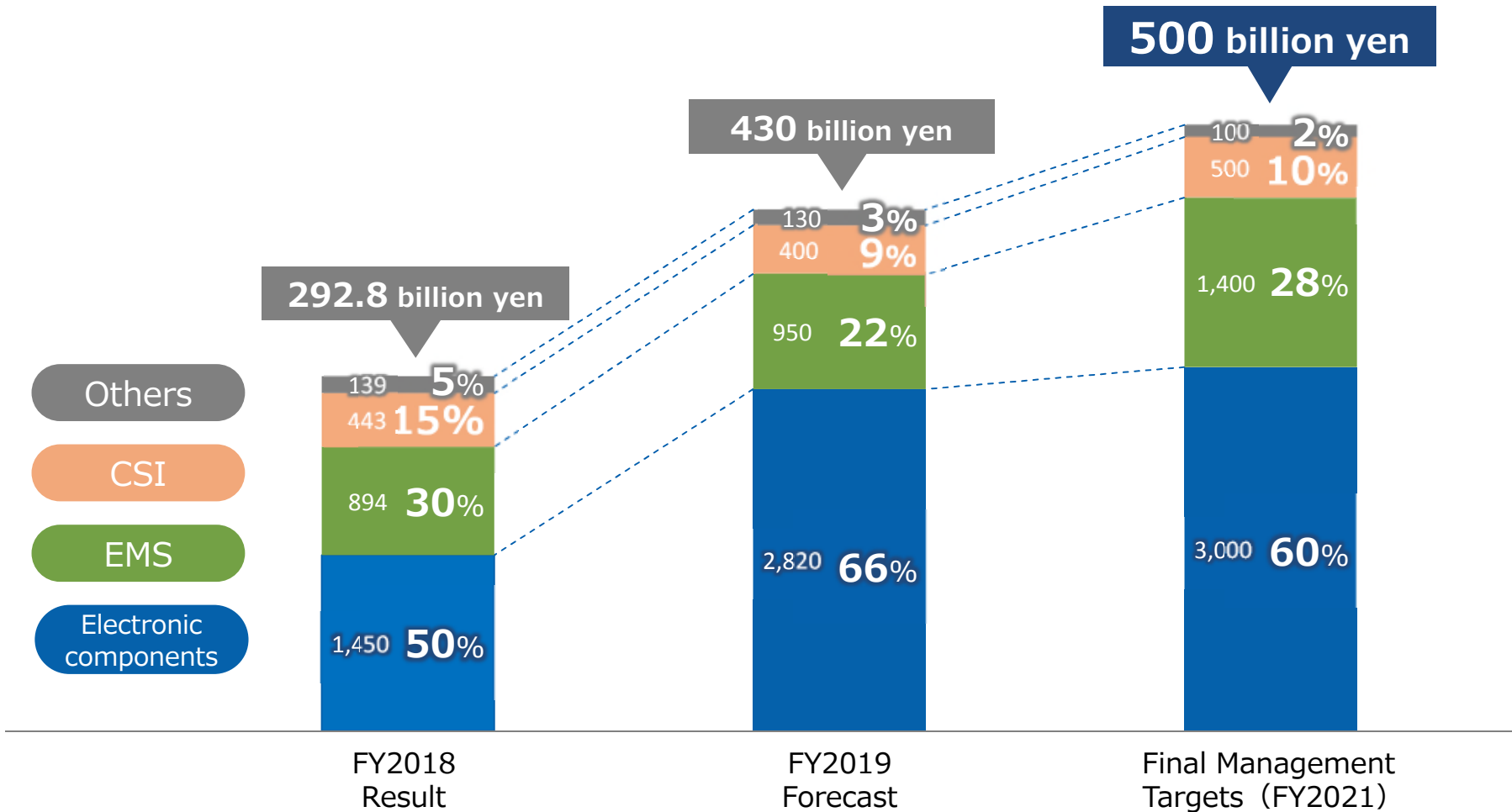


Reference

<Reference> Business portfolio concept

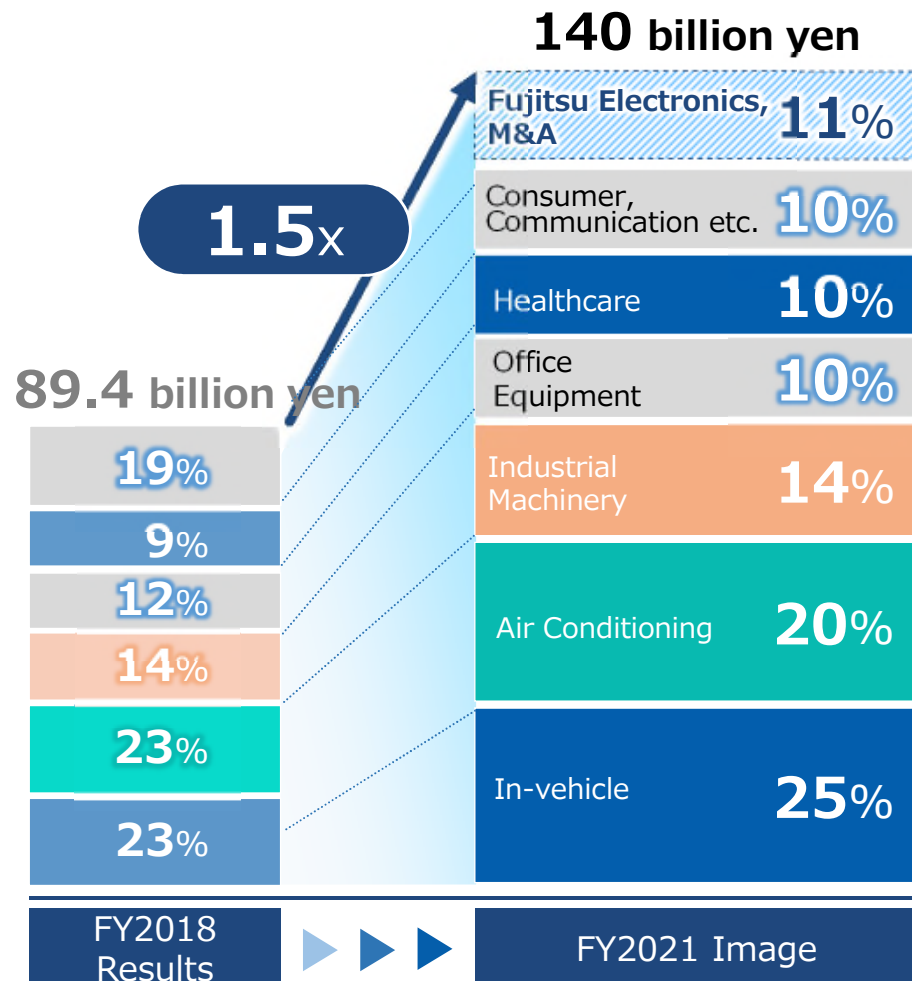
In the new medium term plan, we have reviewed future disclosure segments, and perform a reclassification into the following new categories.

Sales Composition Ratio Diagram



<Reference> EMS Business Growth Scenario

Driven by the growth of in-vehicle, air conditioning, industrial machinery, and medical and healthcare, we shall aim for **drastic growth of business size of 1.5x that of FY2018**



Points

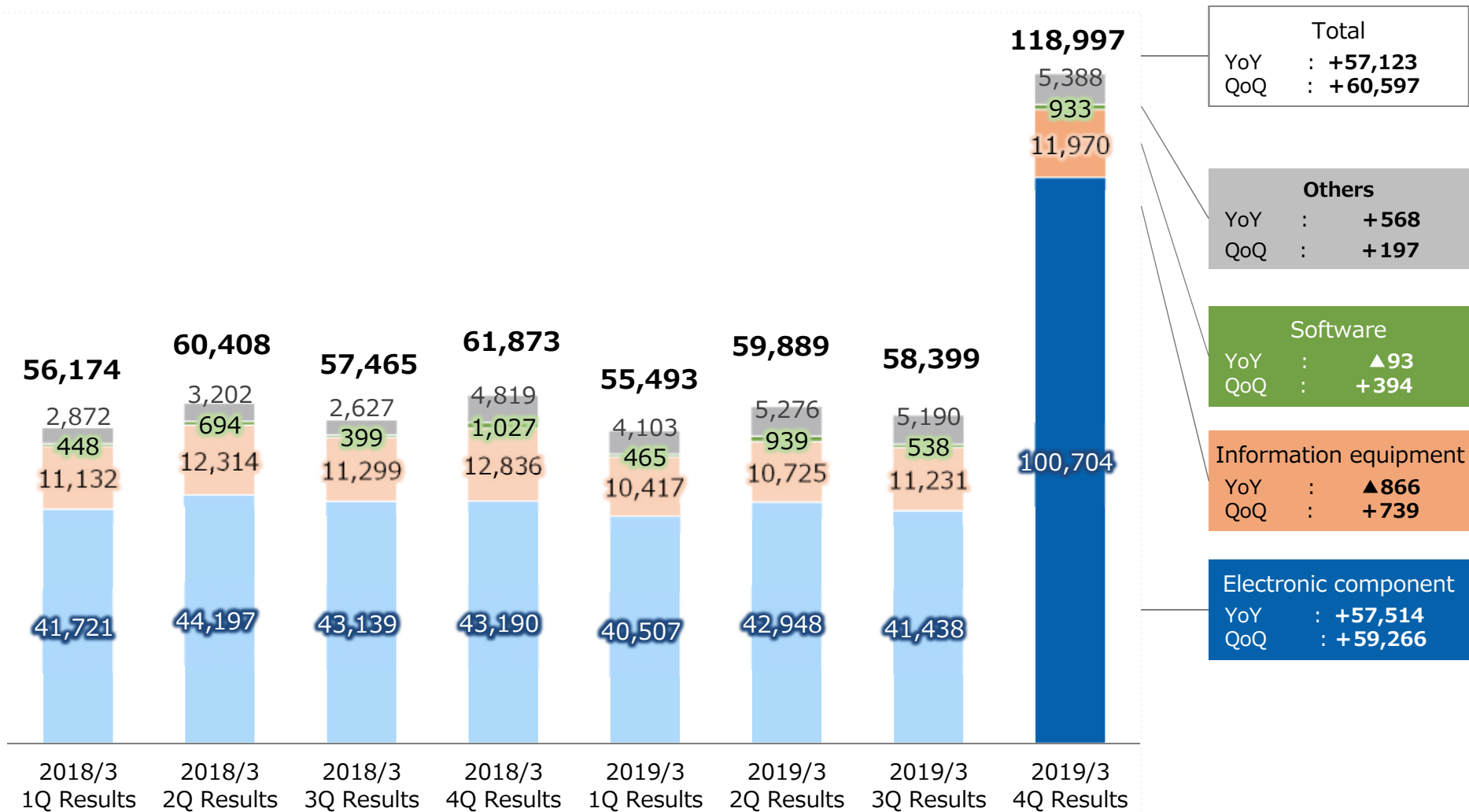


- In addition to our existing production capacity in China, ASEAN, and Europe, we shall aim to expand business in growth areas such as in-vehicle, air conditioning, and industrial machinery, through full scale investment in new bases in Vietnam, Mexico, Turkey, and India.
- We shall develop a “Key Device + EMS” approach for the major customers of Fujitsu Electronics.
- We shall aim to further expand the size of the EMS business, and search for new M&A opportunities inside and outside of Japan.

<Reference> Financial Highlights by Business Segment① (Net Sales)

(Million Yen)

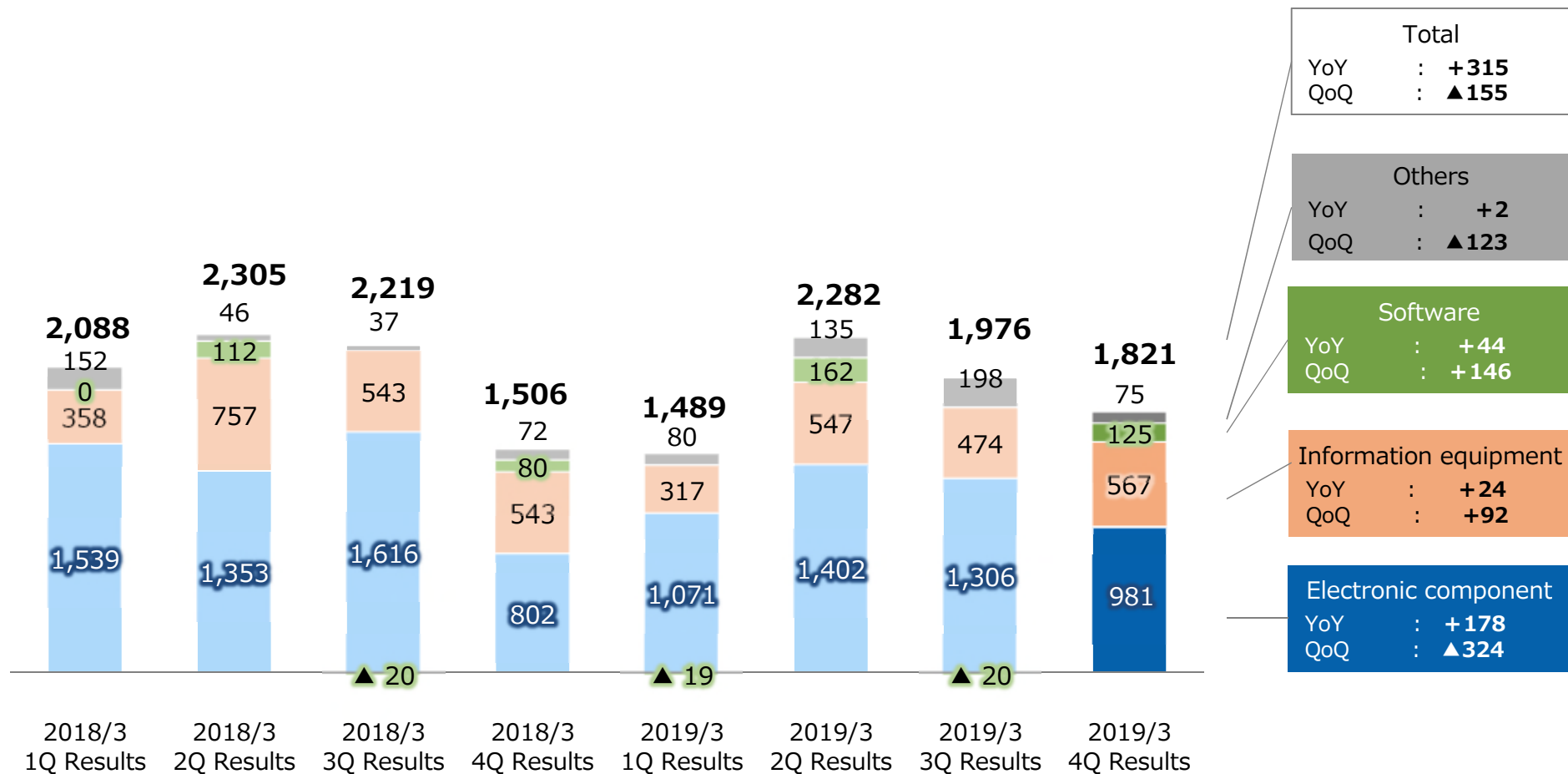
Net Sales



<Reference> Financial Highlights by Business Segment② (Segment Income)

(Million Yen)

Segment Income



<Reference> Exchange Rate/FOREX Sensitivity

	FY2018/3 Results (Yen)	FY2019/3 Results (Yen)	(Reference) Effect of 1% change (Million Yen)		Forex Assumption for 2020/3(yen)
			Net sales	Ordinary income	
USD	110.85	110.91	827	26	110.00
THB	3.36	3.43	225	12	3.40
RMB	16.63	16.72	118	6	17.00
HKD	14.20	14.14	162	3	14.00

<Reference> Products and Services by New Business Segment

Electronic components	<ul style="list-style-type: none">● Sale of semiconductors (general-purpose products, customized products)● Sale of general components (condensers, connectors, cables, switches, etc.)● Sale of LCD, LED, and various devices
EMS (Electronics Manufacturing Service)	<ul style="list-style-type: none">● Manufacturing outsourcing (from mounting of circuit boards to assembly of completed products) services for various electronic devices, and the resulting design and development
CSI (Consumer Solution Information)	<ul style="list-style-type: none">● Sale of computers and PC ancillary equipment● Sale of home electronic appliances, lighting equipment, and photograph and film-related products, etc.
Others	<ul style="list-style-type: none">● Production of various CG images and software● Planning, development, manufacture, and sale of amusement-related products● Repair of and support for electronics equipment● Wholesale and retail sales of sports equipment, other

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**“Everything we do is
for our customers**



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- Forward-looking statements in these materials are based on information available to management at the time this report was prepared and assumptions that management believes are reasonable. Actual results may differ significantly from these statements for a number of reasons.

- Display method in this material
 - Number : Truncated less than the display unit.
 - Ratio : After calculation in yen units, Round down one digit of Display unit.