



Report on Financial Results

for the Fiscal Year Ended March 2017

May 25, 2017

KAGA ELECTRONICS CO., LTD.
(TSE 1st section, 8154)

Points

1

Results for FY2017

- ✓ Profit attributable to owners of parent increased for four consecutive years despite year-on-year decreases in net sales, operating income, and ordinary income.

2

Forecasts for FY2018

- ✓ Net sales are expected to increase year-on-year.
- ✓ Operating income and ordinary income will maintain profitability.

3

Mid- to long-term strategy

- ✓ Aim at enhancing sales growth potential in addition to strengthening profitability.
- ✓ Accelerate globalization to expand EMS business.



Consolidated Performance for FY2017

Financial Highlights

(comparison with past 2 fiscal years)

(Million yen)

	FY2015	FY2016	FY2017	
				Y o Y
Net sales	255,143	245,387	227,209	-18,178
Gross profit	32,738	33,648	31,225	-2,423
Gross profit margin	12.8%	13.7%	13.7%	—
Selling, general and administrative expenses	26,376	25,859	24,346	-1,513
Operating income	6,362	7,788	6,879	-909
Ordinary income	7,664	7,908	7,343	-565
Profit attributable to owners of parent	4,416	5,437	6,975	1,538

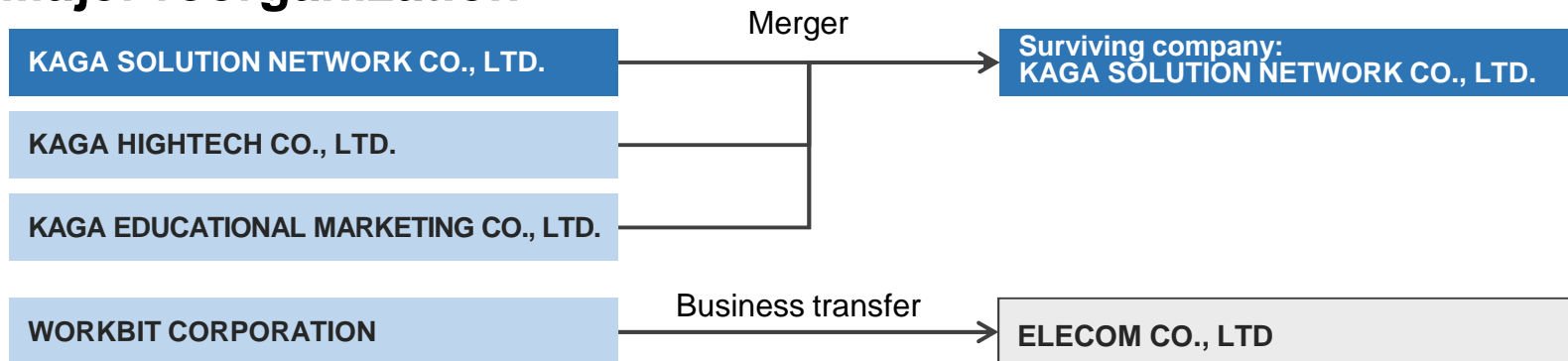
Corporate Group

	FY2016	FY2017	
			Y o Y
Consolidated subsidiaries	49 companies	45 companies	Decreased 4 companies
of which, domestic	22 companies	17 companies	Decreased 5 companies
of which, overseas	27 companies	28 companies	Increased 1 company

New: 2 companies TAXAN MEXICO S.A de C.V./SANKOH Engineering

Excluded: 6 companies KAGA HIGHTECH CO., LTD./KAGA EDUCATIONAL MARKETING CO., LTD.
and 4 other companies

Major reorganization



Decrease in income taxes resulting from business reorganization, etc.:
Approx. ¥1,400 million

Financial Highlights by Business Segment

(comparison with the previous year and forecasts as of 2Q)

(Million yen)

		FY2016	FY2017 (forecasts as of 2Q)	FY2017		Summary	
				Y o Y	vs. forecasts as of 2Q		
Electronic components	Net sales	189,486	176,000	171,227	-18,259	-4,773	The volume of domestic semiconductors decreased due to stagnant amusement machines business and a change in the agency policy by semiconductor manufacturers. Reduction of SG&A contributed to securing profits.
	Segment income	6,515	4,350	4,917	-1,598	567	
Information equipment	Net sales	40,880	41,000	42,547	1,667	1,547	Sales of housing-related products and the volume of PCs and other consumer products increased. The reorganization of the group companies with the aim of improving management efficiency resulted in improved operating margin.
	Segment income	811	900	1,491	680	591	
Software	Net sales	2,897	3,000	3,159	262	159	Operating margin declined despite focused efforts to produce computer graphics for animation and develop various kinds of software.
	Segment income	695	630	528	-167	-102	
Others	Net sales	12,123	10,000	10,274	-1,849	274	Sales of arcade amusement machines and golf products in Japan were sluggish due to a downturn in consumer spending.
	Segment income	-343	-180	-212	131	-32	
Total		245,387	230,000	227,209	-18,178	-2,791	* Figures of each segment income are not inter-segment adjusted other than total.
		7,788	5,700	6,879	-909	1,179	

Net Sales by Region

(comparison with the previous year and forecasts as of 2Q)

(Million yen)

	FY2016		FY2017 (forecasts as of 2Q)		FY2017				Summary
	Net sales		Net sales		Net sales		Y o Y	vs. forecasts as of 2Q	
Japan	167,914	69%	156,000	68%	151,912	67%	-16,002	-4,088	A decrease in sales of electronic components and semiconductors for domestic amusement machines and a decrease in the transaction volume due to changes in commercial distribution of semiconductors.
North America	5,840	2%	5,600	2%	5,995	3%	155	395	
Europe	2,662	1%	2,400	1%	2,518	1%	-144	118	
East Asia	68,970	28%	66,000	29%	66,783	29%	-2,187	783	
Total	245,387	100%	230,000	100%	227,209	100%	-18,178	-2,791	

Consolidated Balance Sheet

(Million yen)

	March 31, 2015	March 31, 2016	March 31, 2017	Y o Y		March 31, 2015	March 31, 2016	March 31, 2017	Y o Y
Current assets	104,424	101,961	103,684	1,723	Current liabilities	54,612	51,169	50,242	-927
Cash and deposits	18,130	22,516	26,423	3,907	Notes and accounts payable - trade	40,543	36,858	37,553	695
Notes and accounts receivable - trade (*)	58,167	54,795	52,009	-2,787	Short-term loans payable	5,925	6,295	4,883	-1,412
Inventories	22,703	19,175	19,325	150	Other	8,142	8,015	7,806	-209
Other	5,422	5,473	5,925	453	Non-current liabilities	13,733	11,303	9,576	-1,727
Non-current assets	23,524	22,319	22,067	-252	Long-term loans payable	8,253	6,007	4,603	-1,404
Property, plant and equipment	12,725	12,058	11,745	-313	Other	5,480	5,295	4,973	-322
Intangible assets	1,131	1,003	841	-162	Total liabilities	68,345	62,472	59,819	-2,653
Investments and other assets	9,667	9,257	9,479	222	Shareholders' equity	56,538	60,702	64,481	3,779
Total assets	127,948	124,281	125,751	1,470	Capital stock	12,133	12,133	12,133	0
					Capital surplus	13,912	13,912	13,912	0
					Retained earnings	31,029	35,195	40,476	5,281
					Treasury shares	-537	-539	-2,040	-1,501
					Valuation and translation adjustments	3,026	1,061	1,391	330
					Non-controlling interests	38	44	59	15
					Total net assets	59,603	61,808	65,932	4,124
					Total liabilities and net assets	127,948	124,281	125,751	1,470

(*) Notes and accounts receivable - trade includes electronically recorded monetary claims - operating

Consolidated Statement of Cash Flows

(Million yen)

	FY2015	FY2016	FY2017	Y o Y
Cash flows from operating activities	9,127	9,546	10,746	1,200
Cash flows from investing activities	-1,465	-1,263	-258	1,005
Cash flows from financing activities	-4,431	-3,067	-6,118	-3,051
Cash and cash equivalents at beginning of period	13,361	17,569	21,879	4,310
Cash and cash equivalents at end of period	17,569	21,879	26,021	4,142

Summary

- Cash flows from operating activities: Recording of profit before income taxes
- Cash flows from investing activities: Purchase of property, plant and equipment
- Cash flows from financing activities: Repayments of long-term loans payable, cash dividends paid, and purchase of treasury shares



Consolidated Performance Forecasts for FY2018

Consolidated Performance Forecasts

Comparison of consolidated statement of income (FY2017 results vs FY2018 forecasts)

(Million yen)

	FY2017 (Results)	FY2018 (Forecasts)	Y o Y
Net sales	227,209	230,000	2,791
Gross profit	31,225	31,500	275
Gross profit margin	13.7%	13.7%	—
Selling, general and administrative expenses	24,346	24,500	154
Operating income	6,879	7,000	121
Ordinary income	7,343	7,500	157
Profit attributable to owners of parent	6,975	5,500	-1,475

ROE Forecast (Y o Y Comparison)

(Yen)

	FY2016	FY2017	FY2018	Y o Y
			(Forecasts)	
Earnings per share (EPS)	192.43	249.43	200.47	-48.96
Dividend per share	55	60	60	±0
Ordinary dividend	40	40	60	+20
Extraordinary dividend	15	20	—	—
Return on equity (ROE)	9.0%	10.9%	8.1%	-2.8%

Consolidated Forecasts by Business Segment

(Million yen)

		FY2017	FY2018 (Forecasts)	Y o Y
Electronic components	Net sales	171,227	175,000	3,773
	Segment income	4,917	5,350	433
Information equipment	Net sales	42,547	42,000	-547
	Segment income	1,491	1,400	-91
Software	Net sales	3,159	3,000	-159
	Segment income	528	450	-78
Others	Net sales	10,274	10,000	-274
	Segment income	-212	-200	12
Total		227,209	230,000	2,791
		6,879	7,000	121

* Figures of each segment income are not inter-segment adjusted other than total.

Consolidated Forecasts by Region

(Million yen)

	FY2017		FY2018 (Forecasts)		
	Net sales		Net sales		Y o Y
Japan	151,912	67%	152,000	66%	88
North America	5,995	3%	5,500	3%	-495
Europe	2,518	1%	2,500	1%	-18
East Asia	66,783	29%	70,000	30%	3,217
Total	227,209	100%	230,000	100%	2,791



KAGA ELECTRONICS Group's Mid- to Long-Term Growth Strategy

Mid- to Long-Term Growth Strategy: Medium-term Management Plan 2018

Medium-term Management Plan 2018:
A plan to achieve **ordinary income of ¥10 billion**

	FY2015 Results		FY2019 Plan
Net sales	¥255.1 billion	➔	¥290.0 billion
Ordinary income	¥7.6 billion	➔	¥10.0 billion
ROE	7.8%	➔	8% or higher

**(1) Enhance
revenue base**

- ✓ Establish profit-oriented management
- ✓ Prepare for a leap as **“Next-generation KAGA ELECTRONICS”**
- ✓ Become **the industry leader in Japan** and aim at sustainable growth as **a world-class company**

**(2) Create new
businesses**

**(3) Strengthen
management
foundation**

Review of Medium-term Management Plan 2018: Business Environment

(1) Trend of the electronics industry

- ✓ Reorganization of leading Japanese manufacturers accelerated
- ✓ Increasing use of electronics in automobiles and medical sectors
- ✓ Rise of new sectors including IoT, big data, and artificial intelligence

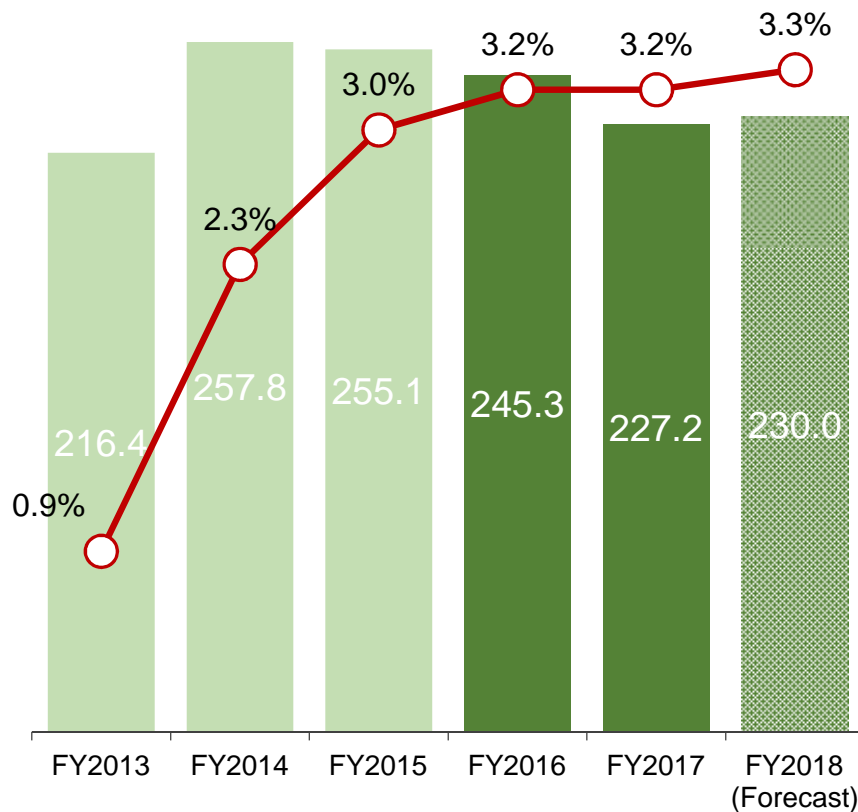
(2) Current status of electronics trading companies

- ✓ Intensified competitions with peer companies and sharp fluctuation in foreign exchange market
- ✓ Production adjustments by major customers had an impact on performance
- ✓ Many companies experienced a decrease in both sales and profit year-on-year

Review of Medium-term Management Plan 2018: Business Results

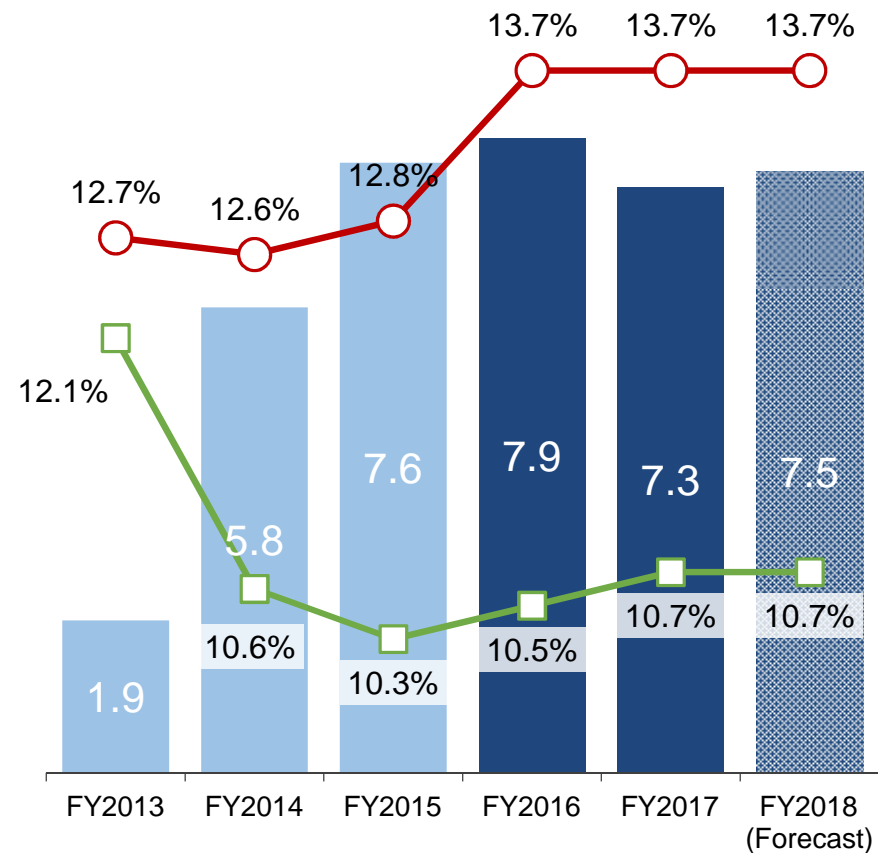
Promoted **profitability enhancement**, improved profit margin and drove profit growth

Net sales/
Ratio of ordinary income to net sales



Net sales (Billion yen) Ratio of ordinary income to net sales

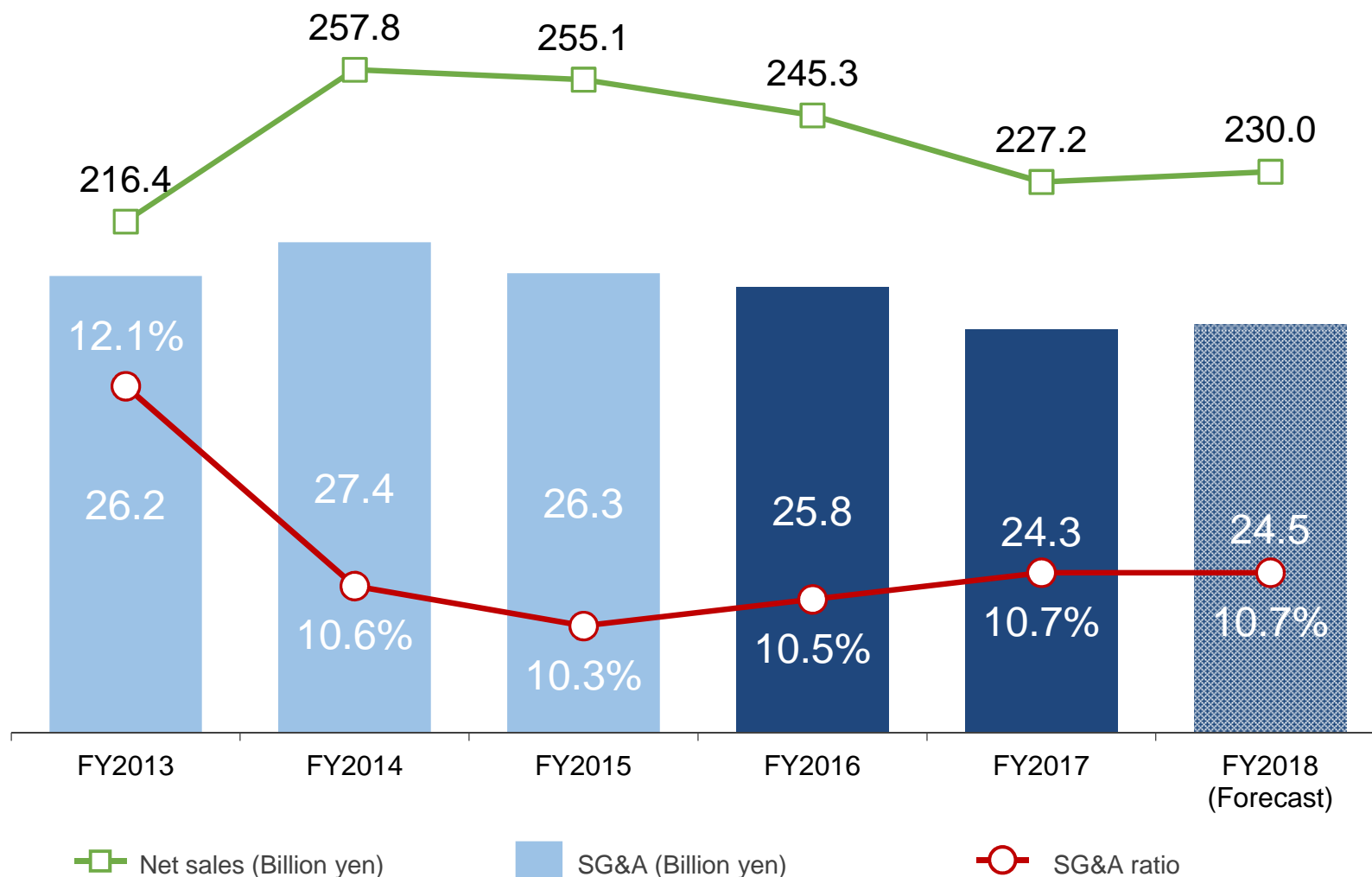
Ordinary income/Gross profit margin/
SG&A ratio



Ordinary income (Billion yen) Gross profit margin SG&A ratio

Review of Medium-term Management Plan 2018: SG&A Expenses

Total SG&A **decreased for three consecutive years**,
with a policy to control its increase for FY2018



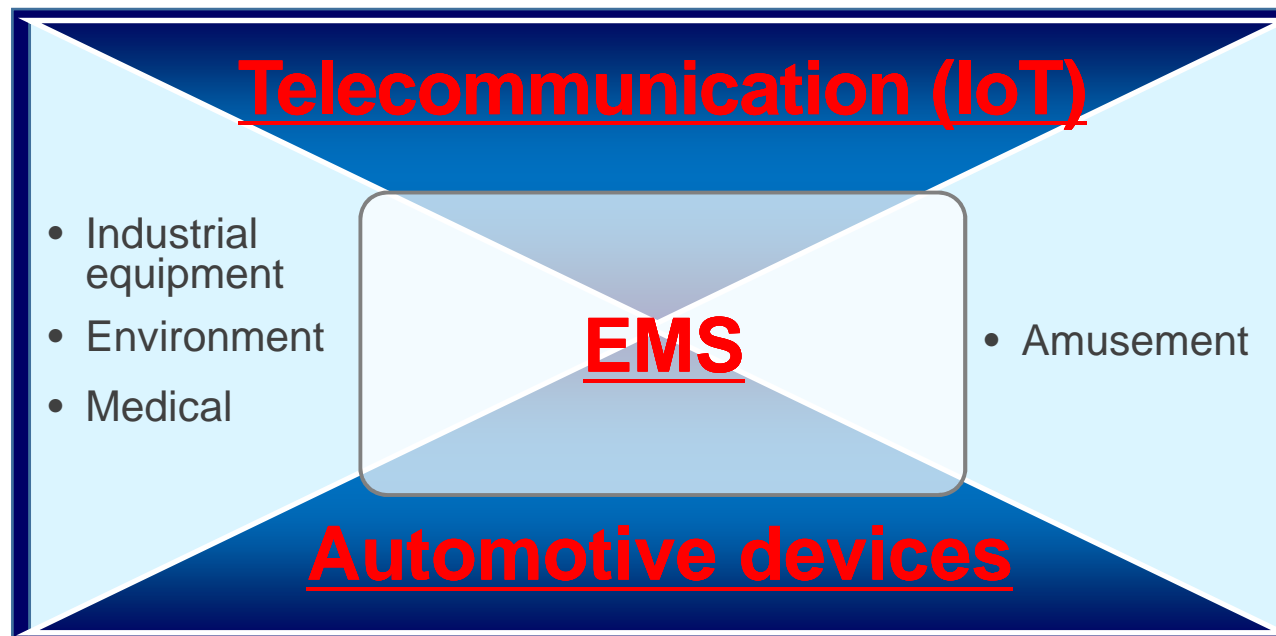
Review of Medium-term Management Plan 2018: To the Next Stage

Next stage: Further strengthening of profitability along with enhancement of **sales growth potential**

5 growth keywords of KAGA ELECTRONICS Group

Promotion of M&A

Investment in ventures





EMS Business of KAGA ELECTRONICS Group

Strengths of KAGA ELECTRONICS Group's EMS (1)

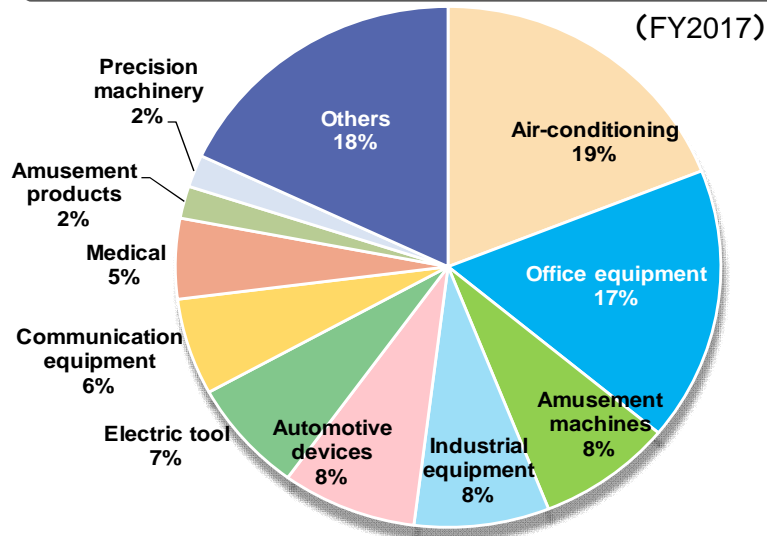
Our service doesn't stop at contract manufacturing but offer **after-sales service**



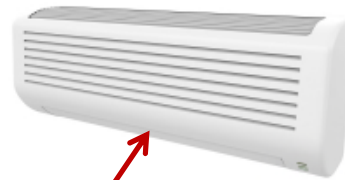
Strengths of KAGA ELECTRONICS Group's EMS (2)

Global response to all products

Sales Composition of the Group's EMS (FY2017)



Air-conditioning



Substrate for air-conditioner

Office equipment



Substrate for multifunction printers

Industrial equipment



Substrate for servo amplifiers



Servo amplifier / Servo motor

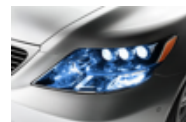
Automotive devices



AC inverter



LED taillights



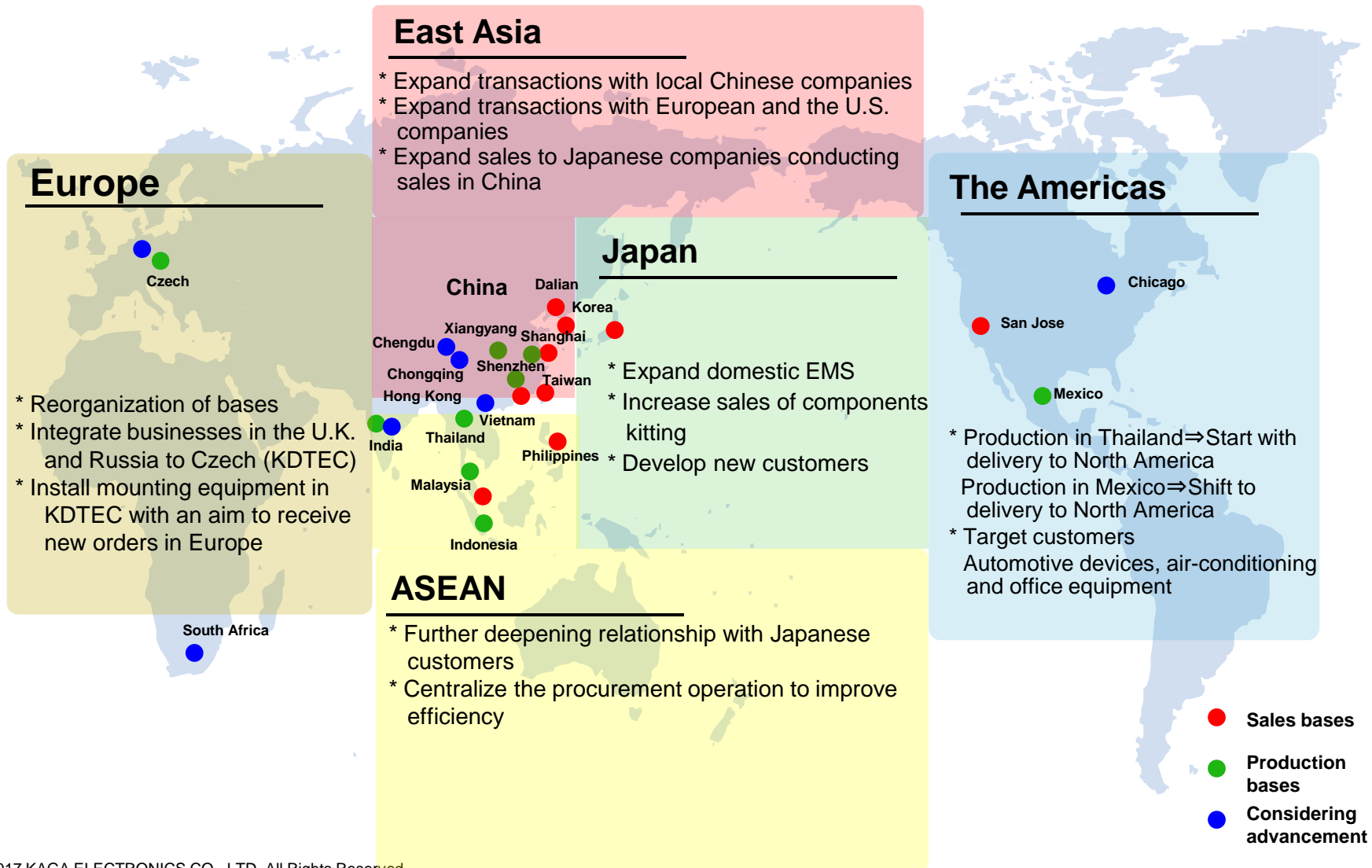
LED headlights



Body control module

Strengths of KAGA ELECTRONICS Group's EMS (3)

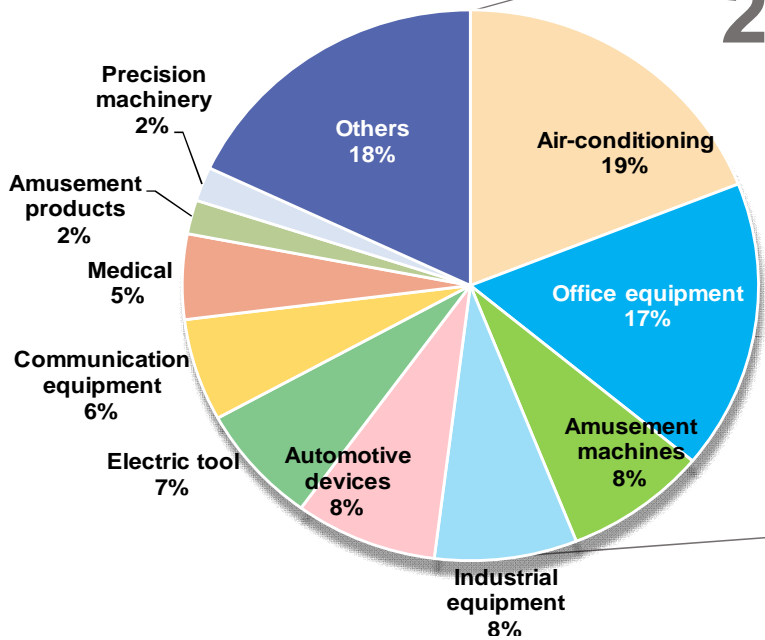
Global network



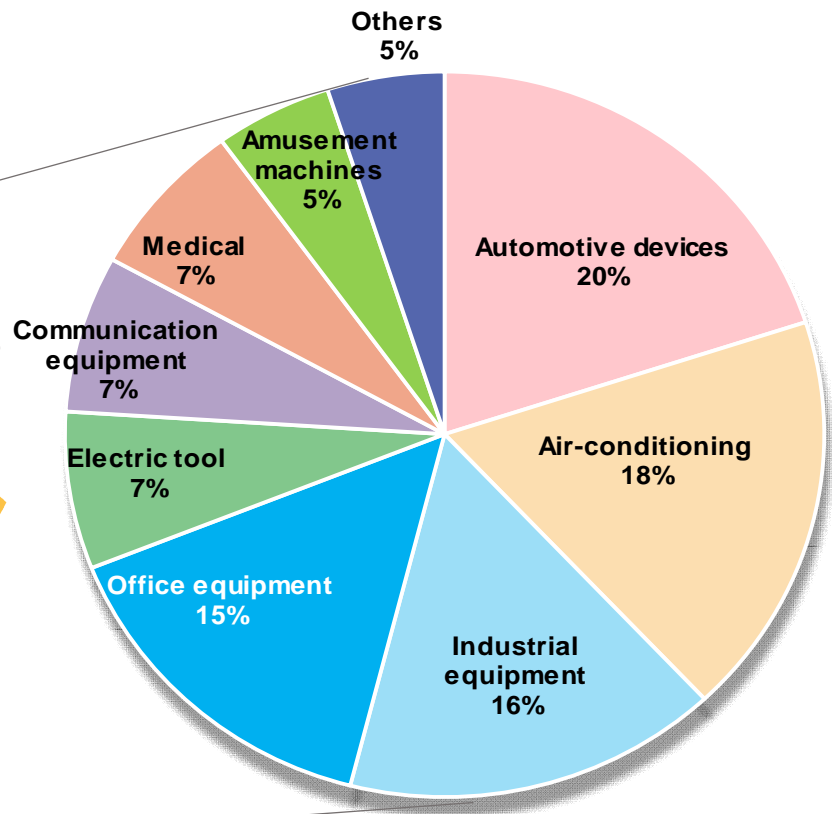
Sales Target of Group EMS Business

Image in 5 years

Present
(FY2017 results)



About
2 times



KAGA ELECTRONICS Group's EMS Business: Conclusion

Initiatives for EMS business with an aim to strengthen **profitability** and **sales growth potential** together

■ Focus on overseas expansion of EMS

- ✓ Focus on automotive devices, air-conditioning, industrial equipment, office equipment, medical, and electric tool sectors

■ Further development of overseas local customers

■ Enhancement of bases (everywhere EMS)

- ✓ (1) Expand sales channel to inland China (2) Increase production in ASEAN regions (3) Advance into North America from Mexico (4) Expand sales channel to local customers in Europe



Future Plan

■ FY2018

- ✓ Establish manufacturing base in Vietnam
- ✓ Consider establishment of manufacturing base in India

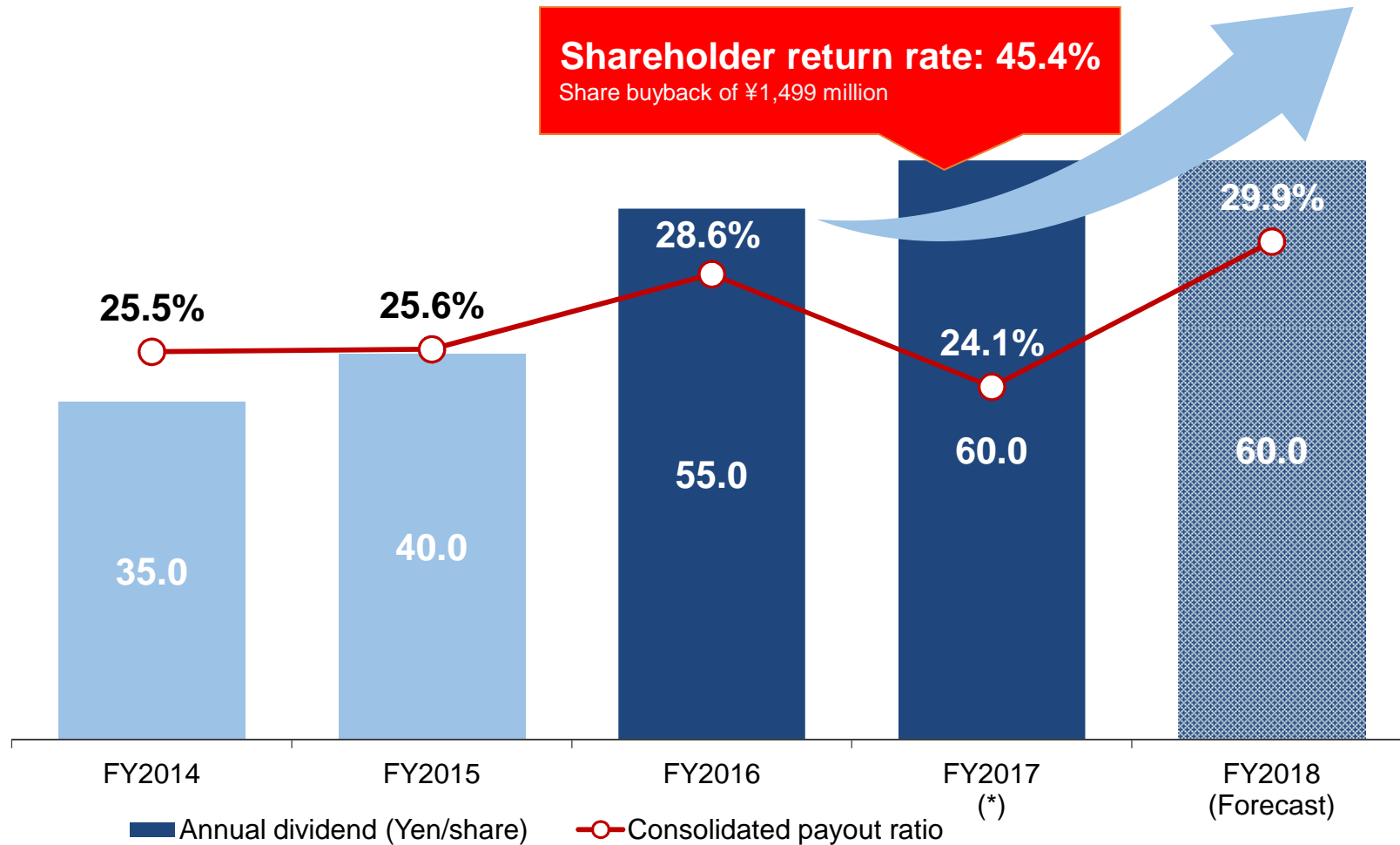
■ From FY2019 onwards

- ✓ Consider advancement into the western area of China (Chongqing, Chengdu)
- ✓ Consider advancement into Germany
- ✓ Consider advancement into South Africa

Shareholder Return Plan: Trend of Dividend

Basic policy of profit distribution

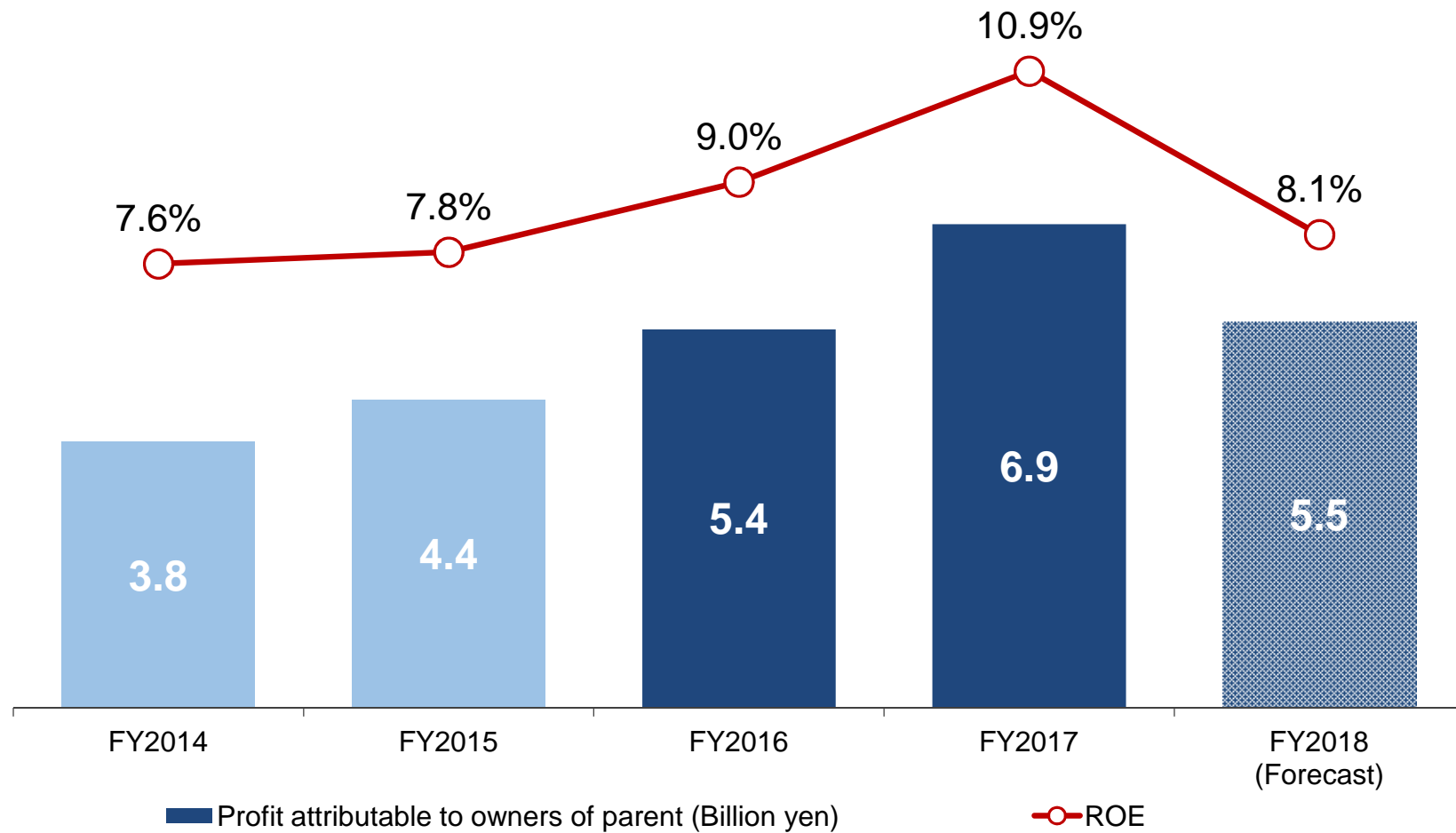
- Aim at stable dividend payments while maintaining consolidated dividend payout ratio of 25% to 35%
- Share buyback as needed, taking into account the market environment and capital efficiency
- Use internal reserve to business investment, capital expenditures and M&A that will contribute to enhancement of corporate value



(*) Year-end dividend of ¥35 per share will be proposed in the 49th Ordinary General Meeting of Shareholders (→ Annual dividend of ¥60 per share)

Trend of ROE

ROE increased to **10.9%** in FY2017 and can stably achieve **8% or higher** in FY2018



Announcement on venture investment activities

Plan to invest **¥5 billion** in venture companies/businesses **over approx. 3 years** from FY2018, our 50th anniversary

■ Background

We have collaborated with many venture companies through investments as a source of our growth potential, and recently, investment in venture companies with advanced technology for the purpose of collaboration has become more important.

■ Purpose

By combining our global corporate network and venture companies' unique ideas and high technological capability, we aim to create new innovation to achieve sustainable growth of the Group.

* The announcement is available in the Company's website:
<http://www.taxan.co.jp/jp/news>

**“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.