

Summary of Consolidated Financial Results for the First Quarter Ended June 30, 2018 [Japan GAAP]

Name of Company:	KAGA ELECTRONICS CO., LTD.
Stock Code:	8154
Stock Exchange Listing:	Tokyo Stock Exchange, First Section
URL:	https://www.taxan.co.jp/
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Date of filing of quarterly securities report (tentative):	August 14, 2018
Date of commencement of dividend payment (tentative):	—
Quarterly earnings supplementary explanatory documents:	Yes
Quarterly earnings presentation:	No

(Yen in millions, rounded down)

1. Financial results for the first quarter of the fiscal year ending March 2019 (April 1, 2018 – June 30, 2018)

(1) Result of operations (Consolidated, year-to-date)

(Percentage figures represent year on year changes)

	Net sales		Operating income		Ordinary income		Profit attributable to owners of parent	
	Million yen	%	Million yen	%	Million yen	%	Million yen	%
First quarter ended June 2018	55,493	(1.2)	1,489	(28.7)	1,679	(23.8)	1,148	(34.4)
First quarter ended June 2017	56,174	7.6	2,088	173.0	2,205	262.1	1,750	25.3

Note: Comprehensive income: 1Q of FY3/2019: 1,207 million yen (-44.3%) 1Q of FY3/2018: (2,167 million yen) (— %)

	Earnings per share	Earnings per share (diluted)
	Yen	Yen
First quarter ended June 2018	41.87	—
First quarter ended June 2017	63.79	—

(2) Financial Position (Consolidated)

	Total assets	Net assets	Equity ratio
	Million yen	Million yen	%
As of June 30, 2018	130,479	71,001	54.4
As of March 31, 2018	128,755	70,631	54.8

Reference: Shareholders' equity

As of June 30, 2018: 70,921 million yen

As of March 31, 2018: 70,556 million yen

2. Dividends

	Dividend per share				
	1Q	2Q	3Q	Year-end	Full year
	Yen	Yen	Yen	Yen	Yen
Fiscal year ended March 2018	—	30.00	—	40.00	70.00
Fiscal year ending March 2019	—				
Fiscal year ending March 2019 (Forecast)		30.00	—	40.00	70.00

Notes: Change in the dividend forecast from the latest announcement: None

Breakdown of interim dividend for FY3/18: Ordinary dividend: 25.00 yen; Extraordinary dividend: 5.00 yen

Breakdown of year-end dividend for FY3/18: Ordinary dividend: 35.00 yen; Extraordinary dividend: 5.00 yen

3. Forecast for the fiscal year ending March 2019 (Consolidated, April 1, 2018 – March 31, 2019)

The consolidated earnings forecast for the fiscal year ending March 2019 is not provided. For details, please see "1. Results of Operations, (3) Qualitative information on consolidated earnings forecast", on page 3 of Supplementary Information.

*** Notes**

(1) Changes in significant subsidiaries (Changes in specified subsidiaries accompanied by changes in the scope of consolidation):

None

(2) Use of accounting methods specifically for the preparation of the quarterly consolidated financial statements: None

(3) Changes in accounting policies, estimates, and retrospective restatement

(a) Changes due to revision of accounting standards: None

(b) Changes other than (a): None

(c) Changes in accounting estimates: None

(d) Retrospective restatement: None

(4) Number of shares outstanding (common stock)

(a) Shares outstanding (including treasury shares)

As of June 30, 2018:	28,702,118	As of March 31, 2018:	28,702,118
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(b) Treasury shares

As of June 30, 2018:	1,269,535	As of March 31, 2018:	1,267,393
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(c) Average number of shares (quarterly consolidated during the period)

Period ended June 30, 2018:	27,433,124	Period ended June 30, 2017:	27,435,584
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* The quarterly audit procedures by a certified public accountant or auditing firm are not applicable to this Quarterly Financial Results report.

* Cautionary statement regarding forecasts of operating results and special notes

(Caution regarding forward-looking statements)

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. For conditions as assumption for earnings forecast and cautionary statement regarding use of the forecast, please see "1. Results of Operations, (3) Qualitative information on consolidated earnings forecast".

(How to obtain supplementary materials on quarterly financial results)

Supplementary materials on quarterly financial results are posted on the Company's web site.

(Change in date format)

Starting from "Summary of Consolidated Financial Results for the First Quarter Ended June 30, 2018", dates are presented based on Western calendar instead of Japanese calendar (in the Japanese language report).

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1. Results of Operations

(1) Overview of consolidated business performance

In the global economy in the first quarter of the fiscal year ending March 31, 2019, despite looming concerns that the imposition of tariffs by the United States could trigger trade friction with China and the European Union, business conditions in Japan as well as in the key markets such as the United States, Europe and China continued on a gradual recovery trend.

In such conditions, based on our corporate philosophy of “Everything we do is for our customers”, the Group further expanded its overseas production bases in response to calls from existing major customers for overseas development and production increase, while in Japan, the Group focused its efforts on expansion of EMS^(Note 1) business through such measures as enhancement of domestic production facilities and strengthening of production functions. Furthermore, although the tight supply situation continued from the previous fiscal year in certain electronic components such as power semiconductors and condensers, efforts were made to curtail its effect on the Group’s business activities, leveraging the Group’s comprehensive capabilities as an independent general trading company for procuring parts, making proposals on alternative products, etc.

As a result, consolidated net sales decreased by 1.2% year on year to 55,493 million yen, operating income decreased by 28.7% to 1,489 million yen, and ordinary income decreased by 23.8% to 1,679 million yen. Profit attributable to owners of parent decreased by 34.4% to 1,148 million yen.

Net sales by and large maintained the level of the same period of the previous fiscal year, driven by the EMS business. Income posted a decrease from the same period of the previous fiscal year, due notably to model switching and the resulting production adjustments at major customers as well as upfront expenses of new overseas sites that were at their start-up phase. These were all anticipated at the beginning of the period.

(Note 1) Electronics Manufacturing Service: Provision of product development and manufacturing services on an outsourcing basis.

Business segment performance was as follows.

(a) Electronic components (Development, manufacture and sale of semiconductors, general electronic components and other products, the electronics manufacturing service (EMS), and other activities)

In the electronic components business, the EMS business for automotive and air conditioning devices maintained steady performance while that for medical equipment was slow due to model switching and the resulting production adjustments at major customers.

Components sales business remained sluggish notably for home electric appliances from the effect of production adjustments at major customers.

As a result, consolidated net sales decreased by 2.9% to 40,507 million yen, and segment income declined by 30.4% to 1,071 million yen.

(b) Information equipment (Sales of PCs, PC peripherals, home electric appliances, photograph and imaging products, original brand products, and other products)

In the information equipment segment, sales of housing-related home electric appliances and commercial facilities-related LED installation business continued the robust trend. On the other hand, sales of PCs and PC peripherals were slow due to sluggish market conditions.

As a result, consolidated net sales decreased by 6.4% to 10,417 million yen, segment income dropped by 11.5% to 317 million yen.

(c) Software (Production of computer graphics, development of game software, planning and development of amusement products, and other activities)

In the software business, orders for production of computer graphics animation and development of game software were robust but upfront expenses were recognized due to postponement of certain projects.

As a result, consolidated net sales increased by 3.8% to 465 million, and a segment loss of 19 million was recorded (loss of 0 million yen in the same period of the previous year).

(d) Others (Repair and support for electronics equipment, and sales of amusement equipment and sports goods, and others)

In others, recycling of PC products continued strong, in contrast with sluggish sales of arcade amusement machines and golf products.

As a result, consolidated net sales increased by 42.8% to 4,103 million, and segment income decreased by 46.9% to 80 million yen.

(2) Overview of financial condition

Assets, liabilities and net assets

Total assets as of June 30, 2018 increased by 1,724 million yen from March 31, 2018 to 130,479 million yen.

Current assets increased by 911 million yen to 104,981 million yen. This is primarily attributed to increases in inventories reflecting increases of 1,809 million yen in merchandise and finished goods, 961 million yen in raw

materials and supplies, and 410 million yen in work in process, offsetting a decrease of 3,083 million yen in notes and account receivable – trade.

Non-current assets increased by 812 million yen to 25,498 million yen. This is largely a result of an increase of 849 million yen in investment securities.

Liabilities increased by 1,354 million yen to 59,477 million yen. This is primarily attributed to an increase of 1,055 million yen in notes and accounts payable – trade.

Net assets increased by 369 million yen to 71,001 million yen. This is largely a result of recording 1,148 million yen in profit attributable to owners of parent.

(3) Qualitative information on consolidated earnings forecast

In the market environment surrounding the Group, growth of demand for electronic components will likely accelerate amidst expansion in both the automotive devices market where use of electronics in automobiles is increasing and in the medical/healthcare-related market, as well as development of the new markets such as big data and artificial intelligence on the back of rapid IoT^(Note 1) spread. Meanwhile, the supply side's efforts to increase production tend to fall behind, leading to a tight supply-demand situation which is becoming tangible in certain components and materials.

Under such circumstances, the Group will strive to further strengthen its sales activities in growing sectors such as automotive devices, and will continue its efforts to expand value-added businesses led by the EMS business.

With respect to the fiscal year ending March 31, 2019, consolidated earnings forecast is not provided due to the difficulty in calculating such a forecast at this time, given the substantial uncertainties that exist in the rapidly changing environment as explained above. Still, in this final year of the Medium-term Management Plan 2018 announced on November 4, 2015, the Group will make greater efforts to “Enhance revenue base”, “Create new businesses”, and “Strengthen management foundation”, and achieve the numerical targets^(Note 2) set out therein.

For the consolidated performance forecasts, these will be disclosed promptly as soon as a reasonable projection becomes possible.

(Note 1) The Internet of Things: New services and business models, or technologies that connect all things through the Internet.

(Note 2) Medium-term Management Plan 2018 Numerical Targets

Relevant Fiscal Year	Net Sales	Ordinary Income	ROE
Fiscal year ending March 2019	¥290 billion	¥10 billion	8.0% or higher

2. Quarterly Consolidated Financial Statements and Major Notes

(1) Quarterly consolidated balance sheet

(Million yen)

	Fiscal year ended March 2018 (As of March 31, 2018)	First quarter ended June 2018 (As of June 30, 2018)
ASSETS		
Current assets		
Cash and deposits	30,803	30,765
Notes and accounts receivable - trade	45,809	42,726
Electronically recorded monetary claims - operating	4,032	3,634
Securities	295	236
Merchandise and finished goods	15,060	16,870
Work in process	575	985
Raw materials and supplies	3,818	4,780
Other	3,807	5,122
Allowance for doubtful accounts	(133)	(141)
Total current assets	104,069	104,981
Non-current assets		
Property, plant and equipment		
Buildings and structures, net	4,870	4,783
Machinery, equipment and vehicles, net	2,583	2,691
Tools, furniture and fixtures, net	709	706
Land	4,036	4,036
Construction in progress	10	32
Total property, plant and equipment	12,210	12,250
Intangible assets		
Goodwill	317	294
Software	515	523
Other	46	43
Total intangible assets	878	861
Investments and other assets		
Investment securities	8,688	9,537
Deferred tax assets	530	481
Guarantee deposits	657	656
Insurance funds	943	940
Other	1,363	1,355
Allowance for doubtful accounts	(587)	(586)
Total investments and other assets	11,595	12,385
Total non-current assets	24,685	25,498
Total assets	128,755	130,479

(Million yen)

	Fiscal year ended March 2018 (As of March 31, 2018)	First quarter ended June 2018 (As of June 30, 2018)
LIABILITIES		
Current liabilities		
Notes and accounts payable - trade	36,392	37,448
Short-term loans payable	5,385	5,803
Accrued expenses	3,711	3,131
Income taxes payable	901	764
Provision for directors' bonuses	247	0
Other	3,068	3,782
Total current liabilities	49,707	50,930
Non-current liabilities		
Long-term loans payable	3,161	2,850
Deferred tax liabilities	1,276	1,522
Provision for directors' retirement benefits	1,264	75
Net defined benefit liability	1,737	1,714
Asset retirement obligations	175	176
Other	800	2,208
Total non-current liabilities	8,416	8,547
Total liabilities	58,123	59,477
NET ASSETS		
Shareholders' equity		
Capital stock	12,133	12,133
Capital surplus	13,853	13,853
Retained earnings	45,183	45,368
Treasury shares	(2,042)	(2,047)
Total shareholders' equity	69,127	69,308
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	1,504	1,373
Deferred gains or losses on hedges	(16)	(1)
Foreign currency translation adjustment	148	441
Remeasurements of defined benefit plans	(208)	(201)
Total accumulated other comprehensive income	1,428	1,612
Non-controlling interests	75	80
Total net assets	70,631	71,001
Total liabilities and net assets	128,755	130,479

(2) Quarterly consolidated statements of income and comprehensive income

For the First quarter (April 1, 2018 – June 30, 2018)

(Million yen)

	First quarter ended June 2017 (April 1, 2017 – June 30, 2017)	First quarter ended June 2018 (April 1, 2018 – June 30, 2018)
Net sales	56,174	55,493
Cost of sales	48,292	47,851
Gross profit	7,882	7,641
Selling, general and administrative expenses	5,793	6,152
Operating income	2,088	1,489
Non-operating income		
Interest income	12	21
Dividends income	73	87
Gain from equity method investments	-	12
Commission fee	24	53
Other	64	101
Total non-operating income	174	275
Non-operating expenses		
Interest expenses	26	37
Foreign exchange losses	19	35
Other	12	12
Total non-operating expenses	58	85
Ordinary income	2,205	1,679
Extraordinary income		
Gain on sales of non-current assets	1	1
Gain on sales of investment securities	22	184
Gain on transfer of business	12	7
Total extraordinary income	36	193
Extraordinary loss		
Loss on retirement of non-current assets	2	0
Loss on valuation of investment securities	5	104
Loss on valuation of golf club membership	-	5
Other	-	0
Total extraordinary loss	7	110
Profit before income taxes	2,234	1,762
Income taxes - current	320	264
Income taxes - deferred	156	345
Total income taxes	476	609
Profit	1,757	1,152
Profit attributable to owners of parent	1,750	1,148
Profit attributable to non-controlling interests	7	3
Other comprehensive income		
Valuation difference on available-for-sale securities	455	(137)
Deferred gains or losses on hedges	(4)	16
Foreign currency translation adjustment	(62)	182
Remeasurements of defined benefit plans, net of tax	20	6
Share of other comprehensive income of associates accounted for using equity method	-	(13)
Total other comprehensive income	409	55
Comprehensive income	2,167	1,207
Comprehensive income attributable to owners of parent	2,159	1,203
Comprehensive income attributable to non-controlling interests	7	4

(3) Notes to quarterly consolidated financial statements

(Notes to going concern assumptions)

Not applicable

(Significant change in shareholders' equity)

Not applicable

(Additional information)

(Application of Partial Amendments to Accounting Standard for Tax Effect Accounting, etc.)

“Partial Amendments to Accounting Standard for Tax Effect Accounting” etc. (Accounting Standards Board of Japan (ASBJ) Statement No. 28, February 16, 2018) have been adopted from the beginning of the first quarter of the fiscal year ending March 31, 2019. Accordingly, deferred tax assets are presented under investments and other assets, while deferred tax liabilities are presented under non-current liabilities section.

(Segment information, etc.)

Segment information

I. For the first quarter ended June 2017 (April 1, 2017 – June 30, 2017)

Information about net sales and income (loss) by reportable segments

(Million yen)

	Reportable segments					Adjustment (Note 1)	Consolidated (Note 2)
	Electronic components	Information equipment	Software	Others	Total		
Net sales:							
Sales to external customers	41,721	11,132	448	2,872	56,174	—	56,174
Inter-segment sales or transfers	261	273	213	161	910	(910)	—
Total	41,982	11,405	661	3,034	57,084	(910)	56,174
Segment income (loss)	1,539	358	(0)	152	2,050	38	2,088

Notes: 1. Adjustment in segment income of 38 million yen includes 38 million yen for elimination of inter-segment trade.
2. Segment income (loss) is adjusted for operating income on the quarterly consolidated statements of income and comprehensive income.

II. For the first quarter ended June 2018 (April 1, 2018 – June 30, 2018)

Information about net sales and income (loss) by reportable segments

(Million yen)

	Reportable segments					Adjustment (Note 1)	Consolidated (Note 2)
	Electronic components	Information equipment	Software	Others	Total		
Net sales:							
Sales to external customers	40,507	10,417	465	4,103	55,493	—	55,493
Inter-segment sales or transfers	669	185	177	959	1,992	(1,992)	—
Total	41,176	10,603	643	5,062	57,485	(1,992)	55,493
Segment income (loss)	1,071	317	(19)	80	1,450	38	1,489

Notes: 1. Adjustment in segment income of 38 million yen includes 38 million yen for elimination of inter-segment trade.
2. Segment income (loss) is adjusted for operating income on the quarterly consolidated statements of income and comprehensive income.