

February 7, 2024

Summary of Consolidated Financial Results for the Third Quarter Ended December 31, 2023 [Japan GAAP]

Name of Company: KAGA ELECTRONICS CO., LTD.
 Stock Code: 8154 URL: <https://www.taxan.co.jp/>
 Stock Exchange Listing: Tokyo Stock Exchange, Prime Market
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 Date of filing of quarterly securities report (tentative): February 13, 2024
 Date of commencement of dividend payment (tentative): -
 Quarterly earnings supplementary explanatory documents: Yes
 Quarterly earnings presentation: None

(Yen in millions, rounded down)

1. Financial results for the third quarter of the fiscal year ending March 2024 (April 1, 2023 – December 31, 2023)

(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	%
Third quarter ended December 2023	406,458	(10.1)	20,491	(21.2)	20,311	(23.7)	15,992	(16.1)
Third quarter ended December 2022	452,221	28.2	26,006	77.4	26,618	78.8	19,053	82.9

Note: Comprehensive income: 3Q of FY3/2024: 20,685 million yen [(13.5%)] 3Q of FY3/2023: 23,925 million yen [86.0%]

	Earnings per share	Earnings per share (diluted)
	Yen	Yen
Third quarter ended December 2023	608.88	-
Third quarter ended December 2022	725.67	-

(2) Financial Position (Consolidated)

	Total assets	Net assets	Equity ratio
	Million yen	Million yen	%
As of December 31, 2023	289,657	144,487	49.8
As of March 31, 2023	286,217	129,737	45.3

Reference: Shareholders' equity As of December 31, 2023: 144,283 million yen As of March 31, 2023: 129,608 million yen

2. Dividends

	Dividend per share				
	1Q	2Q	3Q	Year-end	Full year
	Yen	Yen	Yen	Yen	Yen
Fiscal year ended March 2023	-	100.00	-	120.00	220.00
Fiscal year ended March 2024	-	110.00	-		
Fiscal year ending March 2024 (Forecast)				110.00	220.00

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

Breakdown of interim dividend for FY3/2023: Ordinary dividend: 70.00 yen; Extraordinary dividend: 30.00 yen

Breakdown of year-end dividend for FY3/2023: Ordinary dividend: 70.00 yen; 55th Anniversary commemorative dividend: 10.00 yen; Extraordinary dividend: 40.00 yen

3. Forecast for the fiscal year ending March 2024 (Consolidated, April 1, 2023 – March 31, 2024)

(Percentage figures represent year on year changes)

	Net sales		Operating income		Ordinary income		Profit attributable to owners of parent		Earnings per share
	Million yen	%	Million yen	%	Million yen	%	Million yen	%	Yen
Full year	550,000	(9.5)	25,000	(22.5)	25,000	(23.6)	18,000	(22.0)	685.42

Note: Change in the forecast from the latest announcement: None

* 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 December 31, 2023: 28,702,118 As of March 31, 2023: 28,702,118

(b) Treasury shares

As of December 31, 2023: 2,434,276 As of March 31, 2023: 2,440,983

(c) Average number of shares (quarterly consolidated during the period)

Period ended December 31 2023: 26,265,207 Period ended December 31, 2022: 26,255,971

* 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 performance forecast" on page 4.

(How to obtain supplementary materials on quarterly financial results)

Supplementary materials on quarterly financial results are will be posted on TDnet and our website today (February 7, 2024).

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1. Results of Operations

(1) Overview of consolidated business performance

Looking at the global economy during the third quarter of the consolidated fiscal period under review, uncertainties remained in the economic outlook including the impact of monetary tightening in the U.S. and Europe, economic stagnation in China, and heightening geopolitical risks arising from the prolonged situation in Ukraine and aggravation of the Middle East situation. In Japan, although rising prices put a downward pressure on the economy, modest recovery continued, supported notably by a rebound of personal consumption against the backdrop of improvement in income situation, and an increase in inbound tourist demand.

In the electronics industry to which the Group belongs, whereas demand in the automotive market continued to grow along with easing of supply shortages of semiconductors and electronic components, on the back of vehicle electrification and other trends, demand in the industrial equipment and other markets remained in an adjustment phase.

Under such a management environment, during the third quarter of the consolidated fiscal year under review, although net sales increased in the information equipment business and the others business, the electronic components business was affected by such factors as disappearance of spot demand given easing of supply shortages of semiconductors and electronic components, diminution of transactions with a certain client of an overseas subsidiary of Excel Co., Ltd., and more recently, full-scale inventory adjustments conducted by customers in general. As a result, net sales decreased by 10.1% year on year to 406,458 million yen.

Operating income decreased by 21.2% year on year to 20,491 million yen, reflecting efforts to reduce selling, general and administrative expenses in the face of a decline in gross profit due to lower net sales. Ordinary income decreased by 23.7% year on year to 20,311 million yen, due in part to posting of foreign exchange losses as non-operating expenses.

Profit attributable to owners of parent decreased by 16.1% year on year to 15,992 million yen, reflecting in part posting of extraordinary income that included 1,355 million yen in gain on sales of investment securities and 481 million yen in gain on bargain purchase associated with a corporate acquisition.

	FY 2023/3 3Q (April 1, 2022 – December 31, 2022)	FY 2024/3 3Q (April 1, 2023 – December 31, 2023)	YoY	
	(Million yen)	(Million yen)	(Million yen)	
Net sales	452,221	406,458	(45,763)	(10.1%)
Gross profit	59,884	52,252	(7,632)	(12.7%)
(Margin)	13.2%	12.9%	(0.3pt)	–
SG&A	33,877	31,760	(2,117)	(6.2%)
Operating income	26,006	20,491	(5,515)	(21.2%)
Ordinary income	26,618	20,311	(6,306)	(23.7%)
Profit before income taxes	27,134	22,385	(4,748)	(17.5%)
Profit attributable to owners of parent	19,053	15,992	(3,060)	(16.1%)
Exchange Rate (Average rate during the year) USD	136.51Yen	143.29Yen	6.78Yen	–

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*¹), and other activities)

In this business, the components sales business faced sluggish sales of semiconductors and electronic components in general. Although SoC*² products by Kaga FEI Co., Ltd. continued to enjoy robust sales, the business was affected notably by disappearance of spot demand given easing of supply shortages of semiconductors and electronic components that had continued for two consecutive years until the previous fiscal year, diminution of transactions with a certain client of an overseas subsidiary of Excel Co., Ltd., and more recently, inventory adjustments conducted on a full-scale.

In the EMS business, sales in the automotive sector increased due to improved supply and demand balance of semiconductors and electronic components, whereas sales in applications related to medical and industrial equipment decreased due partly to inventory adjustments at key customers.

As a result, net sales decreased by 11.8% year on year to 357,794 million yen, and segment income decreased by 26.5% year on year to 17,148 million yen.

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

2. Abbreviation for System on a Chip. A design technique of integrating all the functions necessary for operation of a device or system on a single semiconductor chip.

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

In this business, robust sales were maintained with continued strong sales of PCs for educational institutions and security software, although sales of PCs for mass retailers struggled due to weak demand. In the LED installation business, sales of large-scale projects that the Group started pushing forward on a full scale in the previous fiscal year contributed.

As a result, net sales increased by 3.9% year on year to 30,266 million yen, and segment income increased by 28.1% year on year to 1,921 million yen.

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

In this business, orders for computer graphics production remained solid. Net sales decreased by 12.5% year on year to 1,816 million yen while segment income increased by 94.1% year on year to 262 million yen, attributable partly to the effect of containing cost of sales through efforts in operational efficiency improvement.

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

In this business, the PC and PC peripheral recycling business remained strong, and so did sales of amusement equipment and sporting goods. Net sales increased by 7.7% year on year to 16,581 million yen, and segment income increased by 9.0% year on year to 1,059 million yen.

< Financial Results by Business Segment >

		FY 2023/3 3Q (April 1, 2022 - December 31, 2022)	FY 2024/3 3Q (April 1, 2023 - December 31, 2023)	YoY	
		(Million yen)	(Million yen)	(Million yen)	
Electronic Components	Net sales	405,608	357,794	(47,814)	(11.8%)
	Segment income	23,341	17,148	(6,193)	(26.5%)
Information Equipment	Net sales	29,139	30,266	1,126	3.9%
	Segment income	1,499	1,921	421	28.1%
Software	Net sales	2,076	1,816	(259)	(12.5%)
	Segment income	135	262	127	94.1%
Others	Net sales	15,397	16,581	1,183	7.7%
	Segment income	971	1,059	87	9.0%
Total	Net sales	452,221	406,458	(45,763)	(10.1%)
	Segment income	26,006	20,491	(5,515)	(21.2%)

Note: "Segment income" shows unadjusted figures for each business segment and adjusted figures for the total.

(2) Overview of financial conditions

Assets, liabilities and net assets

Total assets as of December 31, 2023, increased by 3,440 million yen from March 31, 2023, to 289,657 million yen.

Current assets increased by 4,272 million yen from March 31, 2022, to 249,844 million yen. This was primarily due to a 10,905 million yen increase in cash and deposits and a 10,280 million yen increase in inventories, along with a 20,567 million yen decrease in trade receivables including accounts receivable – trade.

Non-current assets decreased by 831 million yen from March 31, 2022, to 39,813 million yen.

Liabilities decreased by 11,309 million yen from March 31, 2022, to 145,170 million yen. This is primarily due to a 4,592 million yen decrease in income taxes payable and a 3,625 million yen decrease in notes and accounts payable – trade.

Net assets increased by 14,750 million yen from March 31, 2023, to 144,487 million yen. This is primarily due to an increase of 15,992 million yen in profit attributable to owners of parent.

(3) Qualitative information on consolidated performance forecast

Performance in the first nine months of the consolidated fiscal year under review continued to make steady progress and exceeded the internal plan. However, no revision is made to the full-year earnings forecasts announced on May 11, 2023, as the future is difficult to predict in the face of such current situation as expansion of inventory adjustments by customers in general as well as the 2024 Noto Peninsula Earthquake that occurred at the beginning of the year and its impact on the supply chain, in addition to changes in the macro environment that have confronted us, including geopolitical risks arising notably from the prolonged situation in Ukraine and the Middle East, concerns of an economic slowdown in Japan and globally, and drastic exchange rate fluctuations.

In line with the growth strategy formulated in the Medium-Term Management Plan 2024, the Group will seek to achieve further growth and reinforce profit structure, and work on improving its corporate value.

Reference: Earning Forecasts for FY2024/3 and Management Targets of Medium-Term Management Plan 2024

	FY2024/3 3Q Results	FY2024/3 Forecasts (Announced on May 11, 2023)	Progress rate	Management Targets of Medium-Term Management Plan 2024 (FY2025/3)
	(Million yen)	(Million yen)		
Net Sales	406,458	550,000	73.9%	750 billion yen
Operating Income	20,491	25,000	82.0%	30 billion yen or higher
Ordinary Income	20,311	25,000	81.2%	–
Profit attributable to owners of parent	15,992	18,000	88.8%	–
R O E	–	13.3%	–	Stable 10% or higher

Note: The above earnings forecasts are based on the information currently available to the Company on the date of release and certain assumptions deemed reasonable. Actual results may vary from the forecast for a variety of reasons.

2. Quarterly Consolidated Financial Statements and Major Notes

(1) Quarterly consolidated balance sheet

	(Million yen)	
	Fiscal year ended	Third quarter ended
	March 2023	December 2023
	(As of March 31, 2023)	(As of December 31, 2023)
ASSETS		
Current assets		
Cash and deposits	52,600	63,506
Notes receivable – trade	1,534	1,151
Electronically recorded monetary claims – operating	9,683	11,188
Accounts receivable – trade	117,881	96,192
Securities	195	193
Merchandise and finished goods	41,375	48,897
Work in process	2,277	2,181
Raw materials and supplies	12,552	15,406
Other	7,624	11,292
Allowance for doubtful accounts	(153)	(165)
Total current assets	245,572	249,844
Non-current assets		
Property, plant and equipment		
Buildings and structures, net	6,690	7,220
Machinery, equipment and vehicles, net	6,466	7,142
Tools, furniture and fixtures, net	1,103	1,195
Land	5,859	6,055
Construction in progress	39	1,717
Total property, plant and equipment	20,158	23,331
Intangible assets		
Goodwill	48	24
Software	2,617	2,178
Other	36	51
Total intangible assets	2,702	2,254
Investments and other assets		
Investment securities	12,144	10,186
Deferred tax assets	2,162	855
Guarantee deposits	1,280	1,159
Insurance funds	920	873
Distressed receivables	4,842	5,024
Other	1,298	1,211
Allowance for doubtful accounts	(4,864)	(5,083)
Total investments and other assets	17,784	14,227
Total non-current assets	40,645	39,813
Total assets	286,217	289,657

(Million yen)

	Fiscal year ended March 2023 (As of March 31, 2023)	Third quarter ended December 2023 (As of December 31, 2023)
LIABILITIES		
Current liabilities		
Notes and accounts payable - trade	79,232	75,607
Short-term loans payable	19,585	20,204
Accrued expenses	8,400	6,921
Income taxes payable	6,011	1,418
Provision for directors' bonuses	465	12
Other	13,852	10,084
Total current liabilities	<u>127,547</u>	<u>114,250</u>
Non-current liabilities		
Bonds payable	10,000	10,000
Long-term loans payable	10,600	10,600
Deferred tax liabilities	2,634	3,617
Provision for directors' retirement benefits	143	146
Net defined benefit liability	2,148	2,304
Asset retirement obligations	627	657
Other	2,778	3,593
Total non-current liabilities	<u>28,932</u>	<u>30,919</u>
Total liabilities	<u>156,479</u>	<u>145,170</u>
NET ASSETS		
Shareholders' equity		
Capital stock	12,133	12,133
Capital surplus	14,820	14,849
Retained earnings	95,945	105,897
Treasury shares	(5,614)	(5,601)
Total shareholders' equity	<u>117,285</u>	<u>127,278</u>
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	2,534	2,579
Deferred gains or losses on hedges	(18)	(19)
Foreign currency translation adjustment	9,568	14,213
Remeasurements of defined benefit plans	239	231
Total accumulated other comprehensive income	<u>12,322</u>	<u>17,004</u>
Non-controlling interests	129	204
Total net assets	<u>129,737</u>	<u>144,487</u>
Total liabilities and net assets	<u>286,217</u>	<u>289,657</u>

(2) Quarterly consolidated statements of income and comprehensive income

For the third quarter (April 1, 2023 – December 31, 2023)

(Million yen)

	Third quarter ended December 2022 (April 1, 2022 – December 31, 2022)	Third quarter ended December 2023 (April 1, 2023 – December 31, 2023)
Net sales	452,221	406,458
Cost of sales	392,337	354,206
Gross profit	59,884	52,252
Selling, general and administrative expenses	33,877	31,760
Operating income	26,006	20,491
Non-operating income		
Interest income	143	606
Dividends income	214	241
Commission fee	166	113
Share of profit of entities accounted for using equity method	58	–
Foreign exchange gains	375	–
Other	312	552
Total non-operating income	1,270	1,513
Non-operating expenses		
Interest expenses	494	669
Share of loss of entities accounted for using equity method	–	33
Foreign exchange losses	–	686
Other	164	304
Total non-operating expenses	659	1,693
Ordinary income	26,618	20,311
Extraordinary income		
Gain on sales of non-current assets	14	15
Gain on sales of investment securities	626	1,355
Gain on revision of retirement benefit plan	126	–
Gain on bargain purchase	–	481
Gain on liquidation of subsidiaries and associates	–	480
Other	1	2
Total extraordinary income	768	2,334
Extraordinary loss		
Impairment loss	30	16
Loss on retirement of non-current assets	31	3
Loss on valuation of investment securities	187	233
Other	1	5
Total extraordinary loss	251	259
Profit before income taxes	27,134	22,385
Income taxes - current	7,264	3,898
Income taxes - deferred	802	2,489
Total income taxes	8,066	6,388
Profit	19,067	15,997
Profit attributable to owners of parent	19,053	15,992
Profit attributable to non-controlling interests	14	5

	(Million yen)	
	Third quarter ended December 2022 (April 1, 2022 – December 31, 2022)	Third quarter ended December 2023 (April 1, 2023 – December 31, 2023)
Other comprehensive income		
Valuation difference on available-for-sale securities	390	41
Deferred gains or losses on hedges	(116)	(0)
Foreign currency translation adjustment	4,516	4,542
Remeasurements of defined benefit plans, net of tax	(137)	(8)
Share of other comprehensive income of associates accounted for using equity method	205	111
Total other comprehensive income	4,857	4,687
Comprehensive income	23,925	20,685
Comprehensive income attributable to owners of parent	23,907	20,674
Comprehensive income attributable to non-controlling interests	18	10

(3) Notes to quarterly consolidated financial statements

(Notes to going concern assumptions)

Not applicable

(Significant change in shareholders' equity)

Not applicable

(Segment information)

I. For the third quarter ended December 2022 (April 1, 2022 – December 31, 2022)

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	405,608	29,139	2,076	15,397	452,221	–	452,221
Inter-segment sales or transfers	2,684	5,323	697	5,877	14,582	(14,582)	–
Total	408,293	34,462	2,773	21,274	466,803	(14,582)	452,221
Segment income	23,341	1,499	135	971	25,948	57	26,006

Notes: 1. Adjustment in segment income of 57 million yen includes 57 million yen for elimination of inter-segment trade.
2. Segment income is adjusted for operating income on the quarterly consolidated statements of income and comprehensive income.

II. For the third quarter ended December 2023 (April 1, 2023 – December 31, 2023)

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	357,794	30,266	1,816	16,581	406,458	–	406,458
Inter-segment sales or transfers	2,755	7,181	1,109	4,245	15,291	(15,291)	–
Total	360,549	37,448	2,926	20,826	421,749	(15,291)	406,458
Segment income	17,148	1,921	262	1,059	20,392	99	20,491

Notes: 1. Adjustment in segment income of 99 million yen includes 99 million yen for elimination of inter-segment trade.
2. Segment income is adjusted for operating income on the quarterly consolidated statements of income and comprehensive income.