

Summary of Consolidated Financial Results for the First Half Ended September 30, 2019 [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):	November 14, 2019
Date of commencement of dividend payment (tentative):	December 6, 2019
Quarterly earnings supplementary explanatory documents:	Yes
Quarterly earnings presentation:	Yes (For institutional investors and analysts)

(Yen in millions, rounded down)

1. Financial results for the first half of the fiscal year ending March 2020 (April 1, 2019 – September 30, 2019)

(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 half ended September 2019	230,630	99.9	5,239	38.9	5,546	37.0	3,502	27.4
First half ended September 2018	115,383	(1.0)	3,772	(14.2)	4,049	(13.9)	2,750	(21.8)

Note: Comprehensive income: First half of FY3/2020: 2,436 million yen [(29.7%)] First half of FY3/2019: 3,467 million yen [(15.3%)]

	Earnings per share	Earnings per share (diluted)
	Yen	Yen
First half ended September 2019	127.62	—
First half ended September 2018	100.25	—

(2) Financial Position (Consolidated)

	Total assets	Net assets	Equity ratio
	Million yen	Million yen	%
As of September 30, 2019	214,475	85,466	36.2
As of March 31, 2019	213,761	84,259	35.8

Reference: Shareholders' equity: As of September 30, 2019: 77,617 million yen As of March 31, 2019: 76,604 million yen

2. Dividends

	Dividend per share				
	1Q	2Q	3Q	Year-end	Full year
	Yen	Yen	Yen	Yen	Yen
Fiscal year ended March 2019	—	35.00	—	45.00	80.00
Fiscal year ending March 2020	—	30.00	—	—	—
Fiscal year ending March 2020 (Forecast)	—	—	—	30.00	60.00

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

Breakdown of interim dividend for FY3/19: Ordinary dividend 30.00 yen; 50th anniversary commemorative dividend 5.00 yen

Breakdown of year-end dividend for FY3/19: Ordinary dividend: 40.00 yen; Extraordinary dividend: 5.00 yen

3. Forecast for the fiscal year ending March 2020 (Consolidated, April 1, 2019 – March 31, 2020)

(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	430,000	46.9	7,000	(7.5)	7,000	(10.9)	5,000	(37.6)	182.17

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: Yes

(b) Changes other than (a): None

(c) Changes in accounting estimates: None

(d) Retrospective restatement: None

Note: For more information, please refer "2. Quarterly Consolidated Financial Statements and Major Notes (4) Notes to quarterly consolidated financial statements (Changes in accounting policies)" on page 9.

(4) Number of shares outstanding (common stock)

(a) Shares outstanding (including treasury shares)

As of September 30, 2019:	28,702,118	As of March 31, 2019:	28,702,118
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(b) Treasury shares

As of September 30, 2019:	1,254,995	As of March 31, 2019:	1,254,924
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(c) Average number of shares (quarterly consolidated during the period)

Period ended September 30, 2019:	27,447,183	Period ended September 30, 2018:	27,432,859
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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".

(Supplementary materials for financial results and how to obtain details of the financial results meeting)

The Company plans to hold a financial results meeting for institutional investors and analysts on Thursday, November 28, 2019.

The Company plans to post a streaming video of the meeting on its website promptly after the meeting. The Company also plans to post the details of the presentation material use at the meeting, on its website promptly after announcing financial results.

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1. Results of Operations

(1) Overview of consolidated business performance

With sales of electronics components and EMS business (note) as the two pillars of its operations, the Group is pushing forward with its growth strategy, aiming to achieve the management targets as set out in the “Medium Term Management Plan 2021” formulated in November 2018, or specifically 500.0 billion yen in net sales, 13.0 billion yen in operating income and ROE of 8% or higher to be attained in the fiscal year ending March 31, 2022.

Net sales in the first half of the fiscal year ending March 31, 2020 increased substantially by 99.9% year on year to 230,630 million yen, due largely to revenue contribution from Fujitsu Electronics Inc. (hereafter, “Fujitsu Electronics”), which was converted to a subsidiary from January 2019 and whose results are reflected for the full quarter.

In terms of income, reflecting notably the steady performance of the electronic component business led by the EMS business in addition to the effects of business acquisitions, operating income increased by 38.9% year on year to 5,239 million yen, ordinary income increased by 37.0% year on year to 5,546 million, and profit attributable to owners of parent increased by 27.4% to 3,502 million yen.

With specific respect to operating income and ordinary income, record highs were achieved for a first half period.

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

	FY 2019/3 2Q	FY 2020/3 2Q	YoY	
	(April 1, 2018 – September 30, 2018)	(April 1, 2019 – September 30, 2019)	(Million yen)	
Net sales	(Million yen) 115,383	(Million yen) 230,630	115,247	99.9%
Gross profit (Margin)	16,023 13.9%	23,771 10.3%	7,747 (3.6pt)	48.4% —
SG&A	12,251	18,531	6,279	51.3%
Operating income	3,772	5,239	1,467	38.9%
Ordinary income	4,049	5,546	1,497	37.0%
Profit before income taxes	4,142	5,302	1,160	28.0%
Profit attributable to owners of parent	2,750	3,502	752	27.4%
Exchange Rate (Average rate during the year) USD	110.26Yen	108.63Yen	(1.63Yen)	—

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 this business, the EMS business maintained steady performance led by medical equipment and automotive. Component sales business enjoyed revenue from LED lightings and other consumer devices as well as the addition of revenue resulting from the conversion of Fujitsu Electronics to a subsidiary in such areas as mobile phones and automotive devices.

As a result, net sales increased by 139.4% year on year to 199,818 million yen, and segment income increased by 71.3% year on year to 4,238 million yen.

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

In this business, PCs and PC peripherals for individuals, schools, and other educational institutions enjoyed strong sales. In contrast, the commercial facilities-related LED installation business was affected by a pause in replacement demand from major customers, while sales in the housing-related home electric appliances business decreased due to such factors as delivery date adjustments by customers.

As a result, net sales decreased by 5.6% year on year to 19,968 million yen and segment income decreased by 28.5% year on year to 618 million yen.

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

In this business, orders for production of computer graphics animation and development of game software continued to face a difficult situation partly due to customers extending their development schedule.

As a result, net sales decreased by 5.1% year on year to 1,332 million yen, and segment income decreased by 67.2% year on year to of 46 million yen.

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

In this business, sales of arcade amusement machines continued to be strong. The PC peripherals and mobile phones recycling business showed robust performance, however golf products suffered sluggish sales.

As a result, net sales increased by 1.4% year on year to 9,510 million yen, and segment income increased by 19.6% year on year to 259 million yen.

		FY 2019/3 2Q (April 1, 2018 – September 30, 2018)	FY 2020/3 2Q (April 1, 2019 – September 30, 2019)	YoY	
		(Million yen)	(Million yen)	(Million yen)	
Electronic components	Net sales	83,455	199,818	116,363	139.4%
	Segment income	2,474	4,238	1,764	71.3%
Information equipment	Net sales	21,143	19,968	(1,174)	(5.6%)
	Segment income	864	618	(246)	(28.5%)
Software	Net sales	1,404	1,332	(72)	(5.1%)
	Segment income	143	46	(96)	(67.2%)
Others	Net sales	9,379	9,510	131	1.4%
	Segment income	216	259	42	19.6%
Total	Net sales	115,383	230,630	115,247	99.9%
	Segment income	3,772	5,239	1,467	38.9%

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

(2) Overview of financial condition

(a) Assets, liabilities and net assets

Total assets as of September 30, 2019 increased by 713 million yen from March 31, 2019, to 214,475 million yen.

Current assets decreased by 262 million yen from March 31, 2019, to 182,133 million yen. This is primarily due to a decrease of 2,544 million yen in notes and accounts receivable – trade, and a decrease of 5,503 million yen in merchandise and finished goods, although cash and deposits increased by 7,927 million yen.

Non-current assets increased by 976 million yen from March 31, 2019, to 32,341 million yen. This is primarily the result of an increase of 2,008 million yen in property, plant and equipment due to such factors as the application of IFRS 16 as well as construction of new facilities in Fukushima and second factory in Thailand, and a decrease of 633 million yen in investment securities.

Liabilities decreased by 493 million yen from March 31, 2019, to 129,008 million yen. This is primarily attributed to a decrease of 3,188 million yen in notes and accounts payable – trade, an increase of 1,054 million yen in short-term loans payable, and an increase of 1,174 million yen in lease obligations.

Net assets increased by 1,206 million yen from March 31, 2019, to 85,466 million yen. This is primarily due to recording 3,502 million yen of profit attributable to owners of parent and dividend payments of 1,235 million yen.

(b) Cash flows

Cash and cash equivalents as of September 30, 2019 increased by 8,957 million yen from March 31, 2019 to 41,189 million yen.

(Operating activities)

Net cash provided by operating activities was 12,242 million yen. This is attributable primarily to recording income before income taxes and a decrease in inventories.

(Investing activities)

Net cash and cash equivalents used in investing activities was 1,899 million yen, mainly due to purchase of property, plant and equipment.

(Financing activities)

Net cash and cash equivalents used in financing activities was 746 million yen, mainly due to cash dividends paid.

(3) Qualitative information on consolidated earnings forecast

The business environment surrounding the Group in the third quarter and beyond will likely remain in an unpredictable situation given the uncertainties including the impact of various trade issues originating from the U.S., trends in China's domestic economy, the Brexit issue, and geopolitical risks in Iran and other parts of the Middle East.

Having carefully assessed the uncertain outlook in the business environment as described above, the Company decided to keep full year performance forecasts unchanged from the previously announced forecasts given the solid progress made in the second quarter of the fiscal year ending March 31, 2020. The exchange rate assumptions used for the performance forecasts also remain unchanged.

In this first fiscal year of the "Medium Term Management Plan 2021," the Company will continue to make Group-wide efforts to achieve its targets, with a focus on electronic components sales business and EMS business.

2. Quarterly Consolidated Financial Statements and Major Notes

(1) Quarterly consolidated balance sheet

(Million yen)

	Fiscal year ended March 2019 (As of March 31, 2019)	First half ended September 2019 (As of September 30, 2019)
ASSETS		
Current assets		
Cash and deposits	35,003	42,931
Notes and accounts receivable - trade	96,145	93,600
Electronically recorded monetary claims - operating	5,361	3,909
Securities	261	229
Merchandise and finished goods	33,734	28,230
Work in process	489	664
Raw materials and supplies	5,802	5,898
Other	5,894	6,986
Allowance for doubtful accounts	(296)	(317)
Total current assets	182,396	182,133
Non-current assets		
Property, plant and equipment		
Buildings and structures, net	4,910	5,800
Machinery, equipment and vehicles, net	3,506	4,027
Tools, furniture and fixtures, net	1,104	987
Land	4,861	4,764
Construction in progress	628	1,438
Total property, plant and equipment	15,011	17,020
Intangible assets		
Goodwill	259	217
Software	1,819	1,580
Other	126	159
Total intangible assets	2,206	1,957
Investments and other assets		
Investment securities	10,085	9,452
Deferred tax assets	1,292	1,143
Guarantee deposits	870	860
Insurance funds	951	897
Other	1,462	1,518
Allowance for doubtful accounts	(515)	(507)
Total investments and other assets	14,147	13,364
Total non-current assets	31,364	32,341
Total assets	213,761	214,475

(Million yen)

	Fiscal year ended March 2019 (As of March 31, 2019)	First half ended September 2019 (As of September 30, 2019)
LIABILITIES		
Current liabilities		
Notes and accounts payable - trade	77,884	74,696
Short-term loans payable	30,656	31,710
Accrued expenses	5,307	5,015
Income taxes payable	1,147	1,162
Provision for directors' bonuses	105	35
Other	6,239	8,005
Total current liabilities	121,340	120,626
Non-current liabilities		
Long-term loans payable	1,882	1,372
Deferred tax liabilities	1,300	1,455
Provision for directors' retirement benefits	94	101
Net defined benefit liability	1,997	1,919
Asset retirement obligations	280	286
Other	2,606	3,247
Total non-current liabilities	8,161	8,382
Total liabilities	129,501	129,008
NET ASSETS		
Shareholders' equity		
Capital stock	12,133	12,133
Capital surplus	13,865	13,865
Retained earnings	51,297	53,564
Treasury shares	(2,024)	(2,024)
Total shareholders' equity	75,272	77,539
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	1,018	593
Deferred gains or losses on hedges	2	21
Foreign currency translation adjustment	527	(345)
Remeasurements of defined benefit plans	(215)	(191)
Total accumulated other comprehensive income	1,332	77
Non-controlling interests	7,654	7,848
Total net assets	84,259	85,466
Total liabilities and net assets	213,761	214,475

(2) Quarterly consolidated statements of income and comprehensive income

For the First half (April 1, 2019 – September 30, 2019)

(Million yen)

	First half ended September 2018 (April 1, 2018 – September 30, 2018)	First half ended September 2019 (April 1, 2019 – September 30, 2019)
Net sales	115,383	230,630
Cost of sales	99,360	206,859
Gross profit	16,023	23,771
Selling, general and administrative expenses	12,251	18,531
Operating income	3,772	5,239
Non-operating income		
Interest income	57	117
Dividends income	111	126
Commission fee	102	147
Foreign exchange gains	—	137
Other	177	212
Total non-operating income	448	740
Non-operating expenses		
Interest expenses	83	156
Share of loss of entities accounted for using equity method	34	216
Foreign exchange losses	36	—
Other	17	61
Total non-operating expenses	171	434
Ordinary income	4,049	5,546
Extraordinary income		
Gain on sales of non-current assets	3	17
Gain on sales of investment securities	214	29
Gain on transfer of business	7	12
Settlement received	—	498
Other	—	1
Total extraordinary income	225	559
Extraordinary loss		
Loss on retirement of non-current assets	3	3
Loss on sales of investment securities	2	13
Loss on valuation of investment securities	110	536
Loss on valuation of golf club membership	5	—
Impairment loss	9	245
Other	1	4
Total extraordinary loss	132	803
Profit before income taxes	4,142	5,302
Income taxes - current	1,069	1,135
Income taxes - deferred	314	317
Total income taxes	1,384	1,453
Profit	2,758	3,848
Profit attributable to owners of parent	2,750	3,502
Profit attributable to non-controlling interests	7	346
Other comprehensive income		
Valuation difference on available-for-sale securities	(45)	(423)
Deferred gains or losses on hedges	26	19
Foreign currency translation adjustment	744	(986)
Remeasurements of defined benefit plans, net of tax	13	21
Share of other comprehensive income of associates accounted for using equity method	(29)	(42)
Total other comprehensive income	709	(1,411)
Comprehensive income	3,467	2,436
Comprehensive income attributable to owners of parent	3,457	2,243
Comprehensive income attributable to non-controlling interests	9	193

(3) Consolidated statement of cash flows

(Million yen)

	First half ended September 2018 (April 1, 2018 – September 30, 2018)	First half ended September 2019 (April 1, 2019 – September 30, 2019)
Cash flows from operating activities		
Profit before income taxes	4,142	5,302
Depreciation	750	1,284
Impairment loss	9	245
Amortization of goodwill	44	42
Increase (decrease) in provision for directors' retirement benefits	(1,191)	6
Increase (decrease) in allowance for doubtful accounts	25	29
Interest and dividend income	(168)	(243)
Interest expenses	83	156
Share of (profit) loss of entities accounted for using equity method	34	216
Loss (gain) on sales of investment securities	(211)	(15)
Loss (gain) on valuation of investment securities	110	536
Decrease (increase) in notes and accounts receivable - trade	1,904	2,979
Decrease (increase) in inventories	(2,248)	4,784
Decrease (increase) in accounts receivable - other	338	(497)
Decrease (increase) in advance payments	(15)	(1,460)
Increase (decrease) in notes and accounts payable - trade	(1,459)	(2,095)
Increase (decrease) in accrued expenses	(241)	(269)
Decrease (increase) in consumption taxes refund receivable	(46)	802
Decrease (increase) in other current assets	(52)	66
Increase (decrease) in other current liabilities	(425)	1,201
Other, net	1,263	(159)
Subtotal	2,643	12,913
Interest and dividend income received	170	253
Interest expenses paid	(78)	(164)
Income taxes paid	(838)	(633)
Other, net	1	(126)
Net cash provided by (used in) operating activities	1,898	12,242
Cash flows from investing activities		
Payments into time deposits	(3,092)	(517)
Proceeds from withdrawal of time deposits	340	1,507
Purchase of property, plant and equipment	(775)	(1,695)
Proceeds from sales of property, plant and equipment	84	181
Purchase of intangible assets	(78)	(244)
Purchase of investment securities	(1,941)	(922)
Proceeds from sales of investment securities	546	299
Short-term loan advances	—	(550)
Proceeds from cancellation of insurance funds	11	52
Payments for guarantee deposits	(15)	(26)
Proceeds from collection of guarantee deposits	14	30
Other payments	(41)	(53)
Other proceeds	8	39
Net cash provided by (used in) investing activities	(4,938)	(1,899)
Cash flows from financing activities		
Increase (decrease) in short-term loans payable	1,116	1,165
Proceeds from long-term borrowings	—	161
Repayments of long-term loans payable	(623)	(639)
Cash dividends paid	(1,095)	(1,233)
Other, net	(82)	(201)
Net cash provided by (used in) financing activities	(685)	(746)
Effect of exchange rate change on cash and cash equivalents	354	(638)
Net increase (decrease) in cash and cash equivalents	(3,370)	8,957
Cash and cash equivalents at beginning of period	28,879	32,231
Cash and cash equivalents at end of period	25,509	41,189

(4) Notes to quarterly consolidated financial statements

(Notes to going concern assumptions)

Not applicable

(Significant change in shareholders' equity)

Not applicable

(Changes in accounting policies)

(IFRS 16 "Leases")

Subsidiaries that adopt International Financial Reporting Standards are applying International Financial Reporting Standard No. 16 "Leases" (hereafter, "IFRS 16") from the first quarter ended June 30, 2019. In accordance with the standards, right-of-use assets and lease liabilities are recognized in principle for all of the lessee's lease transactions, and depreciation of right-of-use assets and interest on lease liabilities are recorded.

In applying IFRS 16, the transition provisions are followed, opting therefore to measure lease liability at the present value, discounted using lessee's incremental borrowing rate at the date of initial application, and record this same amount for right-of-use asset.

As a result of the application of IFRS 16, the following items increased as of September 30, 2019: in non-current assets, "buildings and structures (net)" by 1,117 million yen, "machinery, equipment and vehicles (net)" by 3 million yen, and "tools, furniture and fixtures (net)" by 0 million yen; "other" in current liabilities by 265 million yen, and "other" in non-current liabilities by 869 million yen.

Note that this change had no material effects on profit and loss in the first half of the fiscal year ending March 31, 2020.

(Segment information)

I. For the first half ended September 2018 (April 1, 2018 – September 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	83,455	21,143	1,404	9,379	115,383	—	115,383
Inter-segment sales or transfers	1,348	460	361	2,060	4,231	(4,231)	—
Total	84,803	21,604	1,766	11,440	119,615	(4,231)	115,383
Segment income	2,474	864	143	216	3,698	73	3,772

Notes: 1. Adjustment in segment income of 73 million yen includes 73 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 first half ended September 2019 (April 1, 2019 – September 30, 2019)

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	199,818	19,968	1,332	9,510	230,630	—	230,630
Inter-segment sales or transfers	1,280	428	298	1,659	3,667	(3,667)	—
Total	201,099	20,396	1,631	11,170	234,298	(3,667)	230,630
Segment income	4,238	618	46	259	5,163	76	5,239

Notes: 1. Adjustment in segment income of 76 million yen includes 76 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.