

KAGA ELECTRONICS CO., LTD.  
Financial Results Briefing Materials  
for the First Half of the Fiscal Year Ending March 31, 2019

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November 29, 2018

KAGA ELECTRONICS CO., LTD.

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# A growth scenario of KAGA ELECTRONICS

Next Medium Term Business Plan &  
Acquisition of Shares in Fujitsu Electronics

KAGA ELECTRONICS CO., LTD.

President & Representative Director

Ryoichi Kado

# Review of the Medium Term Management Plan 2018 (2015 - 2018)

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# Review of the Medium Term Management Plan 2018 (2015 - 2018) : Key Topics

	Main Results
Expansion of EMS Business	<p><b>Expansion of overseas EMS bases</b> towards an increase in business scale</p> <ul style="list-style-type: none"> <li>•Sept. 2016 Establishment of Mexico base (Opened Jan. 2018)</li> <li>•Jul. 2017 Establishment of Vietnam base (Opened Mar. 2018)</li> <li>•Dec. 2017 Establishment of Turkey base (Opened Oct. 2018)</li> <li>•Sep. 2018 Establishment of India base (Scheduled to open spring 2019)</li> </ul>
Structural Reform	<p>Execution of <b>group company reorganization and consolidation</b> towards improving management efficiency</p> <ul style="list-style-type: none"> <li>•Jan. 2016 Integration of three domestic subsidiaries engaged in the information devices business into a single company</li> <li>•Oct. 2017 Transfer of a part of shares in SiC substrate development subsidiary to external company, migrate to a joint venture</li> <li>•Jan. 2018 Integration of two domestic manufacturing subsidiaries into a single company</li> </ul>
Venture Investment	<p>With the objective of <b>building a new revenue base in the future</b>, commencing investment activities in venture companies and start ups with a budget of 5.0 billion yen over three years</p> <ul style="list-style-type: none"> <li>•FY2017 Invested 930 million yen in 17 companies</li> <li>•FY2018 Invested 160 million yen in four companies (as of October 2018)</li> </ul>

# Review of the Medium Term Management Plan 2018 (2015-2018) : Management Targets

Incorporating the conversion of Fujitsu Electronics to subsidiary\*, **the management targets for sales and ROE are generally expected to be achieved.**

\* Note: Consolidation scheduled from FY2018 Q4


	Current Mid-term Management Plan Targets (FY2018)	FY2018 Forecast	Factors
Net Sales	290 billion yen	290 billion yen	<b>Incorporating the Fujitsu Electronics Q4 sales, the target is expected to be achieved</b> •The contribution to sales through conversion to subsidiary shall be 58 billion yen
Ordinary Income	10 billion yen	8.0 billion yen	<b>There is a risk of the target not being achieved</b> •Delay of contribution from newly established overseas EMS factories •The contribution to income through conversion to subsidiary shall be limited •Reserve provision for bankruptcy of a major client in Japan
ROE	8.0% or higher	9.9%	<b>The target of above 8% in the medium term plan has constantly been achieved</b> •10.9%/FY16→9.5%/FY17→10.0%/Forecast for FY18 •Contribution of “negative goodwill” in conjunction with the conversion to subsidiary

# Medium Term Management Plan 2021 (2019 - 2021) Outline

announced on November 6, 2018

## Medium to Long Term Vision of 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 “World Class Company”.



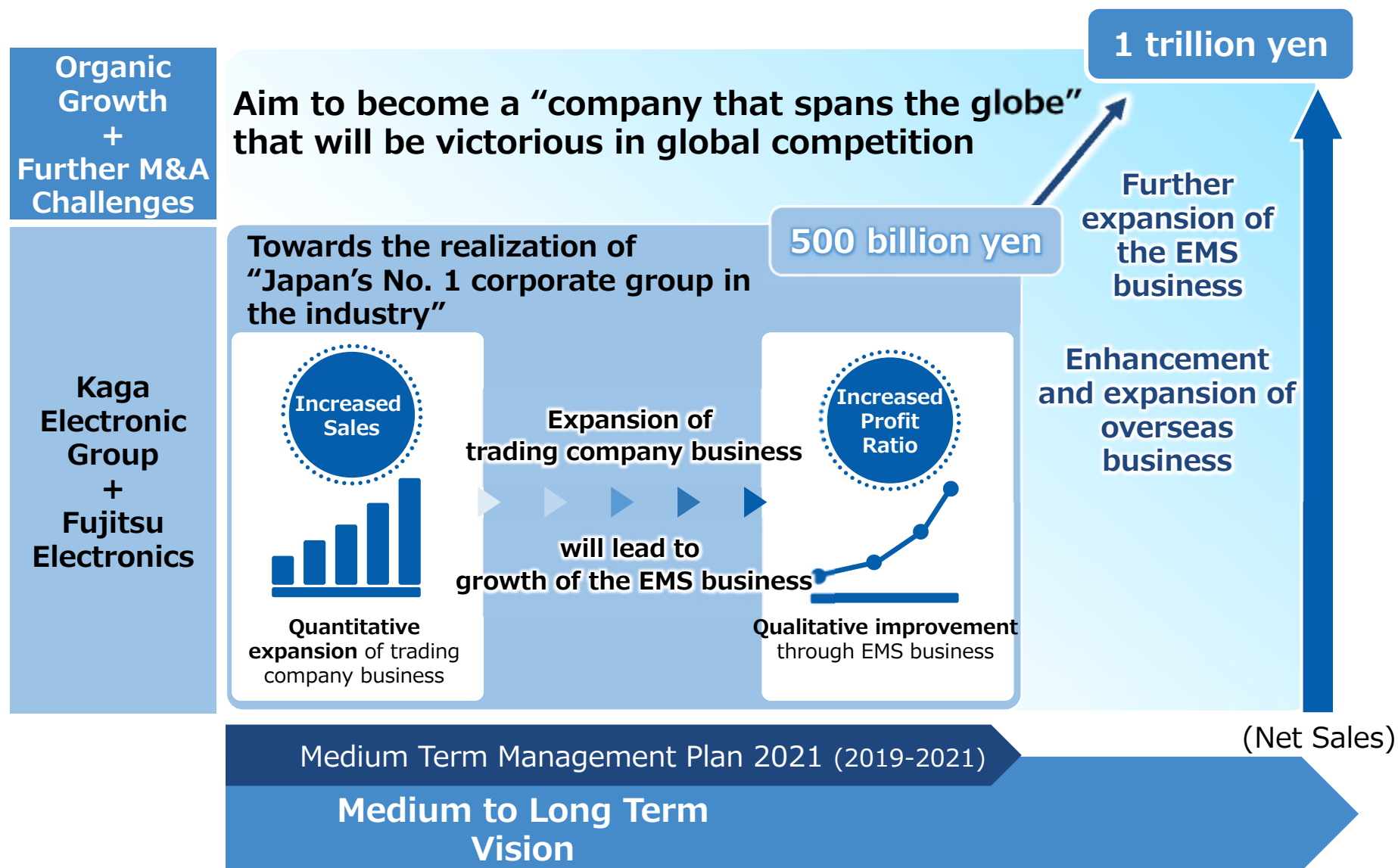
# Medium Term Management Plan 2021 (2019 - 2021) : Basic Policies

	Key Issues
 Enhancement of Revenue Base	<p>Utilizing the Group's DNA to see things ahead of time, we shall <b>focus on markets and customers forecast to have high growth potential and profitability</b>, and will aim to strengthen the revenue base</p> <ul style="list-style-type: none"><li>• Strengthening initiatives for growth sectors: In-vehicle, communications, environment, industrial equipment, medical and healthcare</li><li>• Enhancement and expansion of EMS business and overseas business</li></ul>
 Stabilization of Management Base	<p>Aiming to stabilize the management base towards <b>early improvement of efficiency and financial soundness</b> after conversion of Fujitsu Electronics to subsidiary</p> <ul style="list-style-type: none"><li>• Continuation of group-wide cost reduction measures</li><li>• Promotion of improve group management efficiency through the preparation of an organizational structure</li><li>• Enhancement of corporate governance, cultivating human resources to lead the next generation</li></ul>
 Creation of New Business	<p><b>In order to enhance resistance to changes in the external environment</b>, we shall endeavor to create new business through the proactive use of our own resources and M&amp;A</p> <ul style="list-style-type: none"><li>• Launching of social issues (childcare, welfare, nursing care, etc.) business and materials business</li><li>• Promotion of open innovation through venture investment</li><li>• Proactive use of M&amp;A activities</li></ul>

## “Medium Term Management Plan 2021 (2019-2021)” Management Targets

	FY2018 Forecast	Management Targets FY2021	Growth Rate Compared to FY2018
Net Sales	<b>290</b> billion yen	<b>500</b> billion yen	Up <b>72%</b>
Operating Income	<b>7.7</b> billion yen	<b>13</b> billion yen	Up <b>69%</b>
ROE	<b>9.9%</b>	<b>8% or higher</b>	—
FOREX	• Assumed Exchange Rate : US\$1.00 = ¥ 110		

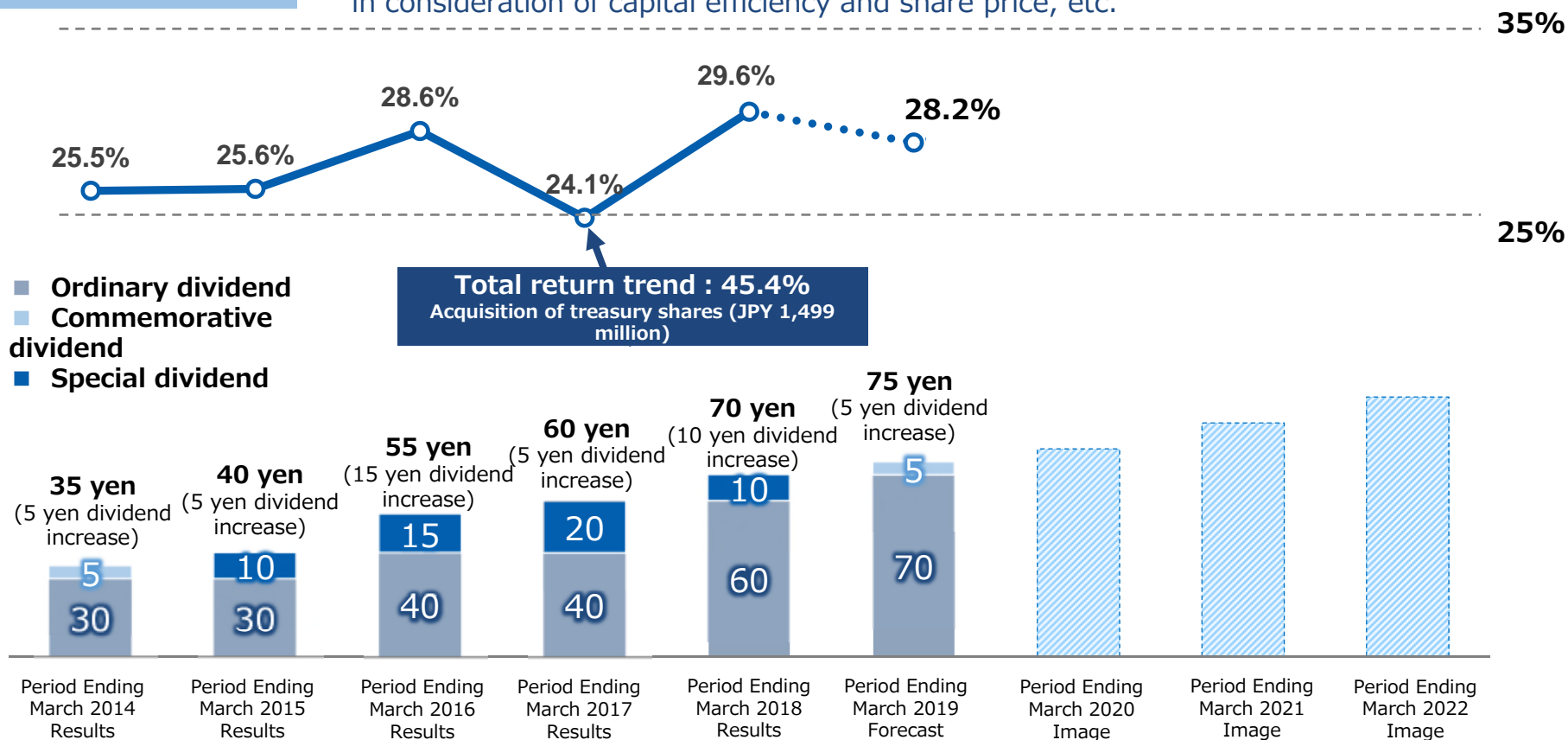
# Positioning of the Medium Term Management Plan 2021 (2019 - 2021)



# Shareholder Return Policy

## Basic Policy on Dividends of Surplus

- We shall perform **stable dividends**, while securing a **consolidated dividend 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.



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## IR Supplementary Information On Medium Term Management Plan 2021

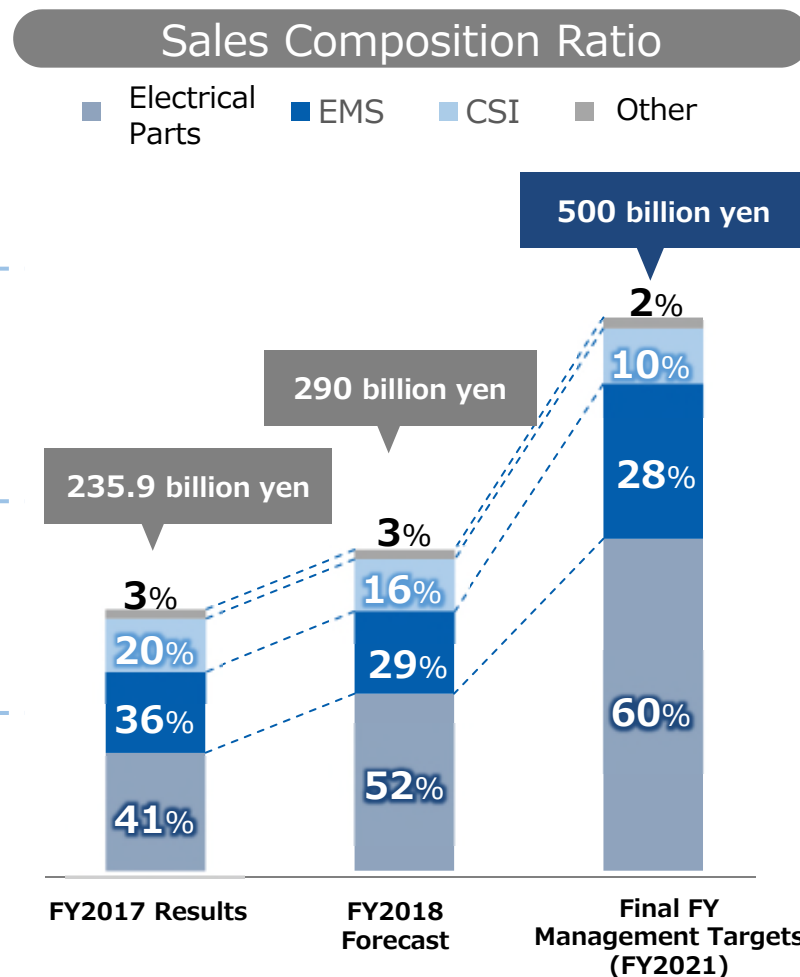
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# Business Portfolio Concept

**In the new medium term plan,** we plan to **review future disclosure segments,** and to perform a reclassification into the following four categories.

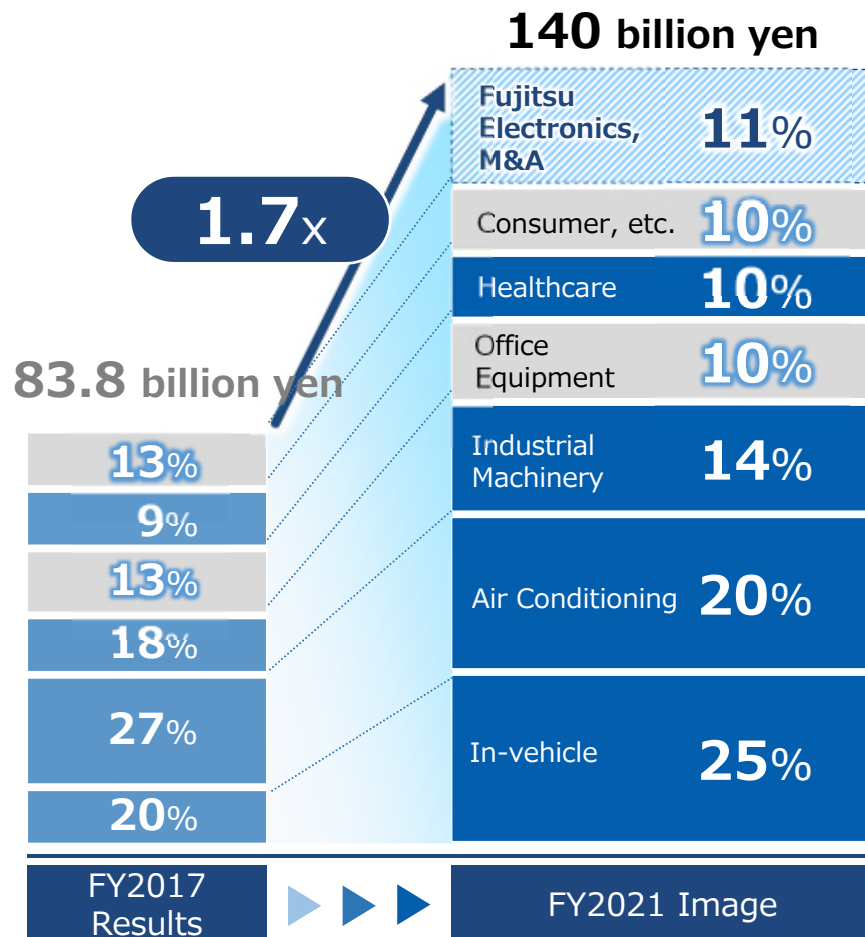
Electrical Parts	<ul style="list-style-type: none"> <li>• Semiconductor (general purpose, custom) sales</li> <li>• General parts (capacitors, connectors, cables, switches, etc.) sales</li> <li>• LCD, LED, storage device sales</li> </ul>
EMS	<ul style="list-style-type: none"> <li>• Manufacture contracting (installation of electric circuit board - assembly of finished product) services for various electronic devices, design and development associated with this</li> </ul>
CSI*	<ul style="list-style-type: none"> <li>• PC and PC peripheral product sales</li> <li>• Various household appliances, lighting fixtures, photography and video-related product sales, etc.</li> </ul>
Other	<ul style="list-style-type: none"> <li>• Various CG imaging and software production</li> <li>• Sports product sales, etc.</li> </ul>

\* Note: CSI is an abbreviation of Consumer Solution Information



# EMS Business Growth Scenario Concept

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 **1.7x** that of FY2017



## Points

**Organic Growth**

Fujitsu Electronics  
**EMS Shift**

Further  
**M&A**

- 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.

# Acquisition of shares in Fujitsu Electronics Inc. (and Making It a Subsidiary)

IR Presentation on September 18, 2018

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# Overview of the Acquisition

Scheme	<ul style="list-style-type: none"> <li>• <b>Acquire 70% of shares in Fujitsu Electronics</b> from Fujitsu Semiconductor, <b>forming a subsidiary</b>. Acquire gradually until <b>becoming a wholly owned subsidiary in January 2022</b></li> </ul>
Acquisition Price	<ul style="list-style-type: none"> <li>• <b>Total 20.5 billion yen</b> (forecast total)</li> </ul>
Financing	<ul style="list-style-type: none"> <li>• Plan to finance with <b>self-funding</b> and new <b>bridging loan</b></li> <li>• Consider switching to the procurement of various long-term funding for this bridging loan</li> </ul>
Financial Impact	<ul style="list-style-type: none"> <li>• Amortization schedule of goodwill and intangible fixed assets to be released after acquisition</li> <li>• However, Acquisition Price <math>\div</math> Net Assets, so the <b>impact is expected to be slight</b></li> </ul>
Schedule of Stock Transfer	<ul style="list-style-type: none"> <li>• <b>First Phase : January 2019 (70%)</b></li> <li>• Second Phase: December 2020 (15%)</li> <li>• Third Phase : December 2021 (15%)</li> </ul>

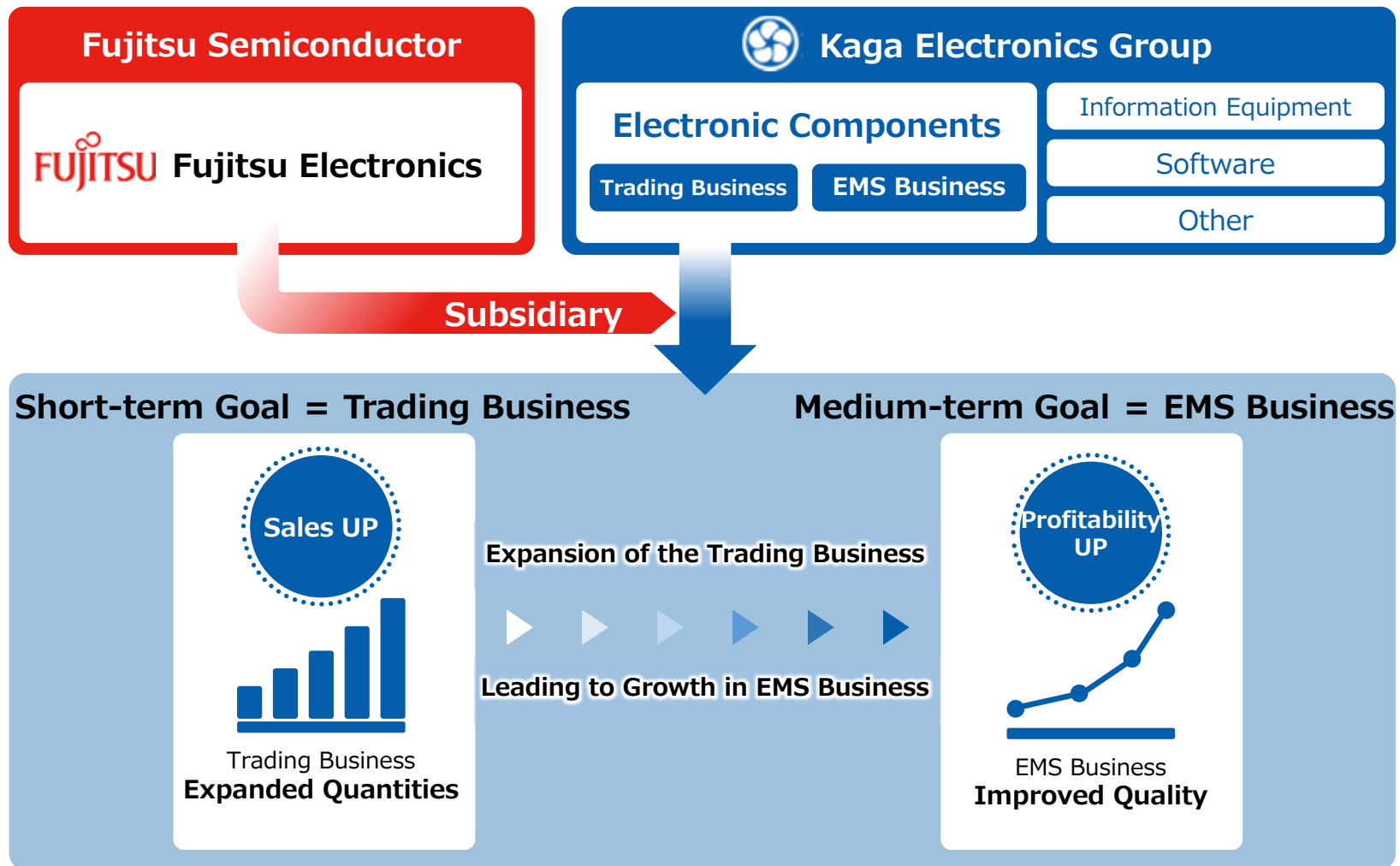
• The acquisition price at each phase will be adjusted based on fluctuations in the value of the consolidated net assets of Fujitsu Electronics,

and the above acquisition price is the estimated amount at current prices.

• This share acquisition is subject to approval by relevant authorities in accordance with domestic and international competition laws.

# Purpose of the Acquisition

- Drastic expansion of business scale for core electronic components business becoming the “Industry No. 1”



## Industry Positioning after Acquisition (FY Ended March 2018 Results Base)

- The birth of an industry-leading class 500 billion yen Group.  
Lead the further reorganization of the industry

【Top10 of Electronics Trading Company : Net Sales】

Rank	Company name	amount of sales
1	MACNICA FUJI ELECTRONICS HOLDINGS, INC.	504.1
2	MARUBUN CORPORATION	347.5
3	UKC Holdings Corporation	301.4
4	<b>Fujitsu Electronics Inc.</b>	<b>258.8</b>
5	RYOSAN	254.1
6	RYODEN CORPORATION	236.5
7	<b>KAGA ELECTRONICS CO.,LTD.</b>	<b>235.9</b>
8	SIIX Corporation	233.2
9	TOMEN DEVICES CORPORATION	197.6
10	Elematec Corporation	196.2
11	VITEK HOLDINGS CO., LTD	185.9

【Top5 of after Acquisition】

(Billion yen)		
Rank	Company name	amount of sales
1	MACNICA FUJI ELECTRONICS HOLDINGS, INC	504.1
2	<b>KAGA ELECTRONICS CO.,LTD.</b> <b>+</b> <b>Fujitsu Electronics Inc.</b>	<b>494.7</b>
3	Rester Holdings Corporation (UKC + VITEK)	487.3
4	MARUBUN CORPORATION	347.5
5	RYOSAN	254.1

Note: Simple sum base for “Kaga Electronics + Fujitsu Electronics” and Rester  
SIIX figures for FY ended December 2017

※Data Source: Internal study

# Strengths of Fujitsu Electronics Group

- The Fujitsu Electronics Group aims to develop our business based on the following strengths.



Fujitsu Electronics  
**CORE**  
**Competencies**



# Consolidated Financial Results for the First Half of the Fiscal Year ending March 2019

Six months: April 1, 2018 – September 30, 2018

KAGA ELECTRONICS CO., LTD.

Managing Director

Eiji Kawamura

# Summary of Financial Results for the Second Quarter Ended September 30, 2018

## FY2019/3 2Q Results

- **At ¥115.3 billion, net sales** by and large maintained the same level year-on-year, driven by EMS business.
- Operating income and net profit both declined, which had been **factored in at the beginning of the period.**

\* Causes of the decreases: production adjustments resulting from model switching at major customers, upfront expenses of new overseas sites at their start-up phase, etc.

## Overview of the main business segments

- Electronic components business: EMS business for medical equipment was slow, but that **for automotive and air conditioning devices maintained steady performance.** Components sales business remained sluggish.
- Information equipment business: PC-related business was sluggish but **sales of housing-related home electric appliances and commercial facilities-related LED installation business continued to show robust growth.**

## Forecast for FY2019/3

- **Net sales ¥290 billion, ordinary income ¥8 billion, profit ¥7.3 billion, ROE 9.9%.**
- Along with the acquisition of Fujitsu Electronics, **consolidation is scheduled to be effective from the forth quarter.**
- Expected to **achieve net sales and ROE targets** in the final fiscal year of the Medium-term Management Plan.
- Aiming to achieve **record profit in 14 years** with 7.3 billion yen profit projection including negative goodwill related to the acquisition.
- **Commemorative dividend (dividend increase) to be paid**, in celebration of the 50<sup>th</sup> anniversary.
- Interim dividend of ¥35 per share, consisting of ordinary dividend of ¥30 and commemorative dividend of ¥5.

## Shareholder return



# Financial Highlights

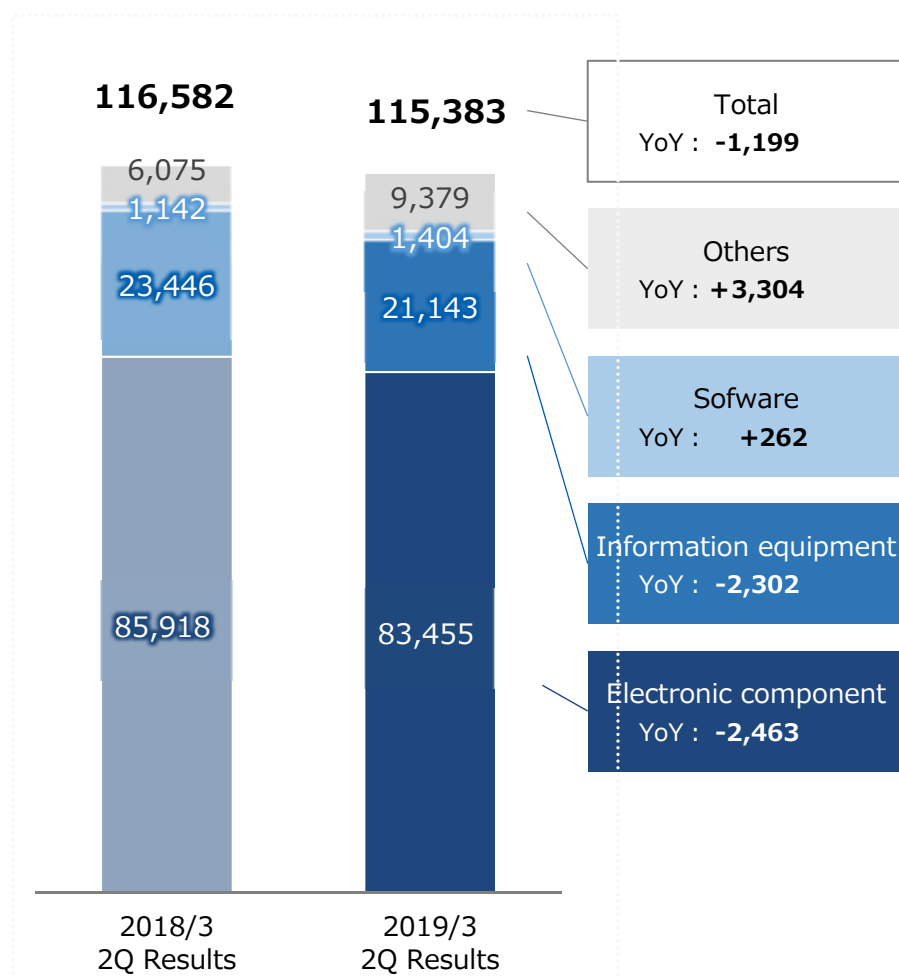
(Million Yen)

	FY2018/3 2Q Results	FY2019/3 2Q Results	YoY
Net sales	116,582	115,383	-1,199
Gross profit	16,218	16,023	-195
Gross profit margin	13.9%	13.9%	-
SG&A	11,824	12,251	427
Operating income	4,394	3,772	-622
Ordinary income	4,703	4,049	-654
Profit attributable to owners of parent	3,516	2,750	-766
EPS (Yen)	128.16	100.25	-27.91

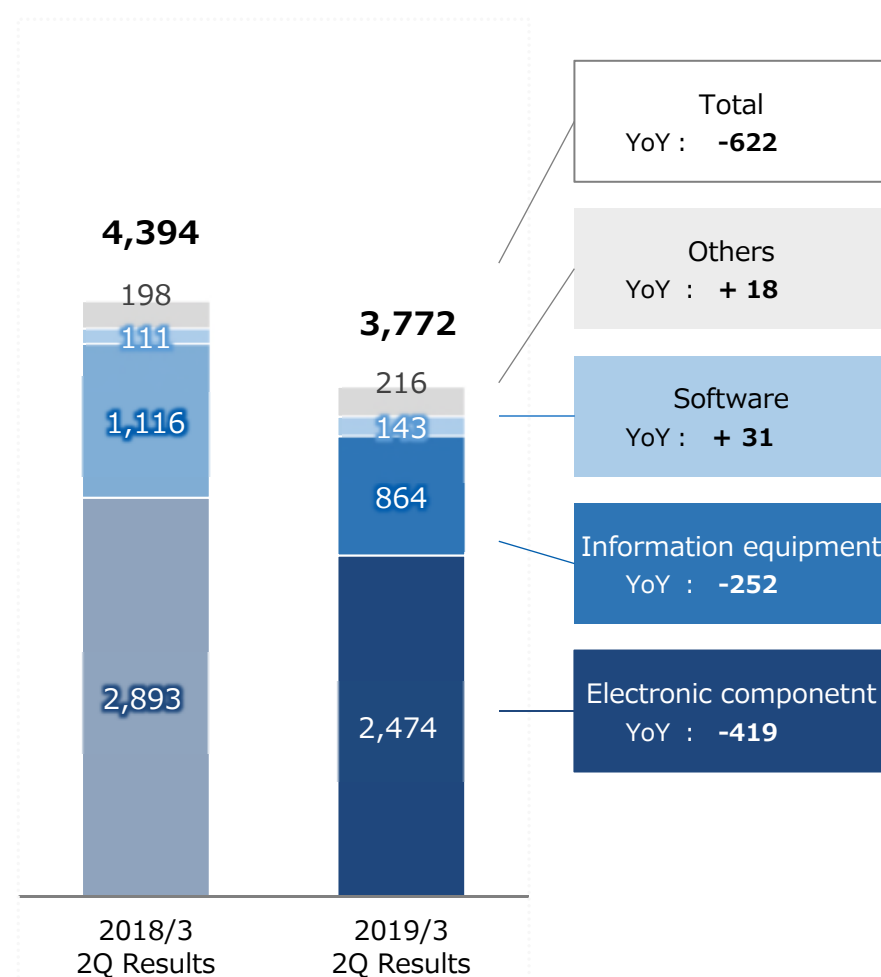
# Financial Highlights by Business Segment (Net Sales/Segment Income)

(Million yen)

## Net Sales



## Segment income



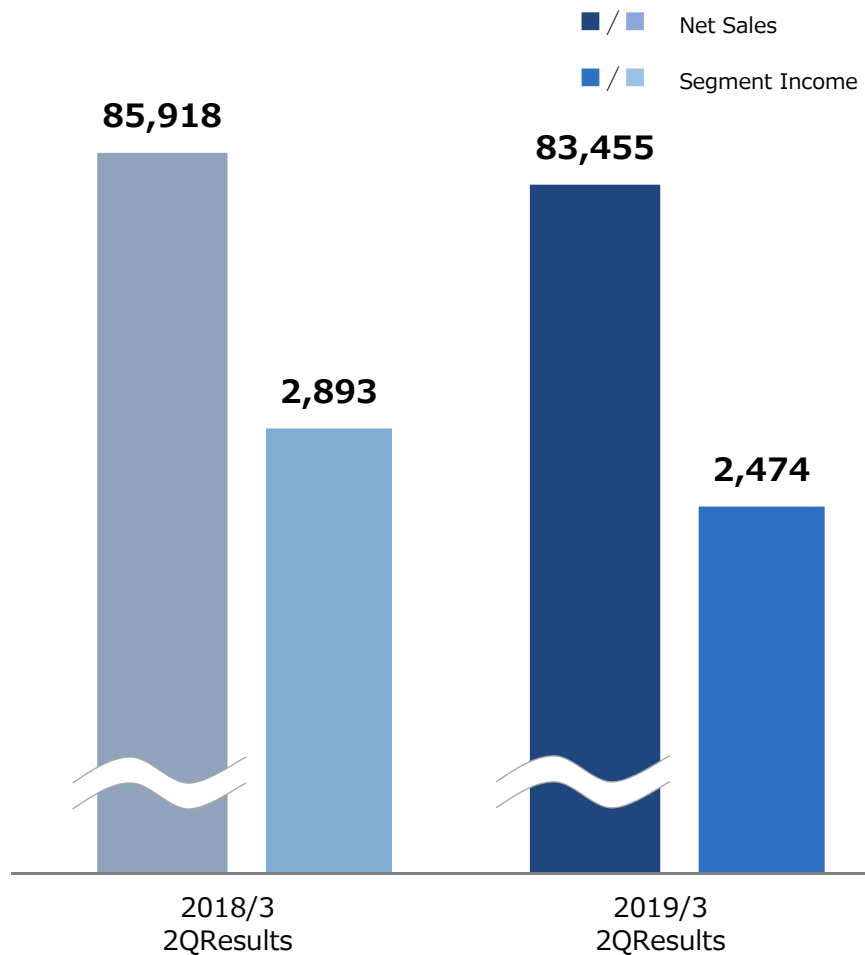
Note: Figures of each segment income are not inter-segment adjusted.  
Total amount is inter-segment adjusted (operating income).



# Financial Highlights: Electronic Component Segment

(Million yen)

## Net sales/Segment income



## YoY

- Net Sales ▶ **-2,463** million yen **2.9%down**
- Segment Income ▶ **-419** million yen **14.5%down**

EMS business for automotive and air-conditioning devices maintained a steady performance.

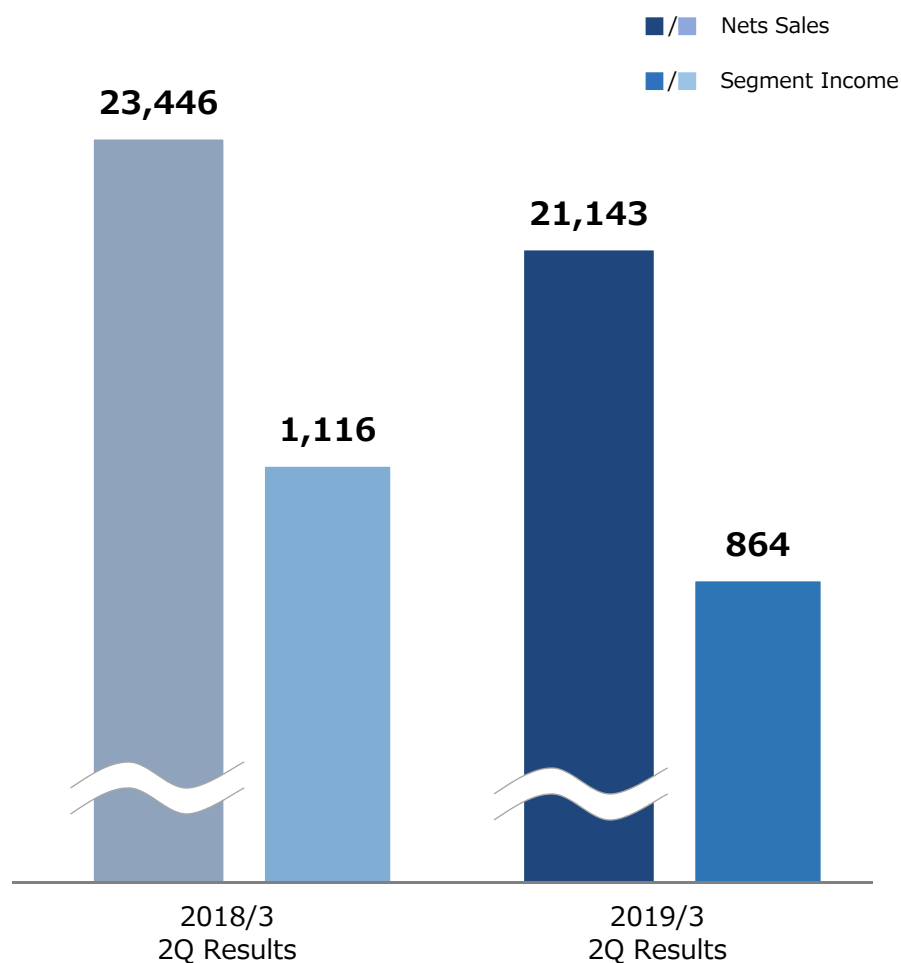
Components sales business remained sluggish, notably for home electric appliances from the effect of production adjustments at major customers.



# Financial Highlights: Information Equipment Segment

(Million Yen)

## Net sales/Segment income



## YoY

- Net Sales ▶ **-2,302**million yen **9.8%down**
- Segment Income ▶ **-252**million yen **22.6%down**

Sales of housing-related home electric appliances and commercial facilities-related LED installation business showed robust growth.

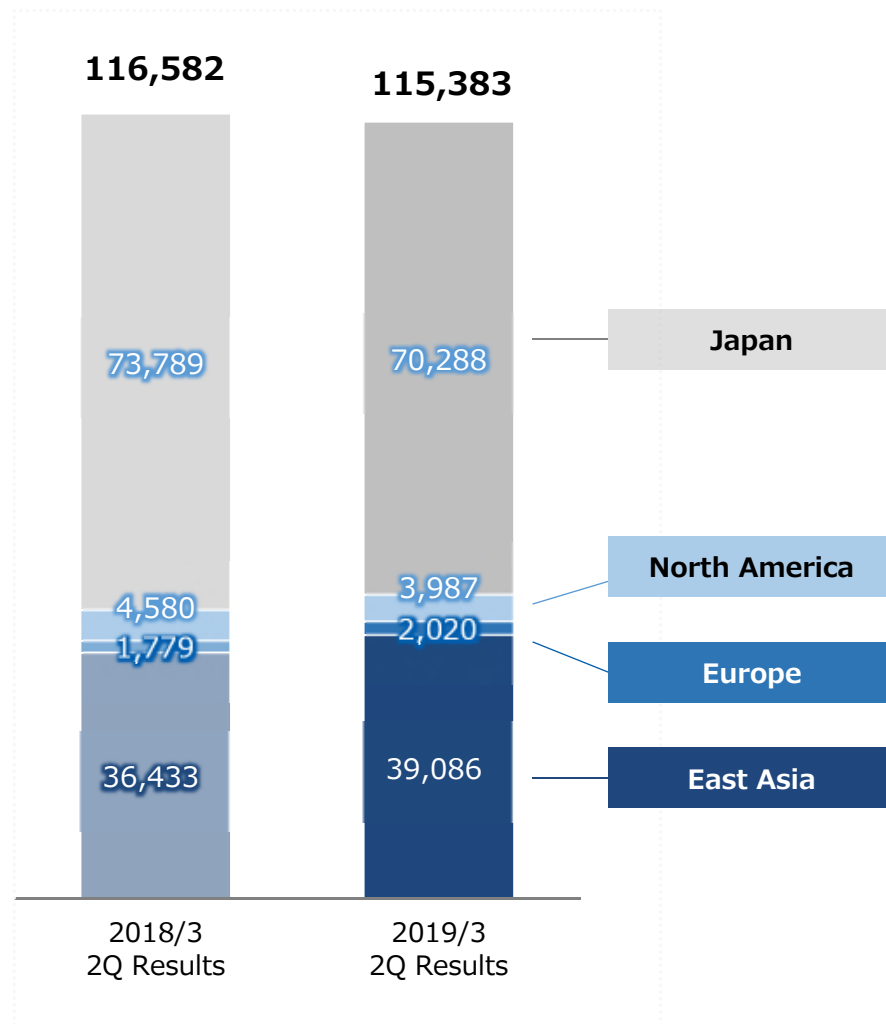
Sales of PCs and PC peripherals were slow.



# Net Sales by Region

(Million Yen)

## Net sales



## YoY

- Japan ▶ **-3,500** million Yen **4.7%down**
- North America ▶ **-593** million Yen **12.9%down**
- Europe ▶ **+241** million Yen **13.6%up**
- East Asia ▶ **+2,653** million Yen **7.3%up**

Japan: PC sale , amusement machine business and golf equipment sales were sluggish.

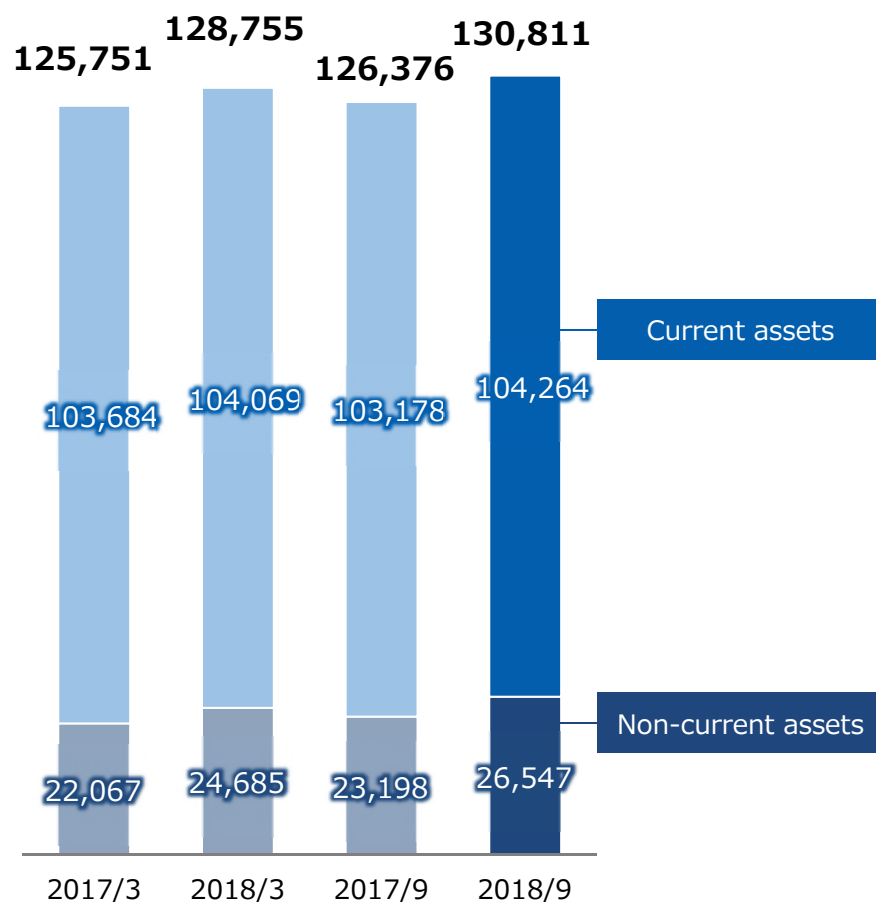
Overseas: East Asia and Europe also increased due to steady growth in EMS business.



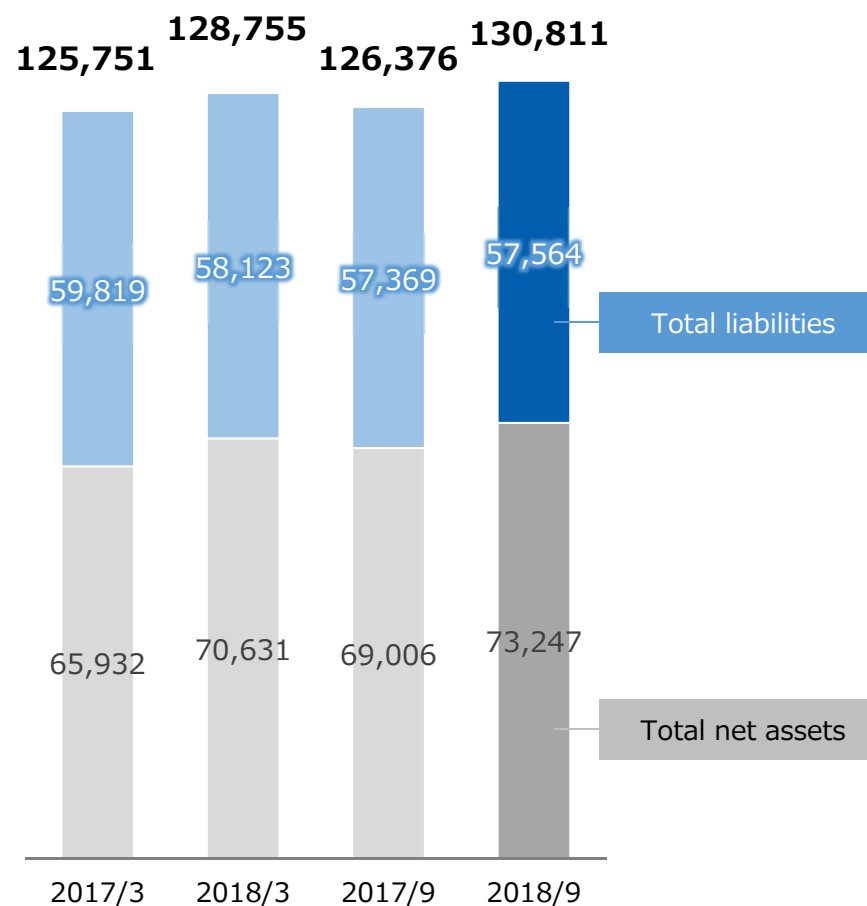
# Balance Sheet Main Items

(Million Yen)

## Total assets



## Total liabilities and net assets

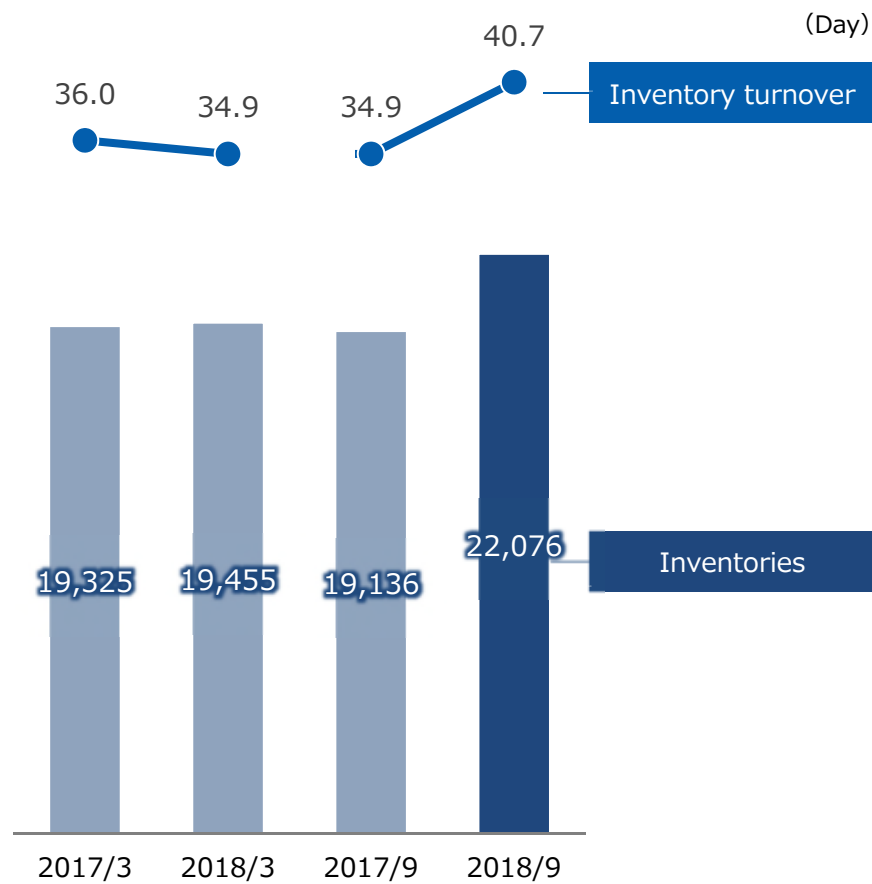


Note: "Partial Amendments to Accounting Standard for Tax Effect Accounting" etc. (Accounting Standards Board of Japan (ASBJ) Statement No. 28, February 16, 2018) have been adopted from the beginning of the first quarter of the fiscal year ending March 31, 2019. Accordingly, deferred tax assets are presented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

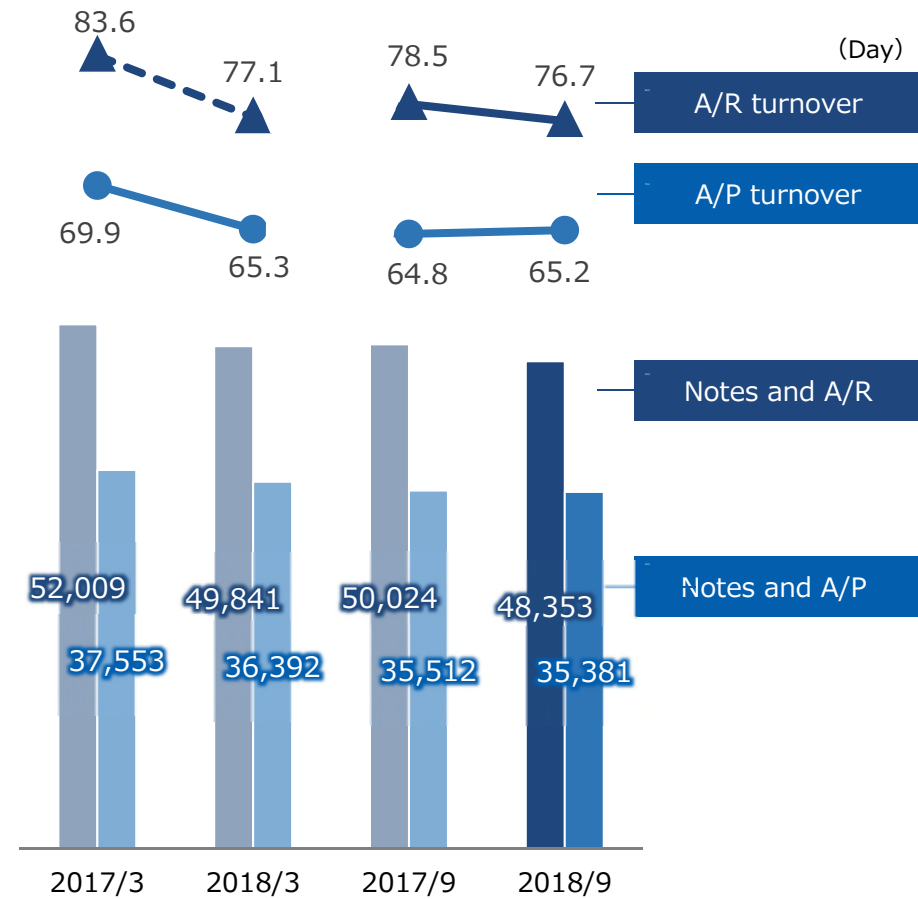
# Balance Sheet Main Items

(Million Yen)

## Inventories



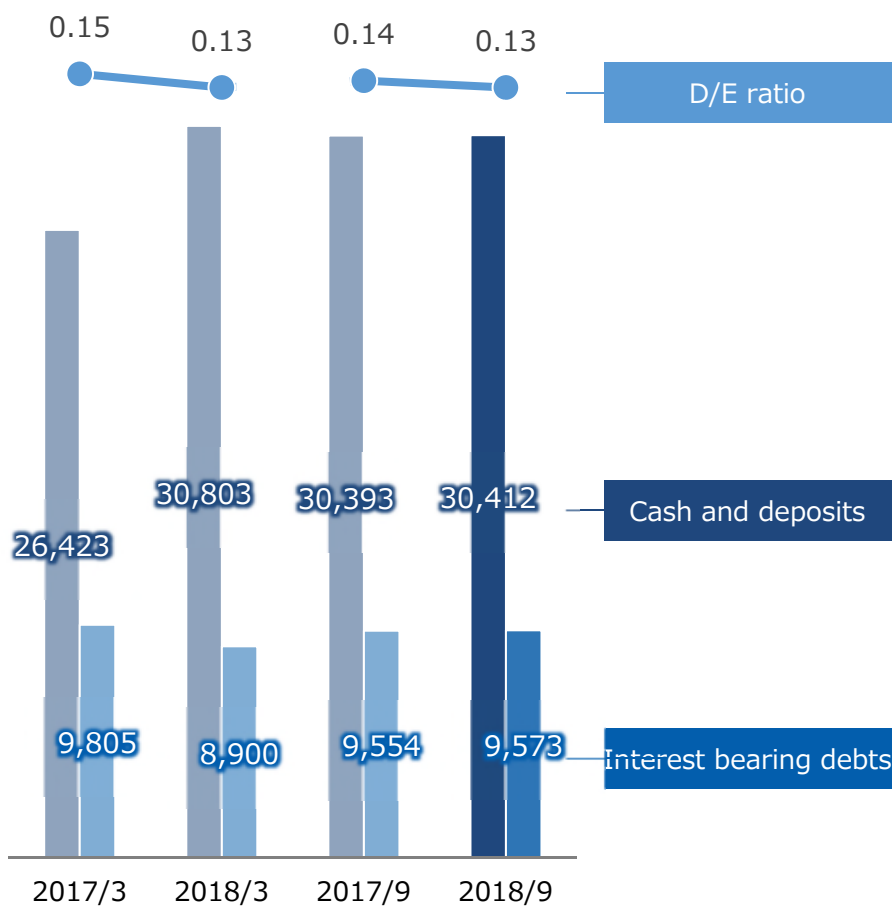
## Accounts receivable/Accounts payable



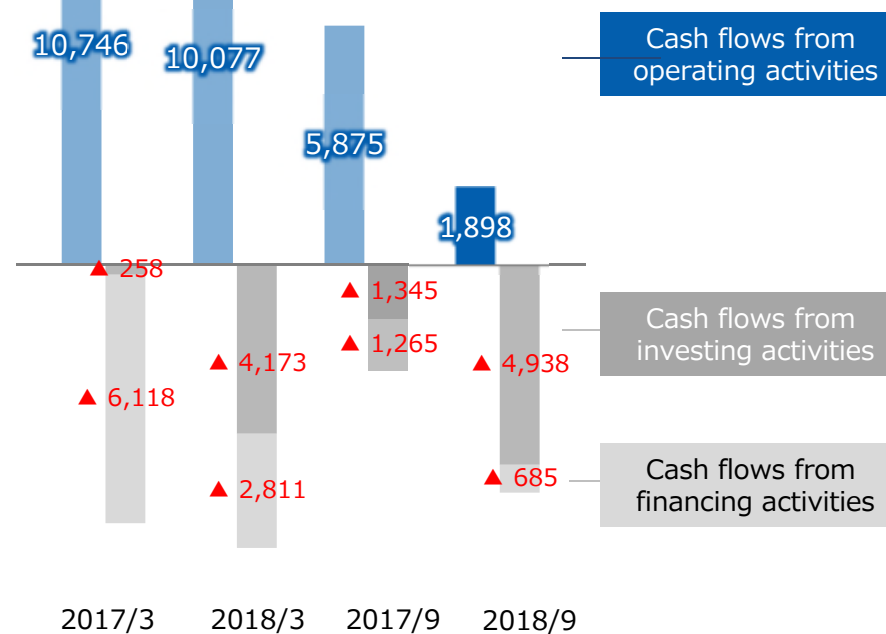
# Cash and Deposits/Interest Bearing Debt/Cash Flows

(Million Yen)

## Cash and deposits



## Cash flows



# Forecast for the Fiscal year ending march 2019

(Million Yen)

	2018/3	2019/3		
	Results	Forecasts	YoY	Medium-Term Management Plan Target
<b>Net sales</b>	235,921	290,000	54,079	290,000
Gross profit	32,498	35,500	3,002	-
Gross profit margin	13.8%	12.2%	-1.6pt	-
SG&A	24,379	27,800	3,421	-
<b>Operating income</b>	8,119	7,700	-419	-
<b>Ordinary income</b>	8,740	8,000	-740	10,000
<b>Profit attributable to pwners of parent</b>	6,490	7,300	810	-
EPS (Yen)	236.58	266.04	29.46	-
ROE	9.5	9.9	+0.4pt	8.0%

# Forecasts by Business Segment for Fiscal year ending march 2019

(Million Yen)

		2018/3	2019/3		
		Results	Forecasts	YoY	
Electronic Component	Net Sales	172,248	227,200	54,952	32%
	Sgment incor	5,312	5,200	-112	-2%
Information Equipment	Net Sales	47,582	43,000	-4,582	-10%
	Sgment incor	2,202	1,700	-502	-23%
Software	Net Sales	2,568	2,800	232	9%
	Sgment incor	172	300	128	74%
Others	Net Sales	13,522	17,000	3,478	26%
	Sgment incor	308	500	192	62%
Total	Net Sales	235,921	290,000	54,079	23%
	Sgment incor	8,119	7,700	-419	-5%

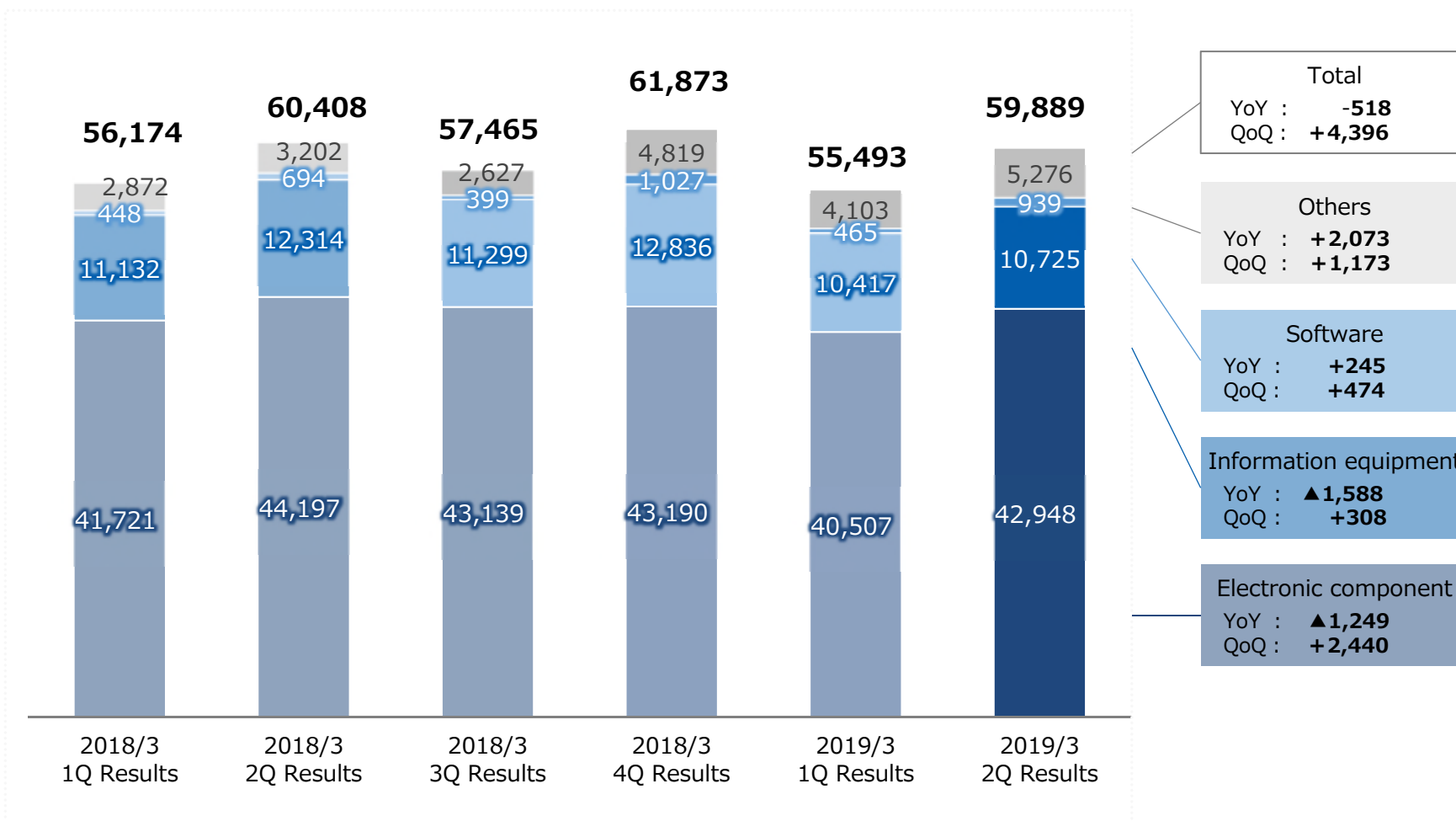
Note: Figures of each segment income are not inter-segment adjusted.  
Total amount is inter-segment adjusted (operating income).



# Financial Highlights by Business Segment① (Net Sales)

(Million Yen)

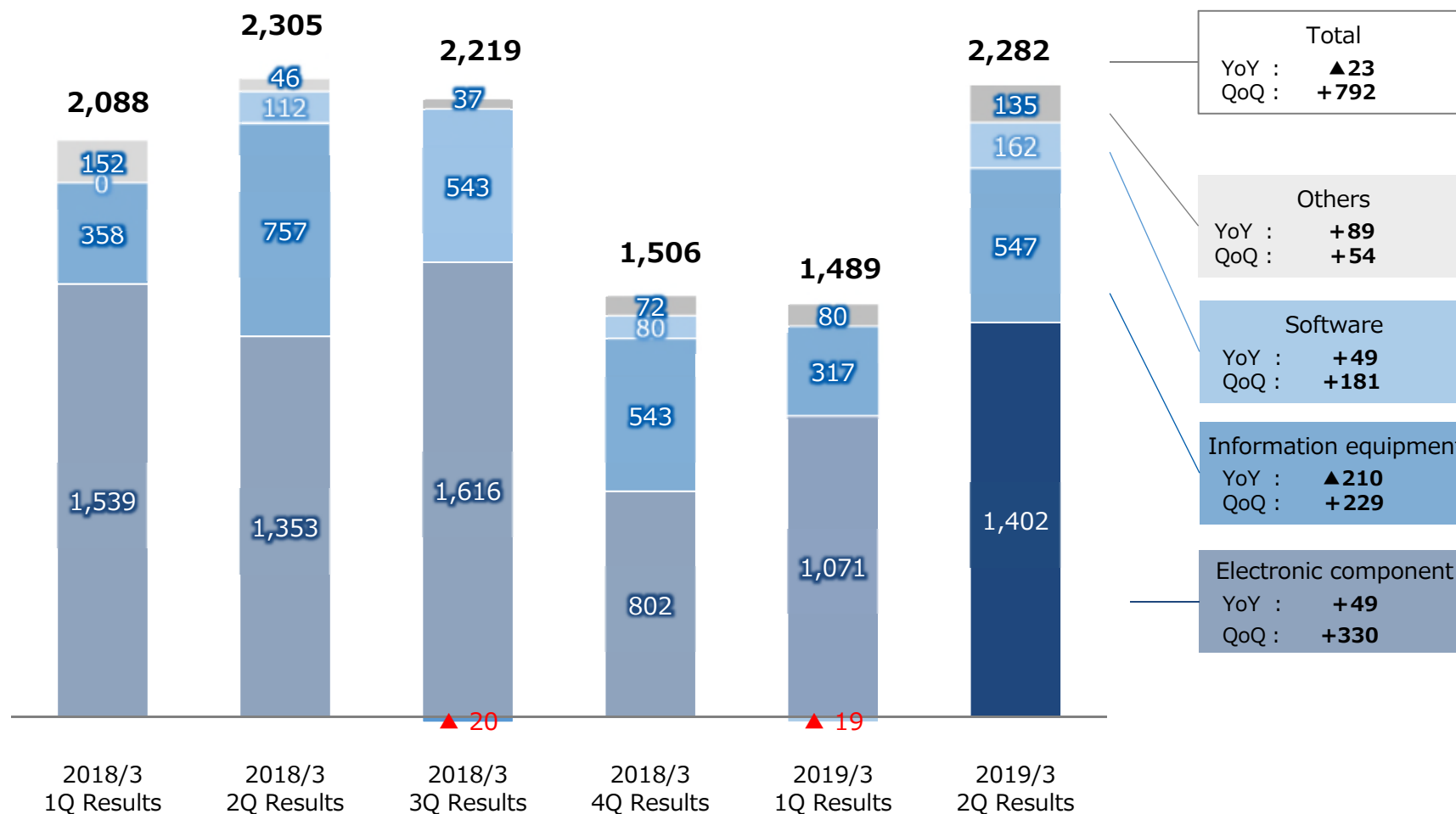
## Net Sales



# Financial Highlights by Business Segment② (Segment Income)

(Million Yen)

## Segment Income



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

## Exchange Rate/FOREX Sensitivity

	FY2018/3 2Q Results (Yen)	FY2019/3 2Q Results (Yen)	(Reference) Effect of 1% change (Million Yen)		Forex Assumption for 2H(yen)
			Net sales	Ordinary income	
USD	111.06	110.26	135	14	110.00
THB	3.28	3.40	108	5	3.40
RMB	16.39	17.09	70	4	17.00
HKD	14.24	14.05	84	2	14.00

## (Reference) Products and Services by Business Segment

<b>Electronic components</b>	<ul style="list-style-type: none"><li>• Sale of semiconductors (general-purpose products and customized products)</li><li>• Sale of electronic components (transformers, condensers, cables, connectors, and switches, etc.), LED, and storage devices</li><li>• Development, manufacture and sales related to EMS (air-conditioning, office equipment, automotive devices, industrial equipment, amusement machines, communication equipment, medical equipment, etc.)</li></ul>
<b>Information equipment</b>	<ul style="list-style-type: none"><li>• Sales of PCs and PC peripherals, home electric appliances/lighting fixtures, photograph and imaging products, original brand products, etc.)</li></ul>
<b>Software</b>	<ul style="list-style-type: none"><li>• Production of computer graphics, planning and development of amusement products, and other activities</li></ul>
<b>Others</b>	<ul style="list-style-type: none"><li>• Repair and supports for electronics equipment, manufacture and sales of amusement equipment, and wholesale/retail of sports goods, etc.)</li></ul>

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



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Ratio : After calculation in yen units, Round down one digit of Display unit.