

# Consolidated Financial Results for the Fiscal Year ended March 2018

May 24, 2018

KAGA ELECTRONICS CO., LTD.

TSE 1st section 8154

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.

1. FY2018/3 Summary and FY2019/3 Outlook
2. Medium-Term Management Plan Progress
3. FY2018/3 Full-Year Financial Results

# Today's Main Topics

## Results for FY2018/3

- Net sales and operating income – exceeded the plan in all phases of profit
  - Ordinary income posted record high for the first time in 13 years
  - Year-on-year increase achieved in both net sales and incomes
- Net profit declined, reflecting previous year's special factor related to tax effect

## Forecast for FY2019/3

- A reasonable forecast is difficult to calculate at this time – yet the Company will aim to achieve the numerical targets\* set out for the final fiscal year of the Medium-term Management Plan.

\* Medium-term Management Plan Numerical Targets:

Net sales ¥290 billion, Ordinary income ¥10 billion, ROE 8% or higher

## Perception of Business Environment

- Electronic components: growth of demand is expected notably in the EMS business, but tight supply of electronic parts and materials looms
- Information equipment: housing facility related large-lot demand to slow down after the previous year

## Shareholder Returns

- FY2018/3 results : annual dividend of 70 yen per share, dividend increase for 5 consecutive years
- FY2019/3 plan: annual dividend of 70 yen  
(interim dividend of 30 yen, year-end dividend of 40 yen)

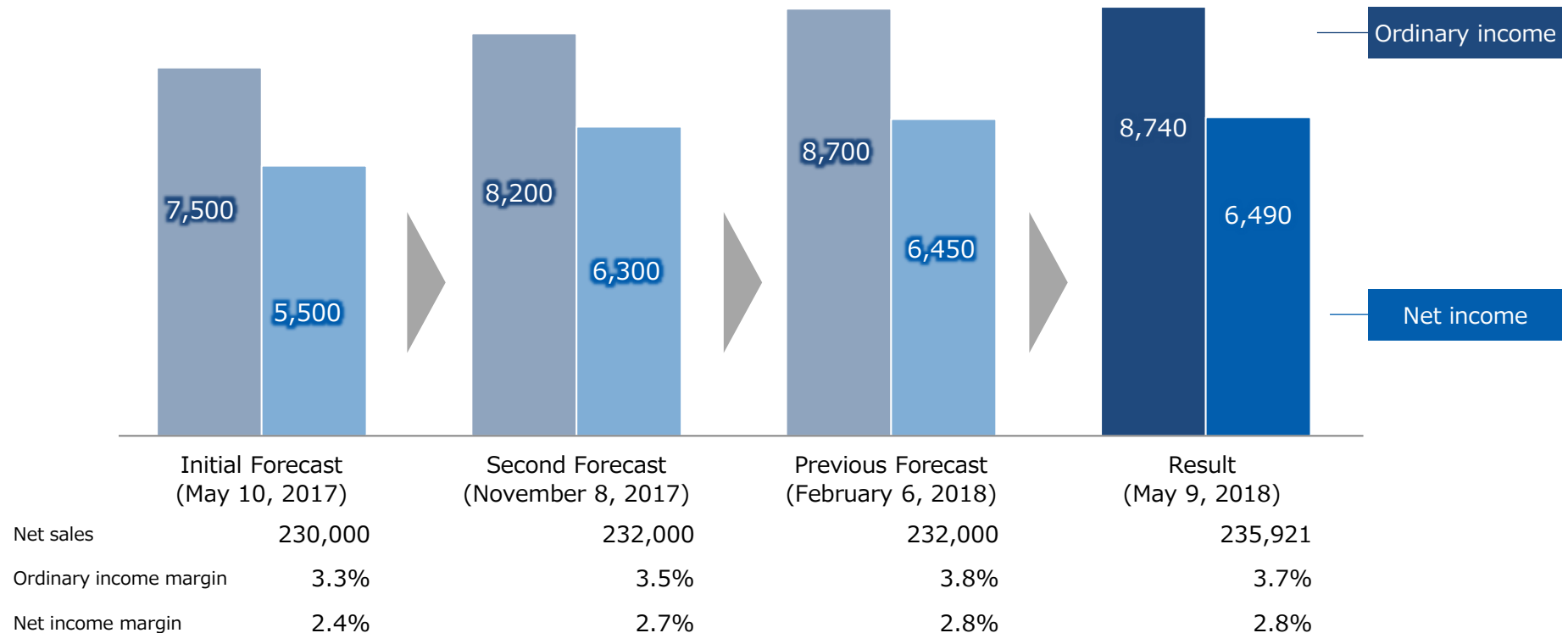
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# Results for the FY2018/3

## Summary

- **Two upward revisions were made during the term, and the plan was exceeded** in all measures from Net sales to net income
- Shrinkage in leisure devices was more intense than expected, but **recovery was made in the EMS business, housing, and commercial facilities**
- The profit rate exceeded initial expectations and there was a **response to the “profit-first management”**

(Unit: Million yen)



# Outlook for the FY2019/3

## Environmental Awareness

- The **environment for orders** in the main **electronic components business will be good**
- The EMS business will acquire new projects in conjunction with the expansion of overseas sites



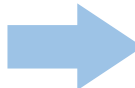
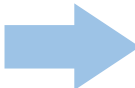




## Risk Awareness

- **Supply of semiconductors cannot keep up with demand, and there is tight supply for some materials**
- Timing mismatches because of changes in customer requests (advances and postponements)

## Earnings Forecasts

- There are many uncertain elements, and earnings forecasts are not disclosed at this time.
- However, the **entire Group will work together to achieve targets in the final year of the Medium-term management plan**

# Awareness of the Environment During the FY2019 and Issues to be Addressed

Awareness of the Environment ▶ Issues to be Addressed		Direction of Performance	
		Net Sales	Segment Income
Electronic Components Business	<ul style="list-style-type: none"> <li>Orders are firm both in the EMS business and parts sales business</li> <li>On the supply side, production cannot keep up with semiconductor demand, and there are concerns regarding tight supplies of some materials</li> </ul> <p>▶ <b>Reinforce measures in automotive, air conditioning, healthcare, and other priority fields</b></p>		
Information Equipment Business	<ul style="list-style-type: none"> <li>In consumer electronics, large-scale demand for household equipment has slumped</li> </ul> <p>▶ <b>Focus on large commercial facilities and energy-saving equipment for convenience stores</b></p>		
Software Business	<ul style="list-style-type: none"> <li>Demand in the amusement related market will remain weak</li> </ul> <p>▶ <b>Accelerate measures in new fields such as VR and AR</b></p>		
Other Business	<ul style="list-style-type: none"> <li>Demand for repair, service, reuse, and recycling is increasing</li> </ul> <p>▶ <b>Reinforce capacity for environmentally-conscious business including repair and reuse</b></p>		



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# Framework of the Medium-Term Management Plan

## Basic Policies

- (1) Reinforce profit foundations
- (2) Create new business
- (3) Reinforce management foundations

## Management Target (FY Ending March 2019)

Sales ..... ¥290 billion

Ordinary income... ¥10 billion

ROE ..... 8% or higher

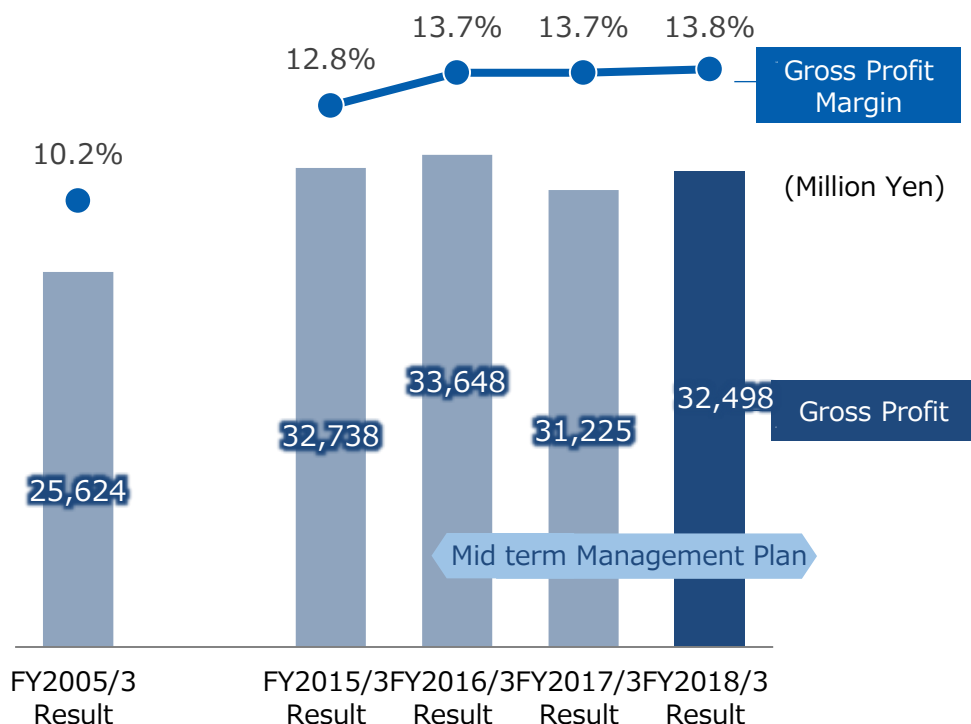
## Medium- to Long-Term Vision

- Establish **management that prioritizes profits**
- Prepare for a major advance as “**next-generation Kaga Electronics**”
- Become **No. 1 in Japanese industry** and aim for continuous growth as **a company that can do business globally**

# Summary of the Fiscal Year Ended March 2018: Improvement in Profitability

## Changes in Gross Profit Margin

- The ratio of gross profit to sales improved by 3 points compared to the FY2005/3 (record high recurring income).
- The medium-term target is 14% - 15%.



## Measures to Increase Added Value

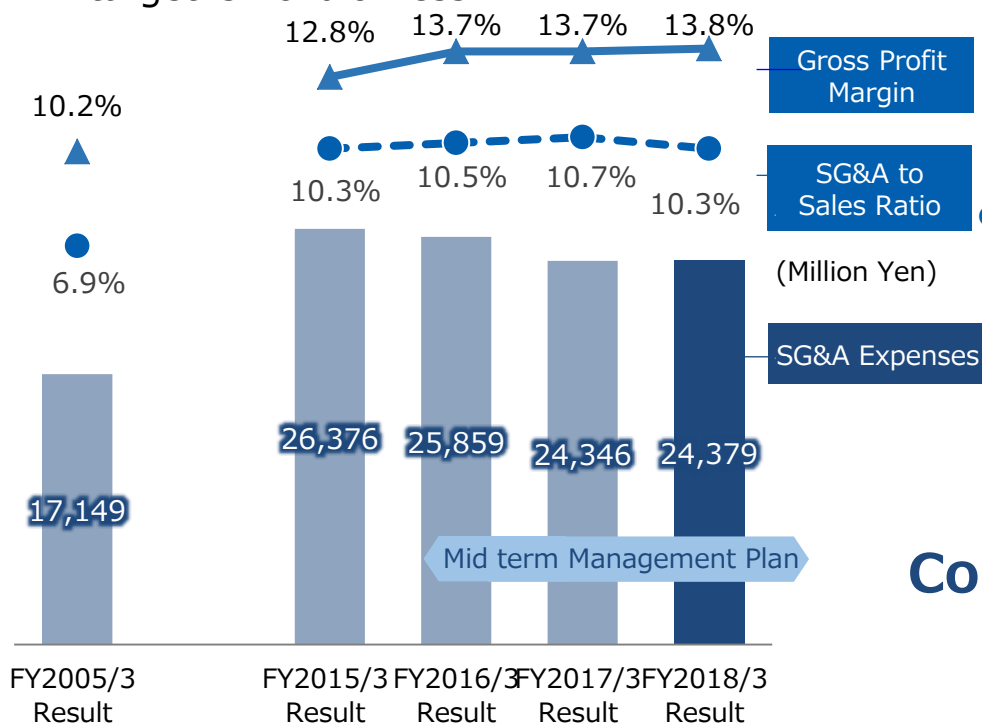
- Expansion of EMS business
  - Increase profitability by expanding added value business
- Reduce ratio of amusement equipment
  - Market demand has been shrinking due to regulation changes
- Large commercial facilities and energy-saving equipment for convenience stores
  - Increase value-added type business such as energy-saving equipment

**Aim to be a “Company that Definitely Generates Profit”**

# Summary of the Fiscal Year Ended March 2018: Improvement in Profitability

## Changes in SG&A to Sales Ratio

- In the past three years both amounts and ratios have been controlled
- However, the absolute value has increased compared to FY2005/3. The medium-term target is 10% or less.



## Progress in Structural Reforms

- January 2016: Information equipment business reorganized
  - Kaga Solution Network, Kaga High Tech, and Kaga Educational Marketing merged
- October 2017: Share transfer of board development company
  - 51% of the Sicoxs shares, which develops SiC boards, were transferred to Sumitomo Metal Mining, and a joint venture company was established
- January 2018: Domestic manufacturing subsidiaries reorganized
  - Kaga Micro Solution and Kaga Component integrated

**Reorganization and Consolidation of Group Companies is Generally Completed**

# Status of Progress of “Five Keywords” in the Group Growth Strategy

	Priority Themes	Main Results	Progress Evaluation
EMS Business	<ul style="list-style-type: none"> <li>Expand overseas sites to increase the scale of business</li> </ul>	<ul style="list-style-type: none"> <li>Started business in Vietnam, Mexico, and Turkey</li> <li>Started activities to obtain orders in India</li> </ul>	◎
Automotive	<ul style="list-style-type: none"> <li>Respond to new ADAS and DMS technologies</li> <li>Respond to the shift to hybrid and electric vehicles</li> </ul>	<ul style="list-style-type: none"> <li>Firm sales to Tier 1 clients in existing business</li> <li>New development of current sensor made by IH in Germany</li> <li>Firm sales of communications modules for Internet compatible automobile navigation systems</li> </ul>	○
Telecom-munications (the IoT)	<ul style="list-style-type: none"> <li>Develop the LPWA market and create cloud business using AI</li> </ul>	<ul style="list-style-type: none"> <li>Development of module device vendors and new customers in the LPWA market</li> </ul>	○
M&A	<ul style="list-style-type: none"> <li>Reinforce management foundations and profit foundations while monitoring industry reorganization</li> </ul>	<ul style="list-style-type: none"> <li>Updated ERP systems to reinforce global management foundations</li> </ul>	○
investment in ventures	<ul style="list-style-type: none"> <li>Start investment activity targeting venture companies and businesses using ¥5 billion over three years</li> </ul>	<ul style="list-style-type: none"> <li>Invested approximately ¥1 billion in 17 companies</li> </ul>	○

# <Topic (1)> Overseas Development of EMS Business

## Expansion of Overseas Sites

- Mexico site established in September 2016
  - TAXAN MEXICO S.A. de C.V.
  - Operation started in January 2018
- Vietnam site established in July 2017
  - KAGA ELECTRONICS (VIETNAM) CO., LTD.
  - Operation started in March 2018
- Turkey site established in December 2017
  - KD TEC Turkey
  - Operation will start in October 2018

### <Future Plans>

- 2018      Establishment of a site in India

**Phase 1 of Global Site  
Development Completed**

## Opening Ceremony for Mexico Site



TAXAN MEXICO S.A. de C.V. (Mexico Plant)

# <Topic (2)> Update of ERP (backbone business systems)

## Background & Developments

- Until now, the proprietary system for scratch development was operated on-site
- In anticipation of future growth, development of a system that can **withstand operations in the trillion Yen class** is a pressing issue

## Objectives and Aims

- In conjunction with the development and expansion of overseas EMS business, **reinforce global management foundations**
- Promote **cost reductions through operational reforms** including standardization of operations and high efficiency

## Introduced Systems

- Introduce **SAP S/4HANA** and build cloud-based IT infrastructure
- Evaluate introduction results by global companies and the level of package completeness

## Future Schedule

- April 2018: Launch introduction project
- April 2020: Begin operations at Kaga Electronics and some domestic subsidiaries (Subsequently deploy to domestic and overseas group companies in stages)

## <Topic (3)> Investment in Ventures

- Fund to invest **¥5 billion** in venture companies/businesses for **three years** started from FY2018/3 on the occasion of our 50th anniversary.
- Aim at achieving **sustainable growth of the Group** through discovery of venture companies broadly and create new innovation in **priority markets including automotive devices, environment, and communication equipment, etc.** set forth in “Medium-term Management Plan 2018” and **new business areas such as medical/healthcare, etc.**

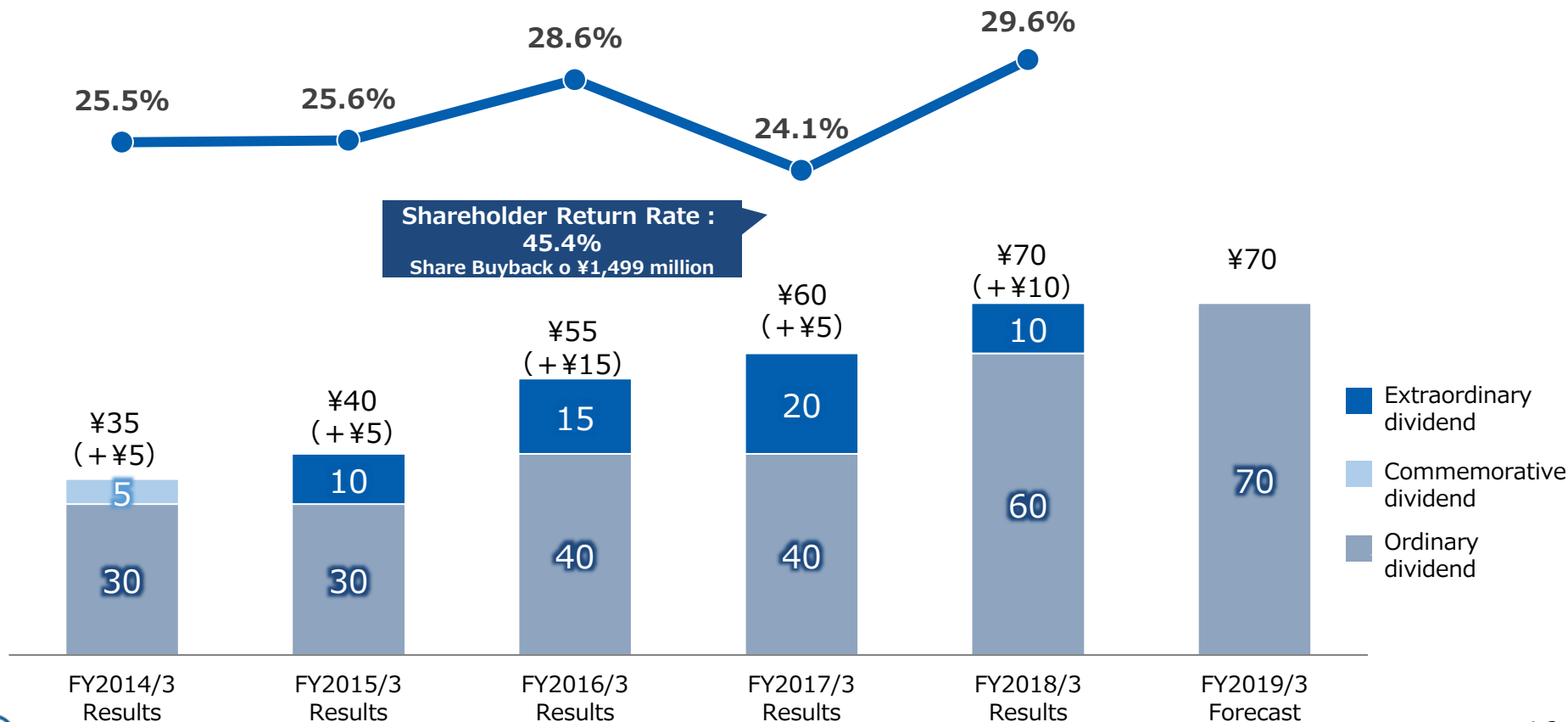
Investees	Business domains			Business description
cado Co., Ltd.	Environ- ment			• Development, manufacture, and sales of air purifier and humidifier, etc.
PicoCELA Inc.	Telecom- munication (IoT)			• Development of multi-hop wireless communication technology
mama square Co., Ltd.	Amusement	New area		• Operation of working space with nursery service
SKYROBOT Inc.	Telecom- munication (IoT)	Automotive devices	New area	• Development of industrial drone-related business
BONX Inc.	Telecom- munication (IoT)			• Development of wearable/telecommunication devices



# Shareholder Returns

## 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



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# Financial Highlights

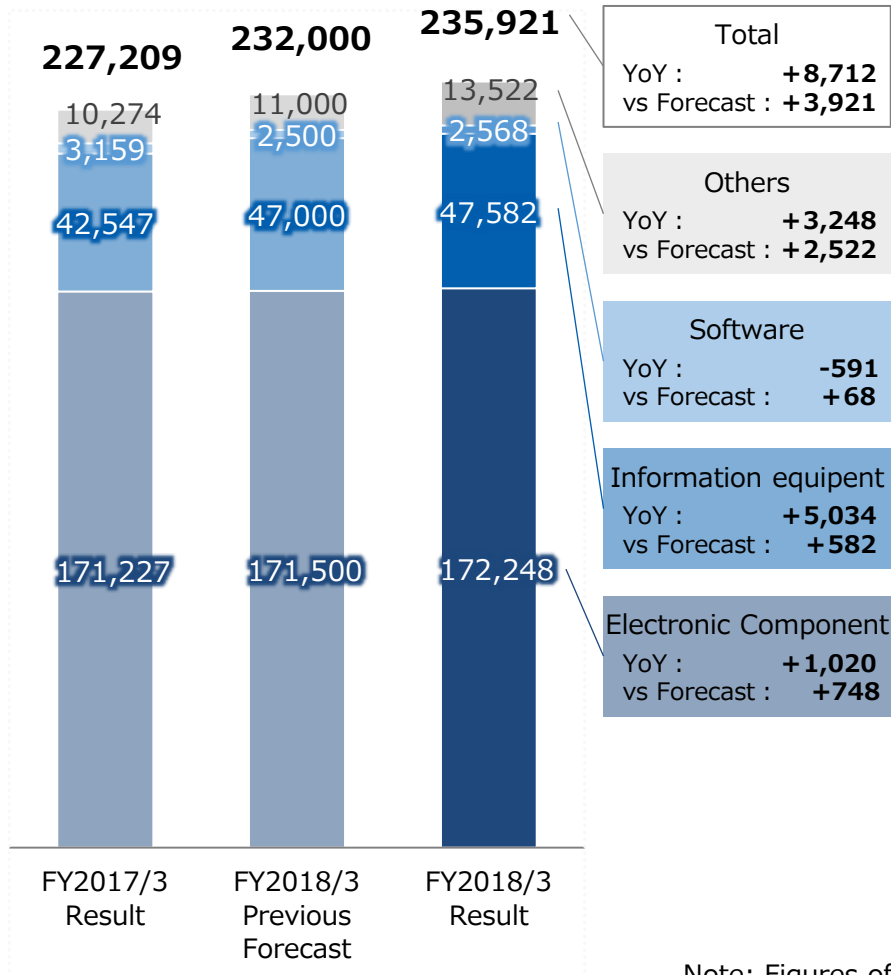
(Million Yen)

	FY2017/3	FY2018/3	FY2018/3		
	Results	Previous Forecasts	Results	YoY	vs Forecasts
Net sales	227,209	232,000	235,921	8,712	3,921
Gross profit	31,225	32,250	32,498	1,273	2,348
Gross profit margin	13.7%	13.9%	13.8%		
SG&A	24,346	24,250	24,379	32	129
Operating income	6,879	8,000	8,119	1,240	119
Ordinary income	7,343	8,700	8,740	1,397	40
Profit attributable to owners of parent	6,975	6,450	6,490	-485	40
EPS (Yen)	249.43	235.10	236.58	-12.85	1.48

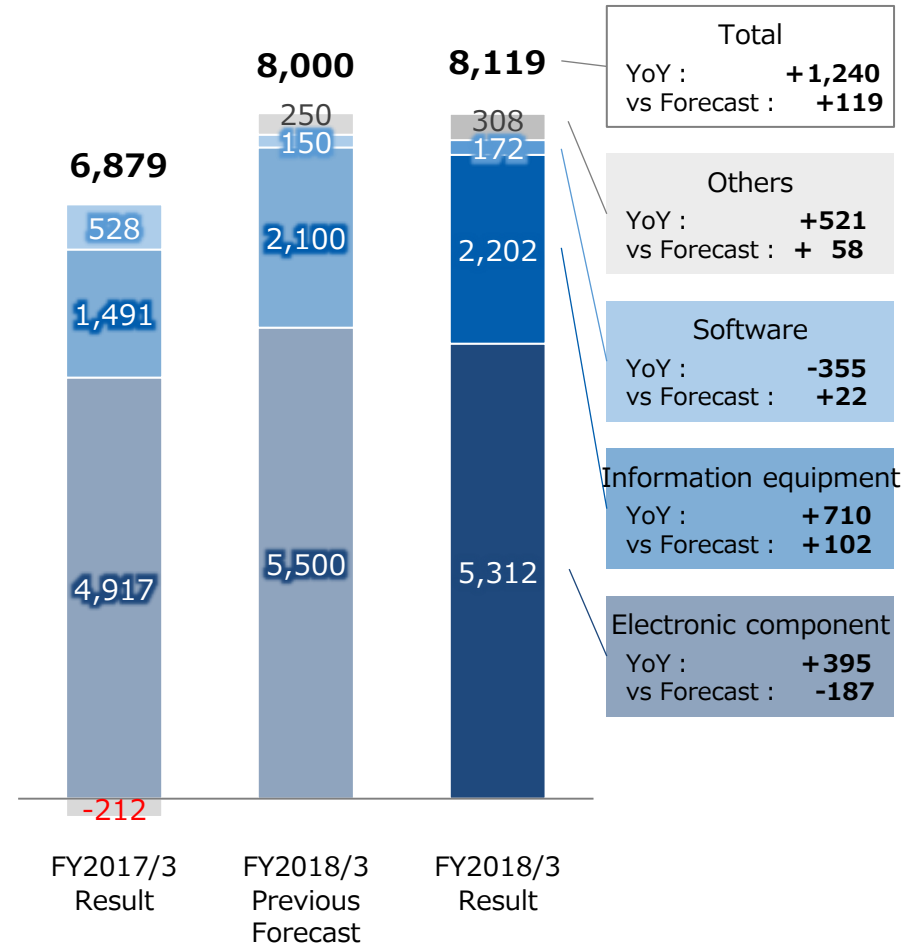
# Financial Highlights by Business Segment

(Million Yen)

## Net Sales



## Segment Income

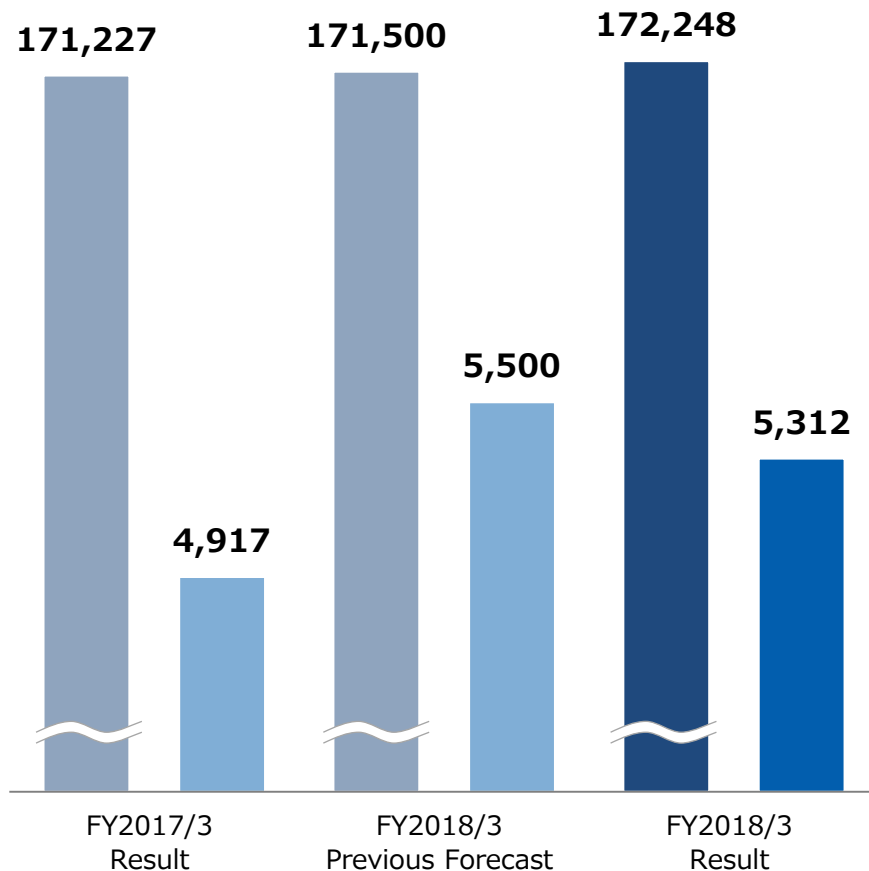


Note: Figures of each segment income are not inter-segment adjusted.  
Total amount is inter-segment adjusted (operating income).

# Financial Highlights: Electronic Component Segment

(Million Yen)

## Net sales/Segment income



## YoY

- Net sales ▶ **+1,020** million Yen **0.6%up**
- Segment Income ▶ **+395** million Yen **8.0%up**

## vs Forecast

- Net sales ▶ **+748** million Yen **0.4%up**
- Segment Income ▶ **-187** million Yen **3.4%down**

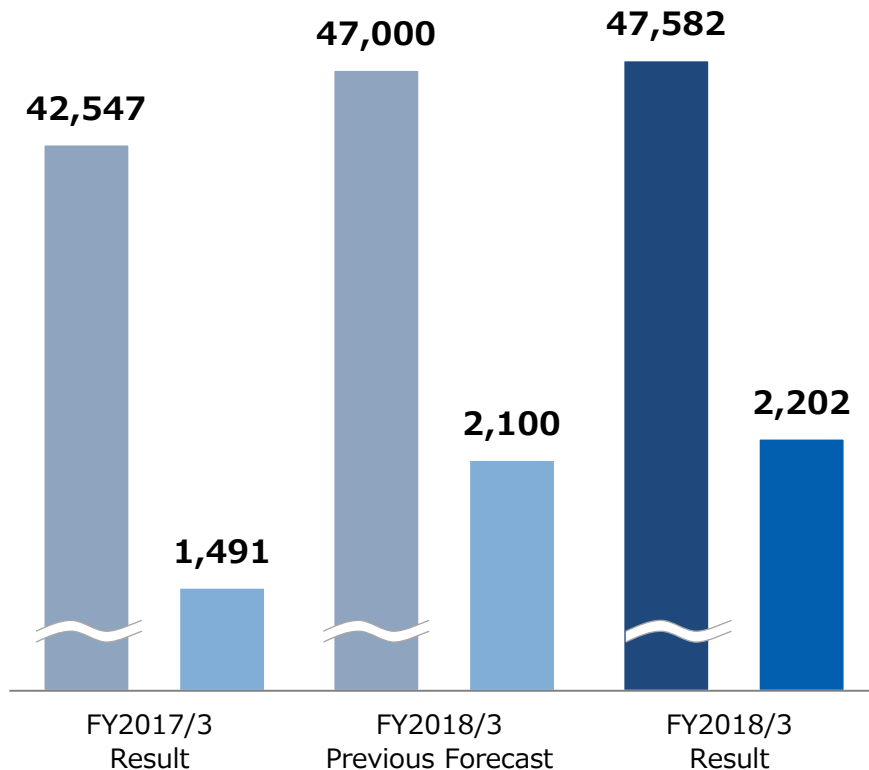
While amusement machine-related business was sluggish, EMS business for industrial equipment, medical equipment, and office equipment showed favorable growth.



# Financial Highlights: Information Equipment Segment

(Million Yen)

## Net sales/Segment income



## YoY

- Net sales ▶ **+5,034** million Yen **11.8%up**
- Segment Income ▶ **+710** million Yen **47.7%up**

## vs Forecast

- Net sales ▶ **+582** million Yen **1.2%up**
- Segment Income ▶ **+102** million Yen **4.9%up**

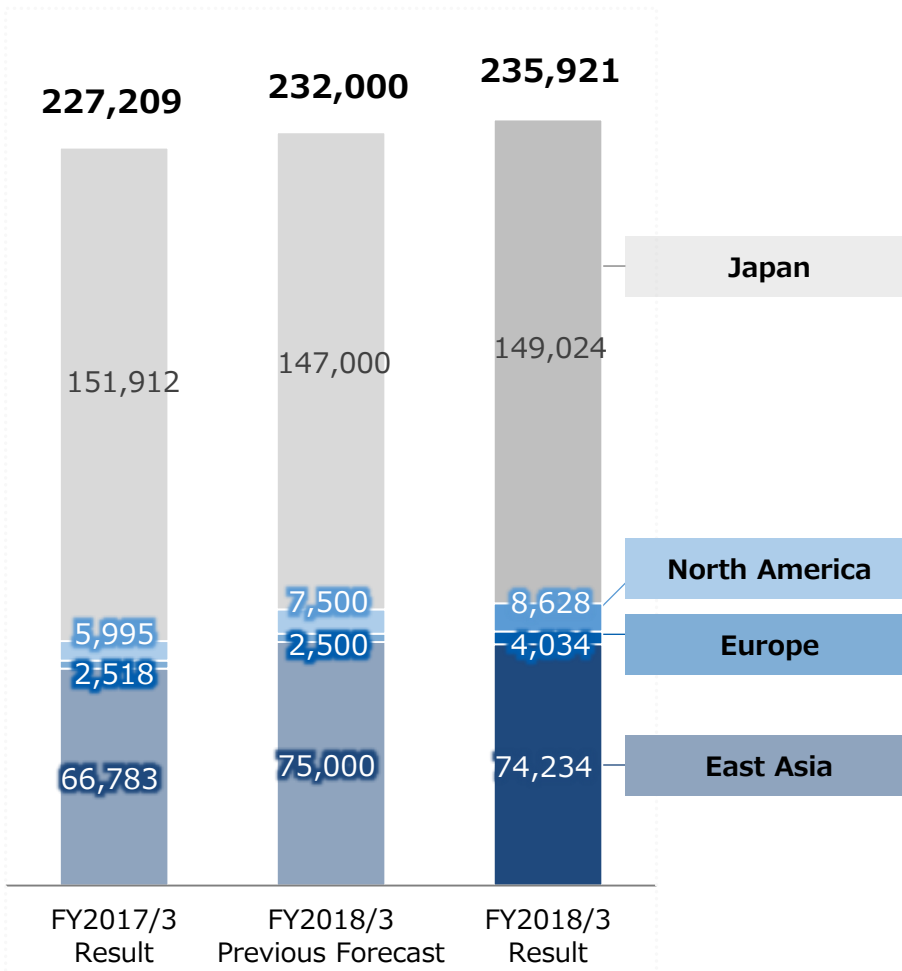
Housing-related and commercial facility-related products showed favorable growth.  
PC sales were also solid despite severe market environment.



# Net Sales by Region

(Million Yen)

## Net sales



## YoY

- Japan ▶ **-2,887** million Yen **1.9%down**
- North America ▶ **+2,633** million Yen **43.9%up**
- Europe ▶ **+1,515** million Yen **60.2%up**
- East Asia ▶ **+7,451** million Yen **11.2%up**

## vs Forecast

- Japan ▶ **+2,024** million Yen **1.4%up**
- North America ▶ **+1,128** million Yen **15.1%up**
- Europe ▶ **+1,534** million Yen **61.4%up**
- East Asia ▶ **-765** million Yen **1.0%down**

Japan: Amusement machine-related business was sluggish.

Overseas: Every region showed solid growth.

# Exchange Rate/FOREX Sensitivity

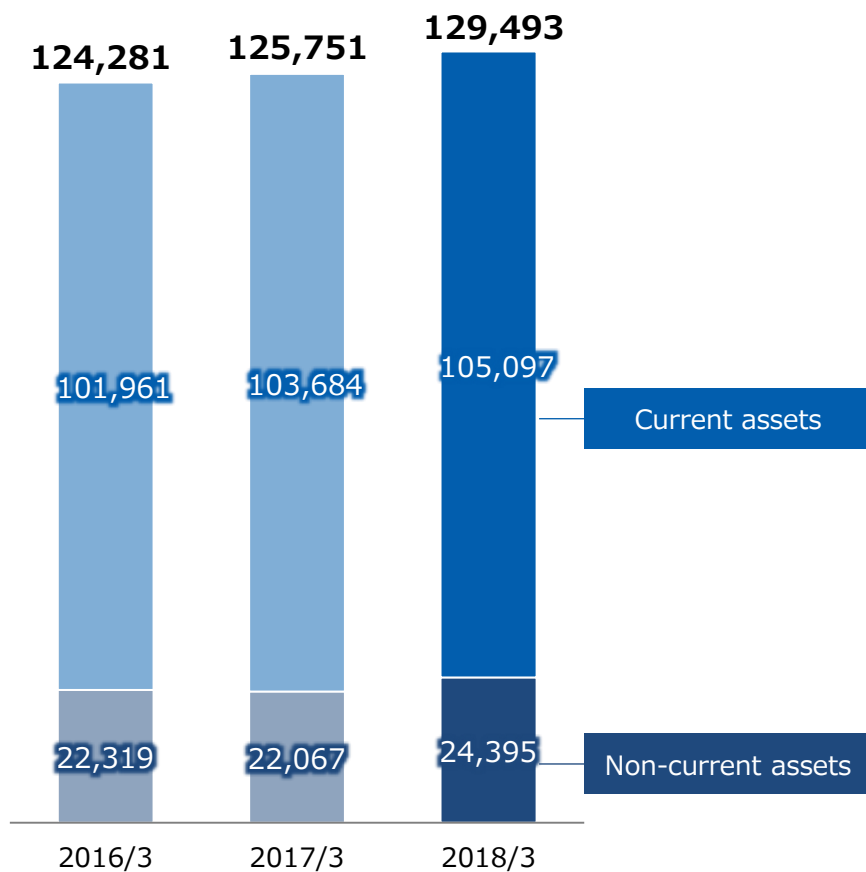
	FY2017/3 Result (Yen)	FY2018/3 Result (Yen)	(Reference) Effect of 1-Yen change (Million Yen)	
			Net sales	Ordinary income
USD	108.38	110.85	476	24
THB	3.08	3.36	6,098	343
RMB	16.37	16.63	856	61
HKD	13.97	14.20	1,246	37



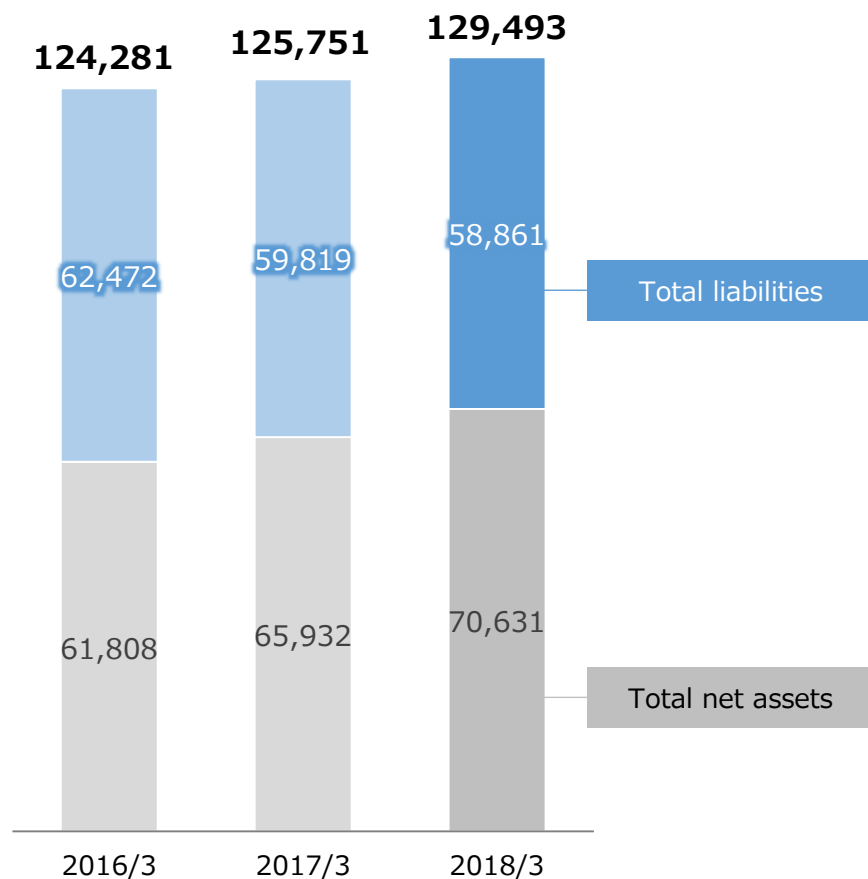
# Statements of Financial Position

(Million Yen)

## Total assets



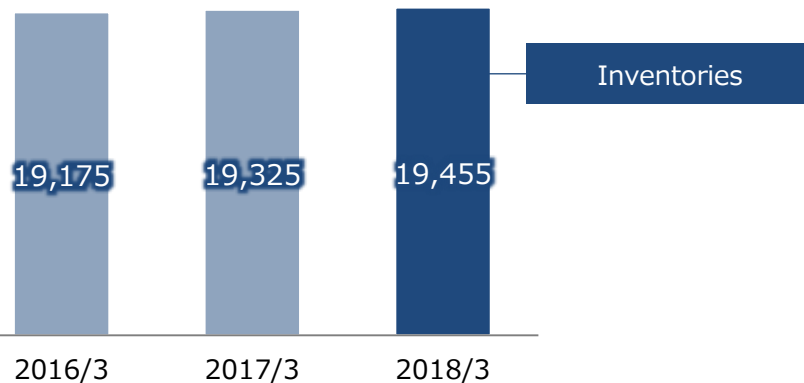
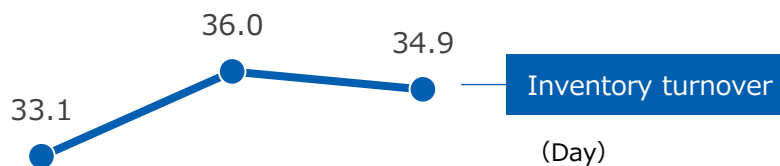
## Total liabilities and net assets



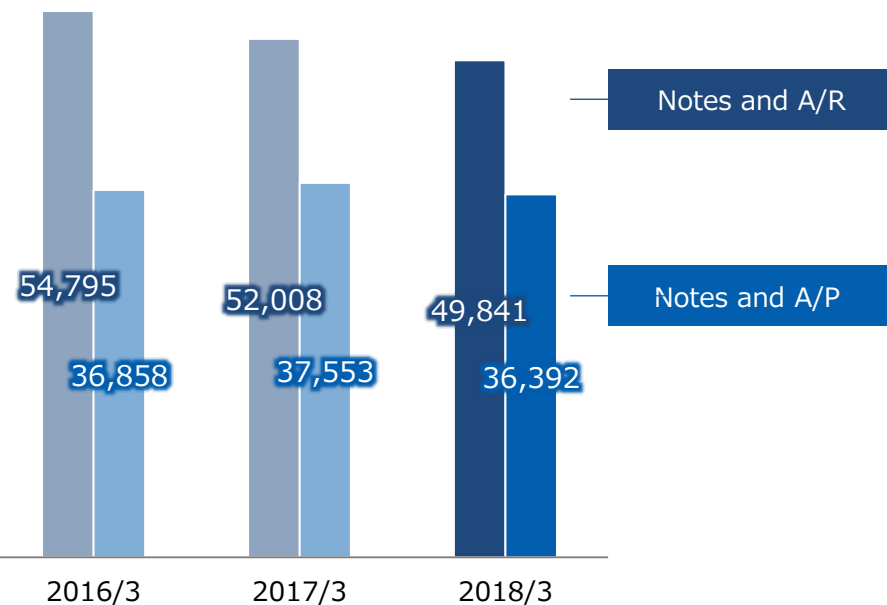
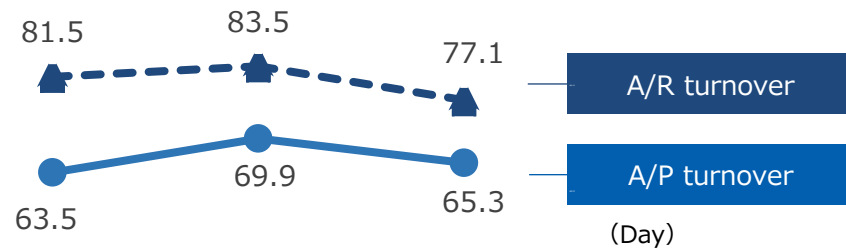
# Statements of Financial Position

(Million Yen)

## Inventories



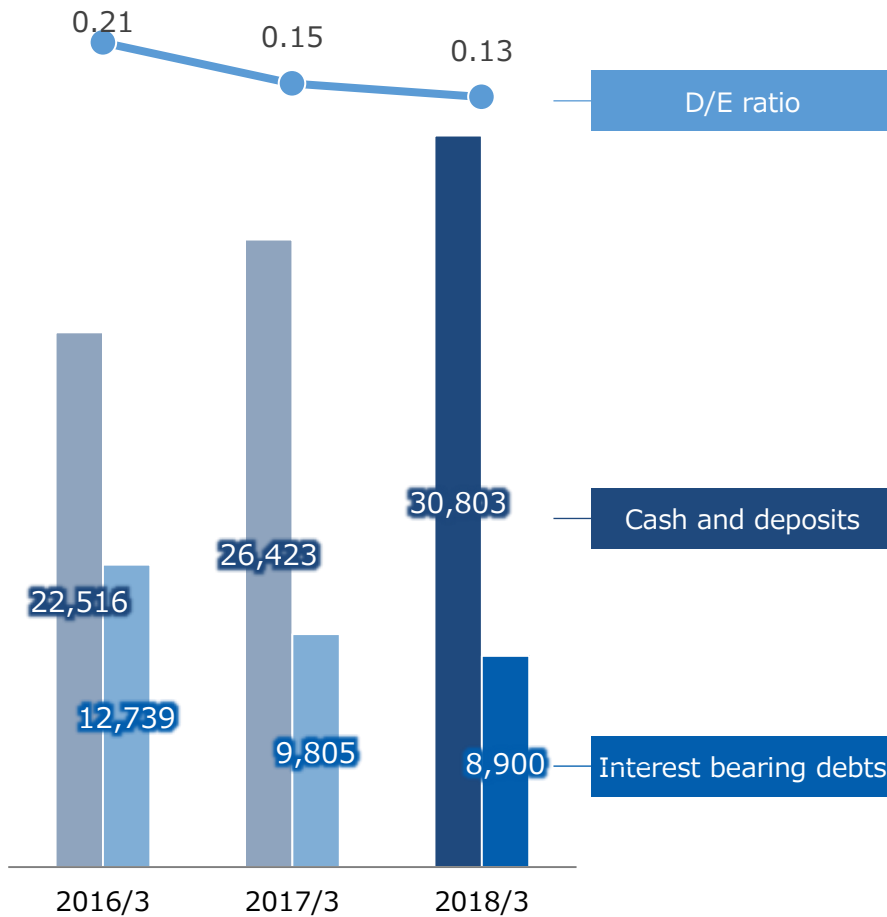
## Accounts receivable/Accounts payable



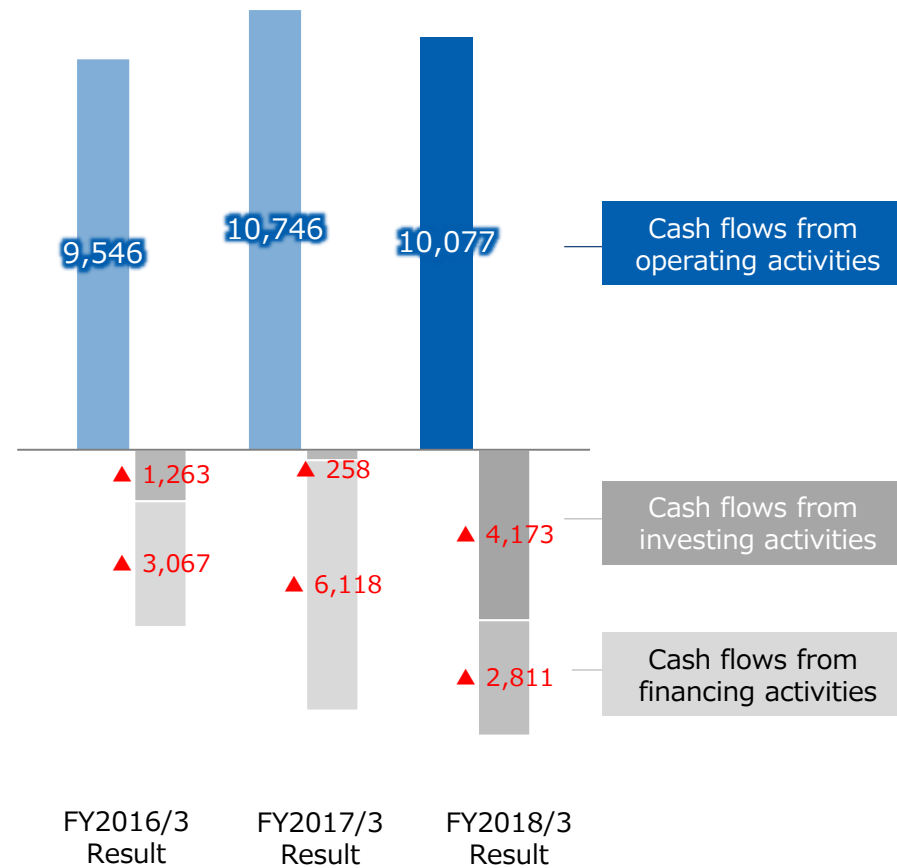
# Cash and Deposits/Interest Bearing Debt/Cash Flows

(Million Yen)

## Cash and deposits



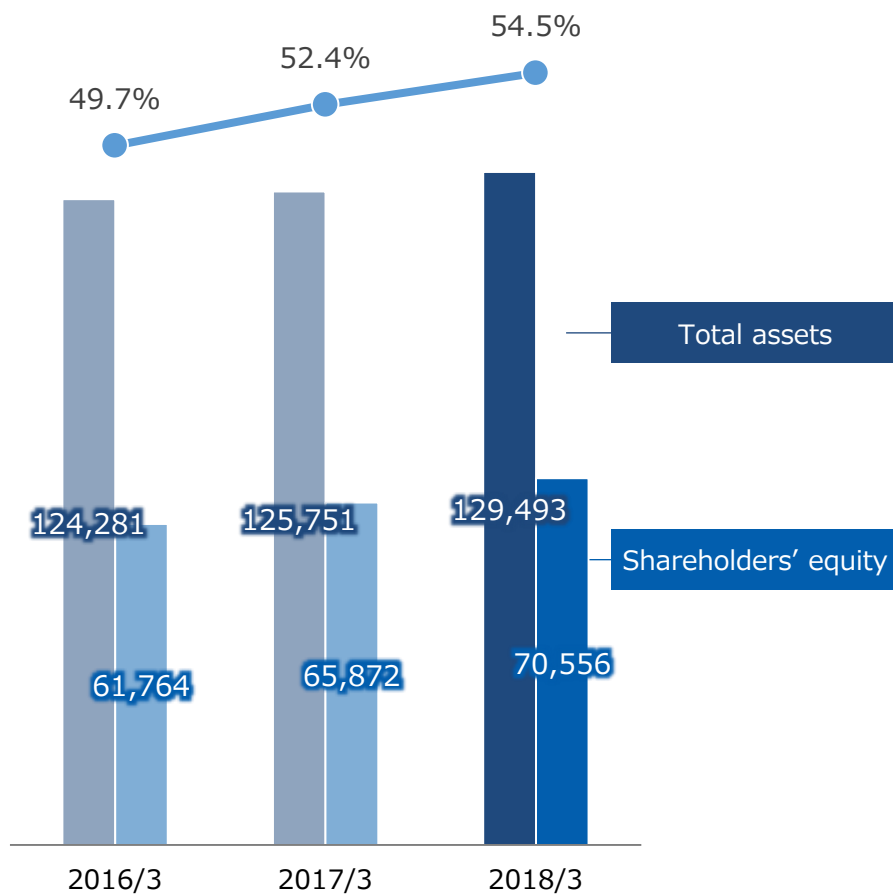
## Cash flows



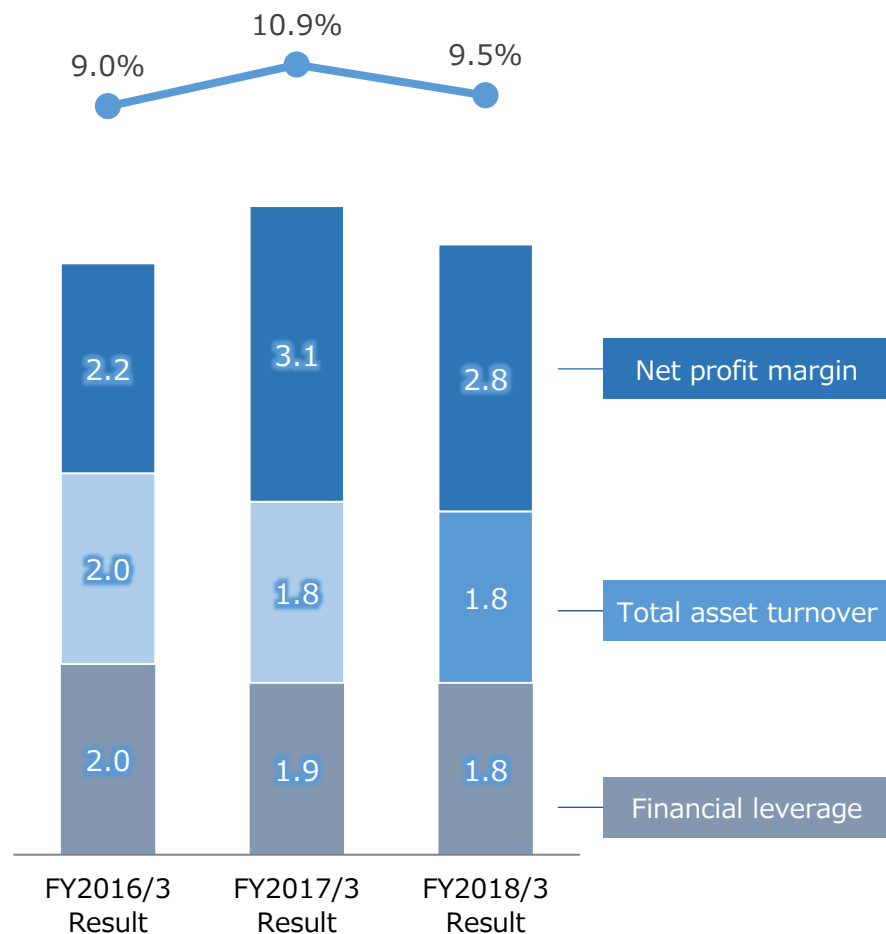
# Major Business Indicators

(Million Yen)

## Equity ratio

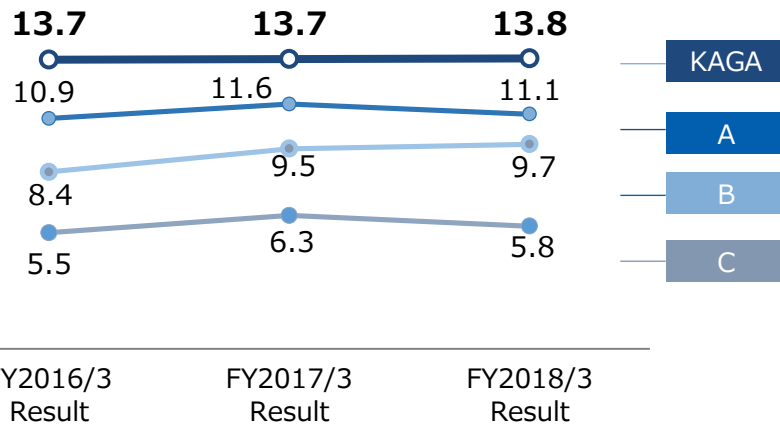


## ROE



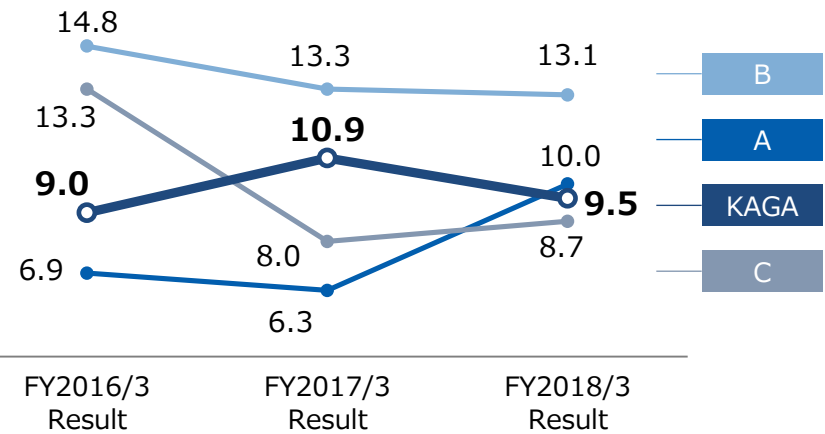
# (Reference) Comparison with Competitors

## Gross profit margin

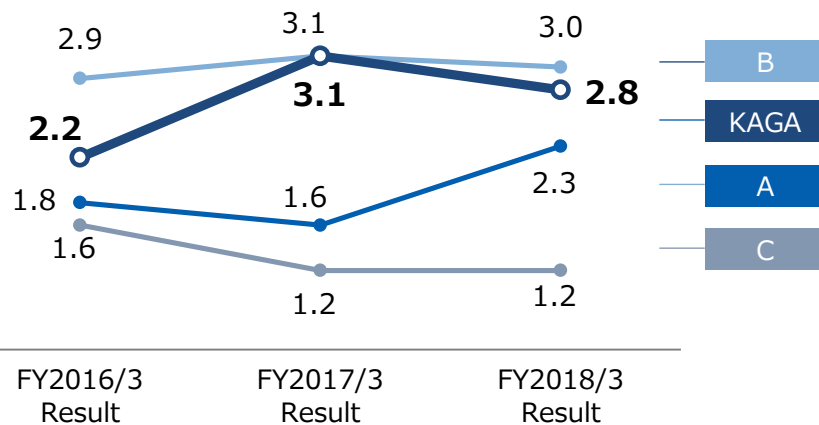


## ROE

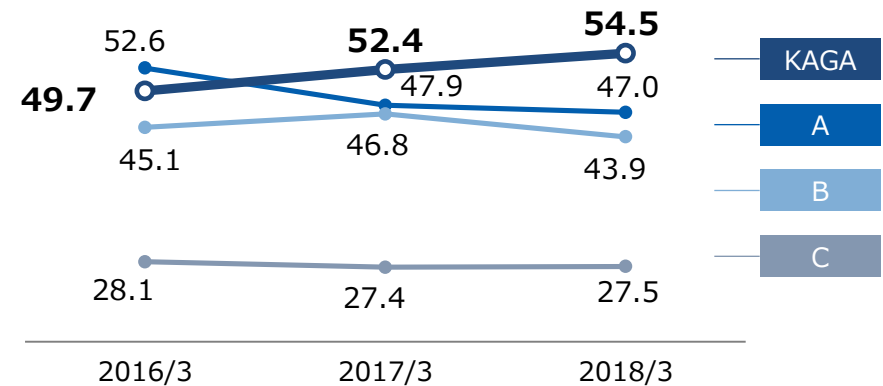
(%)



## Net income margin



## Equity ratio



# Future IR Schedule

## Relating to Short-Term Results

- Those items relating to the forecast of results in the fiscal year ending March 2019 that have not been released will be released when reasonable forecasts become possible
- ▶ It is expected that a forecast will be released at the **announcement of results for the first two quarters of this fiscal year**

## Relating to Medium- to Long-Term Results

- Start formulating the next medium-term management plan in anticipation of continued growth in Group results
- ▶ Expected to be **announced around this autumn**

## (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>

## (Reference) Glossary

<b>EMS</b> (Electronics Manufacturing Service)	<ul style="list-style-type: none"><li>• Provide high-volume lot production based on an agreement with customers, in contrast to simple subcontract services</li><li>• The Company excels in offering one-stop service to customers by getting involved in processes including design, components procurement, sales, and support in addition to manufacturing.</li></ul>
<b>AR</b> (Augmented Reality)	<ul style="list-style-type: none"><li>• Technology which augments a reality environment perceived by human using computers. Also refers to the computer-augmented reality environment itself</li></ul>
<b>VR</b> (Virtual Reality)	<ul style="list-style-type: none"><li>• Technology which scientifically generates an environment that is not real or original but essentially functions in the same way, by stimulating human senses including users' five senses</li></ul>
<b>ADAS</b> (Advanced Driver-Assistance Systems)	<ul style="list-style-type: none"><li>• Systems developed to automate, adjust, and enhance the vehicle systems for safe and better driving</li></ul>
<b>DMS</b> (Driver Monitor System)	<ul style="list-style-type: none"><li>• Driver support system for safe and comfortable driving. It consists of sensor, image/signal processing and indicator.</li></ul>
<b>LPWA</b> (Low Power Wide Area)	<ul style="list-style-type: none"><li>• Wireless communication technology with lower power consumption that enables long-distance telecommunication in relatively wider area with one base station</li><li>• It is expected to be customized for IoT (all things are connected to the Internet) and M2M (direct communication between devices via the Internet).</li></ul>



# “Everything we do is for our customers”



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