

For Institutional Investors/Analysts



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

November 29, 2018
KAGA ELECTRONICS CO., LTD.

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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

My name is Eiji Kawamura, and I am Managing Director of Kaga Electronics. We appreciate your ongoing support and thank you for attending today's briefing session despite your busy schedules.

I will now go over our consolidated financial results for the first half of the fiscal year ending March 2019.

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 fourth 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.

Shareholder return

- **Commemorative dividend (dividend increase) to be paid**, in celebration of the 50th anniversary.
- Interim dividend of ¥35 per share, consisting of ordinary dividend of ¥30 and commemorative dividend of ¥5.

As for the summary of financial results of Kaga Electronics for the second quarter ended September 30, 2018, our net sales at 115.3 billion yen were by and large the same level year-on-year, driven by our EMS business. Meanwhile, although operating income and net profit both declined, we had already factored in those decreases at the beginning of the period. As President Ryoichi Kado previously explained, the decreases were primarily caused by production adjustments resulting from model switching at major customers in the EMS business, and upfront expenses of new overseas factory sites at their start-up phase. The decreases were also caused by one-off expenses associated with changes made this fiscal year to the directors' retirement benefits plan. Next, let's turn to the overview of our main business segments. In the electronic components business, our EMS business for medical equipment was slow, but that for automotive and air conditioning devices maintained a steady performance. Meanwhile, our components sales business remained sluggish. In the information equipment business, our PC-related business was sluggish but sales of our housing-related home electric appliances and commercial facilities-related LED installation business continued to show robust growth.

Next, let's turn to our forecasts for the fiscal year ending March 31, 2019. As was explained previously, we anticipate net sales of 290 billion yen, ordinary income of 8 billion yen, profit attributable to owners of parent of 7.3 billion yen, and ROE of 9.9%. Results of Fujitsu Electronics will be included in the consolidated accounts effective from the fourth quarter when it becomes a subsidiary of Kaga Electronics. We expect to achieve our net sales and ROE targets in the final fiscal year of our Medium-term Management Plan. Meanwhile, the 7.3 billion yen profit figure factors in 2.1 billion yen in negative goodwill related to the acquisition of Fujitsu Electronics. We aim to achieve the 7.3 billion yen profit figure, and in so doing will attain a new record high for the first time in fourteen years.

As for shareholder returns, we will pay a commemorative dividend of five yen per share in celebration of our 50th anniversary this year. Our total interim dividend will amount to 35 yen per share.

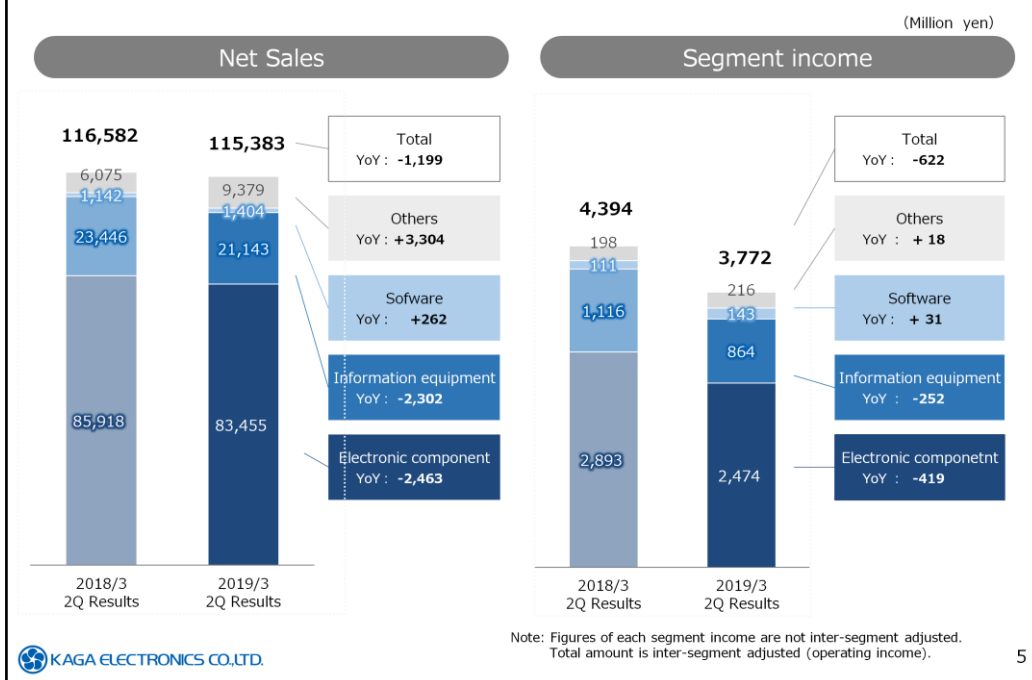
Financial Highlights

(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

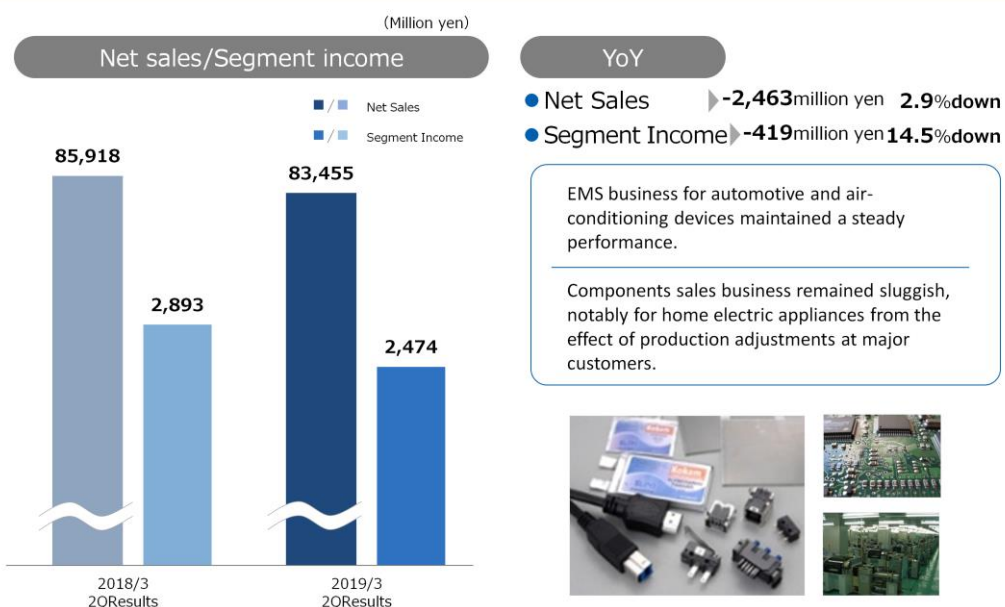
Next, let's turn to the company's financial highlights. The net sales figure shown on this income statement is as previously mentioned. Gross profit amounts to 16,023 million yen for a year-on-year decrease of 195 million yen. Meanwhile, the gross profit margin has remained unchanged at 13.9%. Operating income decreased by 622 million yen to 3,772 million yen, amid a 427 million yen increase in SG&A expenses. Ordinary income decreased by roughly the same amount to 4,049 million yen, and profit attributable to owners of parent decreased by 766 million yen to 2,750 million yen. As such, profit attributable to owners of parent decreased by a wide margin relative to the decreases in operating income and ordinary income. This outcome is largely attributable to a situation where we are once again subject to standard tax rates this fiscal year, after having benefited from tax effects up until the previous fiscal year, partially as a result of having carried out restructuring with respect to an unprofitable subsidiary.

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



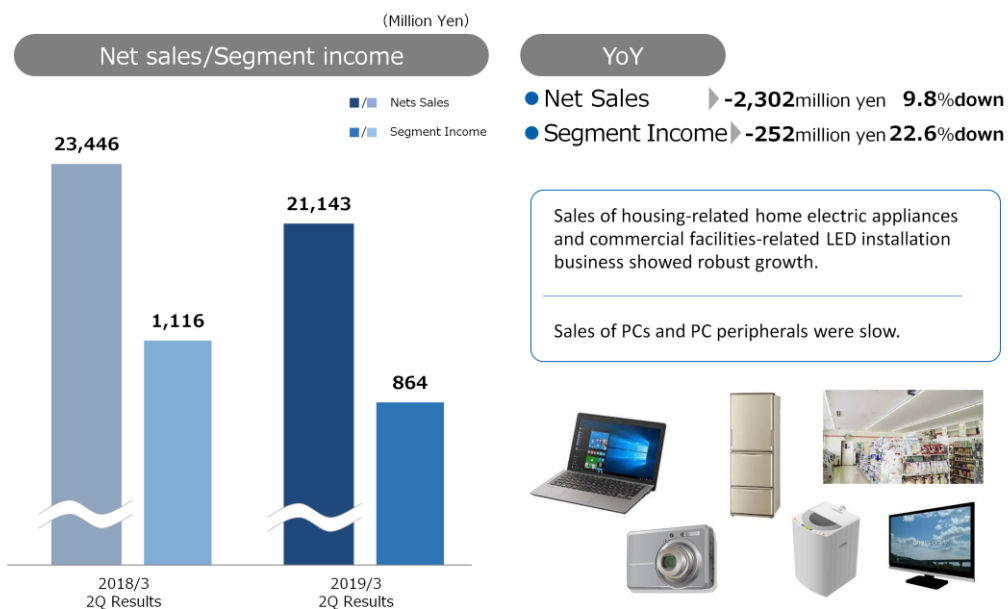
Next, let's turn to the company's financial highlights in its individual business segments. Total net sales amounted to 115,383 million yen, which includes net sales of 83,455 million yen generated by the electronic components segment. That amount constitutes a decrease of 2,463 million yen. Net sales in the information equipment segment decreased by 2,302 million yen to 21,143 million yen. Total operating income amounted to 3,772 million yen, which includes an operating income of 2,474 million yen in the electronic components segment for a decrease of 419 million yen. Net sales in the information equipment segment decreased by 252 million yen to 864 million yen.

Financial Highlights: Electronic Component Segment



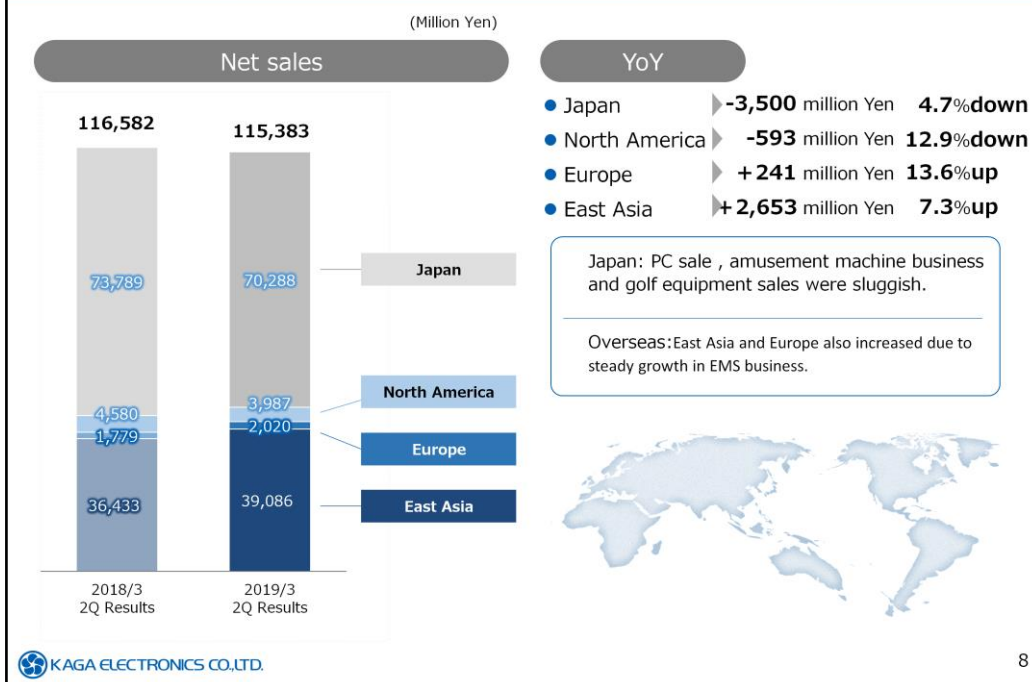
Financial highlights of the electronic components segment are shown on this slide, and those of the information equipment segment are provided on the next slide. As summarized at the outset of this presentation, the electronic components segment's EMS business generated favorable results, but component sales were sluggish.

Financial Highlights: Information Equipment Segment



In the information equipment segment, although sales of the housing-related home electric appliances and LED installation businesses showed robust growth, net sales and income decreased mainly because sales of PCs and other such products were slow.

Net Sales by Region

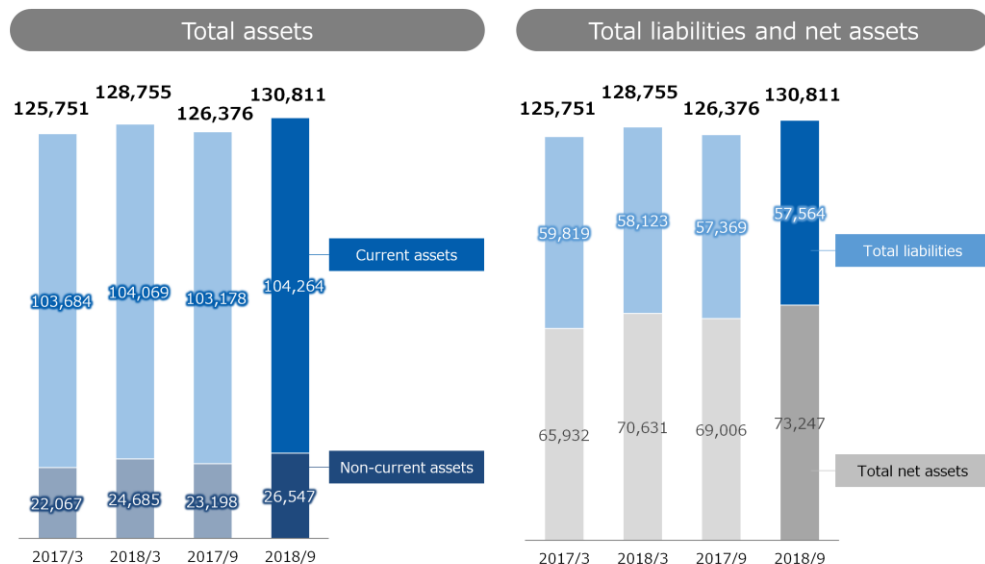


Next, let's turn to net sales by geographic region. Net sales in Japan amounted to 70,288 million yen, which is a year-on-year decrease of 3,500 million yen such, net sales decreased by 4.7%. Net sales in North America decreased by 593 million yen to 3,987 million yen.

Meanwhile, in Europe net sales increased by 241 million yen to 2,020 million yen, and in East Asia they increased by 2,653 million yen to 39,086 million yen. As a result, net sales in Japan and East Asia respectively accounted for 60.6% and 33.7% of our total net sales, meaning that those two markets constitute somewhat more than 90% of our total net sales. Those results on a percentage basis are roughly unchanged from the previous fiscal year.

Balance Sheet Main Items

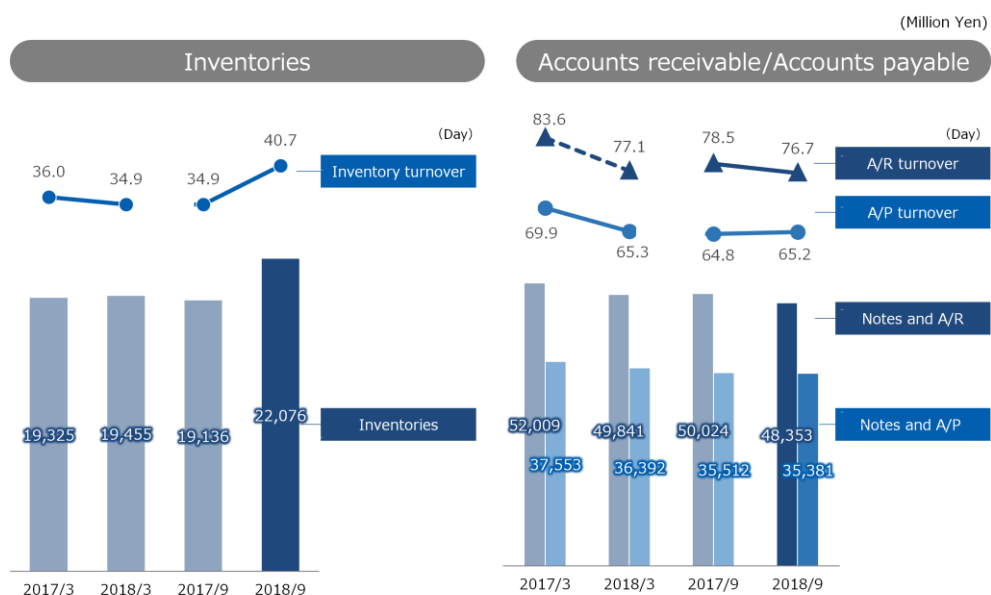
(Million Yen)



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.

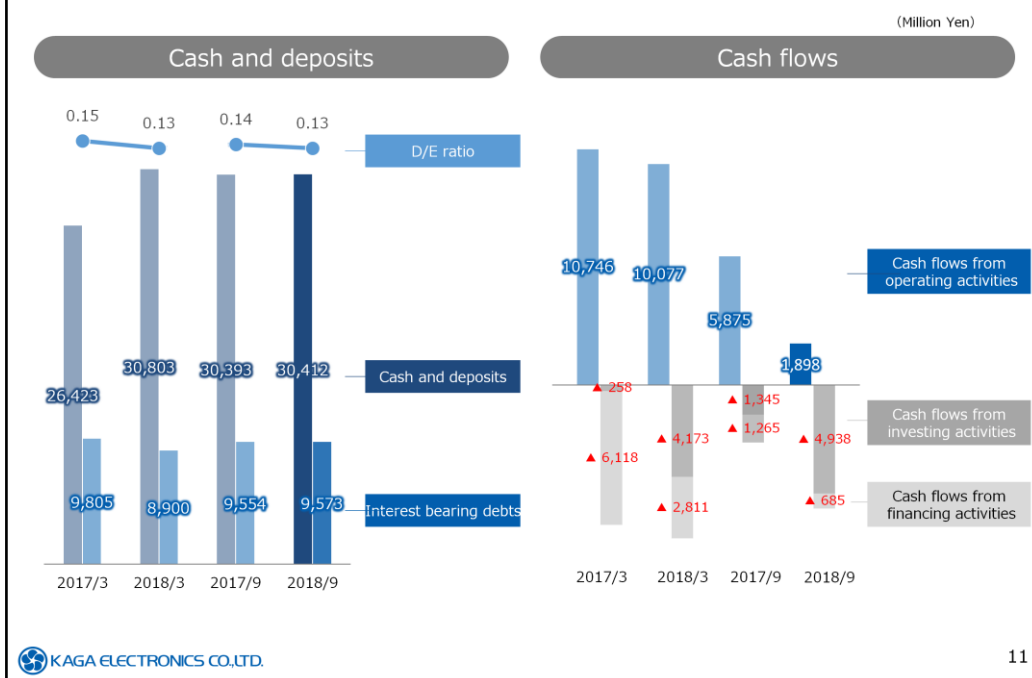
Next, we turn to the balance sheet. Net assets amount to 130,811 million yen, which is an increase of 4,435 million yen in comparison with the net asset amount as of September 30, 2017. Meanwhile, current assets increased by 1,086 million yen to 104,264 million yen, and non-current assets increased by 3,349 million yen to 26,547 million yen. As for total liabilities and net assets, total liabilities increased by 195 million yen to 57,564 million yen. Total net assets increased by 4,241 million yen to 73,247 million yen.

Balance Sheet Main Items



Turning to the main items on the balance sheet, inventories increased by 2,940 million yen to 22,076 million yen. Inventory turnover was at 40.7 days. As for accounts receivable and accounts payable, total notes and accounts receivable decreased by 1,671 million yen to 48,353 million yen. Meanwhile, total notes and accounts payable decreased by 131 million yen to 35,381 million yen. Notes payable, accounts payable, and other disbursement amounts decreased along with a decrease in accounts receivable and other such amounts. Turnover of accounts receivable amounted to 76.7 days, and turnover of accounts payable amounted to 65.2 days.

Cash and Deposits/Interest Bearing Debt/Cash Flows



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Next, let's turn to cash and deposits, interest bearing debt and cash flows. Cash and deposits amounted to 30,412 million yen, largely unchanged in comparison with the previous fiscal year. Interest bearing debt was also largely unchanged at 9,573 million yen.

As for cash flows, cash provided by operating activities was 1,898 million yen. That was mainly attributable to profit generated.

Cash used in investing activities was 4,938 million yen. Whereas that was mainly attributable to payment into time deposits, we are placing cash in time deposits amid a situation where our overseas subsidiaries maintain cash and deposit holdings. That sum constitutes the largest factor with respect to the use of cash in investing activities. Cash relating to investment is the next factor in this regard.

Cash used in financing activities was 685 million yen. That was mainly attributable to repayments of long-term loans payable and cash dividends paid.

Forecast for the Fiscal year ending march 2019

(Million Yen)

	2018/3	2019/3		
	Results	Forecasts	YoY	Medium-Term Management Plan Target
Net sales	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	-
Operating income	8,119	7,700	-419	-
Ordinary income	8,740	8,000	-740	10,000
Profit attributable to pwners of parent	6,490	7,300	810	-
EPS (Yen)	236.58	266.04	29.46	-
ROE	9.5	9.9	+0.4pt	8.0%

Finally, let's turn to our results forecasts for the fiscal year ending March 31, 2019. We anticipate net sales of 290,000 million yen, operating income of 7,700 million yen, ordinary income of 8,000 million yen, and profit attributable to owners of parent of 7,300 million yen. We estimate that negative goodwill amounting to 2,100 million will be factored in after ordinary income and before profit attributable to owners of parent. Consequently, we estimate that earnings per share currently stands at 266.4 yen. Meanwhile, our outlook projects ROE of 9.9%.

Forecasts by Business Segment for Fiscal year ending march 2019

(Million Yen)

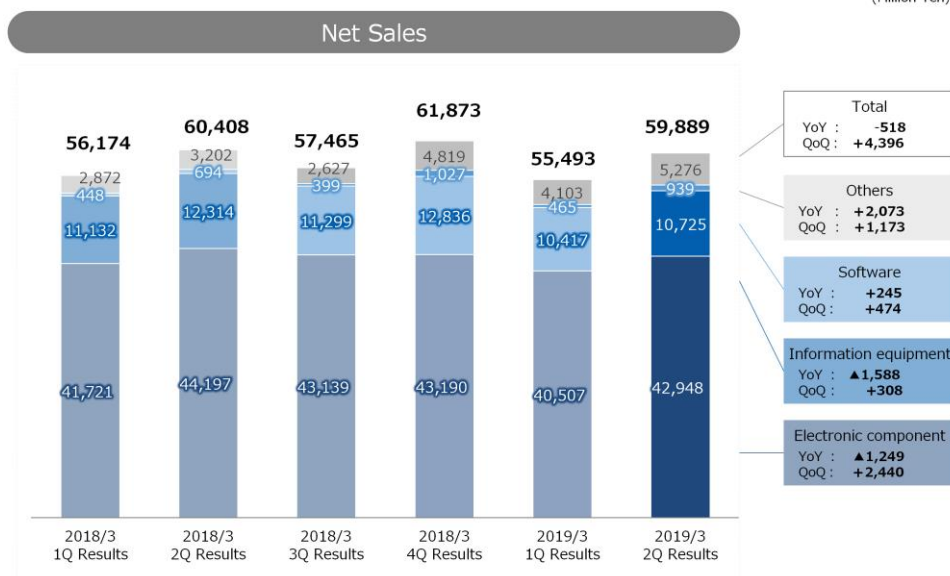
		2018/3 Results	2019/3 Forecasts	YoY	
Electronic Component	Net Sales	172,248	227,200	54,952	32%
	Sgment income	5,312	5,200	-112	-2%
Information Equipment	Net Sales	47,582	43,000	-4,582	-10%
	Sgment income	2,202	1,700	-502	-23%
Software	Net Sales	2,568	2,800	232	9%
	Sgment income	172	300	128	74%
Others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

Turning to our results forecasts by business segment, we anticipate total net sales of 290,000 million yen, of which we forecast sales of 227,200 million yen in the electronic components segment and segment income of 5,200 million yen. We project sales of 43,000 million yen in the information equipment segment, thereby generating segment income of 1,700 million yen; sales of 2,800 million yen in the software segment, thereby generating segment income of 300 million yen; and sales of 17,000 million yen in the others segment, thereby generating segment income of 500 million yen.

Financial Highlights by Business Segment① (Net Sales)

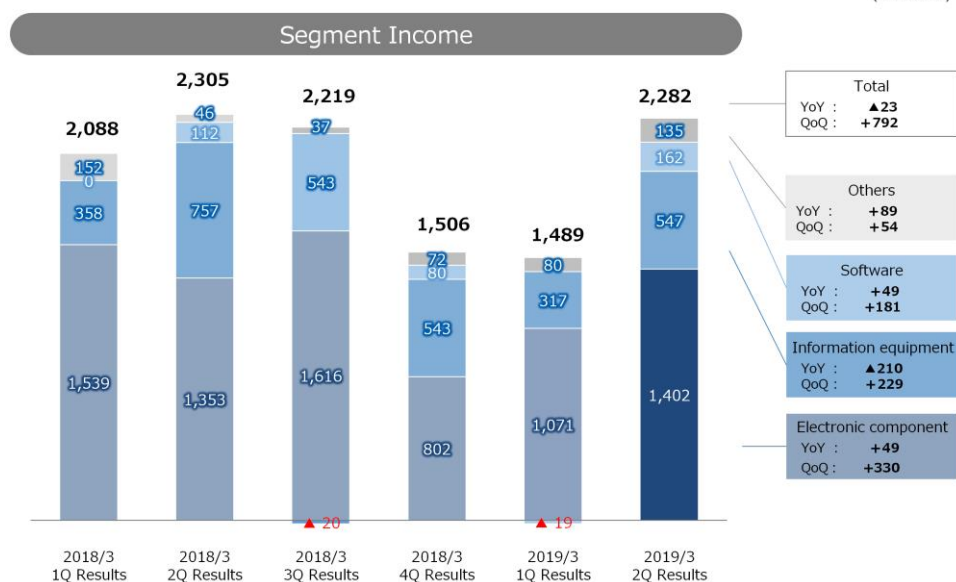
(Million Yen)



Next, please refer to slides 14 and subsequent slides for details on financial highlights on a quarterly basis.

Financial Highlights by Business Segment② (Segment Income)

(Million Yen)



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

Lastly, refer to slide 16 for details on prevailing exchange rates and FOREX sensitivity. Here, the second column from the left in this table lists exchange rates of currencies against the Japanese yen as of the second quarter of the fiscal year ending March 31, 2019. The yen trades at 110.26 yen to the US dollar, 3.4 yen to the Thai baht, 17.09 yen to the Chinese renminbi, and 14.05 yen to the Hong Kong dollar. The next two columns list effects on net sales and ordinary income of a one percent change in respective exchange rates. Meanwhile, our assumptions with respect to exchange rates in the second half of the fiscal year stand at 110 yen to the US dollar, 3.4 yen to the Thai baht, 17 yen to the Chinese renminbi, and 14 yen to the Hong Kong dollar.

This concludes our presentation on our consolidated financial results for the first half of the fiscal year ending March 2019. Thank you for your attention.

(Reference) Products and Services by Business Segment

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

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



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Forwarding look statements included in this document, such as performance forecasts, are based on information that has been obtained at the current time and certain assumptions deemed as reasonable by the company; actual performance, etc. may be significantly different due to various factors.

■ **Display method in this material**

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