

Summary of Consolidated Financial Results for the First Half Ended September 30, 2018 [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/
Representative	Title: President & COO
	Name: Ryoichi Kado
Contact Person	Title: Managing Director, Administration Headquarters
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Date of filing of quarterly securities report (tentative):	November 14, 2018
Date of commencement of dividend payment (tentative):	December 7, 2018
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 2018 (April 1, 2018 – September 30, 2018)

(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 2018	115,383	(1.0)	3,772	(14.2)	4,049	-13.9	2,750	(21.8)
First half ended September 2017	116,582	6.3	4,394	36.8	4,703	54.4	3,516	13.0

Note: Comprehensive income: First half of FY3/2019: 3,467 million yen (15.3%) First half of FY3/2018: 4,095 million yen (524.0%)

	Earnings per share	Earnings per share (diluted)
	Yen	Yen
First half ended September 2018	100.25	-
First half ended September 2017	128.16	-

(2) Financial Position (Consolidated)

	Total assets	Net assets	Equity ratio
	Million yen	Million yen	%
As of September 30, 2018	130,811	73,247	55.9
As of March 31, 2018	128,755	70,631	54.8

Reference: Shareholders' equity As of September 30, 2017: 68,935 million yen As of March 31, 2017: 65,872 million yen

2. Dividends

	Dividend per share				
	1Q	2Q	3Q	Year-end	Full year
	Yen	Yen	Yen	Yen	Yen
Fiscal year ended March 2018	-	30.00	-	40.00	70.00
Fiscal year ending March 2019	-	35.00	-	-	-
Fiscal year ending March 2019 (Forecast)	-	-	-	40.00	75.00

Notes: Change in the dividend forecast from the latest announcement: Yes

Breakdown of interim dividend for FY3/18: Ordinary dividend: 25.00 yen; Extraordinary dividend: 5.00 yen

Breakdown of year-end dividend for FY3/18: Ordinary dividend: 35.00 yen; Extraordinary dividend: 5.00 yen

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

With respect to the revision of dividend forecast, please refer to "KAGA ELECTRONICS Announces Revision of Consolidated Performance Forecast and Interim Dividend Payout from Retained Earnings" announced today (November 6, 2018).

3. Forecast for the fiscal year ending March 2019 (Consolidated, April 1, 2018 – March 31, 2019)

(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	290,000	22.9	7,700	(5.2)	8,000	(8.5)	7,300	12.5	266.04

Note: Change in the forecast from the latest announcement: Yes

With respect to the revision of consolidated performance forecast, please refer to "KAGA ELECTRONICS Announces Revision of Consolidated Performance Forecast and Interim Dividend Payout from Retained Earnings" announced today (November 6, 2018).

*** 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 September 30, 2018:	28,702,118	As of March 31, 2018:	28,702,118
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(b) Treasury shares

As of September 30, 2018:	1,269,617	As of March 31, 2018:	1,267,393
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(c) Average number of shares (quarterly consolidated during the period)

Period ended September 30, 2018:	27,432,859	Period ended September 30, 2017:	27,435,430
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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 29, 2018.

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

In the global economy in the second quarter of the fiscal year ending March 31, 2019, despite looming concerns that the imposition of tariffs by the United States could trigger trade friction with China and the European Union, business conditions in Japan as well as in the key markets such as the United States, Europe and China continued on a gradual recovery trend.

In such conditions, based on our corporate philosophy of “Everything we do is for our customers,” the Group further expanded its overseas production bases in response to calls from existing customers, while in Japan, the Group focused its efforts on expansion of EMS ^(Note) business by pushing forward with enhancement of domestic production facilities and functions, and other measures. Furthermore, in the face of a tight supply situation, which has become tangible since the latter half of the previous fiscal year, in certain electronic components such as power semiconductors and condensers, utmost efforts were made to curtail its effect on the Group’s business activities, such as by leveraging the Group’s comprehensive capabilities as an independent general trading company for procuring parts and making proposals on alternative products.

As a result of the foregoing, consolidated net sales of the Group decreased by 1% year on year to 115,383 million yen. In terms of income, operating income decreased by 14.2% to 3,772 million yen, ordinary income decreased by 13.9% to 4,049 million yen, and profit attributable to owners of parent decreased by 21.8% to 2,750 million yen.

Net sales were affected particularly by a temporary decline in unit sales due to production adjustments and model switching at major customers. The decline in unit sales had negative effects also on profits, as did upfront expenses of new overseas sites that were at their start-up phase. In comparison with the same period of the previous fiscal year, therefore, net sales and profits both recorded decreases. Still, the progress of operations was in line with the Company’s assumptions formed at the beginning of the period, on the back notably of the EMS business, which in general enjoyed robust orders.

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

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 the electronic components business, the EMS business for automotive and air conditioning devices maintained steady performance while business for medical equipment was slow due to model switching and the resulting production adjustments at major customers. Components sales business remained sluggish notably for home electric appliances from the effect of production adjustments at major customers. As a result, consolidated net sales decreased by 2.9% to 83,455 million yen and segment income declined by 14.5% to 2,474 million yen.

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

In the information equipment segment, sales of housing-related home electric appliances and commercial facilities-related LED installation business continued the robust trend. On the other hand, sales of PCs and PC peripherals were slow due to sluggish market conditions. As a result, consolidated net sales decreased by 9.8% to 21,143 million yen and segment income declined by 22.6% to 864 million yen.

(c) Software (Computer graphics video production, planning and development of amusement products, and other activities)

In the software business, orders for production of computer graphics animation and development of game software were robust. As a result, consolidated net sales increased by 23.0% to 1,404 million yen and segment income increased by 28.1% to 143 million yen.

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

In others, recycling of PC products and PC peripherals, and sales of arcade amusement machines continued strong, while sales of golf products remained sluggish. As a result, consolidated net sales increased by 54.4% to 9,379 million yen and segment income increased by 9.2% to 216 million yen.

(2) Overview of financial conditions

(a) Assets, liabilities and net assets

Total assets as of September 30, 2018 increased by 2,056 million yen from March 31, 2018 to 130,811 million yen.

Current assets increased by 194 million yen to 104,264 million yen. This is primarily attributed to an increase of 1,493 million yen in raw materials and supplies, offsetting a decrease of 1,448 million yen in notes and accounts receivable–trade.

Non-current assets increased by 1,861 million yen to 26,547 million yen. This is largely a result of an increase of 1,607 million yen in investment securities.

Liabilities decreased by 559 million yen to 57,564 million yen. This is primarily attributed to a decrease of 1,011 million yen in notes and accounts payable–trade, despite an increase of 1,345 million yen in short-term loans payable.

Net assets increased by 2,615 million yen to 73,247 million yen. This is largely a result of recording 2,750 million yen in profit attributable to owners of parent.

(b) Cash flows

Cash and cash equivalents as of September 30, 2018 decreased by 3,370 million yen from March 31, 2018 to 25,509 million yen.

(Operating activities)

Net cash and cash equivalents provided by operating activities was 1,898 million yen, mainly due to recording profit before income taxes.

(Investing activities)

Net cash and cash equivalents used in investing activities was 4,938 million yen, mainly due to payment into time deposits.

(Financing activities)

Net cash and cash equivalents used in financing activities was 685 million yen, mainly due to cash dividends paid and repayments of long-term loans payable.

(3) Qualitative information on consolidated earnings forecast

In the electronics industry, the principal sector of operations of the KAGA ELECTRONICS Group (“the Group”), demand for electronic parts continues to grow, notably with expansion of the market for automotive devices where digital and cyber trends are making headway, as well as increase in the demand for storage in response to the needs of the era of big data against the backdrop of the IoT. On the other hand, the supply side’s efforts to increase production tend to fall behind and, since the latter half of the previous consolidated fiscal year, a tight supply-demand situation has become tangible in certain components and materials.

Given significant uncertainties for the future as described above, the Company refrained from presenting, at the beginning of the fiscal year, the full year performance forecast for the fiscal year ending March 31, 2019. However, at this time, the consolidated performance forecast for the full fiscal year ending March 31, 2019 has been calculated as presented below, based on consolidated financial results for the six month period ended September 31, 2018, as well as the recent market trends. The forecast also incorporates the September 10, 2018 announcement “Notice Regarding Acquisition of Shares in Fujitsu Electronics Inc. (and Making It a Subsidiary)” and its effects on net sales and profits.

● Revision of Consolidated Performance Forecast

Revised consolidated performance forecast for the full fiscal year ending March 31, 2019

(From April 1, 2018 to March 31, 2019)

	Net sales	Operating income	Ordinary income	Profit attributable to owners of parent	Earnings per share
	Million yen	Million yen	Million yen	Million yen	Yen
Previous Forecast (A)	-	-	-	-	-
Revised Forecast (B)	290,000	7,700	8,000	7,300	266.04
Difference (B)-(A)	-	-	-	-	-
Difference (%)	-	-	-	-	-
(Reference) Results for the fiscal year ended March 31, 2018	235,921	8,119	8,740	6,490	236.58

2. Quarterly Consolidated Financial Statements and Major Notes

(1) Quarterly consolidated balance sheet

(Million yen)

	Fiscal year ended March 2018 (As of March 31, 2018)	First half ended September 2018 (As of September 30, 2018)
ASSETS		
Current assets		
Cash and deposits	30,803	30,412
Notes and accounts receivable - trade	45,809	44,361
Electronically recorded monetary claims - operating	4,032	3,992
Securities	295	231
Merchandise and finished goods	15,060	16,038
Work in process	575	724
Raw materials and supplies	3,818	5,312
Other	3,807	3,340
Allowance for doubtful accounts	(133)	(149)
Total current assets	104,069	104,264
Non-current assets		
Property, plant and equipment		
Buildings and structures, net	4,870	4,707
Machinery, equipment and vehicles, net	2,583	2,797
Tools, furniture and fixtures, net	709	741
Land	4,036	4,036
Construction in progress	10	172
Total property, plant and equipment	12,210	12,456
Intangible assets		
Goodwill	317	272
Software	515	648
Other	46	42
Total intangible assets	878	964
Investments and other assets		
Investment securities	8,688	10,295
Deferred tax assets	530	473
Guarantee deposits	657	662
Insurance funds	943	943
Other	1,363	1,285
Allowance for doubtful accounts	(587)	(533)
Total investments and other assets	11,595	13,126
Total non-current assets	24,685	26,547
Total assets	128,755	130,811

(Million yen)

	Fiscal year ended March 2018 (As of March 31, 2018)	First half ended September 2018 (As of September 30, 2018)
LIABILITIES		
Current liabilities		
Notes and accounts payable - trade	36,392	35,381
Short-term loans payable	5,385	6,731
Accrued expenses	3,711	3,533
Income taxes payable	901	1,042
Provision for directors' bonuses	247	1
Other	3,068	2,637
Total current liabilities	49,707	49,328
Non-current liabilities		
Long-term loans payable	3,161	2,540
Deferred tax liabilities	1,276	1,517
Provision for directors' retirement benefits	1,264	72
Net defined benefit liability	1,737	1,693
Asset retirement obligations	175	179
Other	800	2,232
Total non-current liabilities	8,416	8,235
Total liabilities	58,123	57,564
NET ASSETS		
Shareholders' equity		
Capital stock	12,133	12,133
Capital surplus	13,853	13,853
Retained earnings	45,183	46,969
Treasury shares	(2,042)	(2,047)
Total shareholders' equity	69,127	70,909
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	1,504	1,467
Deferred gains or losses on hedges	(16)	10
Foreign currency translation adjustment	148	969
Remeasurements of defined benefit plans	(208)	(194)
Total accumulated other comprehensive income	1,428	2,252
Non-controlling interests	75	85
Total net assets	70,631	73,247
Total liabilities and net assets	128,755	130,811

(2) Quarterly consolidated statements of income and comprehensive income

For the first half (April 1, 2018 – September 30, 2018)

(Million yen)

	First half ended September 2017 (April 1, 2017 – September 30, 2017)	First half ended September 2018 (April 1, 2018 – September 30, 2018)
Net sales	116,582	115,383
Cost of sales	100,363	99,360
Gross profit	16,218	16,023
Selling, general and administrative expenses	11,824	12,251
Operating income	4,394	3,772
Non-operating income		
Interest income	49	57
Dividends income	82	111
Commission fee	100	102
Foreign exchange gains	21	—
Other	146	177
Total non-operating income	401	448
Non-operating expenses		
Interest expenses	60	83
Share of loss of entities accounted for using equity method	—	34
Foreign exchange losses	—	36
Other	32	17
Total non-operating expenses	92	171
Ordinary income	4,703	4,049
Extraordinary income		
Gain on sales of non-current assets	21	3
Gain on sales of investment securities	518	214
Gain on transfer of business	12	7
Total extraordinary income	552	225
Extraordinary loss		
Loss on retirement of non-current assets	8	3
Loss on sales of investment securities	—	2
Loss on valuation of investment securities	111	110
Loss on valuation of golf club membership	3	5
Impairment loss	219	9
Other	0	1
Total extraordinary loss	343	132
Profit before income taxes	4,913	4,142
Income taxes - current	756	1,069
Income taxes - deferred	628	314
Total income taxes	1,385	1,384
Profit	3,527	2,758
Profit attributable to owners of parent	3,516	2,750
Profit attributable to non-controlling interests	11	7
Other comprehensive income		
Valuation difference on available-for-sale securities	307	(45)
Deferred gains or losses on hedges	(0)	26
Foreign currency translation adjustment	220	744
Remeasurements of defined benefit plans, net of tax	40	13
Share of other comprehensive income of associates accounted for using equity method	—	(29)
Total other comprehensive income	568	709
Comprehensive income	4,095	3,467
Comprehensive income attributable to owners of parent	4,083	3,457
Comprehensive income attributable to non-controlling interests	12	9

(3) Consolidated statement of cash flows

(Million yen)

	First half ended September 2017 (April 1, 2017 – September 30, 2017)	First half ended September 2018 (April 1, 2018 – September 30, 2018)
Cash flows from operating activities		
Profit before income taxes	4,913	4,142
Depreciation	694	750
Impairment loss	219	9
Amortization of goodwill	44	44
Increase (decrease) in provision for directors' retirement benefits	19	(1,191)
Increase (decrease) in allowance for doubtful accounts	(61)	25
Interest and dividend income	(132)	(168)
Interest expenses	60	83
Share of (profit) loss of entities accounted for using equity method	—	34
Loss (gain) on sales of investment securities	(518)	(211)
Loss (gain) on valuation of investment securities	111	110
Decrease (increase) in notes and accounts receivable - trade	2,061	1,904
Decrease (increase) in inventories	289	(2,248)
Decrease (increase) in accounts receivable - other	1,105	338
Decrease (increase) in advance payments	(300)	(15)
Increase (decrease) in notes and accounts payable - trade	(2,205)	(1,459)
Increase (decrease) in accrued expenses	(20)	(241)
Decrease (increase) in consumption taxes refund receivable	171	(46)
Decrease (increase) in other current assets	(26)	(52)
Increase (decrease) in other current liabilities	107	(425)
Other, net	(39)	1,263
Subtotal	6,493	2,643
Interest and dividend income received	130	170
Interest expenses paid	(59)	(78)
Income taxes paid	(688)	(838)
Other, net	(0)	1
Net cash provided by (used in) operating activities	5,875	1,898
Cash flows from investing activities		
Payments into time deposits	(1,057)	(3,092)
Proceeds from withdrawal of time deposits	463	340
Purchase of property, plant and equipment	(835)	(775)
Proceeds from sales of property, plant and equipment	86	84
Purchase of intangible assets	(76)	(78)
Purchase of investment securities	(1,000)	(1,941)
Proceeds from sales of investment securities	1,058	546
Proceeds from cancellation of insurance funds	—	11
Payments for guarantee deposits	(41)	(15)
Proceeds from collection of guarantee deposits	95	14
Other payments	(42)	(41)
Other proceeds	2	8
Net cash provided by (used in) investing activities	(1,345)	(4,938)
Cash flows from financing activities		
Increase (decrease) in short-term loans payable	665	1,116
Repayments of long-term loans payable	(896)	(623)
Cash dividends paid	(958)	(1,095)
Other, net	(76)	(82)
Net cash provided by (used in) financing activities	(1,265)	(685)
Effect of exchange rate change on cash and cash equivalents	101	354
Net increase (decrease) in cash and cash equivalents	3,365	(3,370)
Cash and cash equivalents at beginning of period	26,021	28,879
Cash and cash equivalents at end of period	29,387	25,509

(4) Notes to quarterly consolidated financial statements

(Notes to going concern assumptions)

Not applicable

(Significant change in shareholders' equity)

Not applicable

(Additional information)

(Application of Partial Amendments to Accounting Standard for Tax Effect Accounting, etc.)

“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.

(Acquisition of shares in Fujitsu Electronics Inc.)

At the board of directors meeting held on September 10, 2018, the Company resolved to acquire shares in Fujitsu Electronics Inc. and, on the same day, entered into a share purchase agreement with its shareholder.

1. Reason behind the share acquisition

For details, please refer to “1. Results of Operations, (3) Qualitative information on consolidated earnings forecast” on page 3 of this Supplementary Information.

2. Name, details and size of business operations of the company whose shares are to be acquired

(1) Name:	Fujitsu Electronics Inc.
(2) Business operations	Design, development and sale of electronic devices
(3) Size of operations (consolidated figures for the fiscal year ended March 2018)	
Net assets	35,379 million yen
Total assets	92,516 million yen
Net sales	258,703 million yen
Operating income	2,631 million yen
Ordinary income	2,232 million yen
Profit attributable to owners of parent	1,547 million yen

3. Name of the selling shareholder

Fujitsu Semiconductor Limited

4. Timeline of the share acquisition (scheduled)

Phase 1	January 1, 2019
Phase 2	December 28, 2020
Phase 3	December 28, 2021

5. Number of shares to be acquired, acquisition price and ownership ratio after acquisition (scheduled)

(1) Number of shares to be acquired	Phase 1	18,641,972 shares
	Phase 2	3,995,000 shares
	Phase 3	3,995,000 shares
(2) Acquisition price	20,543 million yen ^(Note)	
(3) Ownership ratio after acquisition	Phase 1	70.0%
	Phase 2	85.0%
	Phase 3	100.0%

(Note) In accordance with the agreement of the Share Acquisition, the acquisition price for each phase is scheduled to be the price after making adjustments such as for changes in the amount of consolidated net assets of Fujitsu Electronics Inc. It is noted that Fujitsu Electronics Inc. plans to pay a cash dividend of 10 billion yen prior to the Phase 1. (2) Acquisition Price stated above is the estimate of the total acquisition price as of September 10, 2018.

(Segment information, etc.)

Segment information

I. For the first half ended September 2017 (April 1, 2017 – September 30, 2017)

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	85,918	23,446	1,142	6,075	116,582	—	116,582
Inter-segment sales or transfers	593	503	463	336	1,896	(1,896)	—
Total	86,511	23,949	1,605	6,412	118,479	(1,896)	116,582
Segment income	2,893	1,116	111	198	4,319	74	4,394

Notes: 1. Adjustment in segment income of 74 million yen includes 74 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 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.