

Summary of Consolidated Financial Results for the Third Quarter Ended December 31, 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/
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Date of filing of quarterly securities report (tentative):	February 14, 2019
Date of commencement of dividend payment (tentative):	-
Quarterly earnings supplementary explanatory documents:	Yes
Quarterly earnings presentation:	None

(Yen in millions, rounded down)

1. Financial results for the third quarter of the fiscal year ending March 2019 (April 1, 2018 – December 31, 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	%
Third quarter ended December 2018	173,782	(0.2)	5,748	(13.1)	6,000	(15.4)	4,875	(11.5)
Third quarter ended December 2017	174,047	3.9	6,613	27.7	7,093	29.0	5,510	13.3

Note: Comprehensive income: 3Q of FY3/2019: 4,081 million yen (-41.0%) 3Q of FY3/2018:6,916 million yen (37.9%)

	Earnings per share	Earnings per share (diluted)
	Yen	Yen
Third quarter ended December 2018	177.69	—
Third quarter ended December 2017	200.86	—

(2) Financial Position (Consolidated)

	Total assets	Net assets	Equity ratio
	Million yen	Million yen	%
As of December 31, 2018	152,885	72,937	47.7
As of March 31, 2018	128,755	70,631	54.8

Reference: Shareholders' equity As of December 31, 2018: 72,852 million yen As of March 31, 2018: 70,556 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: None

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

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: 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 : 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 December 31, 2018:	28,702,118	As of March 31, 2018:		28,702,118
(b) Treasury shares				
As of December 31, 2018:	1,254,819	As of March 31, 2018:		1,267,393
(c) Average number of shares (quarterly consolidated during the period)				
Period ended December 31 2018:	27,437,214	Period ended December 31, 2017:		27,435,262

* 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”.

(How to obtain supplementary materials on quarterly financial results)

The Company also plans to post the supplementary materials on quarterly financial results, on its website promptly after announcing financial results.

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1. Results of Operations

(1) Overview of consolidated business performance

In the third quarter of the fiscal year ending March 31, 2019, the Japanese economy witnessed a continued gradual recovery as a result of factors including an improvement in the employment and wage environment and strong corporate earnings. Nonetheless, the future continues to look uncertain due to factors that include a slowdown in the Chinese economy stemming from the prolongation of trade friction between the US and China and resulting concerns over a downturn in the global economy.

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 and demand 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, despite the difficult conditions for the automotive and air conditioning devices business.

As a result of the foregoing, consolidated net sales of the Group decreased by 0.2% year on year to 173,782 million yen. In terms of income, operating income decreased by 13.1% to 5,748 million yen, ordinary income decreased by 15.4% to 6,000 million yen, and profit attributable to owners of parent decreased by 11.5% to 4,875 million yen.

Although net sales were affected, particularly by a temporary decline in unit sales due to production adjustments and model switching at major customers, the EMS business generally enjoyed robust orders, so net sales remained mostly unchanged year on year. On the other hand, profits recorded decreases due to factors including upfront expenses of new overseas sites that were at their start-up phase. Income taxes decreased due to the impact of tax effect accounting.

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

Business segment performance was as follows.

(1) Electronic parts (Development, manufacture and sale of semiconductors, general electronic parts, the electronics manufacturing service [EMS], and other activities)

In this 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 in the third quarter of the fiscal year ending March 31, 2019 decreased by 3.2% to 124,893 million yen and segment income declined by 16.2% to 3,780 million yen.

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

In this segment, although the commercial facilities-related LED installation business continued a robust trend, sales in the housing-related home electric appliances business decreased as a result of factors including delivery date adjustments by customers. In PC sales, although sales were strong for individuals, sales were sluggish for corporate customers. As a result, consolidated net sales in the third quarter of the fiscal year ending March 31, 2019 decreased by 6.8% to 32,374 million yen and segment income declined by 19.3% to 1,339 million yen.

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

In this business, orders for production of computer graphics animation and development of game software were robust. As a result, consolidated net sales in the third quarter of the fiscal year ending March 31, 2019 increased by 26.1% to 1,943 million yen and segment income increased by 33.2% to 122 million yen.

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

In this business, sales of arcade amusement machines continued strong. In addition, while the PC products and PC peripherals recycling business performed strongly, sales of golf products remained sluggish. As a result, consolidated net sales in the third quarter of the fiscal year ending March 31, 2019 increased by 67.4% to 14,570 million yen and segment income increased by 75.8% to 415 million yen.

(2) Overview of financial conditions

Assets, liabilities and net assets

Total assets as of December 31, 2018 increased 24,129 million yen from March 31, 2018 to 152,885 million yen.

Current assets increased by 21,397 million yen to 125,467 million yen. This is primarily attributed to an increase of 24,202 million yen in “Other” due to factors such as advance payments related to the acquisition of shares in Fujitsu Electronics Inc.

Non-current assets increased by 2,732 million yen to 27,418 million yen. This is primarily attributed to increases of 814 million yen in deferred tax assets, 759 million yen in investment securities, and 576 million yen in construction in progress.

Liabilities increased by 21,824 million yen to 79,948 million yen. This is primarily attributed to an increase of 24,145 million yen in short-term loans payable.

Net assets increased by 2,305 million yen to 72,937 million yen. This is largely a result of recording 4,875 million yen in profit attributable to owners of parent.

(3) Qualitative information on consolidated performance forecast

There are no changes to the consolidated performance forecast for the fiscal year ending March 31, 2019 from that announced in “Summary of Consolidated Financial Results for the First Half Ended September 30, 2018” dated November 6, 2018

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)	Third quarter ended December 2018 (As of December 31, 2018)
ASSETS		
Current assets		
Cash and deposits	30,803	24,669
Notes and accounts receivable - trade	45,809	43,448
Electronically recorded monetary claims - operating	4,032	4,470
Securities	295	225
Merchandise and finished goods	15,060	18,416
Work in process	575	725
Raw materials and supplies	3,818	5,653
Other	3,807	28,009
Allowance for doubtful accounts	(133)	(150)
Total current assets	104,069	125,467
Non-current assets		
Property, plant and equipment		
Buildings and structures, net	4,870	4,610
Machinery, equipment and vehicles, net	2,583	3,102
Tools, furniture and fixtures, net	709	850
Land	4,036	4,036
Construction in progress	10	587
Total property, plant and equipment	12,210	13,187
Intangible assets		
Goodwill	317	281
Software	515	629
Other	46	42
Total intangible assets	878	952
Investments and other assets		
Investment securities	8,688	9,447
Deferred tax assets	530	1,345
Guarantee deposits	657	651
Insurance funds	943	946
Other	1,363	1,407
Allowance for doubtful accounts	(587)	(520)
Total investments and other assets	11,595	13,277
Total non-current assets	24,685	27,418
Total assets	128,755	152,885

(Million yen)

	Fiscal year ended March 2018 (As of March 31, 2018)	Third quarter ended December 2018 (As of December 31, 2018)
LIABILITIES		
Current liabilities		
Notes and accounts payable - trade	36,392	35,789
Short-term loans payable	5,385	29,531
Accrued expenses	3,711	2,979
Income taxes payable	901	902
Provision for directors' bonuses	247	2
Other	3,068	3,104
Total current liabilities	49,707	72,309
Non-current liabilities		
Long-term loans payable	3,161	2,194
Deferred tax liabilities	1,276	1,219
Provision for directors' retirement benefits	1,264	75
Net defined benefit liability	1,737	1,675
Asset retirement obligations	175	178
Other	800	2,295
Total non-current liabilities	8,416	7,638
Total liabilities	58,123	79,948
NET ASSETS		
Shareholders' equity		
Capital stock	12,133	12,133
Capital surplus	13,853	13,865
Retained earnings	45,183	48,134
Treasury shares	(2,042)	(2,023)
Total shareholders' equity	69,127	72,110
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	1,504	439
Deferred gains or losses on hedges	(16)	(0)
Foreign currency translation adjustment	148	490
Remeasurements of defined benefit plans	(208)	(187)
Total accumulated other comprehensive income	1,428	742
Non-controlling interests	75	84
Total net assets	70,631	72,937
Total liabilities and net assets	128,755	152,885

(2) Quarterly consolidated statements of income and comprehensive income

For the third quarter (April 1, 2018 – December 31, 2018)

(Million yen)

	Third quarter ended December 2017 (April 1, 2017 – December 31, 2017)	Third quarter ended December 2018 (April 1, 2018 – December 31, 2018)
Net sales	174,047	173,782
Cost of sales	149,805	149,758
Gross profit	24,242	24,023
Selling, general and administrative expenses	17,628	18,275
Operating income	6,613	5,748
Non-operating income		
Interest income	78	102
Dividends income	110	144
Commission fee	133	152
Foreign exchange gains	80	—
Other	235	254
Total non-operating income	638	653
Non-operating expenses		
Interest expenses	99	134
Share of loss of entities accounted for using equity method	44	68
Foreign exchange losses	—	122
Other	13	75
Total non-operating expenses	158	401
Ordinary income	7,093	6,000
Extraordinary income		
Gain on sales of non-current assets	26	11
Gain on sales of investment securities	591	214
Gain on sales of shares of subsidiaries	467	—
Gain on transfer of business	12	7
Total extraordinary income	1,098	233
Extraordinary loss		
Loss on retirement of non-current assets	8	5
Loss on sales of investment securities	23	2
Loss on valuation of investment securities	133	462
Impairment loss	224	9
Loss on valuation of golf club membership	6	5
Other	0	2
Total extraordinary loss	397	487
Profit before income taxes	7,795	5,746
Income taxes - current	1,254	1,460
Income taxes - deferred	1,015	(599)
Total income taxes	2,269	861
Profit	5,525	4,884
Profit attributable to owners of parent	5,510	4,875
Profit attributable to non-controlling interests	14	9

(Million yen)

	Third quarter ended December 2017 (April 1, 2017 – December 31, 2017)	Third quarter ended December 2018 (April 1, 2018 – December 31, 2018)
Other comprehensive income		
Valuation difference on available-for-sale securities	771	(1,069)
Deferred gains or losses on hedges	0	15
Foreign currency translation adjustment	559	266
Remeasurements of defined benefit plans, net of tax	60	20
Share of other comprehensive income of associates accounted for using equity method	—	(37)
Total other comprehensive income	1,391	(803)
Comprehensive income	6,916	4,081
Comprehensive income attributable to owners of parent	6,900	4,072
Comprehensive income attributable to non-controlling interests	16	8

(3) Notes to quarterly consolidated financial statements

(Notes to going concern assumptions)

Not applicable

(Significant change in shareholders' equity)

Not applicable

(Segment information, etc.)

Segment information

I. For the third quarter ended December 2017 (April 1, 2017 – December 31, 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	129,058	34,745	1,541	8,702	174,047	—	174,047
Inter-segment sales or transfers	793	867	656	449	2,767	(2,767)	—
Total	129,851	35,613	2,197	9,151	176,815	(2,767)	174,047
Segment income	4,509	1,659	91	236	6,497	115	6,613

- Notes: 1. Adjustment in segment income of 115 million yen includes 115 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 third quarter ended December 2018 (April 1, 2018 – December 31, 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	124,893	32,374	1,943	14,570	173,782	—	173,782
Inter-segment sales or transfers	2,151	670	460	3,305	6,587	(6,587)	—
Total	127,045	33,045	2,403	17,875	180,370	(6,587)	173,782
Segment income	3,780	1,339	122	415	5,657	91	5,748

- Notes: 1. Adjustment in segment income of 91 million yen includes 91 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.