

Summary of Consolidated Financial Results for the First Quarter Ended June 30, 2019 [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, Chief of Administration Headquarters
	Name: Eiji Kawamura
Phone:	+81-(0)3-5657-0111
Date of filing of quarterly securities report (tentative):	August 14, 2019
Date of commencement of dividend payment (tentative):	—
Quarterly earnings supplementary explanatory documents:	Yes
Quarterly earnings presentation:	No

(Yen in millions, rounded down)

1. Financial results for the first quarter of the fiscal year ending March 2020 (April 1, 2019 – June 30, 2019)

(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 quarter ended June 2019	109,564	97.4	1,850	24.2	2,045	21.8	1,350	17.6
First quarter ended June 2018	55,493	(1.2)	1,489	(28.7)	1,679	(23.8)	1,148	(34.4)

Note: Comprehensive income: 1Q of FY3/2020: 442 million yen (-63.3%) 1Q of FY3/2019: 1,207 million yen (-44.3%)

	Earnings per share	Earnings per share (diluted)
	Yen	Yen
First quarter ended June 2019	49.20	—
First quarter ended June 2018	41.87	—

(2) Financial Position (Consolidated)

	Total assets	Net assets	Equity ratio
	Million yen	Million yen	%
As of June 30, 2019	209,272	83,472	36.2
As of March 31, 2019	213,761	84,259	35.8

Reference: Shareholders' equity: As of June 30, 2019: 75,837 million yen As of March 31, 2019: 76,604million yen

2. Dividends

	Dividend per share				
	1Q	2Q	3Q	Year-end	Full year
	Yen	Yen	Yen	Yen	Yen
Fiscal year ended March 2019	—	35.00	—	45.00	80.00
Fiscal year ending March 2020	—				
Fiscal year ending March 2020 (Forecast)		30.00	—	30.00	60.00

Notes: Change in the dividend forecast from the latest announcement: None

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

Breakdown of year-end dividend for FY3/19: Ordinary dividend: 40.00 yen; Extraordinary dividend: 5.00 yen

3. Forecast for the fiscal year ending March 2020 (Consolidated, April 1, 2019 – March 31, 2020)

(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	430,000	46.9	7,000	(7.5)	7,000	(10.9)	5,000	(37.6)	182.17

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: Yes

(b) Changes other than (a): None

(c) Changes in accounting estimates: None

(d) Retrospective restatement: None

Note: For more information, please refer "2. Quarterly Consolidated Financial Statements and Major Notes (3) Notes to quarterly consolidated financial statements (Changes in accounting policies)" on page 7.

(4) Number of shares outstanding (common stock)

(a) Shares outstanding (including treasury shares)

As of June 30, 2019:	28,702,118	As of March 31, 2018:	28,702,118
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(b) Treasury shares

As of June 30, 2019:	1,254,939	As of March 31, 2018:	1,254,924
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(c) Average number of shares (quarterly consolidated during the period)

Period ended June 30, 2019:	27,447,190	Period ended June 30, 2018:	27,433,124
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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".

(How to obtain supplementary materials on quarterly financial results)

The Company also plans to post the quarterly earnings supplementary explanatory documents on its website promptly after announcing financial results.

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1. Results of Operations

(1) Overview of consolidated business performance

With sales of electronics components and EMS business (note) as the two pillars of its operations, the Group is pushing forward with its growth strategy, aiming to achieve the management targets as set out in the “Medium Term Management Plan 2021” formulated in November 2018, or specifically 500.0 billion yen in net sales, 13.0 billion yen in operating income and ROE of 8% or higher to be attained in the fiscal year ending March 31, 2022.

Net sales in the first quarter of the fiscal year ending March 31, 2020 increased substantially by 97.4% year on year to 109,564 million yen, due largely to revenue contribution from Fujitsu Electronics Inc. (hereafter, “Fujitsu Electronics”), which was converted to a subsidiary from January 2019 and whose results are reflected for the full quarter.

In terms of income, reflecting notably the steady performance of EMS business in addition to the effects of business acquisition, operating income increased by 24.2% year on year to 1,850 million yen, ordinary income increased by 21.8% to 2,045 million yen, and profit attributable to owners of parent increased by 17.6% to 1,350 million yen.

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

	FY 2019/3 1Q	FY 2020/3 1Q	YoY	
	(April 1, 2018 – June 30, 2018)	(April 1, 2019 – June 30, 2019)	(Million yen)	
Net sales	(Million yen) 55,493	(Million yen) 109,564	54,070	97.4%
Gross profit (Margin)	7,641 13.8%	11,062 10.1%	3,420 -3.7pt	44.8% —
SG&A	6,152	9,212	3,059	49.7%
Operating income	1,489	1,850	361	24.2%
Ordinary income	1,679	2,045	366	21.8%
Profit before income taxes	1,762	1,799	36	2.1%
Profit attributable to owners of parent	1,148	1,350	201	17.6%
Exchange Rate (Average rate during the year) USD	109.07Yen	109.90 Yen	0.83Yen	—

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 this business, the EMS business maintained steady performance in the areas of air conditioning devices and medical equipment. Component sales business saw a boost in revenue notably in automotive devices as a result of the conversion of Fujitsu Electronics to a subsidiary in January 2019.

As a result, net sales increased by 133.5% year on year to 94,587 million yen, and segment income increased by 51.3% year on year to 1,621 million yen.

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

In this business, PCs and PC peripherals for individuals and educational institutions enjoyed strong sales, in contrast with decreases in commercial facilities-related LED installation business as well as sales in the housing-related home electric appliances business, due to such factors as delivery date adjustments by customers.

As a result, net sales decreased by 2.8% year on year to 10,126 million yen, and segment income declined by 40.5% year on year to 188 million yen.

- (c) Software (Production of computer graphics, planning and development of amusement products, and other activities)

In this business, orders for production of computer graphics animation and development of game software continued to face a difficult situation partly due to customers extending their development schedule. As a result, net sales decreased by 6.0% year on year to 437 million yen, and segment loss of 61 million yen was recorded (19 million yen of segment loss in the same period of the previous fiscal year).

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

In this business, sales of arcade amusement machines continued to be strong. PC products and PC peripherals recycling business also showed robust performance, however golf products suffered sluggish sales.

As a result, net sales increased by 7.5% year on year to 4,412 million yen, while segment income decreased by 10.6% year on year to 72 million yen.

		FY 2019/3 1Q	FY 2020/3 1Q	YoY	
		(April 1, 2018 – June 30, 2018)	(April 1, 2019 – June 30, 2019)	(Million yen)	
Electronic components	Net sales	(Million yen) 40,507	(Million yen) 94,587	54,080	133.5%
	Segment income	1,071	1,621	549	51.3%
Information equipment	Net sales	10,417	10,126	-291	-2.8%
	Segment income	317	188	-128	-40.5%
Software	Net sales	465	437	-27	-6.0%
	Segment income	(19)	(61)	-42	—
Others	Net sales	4,103	4,412	309	7.5%
	Segment income	80	72	-8	-10.6%
Total	Net sales	55,493	109,564	54,070	97.4%
	Segment income	1,489	1,850	361	24.2%

Note: “Segment income” shows unadjusted figures for each business segment and adjusted figures for the total.

(2) Overview of financial condition

Assets, liabilities and net assets

Total assets as of June 30, 2019 decreased by 4,488 million yen from March 31, 2019, to 209,272 million yen.

Current assets decreased by 5,747 million yen from March 31, 2019, to 176,649 million yen. This is primarily attributed to a decrease of 8,153 million yen in notes and account receivable - trade, and an increase of 3,444 million yen in merchandise and finished goods.

Non-current assets increased by 1,258 million yen from March 31, 2019, to 32,623 million yen. This is largely the result of an increase of 1,067 million yen in buildings and structures (net) due in part to the application of IFRS 16.

Liabilities decreased by 3,701 million yen from March 31, 2019, to 125,800 million yen. This is primarily attributed to a decrease of 6,199 million yen in notes and accounts payable - trade, and an increase of 3,034 million yen in short-term loans payable.

Net assets decreased by 787 million yen from March 31, 2019, to 83,472 million yen. This is primarily due to decreases of 332 million yen in valuation difference on available-for-sale securities and 550 million yen in foreign exchange translation adjustment.

(3) Qualitative information on consolidated earnings forecast

The business environment surrounding the Group in the second quarter and beyond will likely remain in an unpredictable situation given the uncertainties including the impact of various trade issues originating from the US, trends in China’s domestic economy, the Brexit issue, and geopolitical risks in Iran and other parts of the Middle East.

In this first fiscal year of the “Medium Term Management Plan 2021”, the Company will continue to make Group-wide efforts to achieve its targets, with focus on components sales business and EMS business.

In view of the solid progress made in the first quarter of the fiscal year ending March 31, 2020, the Company has decided to keep full year performance forecasts unchanged from the previously announced forecasts. The exchange rate assumptions used for the performance forecasts also remain unchanged.

2. Quarterly Consolidated Financial Statements and Major Notes

(1) Quarterly consolidated balance sheet

(Million yen)

	Fiscal year ended March 2019 (As of March 31, 2019)	First quarter ended June 2019 (As of June 30, 2019)
ASSETS		
Current assets		
Cash and deposits	35,003	32,668
Notes and accounts receivable - trade	96,145	87,991
Electronically recorded monetary claims - operating	5,361	5,243
Securities	261	229
Merchandise and finished goods	33,734	37,178
Work in process	489	837
Raw materials and supplies	5,802	5,908
Other	5,894	6,894
Allowance for doubtful accounts	(296)	(304)
Total current assets	182,396	176,649
Non-current assets		
Property, plant and equipment		
Buildings and structures, net	4,910	5,978
Machinery, equipment and vehicles, net	3,506	3,656
Tools, furniture and fixtures, net	1,104	1,036
Land	4,861	4,861
Construction in progress	628	1,066
Total property, plant and equipment	15,011	16,599
Intangible assets		
Goodwill	259	238
Software	1,819	1,775
Other	126	153
Total intangible assets	2,206	2,167
Investments and other assets		
Investment securities	10,085	9,802
Deferred tax assets	1,292	1,233
Guarantee deposits	870	845
Insurance funds	951	953
Other	1,462	1,535
Allowance for doubtful accounts	(515)	(513)
Total investments and other assets	14,147	13,856
Total non-current assets	31,364	32,623
Total assets	213,761	209,272

(Million yen)

	Fiscal year ended March 2019 (As of March 31, 2019)	First quarter ended June 2019 (As of June 30, 2019)
LIABILITIES		
Current liabilities		
Notes and accounts payable - trade	77,884	71,685
Short-term loans payable	30,656	33,690
Accrued expenses	5,307	4,051
Income taxes payable	1,147	568
Provision for directors' bonuses	105	26
Other	6,239	7,145
Total current liabilities	121,340	117,167
Non-current liabilities		
Long-term loans payable	1,882	1,692
Deferred tax liabilities	1,300	1,348
Provision for directors' retirement benefits	94	97
Net defined benefit liability	1,997	1,937
Asset retirement obligations	280	284
Other	2,606	3,272
Total non-current liabilities	8,161	8,632
Total liabilities	129,501	125,800
NET ASSETS		
Shareholders' equity		
Capital stock	12,133	12,133
Capital surplus	13,865	13,865
Retained earnings	51,297	51,412
Treasury shares	(2,024)	(2,024)
Total shareholders' equity	75,272	75,387
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	1,018	685
Deferred gains or losses on hedges	2	(11)
Foreign currency translation adjustment	527	(23)
Remeasurements of defined benefit plans	(215)	(200)
Total accumulated other comprehensive income	1,332	450
Non-controlling interests	7,654	7,634
Total net assets	84,259	83,472
Total liabilities and net assets	213,761	209,272

(2) Quarterly consolidated statements of income and comprehensive income

For the First quarter (April 1, 2019 – June 30, 2019)

(Million yen)

	First quarter ended June 2018 (April 1, 2018 – June 30, 2018)	First quarter ended June 2019 (April 1, 2019 – June 30, 2019)
Net sales	55,493	109,564
Cost of sales	47,851	98,501
Gross profit	7,641	11,062
Selling, general and administrative expenses	6,152	9,212
Operating income	1,489	1,850
Non-operating income		
Interest income	21	80
Dividends income	87	83
Foreign exchange gains	—	43
Gain from equity method investments	12	—
Commission fee	53	85
Other	101	119
Total non-operating income	275	412
Non-operating expenses		
Interest expenses	37	75
Share of loss of entities accounted for using equity method	—	88
Foreign exchange losses	35	—
Other	12	53
Total non-operating expenses	85	217
Ordinary income	1,679	2,045
Extraordinary income		
Gain on sales of non-current assets	1	5
Gain on sales of investment securities	184	0
Gain on transfer of business	7	12
Total extraordinary income	193	18
Extraordinary loss		
Loss on retirement of non-current assets	0	0
Loss on sales of investment securities	—	13
Loss on valuation of investment securities	104	247
Loss on valuation of golf club membership	5	—
Other	0	4
Total extraordinary loss	110	265
Profit before income taxes	1,762	1,799
Income taxes - current	264	211
Income taxes - deferred	345	157
Total income taxes	609	368
Profit	1,152	1,430
Profit attributable to owners of parent	1,148	1,350
Profit attributable to non-controlling interests	3	80
Other comprehensive income		
Valuation difference on available-for-sale securities	(137)	(330)
Deferred gains or losses on hedges	16	(13)
Foreign currency translation adjustment	182	(644)
Remeasurements of defined benefit plans, net of tax	6	12
Share of other comprehensive income of associates accounted for using equity method	(13)	(11)
Total other comprehensive income	55	(987)
Comprehensive income	1,207	442
Comprehensive income attributable to owners of parent	1,203	463
Comprehensive income attributable to non-controlling interests	4	(20)

(3) Notes to quarterly consolidated financial statements

(Notes to going concern assumptions)

Not applicable

(Significant change in shareholders' equity)

Not applicable

(Changes in accounting policies)

(IFRS 16 "Leases")

Subsidiaries that adopt International Financial Reporting Standards are applying International Financial Reporting Standard No. 16 "Leases" (hereafter, "IFRS 16") from the first quarter ended June 30, 2019. In accordance with the standards, right-of-use assets and lease liabilities are recognized in principle for all of the lessee's lease transactions, and depreciation of right-of-use assets and interest on lease liabilities are recorded.

In applying IFRS 16, the transition provisions are followed, opting therefore to measure lease liability at the present value, discounted using lessee's incremental borrowing rate at the date of initial application, and record this same amount for right-of-use asset.

As a result of the application of IFRS 16, the following items increased as of June 30, 2019: in non-current assets, "buildings and structures (net)" by 1,150 million yen, "machinery, equipment and vehicles (net)" by 4 million yen, and "tools, furniture and fixtures (net)" by 1 million yen; "other" in current liabilities by 251 million yen, and "other" in non-current liabilities by 911 million yen. Further, as a result of the application of IFRS 16, there was a decrease of 84 million yen in ordinary income for the first quarter ended June 30, 2019.

(Segment information)

I. For the first quarter ended June 2018 (April 1, 2018 – June 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	40,507	10,417	465	4,103	55,493	—	55,493
Inter-segment sales or transfers	669	185	177	959	1,992	(1,992)	—
Total	41,176	10,603	643	5,062	57,485	(1,992)	55,493
Segment income (loss)	1,071	317	(19)	80	1,450	38	1,489

- Notes:
1. Adjustment in segment income of 38 million yen includes 38 million yen for elimination of inter-segment trade.
 2. Segment income (loss) is adjusted for operating income on the quarterly consolidated statements of income and comprehensive income.

II. For the first quarter ended June 2019 (April 1, 2019 – June 30, 2019)

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	94,587	10,126	437	4,412	109,564	—	109,564
Inter-segment sales or transfers	754	160	91	965	1,973	(1,973)	—
Total	95,342	10,286	529	5,378	111,537	(1,973)	109,564
Segment income (loss)	1,621	188	(61)	72	1,820	30	1,850

- Notes:
1. Adjustment in segment income of 30 million yen includes 30 million yen for elimination of inter-segment trade.
 2. Segment income (loss) is adjusted for operating income on the quarterly consolidated statements of income and comprehensive income.