

August 6, 2020

Summary of Consolidated Financial Results for the First Quarter Ended June 30, 2020 [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)
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Date of filing of quarterly securities report (tentative):	August 14, 2020
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 2021 (April 1, 2020 – June 30, 2020)

(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	84,130	(23.2)	1,656	(10.5)	1,533	(25.0)	8,643	540.0
First quarter ended June	109,564	97.4	1,850	24.2	2,045	21.8	1,350	17.6

Note: Comprehensive income: 1Q of FY3/2021: 9,192 million yen (–%) 1Q of FY3/2020: 442 million yen (-63.3%)

	Earnings per share	Earnings per share (diluted)
	Yen	Yen
First quarter ended June 2020	314.77	–
First quarter ended June 2019	49.20	–

(2) Financial Position (Consolidated)

	Total assets	Net assets	Equity ratio
	Million yen	Million yen	%
As of June 30, 2020	214,097	94,344	40.3
As of March 31, 2020	207,638	86,250	37.7

Reference: Shareholders' equity : As of June 30, 2020: 86,385 million yen As of March 31, 2020: 78,284million yen

2. Dividends

	Dividend per share				
	1Q	2Q	3Q	Year-end	Full year
	Yen	Yen	Yen	Yen	Yen
Fiscal year ended March 2020	–	30.00	–	40.00	70.00
Fiscal year ending March 2021	–	–	–	–	–
Fiscal year ending March 2021 (Forecast)	–	30.00	–	30.00	60.00

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

Breakdown of year-end dividend for FY3/20: Ordinary dividend: 30.00 yen; Extraordinary dividend: 10.00 yen

With respect to the revision of dividend forecast, please refer to "Notification of earnings and dividend forecasts" announced today (August 6, 2020).

3. Forecast for the fiscal year ending March 2021 (Consolidated, April 1, 2020 – March 31, 2021)

(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	400,000	(9.8)	5,000	(50.1)	4,500	(55.6)	10,000	70.9	364.18

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

With respect to the revision of consolidated performance forecast, please refer to "Notification of earnings and dividend forecasts" announced today (August 6, 2020).

* Notes

(1) Changes in significant subsidiaries (Changes in specified subsidiaries accompanied by changes in the scope of

consolidation): Yes

New: 2 (Company Name) : EXCEL CO.,LTD. Advanced Display Solutions (HONG KONG) Limited.

Note: For more information, please refer "2. Quarterly Consolidated Financial Statements and Major Notes (3) Notes to quarterly consolidated financial statements (Changes to principal subsidiaries in the current consolidated year to date)" on page 8.

(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 June 30, 2020: 28,702,118 As of March 31, 2019 28,702,118

(b) Treasury shares

As of June 30, 2020: 1,243,334 As of March 31, 20119 1,243,279

(c) Average number of shares (quarterly consolidated during the period)

Period ended June 30, 2020: 27,458,812 Period ended June 30, 2019: 27,447,190

* 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

The Group's net sales in the first quarter of the fiscal year ending March 31, 2021, decreased by 23.2% year on year to 84,130 million yen due to several factors, including the termination of a large sales agency agreement that Fujitsu Electronics Inc. (hereafter, "Fujitsu Electronics"), a consolidated subsidiary of the Company, had entered into. Another major factor was the impact of the COVID-19 pandemic, which prompted countries to take containment measures such as lockdowns. This led to a decline in consumption and caused manufacturing companies to suspend operation of some of their production facilities.

In terms of income, operating income decreased by 10.5% year on year to 1,656 million yen and ordinary income decreased by 25.0% year on year to 1,533 million yen. Despite efforts to curb selling, general and administrative expenses through enhancement of operational efficiency, the decrease in gross profit resulting from the decrease in net sales could not be fully offset. Meanwhile, profit attributable to owners of the parent increased substantially by 540.0% year on year to 8,643 million yen, reflecting a "gain on bargain purchase" associated with the acquisition of EXCEL CO., LTD. (hereafter, "EXCEL") in April 2020, which was recognized as extraordinary income.

	FY 2020/3 1Q (April 1, 2019 – June 30, 2019)	FY 2021/3 1Q (April 1, 2020 – June 30, 2020)	YoY	
	(Million yen)	(Million yen)	(Million yen)	
Net sales	109,564	84,130	(25,434)	(23.2)%
Gross profit (Margin)	11,062 10.1%	9,997 11.9%	(1,064) 1.8pt	(9.6)% –
SG&A	9,212	8,341	(870)	(9.4)%
Operating income	1,850	1,656	(194)	(10.5)%
Ordinary income	2,045	1,533	(512)	(25.0)%
Profit before income taxes	1,799	9,110	7,311	406.4%
Profit attributable to owners of parent	1,350	8,643	7,292	540.0%
Exchange Rate (Average rate during the year) USD	109.90 Yen	107.62 Yen	(2.28)Yen	–

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 medical equipment area, but was sluggish in the areas of automotive and air conditioning devices due to the spread of COVID-19 and the ensuing lockdowns in many countries that caused suspension of operations and production adjustments at some overseas plants of both the Company and its customers. The component sales business recorded

a decrease in revenue from the impact notably of the termination, in October 2019, of a sales agency agreement that Fujitsu Electronics had entered into with the US-based Cypress Semiconductor Corporation.

As a result, net sales decreased by 27.9% year on year to 68,196 million yen, and segment income decreased by 26.9% year on year to 1,185 million yen.

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

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

In this business, the housing-related home electric appliances business declined due in part to delivery date adjustments by customers. On the other hand, PCs and PC peripherals enjoyed strong sales driven by the expansion of remote working and online learning amid the spread of COVID-19.

As a result, net sales increased by 23.8% year on year to 12,537 million yen, and segment income increased by 208.8% year on year to 583 million yen.

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

In this business, front-loading customer orders in such areas as production of computer graphics animation and development of game software helped to increase revenue.

As a result, net sales increased by 12.4% year on year to 491 million yen, and segment loss of 44 million yen was recorded (61 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, the PC and PC peripheral recycling business maintained steady performance, but game equipment for the amusement industry and golf products saw sluggish sales due to store closures in response to the COVID-19 pandemic.

As a result, net sales decreased by 34.2% year on year to 2,904 million yen, and segment loss of 101 million yen was recorded (72 million yen of segment income in the same period of the previous fiscal year).

		FY 2020/3 1Q (April 1, 2019 – June 30, 2019)	FY 2022/13 1Q (April 1, 2020 – June 30, 2020)	YoY	
		(Million yen)	(Million yen)	(Million yen)	
Electronic components	Net sales	94,587	68,196	(26,391)	(27.9)%
	Segment income	1,621	1,185	(435)	(26.9)%
Information equipment	Net sales	10,126	12,537	2,411	23.8%
	Segment income	188	583	394	208.8%
Software	Net sales	437	491	54	12.4%
	Segment income	(61)	(44)	17	–
Others	Net sales	4,412	2,904	(1,508)	(34.2)%
	Segment income	72	(101)	(174)	–
Total	Net sales	109,564	84,130	(25,434)	(23.2)%
	Segment income	1,850	1,656	(194)	(10.5)%

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, 2020 increased by 6,459 million yen from March 31, 2020, to 214,097 million yen.

Current assets increased by 3,833 million yen from March 31, 2020, to 178,165 million yen. This is primarily attributable to a decline in sales resulting in a decrease of 8,831 million yen in notes and account receivable – trade and an increase of 14,699 million yen in merchandise and finished goods.

Non-current assets increased by 2,625 million yen from March 31, 2020, to 35,932 million yen. This is largely the result of respective increases of 992 million yen and 824 million yen in investment securities and deferred tax assets.

Liabilities decreased by 1,635 million yen from March 31, 2020, to 119,753 million yen. This is primarily due to a decrease of 8,335 million yen in notes and accounts payable – trade, a decrease of 1,072 million yen in income taxes payable and an increase of 8,541 million yen in short-term loans payable.

Net assets increased by 8,094 million yen from March 31, 2020, to 94,344 million yen. This is primarily the result of recording 8,643 million yen of profit attributable to owners of the parent.

(3) Qualitative information on consolidated earnings forecast

① Revisions to consolidated earnings forecasts for the fiscal period ending March 31, 2021 (from April 1, 2020 to March 31, 2021)

	Net sales	Operating income	Ordinary income	Profit attributable to owners of parent	Net income per share
	Million yen	Million yen	Million yen	Million yen	yen
Previous forecast (A) (announced on May 21, 2020)	–	–	–	–	–
Revised forecast (B)	400,000	5,000	4,500	10,000	364.18
Difference (B-A)	–	–	–	–	–
Difference (%)	–	–	–	–	–
(Reference) Results for the year ended March 31, 2020	443,615	10,014	10,137	5,852	213.21

② Reasons for consolidated earnings forecasts

With respect to consolidated earnings forecast for the fiscal year ending March 31, 2021, the Company reported it as undecided as of May 21, 2020, when the “Summary of Consolidated Financial Results for the Year Ended March 2020 (Japan GAAP)” was announced, as it was difficult to logically estimate the effects of COVID-19 on the Group’s business operations. Calculations have now been made based on information that is currently available, estimates and any other pertinent data as of the date of reporting.

Looking ahead at the fiscal year ending March 31, 2021, it is expected that the COVID-19 pandemic will continue unabated and will impact the Group’s business activities in a variety of ways. In the information equipment business, demand for IT-related products such as PCs and tablets is expected to grow as remote working and online learning continue to expand. However, in the Group’s core electronic components business, a decline in demand is inevitable, notably in the automotive and industrial equipment markets. Given also the impact of the dissolution of large commercial rights at Fujitsu

Electronics, a subsidiary of the Group, net sales are expected to fall below those of the previous fiscal year. Although Group-wide efforts will be made to enhance operational efficiency and curb selling, general and administrative expenses, a decrease in net sales is expected, accompanied by year on year decreases in operating income and ordinary income. Meanwhile, a year on year increase in profit attributable to owners of the parent is projected because the “gain on bargain purchases” associated with the acquisition of EXCEL in April 2020 will be recognized as extraordinary income.

Note: The above earnings forecasts are based on the information currently available to the Company on the date of release and certain assumptions deemed reasonable. Actual results may vary from the forecast for a variety of reasons.

2. Quarterly Consolidated Financial Statements and Major Notes

(1) Quarterly consolidated balance sheet

(Million yen)

	Fiscal year ended March 2020 (As of March 31, 2020)	First quarter ended June 2020 (As of June 30, 2020)
ASSETS		
Current assets		
Cash and deposits	43,384	36,404
Notes and accounts receivable -	85,495	76,663
Electronically recorded monetary claims -	5,876	7,927
Securities	254	268
Merchandise and finished goods	25,276	39,976
Work in process	567	1,231
Raw materials and supplies	6,063	6,609
Other	7,601	9,340
Allowance for doubtful accounts	(188)	(257)
Total current assets	174,331	178,165
Non-current assets		
Property, plant and equipment		
Buildings and structures, net	7,365	7,548
Machinery, equipment and	4,477	4,884
Tools, furniture and fixtures, net	1,060	1,056
Land	4,924	4,924
Construction in progress	145	79
Total property, plant and	17,974	18,494
Intangible assets		
Goodwill	322	294
Software	1,743	1,938
Other	190	93
Total intangible assets	2,256	2,326
Investments and other assets		
Investment securities	8,502	9,494
Deferred tax assets	1,584	2,408
Guarantee deposits	857	911
Insurance funds	894	967
Other	1,791	1,904
Allowance for doubtful accounts	(552)	(574)
Total investments and other assets	13,075	15,112
Total non-current assets	33,306	35,932
Total assets	207,638	214,097

(Million yen)

	Fiscal year ended March 2020 (As of March 31, 2020)	First quarter ended June 2020 (As of June 30, 2020)
LIABILITIES		
Current liabilities		
Notes and accounts payable - trade	70,188	61,852
Short-term loans payable	6,540	15,081
Accrued expenses	5,739	3,966
Income taxes payable	1,884	812
Provision for directors' bonuses	101	14
Other	9,201	10,019
Total current liabilities	93,655	91,746
Non-current liabilities		
Long-term loans payable	20,833	20,512
Deferred tax liabilities	1,378	1,567
Provision for directors' retirement	95	96
Net defined benefit liability	1,969	2,237
Asset retirement obligations	329	375
Other	3,127	3,217
Total non-current liabilities	27,732	28,006
Total liabilities	121,388	119,753
NET ASSETS		
Shareholders' equity		
Capital stock	12,133	12,133
Capital surplus	13,878	13,878
Retained earnings	55,091	62,635
Treasury shares	(2,005)	(2,005)
Total shareholders' equity	79,097	86,642
Accumulated other comprehensive		
Valuation difference on available-for-s:	0	534
Deferred gains or losses on hedges	28	14
Foreign currency translation	(707)	(678)
Remeasurements of defined benefit	(133)	(126)
Total accumulated other	(812)	(256)
Non-controlling interests	7,965	7,958
Total net assets	86,250	94,344
Total liabilities and net assets	207,638	214,097

(2) Quarterly consolidated statements of income and comprehensive income
For the First quarter (April 1, 2020 – June 30, 2020)

(Million yen)

	First quarter ended June 2019 (April 1, 2019– June 30,2019)	First quarter ended June 2020 (April 1, 2020 – June 30, 2020)
Net sales	109,564	84,130
Cost of sales	98,501	74,132
Gross profit	11,062	9,997
Selling, general and administrative expenses	9,212	8,341
Operating income	1,850	1,656
Non-operating income		
Interest income	80	29
Dividends income	83	74
Foreign exchange gains	43	–
Commission income	85	50
Commission fee	119	142
Other	412	296
Total non-operating income		
Non-operating expenses	75	68
Interest expenses	88	150
Share of loss of entities accounted for using equity method	–	184
Foreign exchange losses	53	15
Other	217	419
Total non-operating expenses	2,045	1,533
Ordinary income		
Extraordinary income	5	0
Gain on sales of non-current assets	0	39
Gain on sales of investment securities	–	8,007
Gain on transfer of business	12	7
Total extraordinary income	–	2
Extraordinary loss	18	8,057
Loss on retirement of non-current assets		
Loss on sales of investment securities	0	12
Loss on valuation of investment securities	13	–
Loss on valuation of investment securities	247	421
Other	4	45
Total extraordinary loss	265	480
Profit before income taxes	1,799	9,110
Income taxes - current	211	292
Income taxes - deferred	157	177
Total income taxes	368	470
Profit	1,430	8,640
Profit attributable to owners of parent	1,350	8,643
Profit (loss) attributable to non-controlling interests	80	(2)
Other comprehensive income		
Valuation difference on available-for-sale securities	(330)	534
Deferred gains or losses on hedges	(13)	(14)
Foreign currency translation adjustment	(644)	(42)
Remeasurements of defined benefit plans, net of tax	12	7
Share of other comprehensive income of associates accounted for using equity method	(11)	67
Total other comprehensive income	(987)	552
Comprehensive income	442	9,192
Comprehensive income attributable to owners of parent	463	9,199
Comprehensive income attributable to non-controlling interests	(20)	(6)

(3) Notes to quarterly consolidated financial statements

(Notes to going concern assumptions)

Not applicable

(Significant change in shareholders' equity)

Not applicable

(Changes to principal subsidiaries in the current consolidated year to date)

Effective April 1, 2020, as part of the Group's growth strategy, the Company acquired all of the shares of EXCEL and made it a wholly owned subsidiary. As a result, EXCEL ASIAN TAIWAN CO.,LTD, EXCEL ELECTRONICS (HONG KONG) LTD., EXCEL INTERNATIONAL TRADING (SHANGHAI) CO.,LTD., EXCEL SINGAPORE PTE LTD., EXCEL ELECTRONICS TRADING (SHENZHEN) LTD., Advanced Display Solutions Limited., Advanced Display Solutions (HONG KONG) Limited., EXCEL ELECTRONICS TRADING(THAILAND)CO.,LTD.. and ALFA BUS JAPAN CO.,LTD. became indirectly owned subsidiaries of the Company.

Note that EXCEL CO.,LTD. and Advanced Display Solutions (HONG KONG) Limited. constitutes a specified subsidiary of the Company as the amount of its capital is greater than 10% of the amount of the Company's capital.

(Additional information)

(Accounting estimates associated with the COVID-19 pandemic)

Accounting estimates such as of impairment of non-current assets and collectability of deferred tax assets are made based on information that is available as of June 30, 2020 and do not include significant changes from the financial statement for the previous consolidated fiscal year. Such accounting estimates assume that the impact of the COVID-19 pandemic will continue until March 31, 2021 and that there will be a gradual recovery from the fiscal year ending March 31, 2022. That being said, since the unprecedented impact of the COVID-19 pandemic contains elements of uncertainty, differences may arise between the estimates and subsequent results.

(Segment information)

I. 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.

II. For the first quarter ended June 2020 (April 1, 2020 – June 30, 2020)

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	68,196	12,537	491	2,904	84,130	–	84,130
Inter-segment sales or transfers	615	1,072	125	874	2,687	(2,687)	–
Total	68,811	13,610	617	3,778	86,817	(2,687)	84,130
Segment income (loss)	1,185	583	(44)	(101)	1,622	33	1,656

Notes: 1. Adjustment in segment income of 33 million yen includes 33 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.