

# Information Meeting for The First Half of Fiscal Year ending March 2014

November 18, 2013

**KAGA ELECTRONICS CO., LTD.** (TSE 1<sup>st</sup> section, 8154)

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# **Financial Highlights**

## **First Half of FY3/2014**

# Consolidated Statement of Income

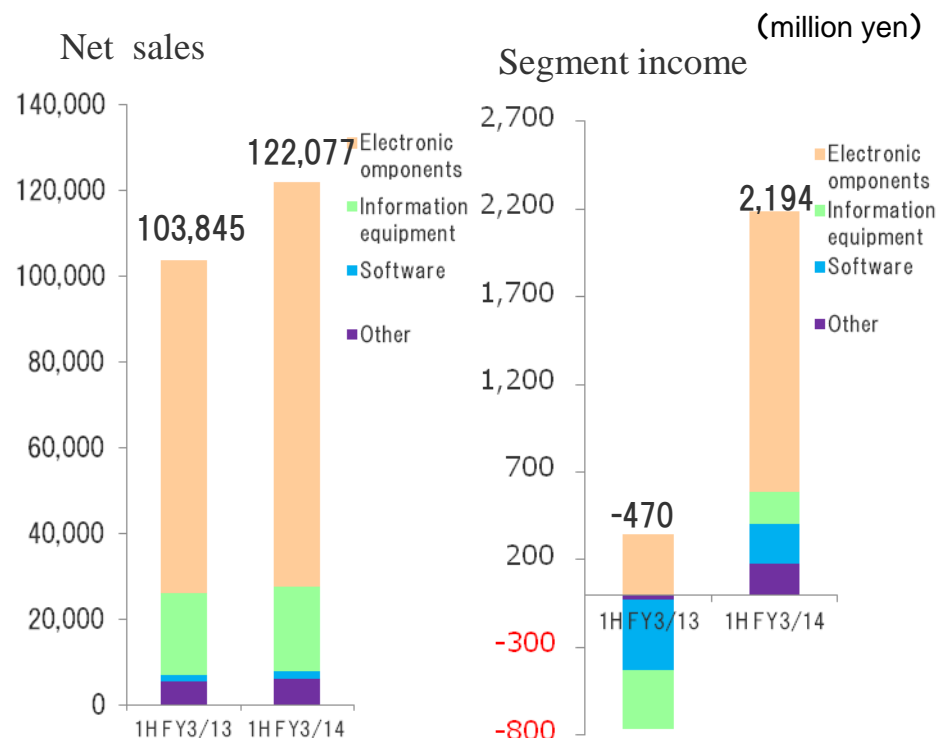
(million yen)

	1H FY3/2013		1H FY3/2014		Changes	
	Amount	Pct.	Amount	Pct.	Amount	Pct.
Net Sales	103,845	100.0%	122,077	100.0%	18,232	17.6%
Cost of sales	91,515	88.1%	106,348	87.1%	14,833	16.2%
Gross profit	12,329	11.9%	15,728	12.9%	3,399	27.6%
SG&A expenses	12,800	12.3%	13,534	11.1%	734	5.7%
Operating income	-470	-0.5%	2,194	1.8%	2,664	-
Non-operating income	432	0.4%	396	0.3%	-36	-8.3%
Non-operating expenses	318	0.3%	153	0.1%	-165	-51.9%
Ordinary income	-355	-0.3%	2,437	2.0%	2,792	-
Extraordinary items	-324	-0.3%	-84	-0.1%	240	-
Income before income taxes	-680	-0.7%	2,354	1.9%	3,034	-
Income taxes	530	0.5%	757	0.6%	227	42.8%
Income taxes-deferred	238	0.2%	236	0.2%	-2	-0.8%
Minority interests	-75	-0.1%	7	0.0%	82	-
Net income	-1,373	-1.3%	1,352	1.1%	2,725	-

# Comparison of Consolidated Sales by Business Category

	(million yen)					
	1H FY3/2013		1H FY3/2014		Changes	
	Net sales	Pct.	Net sales	Pct.	Amount	Pct.
	Segment income		Segment income			
Electronic components	77,783	74.9%	94,595	77.5%	16,812	21.6%
	343	-	1,601	73.0%	1,258	365.7%
Information equipment	19,270	18.6%	19,767	16.2%	497	2.6%
	-337	-	184	8.4%	521	-
Software	1,491	1.4%	1,548	1.3%	57	3.8%
	-403	-	231	10.5%	634	-
Other	5,299	5.1%	6,165	5.1%	866	16.3%
	-27	-	175	8.0%	202	-
Total	103,845	100.0%	122,077	100.0%	18,232	17.6%
	-470	-	2,194	100.0%	2,664	-

\* Figures of each segment income are not inter-segment adjusted other than total.



## Summary

■ **Electronic components** (Development, manufacture and sale of semiconductors, general electronic components and other products, electronic manufacturing service (EMS), and other activities)

Sales in Japan increased for EMS involving amusement equipment and for electronic components. Overseas EMS sales increased, too. The result was sales of 94,595 million yen

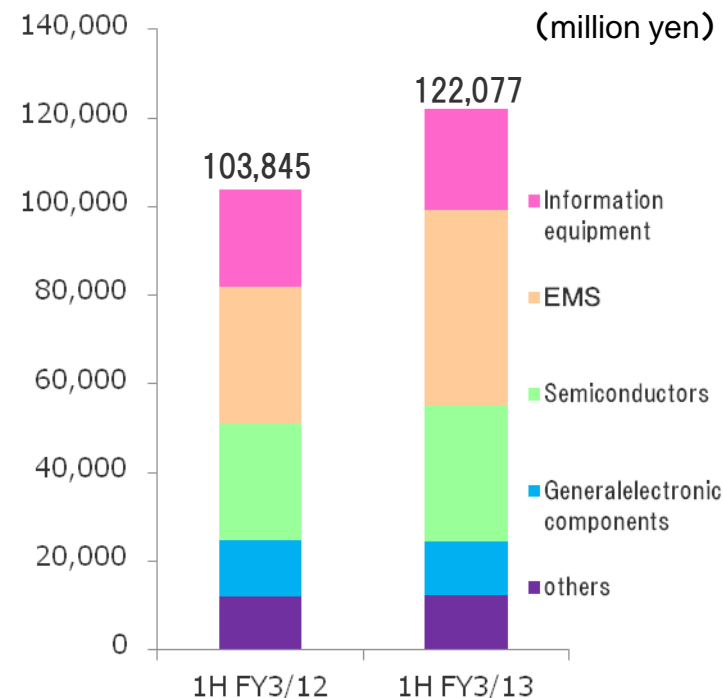
■ **Information equipment** (Sales of PCs, PC peripherals, photograph and imaging products, original-brand products, and other products)

There were measures to increase sales of current products and add new products. Sales increased for housing products, PC software for schools, environmental products and some other products. As a result, sales totaled 19,767 million yen.

# 【Reference】Comparison of Consolidated Sales by Business Category

(million yen)

	1H FY3/2013		1H FY3/2014		Changes	
	Amount	Pct.	Amount	Pct.	Amount	Pct.
Information equipment	21,851	21.0%	22,711	18.6%	860	3.9%
EMS	30,989	29.8%	44,382	36.4%	13,393	43.2%
Semiconductors	26,272	25.3%	30,483	25.0%	4,211	16.0%
Generalelectronic components	12,611	12.1%	12,151	10.0%	-460	-3.6%
Others	12,121	11.7%	12,347	10.1%	226	1.9%
<b>Total</b>	<b>103,845</b>	<b>100.0%</b>	<b>122,077</b>	<b>100.0%</b>	<b>18,232</b>	<b>17.6%</b>



## Summary

### ■ Information equipment sales: Up 860 million yen (+3.9%)

Sales increased to 22,711 million yen because of higher demand for housing products, PC software for schools, environmental products and some other products.

### ■ EMS sales: Up 13,392 million yen (+43.2%)

Higher EMS volume in Japan and overseas raised sales to 44,382 million yen.

### ■ Semiconductor sales: Up 4,211 million yen (+16.0%)

Sales were 26,342 million yen mainly because of a decline in orders in Japan for semiconductors used in amusement devices.

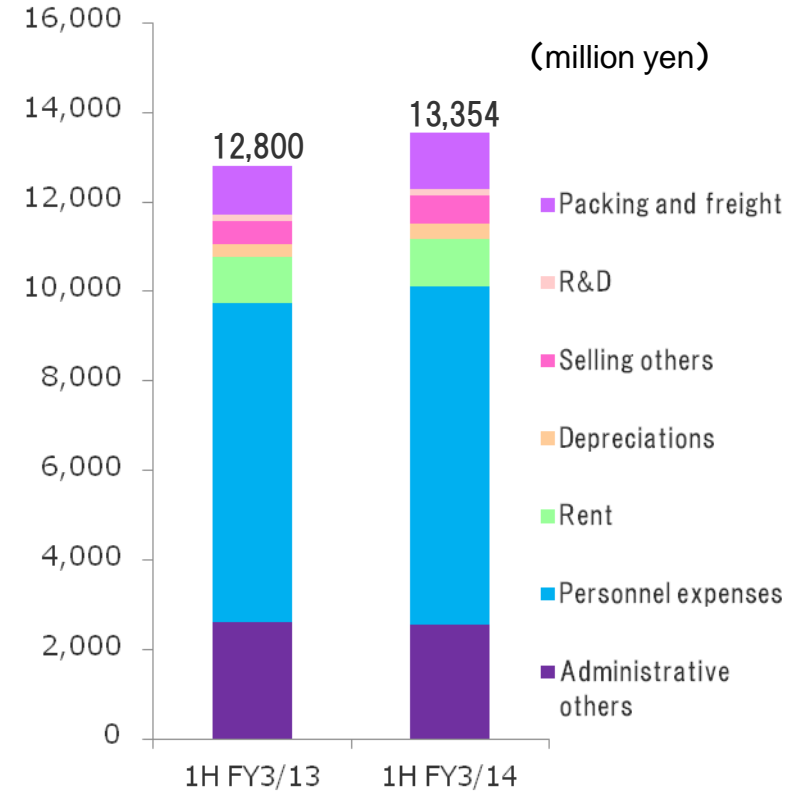
### ■ General electronic components sales: Down 3,991 million yen (-24.0%)

Sales increased to 26,342 million yen mainly because of growth in orders in Japan for semiconductors used in amusement equipment.

# Selling, General and Administrative Expenses

(million yen)

	1H FY3/2013		1H FY3/2014		Changes	
	Amount	Pct.	Amount	Pct.	Amount	Pct.
Packing and freight	1,096	8.6%	1,254	9.3%	158	14.4%
R&D	144	1.1%	130	1.0%	-14	-9.7%
Others	498	3.9%	631	4.7%	133	26.7%
Total selling expenses	1,738	13.6%	2,015	14.9%	277	15.9%
Depreciations	280	2.2%	357	2.6%	77	27.5%
Rent	1,036	8.1%	1,052	7.8%	16	1.5%
Personnel expenses	7,130	55.7%	7,537	55.7%	407	5.7%
Others	2,614	20.4%	2,570	19.0%	-44	-1.7%
Total administrative	11,061	86.4%	11,518	85.1%	457	4.1%
Total SG&A expenses	12,800	100.0%	13,534	100.0%	734	5.7%



## Summary

### Selling, general and administrative expenses

Personnel expenses: Up 407 million yen because of an increase at KAGA ELECTRONICS

Packing and freight: Up 158 million yen because sales increased

# Consolidated Balance Sheets

## Consolidated Balance Sheets

(million yen)

	End of FY3/2013	End of FY9/2013	Change
<b>Current assets</b>	89,945	94,410	4,465
Cash and cash equivalents	12,258	14,538	2,280
Notes and account receivable-trade	54,580	54,479	-101
Merchandise and finished goods	14,075	15,400	1,325
Goods in progress	637	1,068	431
Raw materials and other supplies	4,065	3,914	-151
Others	4,327	5,009	682
<b>Fixed assets</b>	21,943	22,247	304
Property, plant and equipment	10,559	10,880	321
Intangible assets	2,226	1,999	-227
Investments and other assets	9,157	9,367	210
<b>Total assets</b>	111,888	116,658	4,770

	End of FY3/2013	End of FY9/2013	Change
<b>Current liabilities</b>	53,355	57,091	3,736
Notes and accounts payable-trade	37,423	39,223	1,800
Short-term bank loans	9,567	10,141	574
Others	6,365	7,726	1,361
<b>Long-term liabilities</b>	9,726	9,202	-524
Long-term bank loans	5,121	4,395	-726
Others	4,605	4,807	202
<b>Total liabilities</b>	63,082	66,293	3,211
<b>Shareholders' equity</b>			0
Paid-in capital	12,133	12,133	0
Capital surplus	13,912	13,912	0
Retained earnings	24,384	25,313	929
Treasury stock	-535	-535	0
Valuation and translation adjustment	-1,238	-496	742
<b>Minority interests</b>	149	37	-112
<b>Total net assets</b>	48,806	50,364	1,558
<b>Total liabilities and net assets</b>	111,888	116,658	4,770



# Consolidated Cash Flows

(million yen)

	1H FY3/2013	1H FY3/2014	Changes
Operating activities	3,293	3,772	479
Investing activities	-3,695	-1,033	2,662
Financials activities	-258	-708	-450
Net change in cash and cash equivalents	-129	186	315
Increase (decrease) in cash and cash equivalents	-789	2,217	3,006
Cash and cash equivalents at beginning of year	9,695	11,878	2,183
Cash and cash equivalents at end of year	8,905	14,096	5,191

## Summary

**Operating activities:** Net cash provided 偽造 was 3,772 million yen mainly due to a first half income before income taxes and minority interest.

**Investing activities:** Net cash used was 1,033 million yen mainly due to payments for the purchase of property, plant and equipment.

**Financing activities:** Net cash used was 708 million yen mainly due to repayments of long-term loans payable.



# Forecast for FY3/2014

## Consolidated Statement of Income

(million yen)

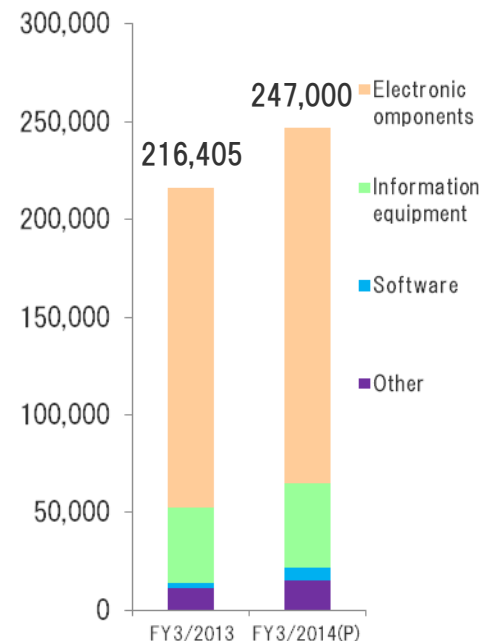
	FY3/2013(actual)		FY3/20124(plan)		Changes	
	Amount	Pct.	Amount	Pct.	Amonut	Pct.
Net Sales	216,405	100.0%	247,000	100.0%	30,595	14.1%
Cost of sales	188,943	87.3%	216,500	87.7%	27,557	14.6%
Gross profit	27,462	12.7%	30,500	12.3%	3,038	11.1%
SG&A expenses	26,202	12.1%	26,900	10.9%	698	2.7%
Operating income	1,260	0.6%	3,600	1.5%	2,340	185.7%
Non-operating income	671	0.3%	700	0.3%	29	4.3%
Ordinary income	1,931	0.9%	4,300	1.7%	2,369	122.7%
Net income	444	0.4%	2,200	1.0%	1,756	395.5%

# Comparison of Consolidated Sales by Business Category

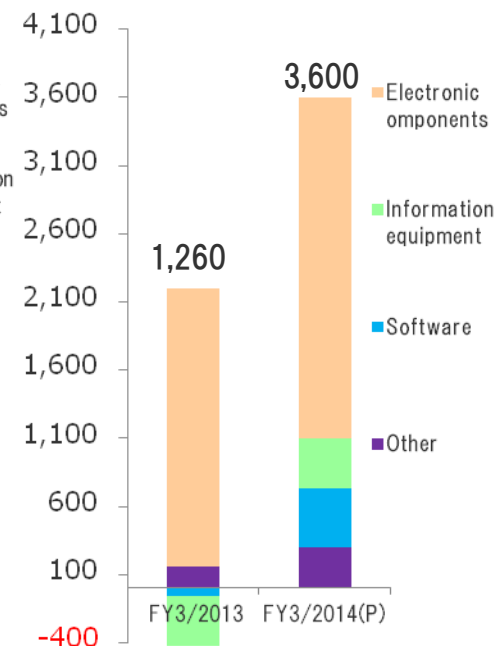
(million yen)

	FY3/2013 (Actual)		FY3/2014 (Plan)		Changes	
	Net sales	Pct.	Net sales	Pct.	Amount	Pct.
	Segment income		Segment income			
Electronic components	164,164	75.9%	182,000	73.7%	17,836	10.9%
	2,040	-	2,500	69.4%	460	22.5%
Information equipment	38,305	17.7%	43,000	17.4%	4,695	12.3%
	-836	-	365	10.1%	1,201	-
Software	2,874	1.3%	7,000	2.8%	4,126	143.6%
	-61	-	435	12.1%	496	-
Other	11,060	5.1%	15,000	6.1%	3,940	35.6%
	157	-	300	8.3%	143	91.1%
Total	216,405	100.0%	247,000	100.0%	30,595	14.1%
	1,260	-	3,600	100.0%	2,340	185.7%

Net sales



Segment income (million yen)



## Summary

■ **Electronic components** (Development, manufacture and sale of semiconductors, general electronic components and other products, electronic manufacturing service (EMS), and other activities)

Forecast higher sales mainly because of increases in EMS and semiconductor sales in Japan and EMS sales overseas.

■ **Information equipment** (Sales of PCs, PC peripherals, photograph and imaging products, original-brand products, and other products)

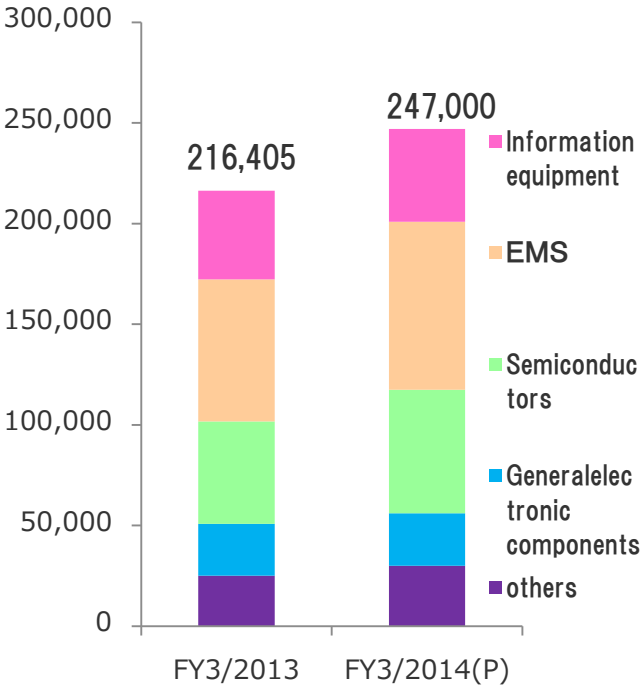
Forecast higher sales mainly because of growth in sales of current products and increases in sales of housing products, PC software for schools, environmental products and some other products.

# 【Reference】Comparison of Consolidated Sales by Business Category

(million yen)

	FY3/2013 (Actual)		FY3/2014 (Plan)		Changes	
	Amount	Pct.	Amount	Pct.	Amount	Pct.
Information equipment	44,147	20.4%	46,000	18.6%	1,853	4.2%
EMS	70,546	32.6%	83,500	33.8%	12,954	18.4%
Semiconductors	50,960	23.6%	61,500	24.9%	10,540	20.7%
General electronic components	25,636	11.8%	26,000	10.5%	364	1.4%
Others	25,113	11.6%	30,000	12.2%	4,887	19.5%
Total	216,405	100.0%	247,000	100.0%	30,595	14.1%

(million yen)



## Summary

**Information equipment:** Sales up 1,853 million yen (+4.2%) mainly due to higher sales of current products, adding new products and growth of new businesses

**EMS:** Sales up 12,954 million yen (+18.4%) because of growth in EMS operations in Japan and overseas

**Semiconductors:** Sales up 10,540 million yen (+20.7%) mainly due to higher sales of semiconductors for amusement equipment, automobiles and communication equipment

**General electronic components:** Sales up 364 million yen (+1.4%) mainly due to higher sales of components used in amusement equipment and automobiles

**Others:** Sales up 4,887 million yen (+19.5%) mainly due to increases in computer graphics production, application software and game software sales

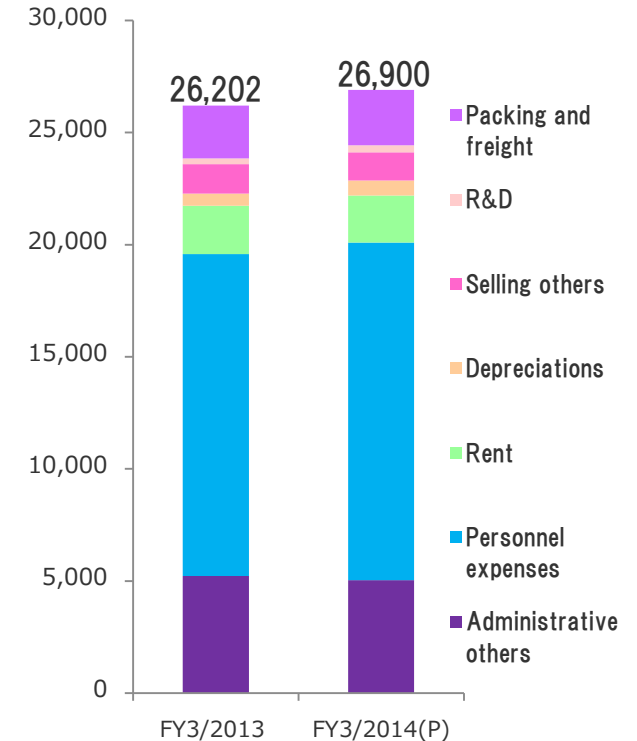
# Forecast for FY3/2014

## Selling, General and Administrative Expenses

(million yen)

	FY3/2013 (Actual)		FY3/2014 (Plan)		Changes
	Amount	Pct.	Amount	Pct.	
Packing and freight	2,346	9.0%	2,460	9.1%	114
R&D	265	1.0%	320	1.2%	55
Others	1,306	5.0%	1,260	4.7%	-46
Total selling expenses	3,917	15.0%	4,040	15.0%	123
Depreciations	543	2.1%	660	2.5%	117
Rent	2,160	8.2%	2,100	7.8%	-60
Personnel expenses	14,363	54.8%	15,060	56.0%	697
Others	5,217	19.9%	5,040	18.7%	-177
Total administrative	22,283	85.0%	22,860	85.0%	577
Total SG&A expenses	26,202	100.0%	26,900	100.0%	698

(million yen)



### Summary

Selling, general and administrative expenses

**Packing and freight:** Forecast a 114 million yen increase because of sales growth

**Depreciation:** Forecast a 117 million yen increase because of growth in assets at KAGA ELECTRONICS

**Personnel expenses:** Forecast a 697 million yen increase because of higher expenses at KAGA ELECTRONICS

# topics

- 1. Progress involving unprofitable subsidiaries**
- 2. Overseas operations**
- 3. Cost cutting**

# topics①Progress involving unprofitable subsidiaries

Progress continues with rebuilding unprofitable subsidiaries, the highest priority of the KAGA ELECTRONICS Group

(million yen)

	①KAGA COMPONENTS (simple tabulation)				②KAGA HIGHTECH				③ADM				④SI ELECTRONICS			
	FY 3/2012	FY 3/2013	1HFY 3/2014	FY 3/2014 (P)	FY 3/2012	FY 3/2013	1HFY 3/2014	FY 3/2014 (P)	FY 3/2012	FY 3/2013	1HFY 3/2014	FY 3/2014 (P)	FY 3/2012	FY 3/2013	1HFY 3/2014	FY 3/2014 (P)
Net sales	16,702	16,201	8,201	16,610	40,449	28,280	12,759	26,309	10,416	9,225	6,122	-	2,459	2,087	2,174	4,569
Operating Income	-517	-253	-39	54	-489	-1,154	-130	-199	-41	-279	23	-	-127	9	-10	56
Ordinary Income	-529	-175	1	92	-330	-1,095	-107	-142	-46	-283	15	-	-144	-9	-39	5
Net income	-1,028	-37	-46	40	-577	-1,784	-101	-136	-22	-420	14	-	-145	-9	-39	5
FY3/14 Actions	Improve profitability 1. Optimize factories in Japan and overseas 2. Stop selling unprofitable products 3. Switch to businesses with significant added value (collaboration with group EMS companies)				Improve operations 1. Focus resources on key businesses 2. Reduce inventories 3. Cut expenses 4. Start using new suppliers				Merged with KAGA DEVICES on October 1 Aiming for growth by using synergies from the strengths of both companies				Structural reform 1. Organizational reforms 2. Increase sales of original LSIs (Y3) 3. Work with other group companies 4. Create more added value (strengthen technology operations)			



The fundamental policy is to concentrate on competitive businesses while integrating and shutting down businesses with no clear future - Objective is to return poorly performing subsidiaries to profitability



### Expand overseas business for growth of the group's operations

Strengthen businesses in Asia that have good prospects for growth

- ◆ Increase relationships with local companies (China, Korea, SE Asia)

Achieve growth by providing ideas that use new products

- ◆ Deepen relationships with overseas Japanese companies

Reinforce ties with manufacturers of automotive devices

- ◆ Collaborate with companies in Asia


Conduct business that matches the distribution channels of each company by strengthening partnerships with Asian companies



Asian operations of the KAGA ELECTRONICS Group

Create business activities that are aligned with the needs of customers and regions

### The October merger of KAGA DEVICES and ADM created the New KAGA DEVICES

 KAGA DEVICES CO.,LTD. FY3/13 sales 28.7bn yen

Sells semiconductors and electronic parts and devices as the agent of Mitsubishi Electric, Renesas Electronics, SK hynix Japan and other companies



ADM INC.

FY3/13 sales 9.2bn yen

Sells semiconductors and electronic parts and devices as the sales agent of Analog Devices, Omnivision Technology and other companies

 KAGA DEVICES CO.,LTD.

FY3/14 sales (est.) 40bn yen

CEO Shigeru Matsushita

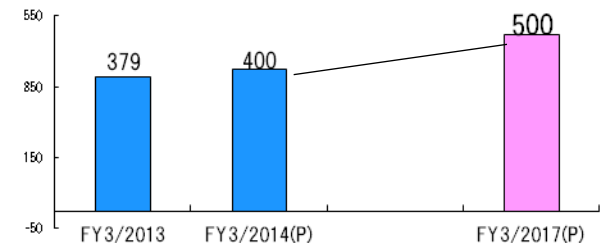
Activities Sale of semiconductors and electronic parts and devices as the agent of Mitsubishi Electric, Renesas Electronics, SK hynix Japan and other companies and as the sales agent of Analog Devices, Omnivision Technology and other companies

Capital 395 million yen

Affiliates KAGA DEVICES(H.K)LIMITED、 KAGA (SHENZHEN) TRADING CO., LTD 、 KAGA DEVICES INDIA PRIVATE LIMITED

#### < Expected synergies from the merger >

- ◆ Growth by sharing the two companies' customers the products (higher sales)
- ◆ Growth of the overseas network (Hong Kong, Shenzhen, India, Singapore)
- ◆ Growth of functions by sharing technical teams (creation of new businesses)



Goal is to use merger synergies to raise sales to 50 billion yen within three years

### Cost cutting measures

#### ◆Move to company-owned head office building

New head office building has been constructed in Tokyo near Akihabara Station  
Head office is to be moved to this building in March 2014

#### Cost reductions

First year (FY3/15) 200 million yen/year

Afterward 700 million yen/year



#### ◆Lower logistics expenses

A logistics project was started in October 2012 to cut the group's logistics expenses

#### Actual and projected cost reductions

FY3/13 (actual) 150 million yen/year

FY3/14 (est.) 180 million yen/year

FY3/15 (est.) 70 million yen/year

Target is to cut logistics expenses from 1.2% to 1% of sales

Cumulative saving of 400 million yen/year



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