



February 6, 2018

## Summary of Consolidated Financial Results for the Third Quarter Ended December 31, 2017 [Japan GAAP]

|  |   |
|--|---|
| Name of Company:   | KAGA ELECTRONICS CO., LTD.                            |
| Stock Code:  | 8154  |
| Stock Exchange Listing:                                    | Tokyo Stock Exchange, First Section                   |
| URL:   | http://www.taxan.co.jp/                               |
| Representative   | Title: President & COO                                |
|  | Name: Ryoichi Kado                                    |
| Contact Person   | Title: Managing Director, Administration Headquarters |
|  | Name: Eiji Kawamura                                   |
| Phone:   | +81-(0)3-5657-0111                                    |
| Date of filing of quarterly securities report (tentative): | February 14, 2018                                     |
| 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 2018 (April 1, 2017 – December 31, 2017)

#### (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 2017 | 174,047     | 3.9   | 6,613            | 27.7   | 7,093           | 29.0   | 5,510                                   | 13.3 |
| Third quarter ended December 2016 | 167,486     | (8.1) | 5,178            | (15.7) | 5,500           | (14.6) | 4,863                                   | 11.2 |

Note: Comprehensive income: 3Q of FY3/2018: 6,916 million yen (37.9%)    3Q of FY3/2017: 5,017 million yen (30.0%)

|                                   | Earnings per share | Earnings per share (diluted) |
|-----------------------------------|--------------------|------------------------------|
|                                   | Yen                | Yen                          |
| Third quarter ended December 2017 | 200.86             | -                            |
| Third quarter ended December 2016 | 172.92             | -                            |

#### (2) Financial Position (Consolidated)

|                         | Total assets | Net assets  | Equity ratio |
|-------------------------|--------------|-------------|--------------|
|                         | Million yen  | Million yen | %            |
| As of December 31, 2017 | 128,937      | 71,004      | 55.0         |
| As of March 31, 2017    | 125,751      | 65,932      | 52.4         |

Reference: Shareholders' equity

As of December 31, 2017: 70,928 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 2017             | -                  | 25.00 | -   | 35.00    | 60.00     |
| Fiscal year ending March 2018            | -                  | 30.00 | -   | -        | -         |
| Fiscal year ending March 2018 (Forecast) | -                  | -     | -   | 40.00    | 70.00     |

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

Breakdown of interim dividend for FY3/17: Ordinary dividend: 20.00 yen; Extraordinary dividend: 5.00 yen

Breakdown of year-end dividend for FY3/17: Ordinary dividend: 20.00 yen; Extraordinary dividend: 15.00 yen

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 (forecast): Ordinary dividend: 35.00 yen; Extraordinary dividend: 5.00 yen

With regard to the revision of dividend forecast, please refer to "KAGA ELECTRONICS Revises Consolidated Performance Forecast and Dividend Forecast" announced on February 6, 2018.

### 3. Forecast for the fiscal year ending March 2018 (Consolidated, April 1, 2017 – March 31, 2018)

(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 | 232,000     | 2.1 | 8,000            | 16.3 | 8,700           | 18.5 | 6,450                                   | (7.5) | 235.10             |

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

With regard to the revision of consolidated performance forecast, please refer to "KAGA ELECTRONICS Revises Consolidated Performance Forecast and Dividend Forecast" announced on February 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 December 31, 2017: | 28,702,118 | As of March 31, 2017: | 28,702,118 |
|--------------------------|------------|-----------------------|------------|

(b) Treasury shares

|                          |           |                       |           |
|--------------------------|-----------|-----------------------|-----------|
| As of December 31, 2017: | 1,267,325 | As of March 31, 2017: | 1,266,468 |
|--------------------------|-----------|-----------------------|-----------|

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

|                                 |            |                                 |            |
|---------------------------------|------------|---------------------------------|------------|
| Period ended December 31, 2017: | 27,435,262 | Period ended December 31, 2016: | 28,126,870 |
|---------------------------------|------------|---------------------------------|------------|

\* The quarterly review procedures are not applicable to this Financial Results report.

\* Cautionary statement regarding forecasts of operating results and special notes

(Remarks on forward-looking statements)

Forward-looking statements in these materials are based on information currently available to the Company and certain assumptions deemed reasonable. Actual results may vary from the forecast for a variety of reasons. For information about the forecasts, please see "1. Results of Operations (3) Qualitative information on consolidated earnings forecast" on page 3 of Supplementary Information.

(Supplementary materials for financial results)

Supplementary materials for financial results will be made available on our website.

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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, 2018, the Japanese economy witnessed a gradual recovery as yen's depreciation and the recovery of overseas economy improved corporate earnings and also resulted in steady growth of capital expenditures, although the recovery of consumer spending has slowed down.

In the electronics industry, the principal sector of operations of the KAGA ELECTRONICS Group ("the Group"), while markets for PCs and amusement machines remained stagnant, the smartphone market showed a steady growth with expanded demand in emerging countries and the needs for high functionality, and the automotive devices market also showed a steady growth with an increasing use of electronics in automobiles. Meanwhile, innovative technology-related markets including IoT <sup>(Note 1)</sup>, big data, and artificial intelligence showed favorable growth.

Under such environment, based on our corporate philosophy of "Everything we do is for our customers," the Group focused on increasing sales to existing major customers in Japan and expanding EMS <sup>(Note 2)</sup> businesses overseas.

Consolidated net sales increased 3.9% year on year to 174,047 million yen, operating income increased 27.7% to 6,613 million yen, and ordinary income rose 29.0% to 7,093 million yen. Profit attributable to owners of parent increased 13.3% to 5,510 million yen.

(Note 1) Internet of Things: New services and business models, or technologies that connect all things through the Internet

(Note 2) 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)

EMS business for electronic equipment and sales of semiconductors showed a favorable growth. As a result, net sales increased 1.4% to 129,058 million yen, and segment income rose 11.0% to 4,509 million yen.

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

Sales of housing-related and commercial facilities-related products saw favorable growth. As a result, net sales increased 13.4% to 34,745 million yen, and segment income rose 96.5% to 1,659 million yen.

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

Orders for production of computer graphics animation and development of game software were sluggish. As a result, net sales decreased 22.6% to 1,541 million yen, and segment income decreased 69.5% to 91 million yen.

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

Sales of arcade amusement machines and golf products in Japan showed solid growth. As a result, net sales increased 14.8% to 8,702 million yen, and segment income was 236 million yen (segment loss of 144 million yen one year earlier).

### (2) Overview of financial condition

Assets, liabilities and net assets

Total assets as of December 31, 2017 increased 3,185 million yen from March 31, 2017 to 128,937 million yen mainly due to increase in cash and deposits.

Liabilities as of December 31, 2017 decreased 1,886 million yen from March 31, 2017 to 57,933 million yen mainly due to a decrease in notes and accounts payable - trade.

Net assets as of December 31, 2017 increased 5,072 million yen from March 31, 2017 to 71,004 million yen as a result of recording profit attributable to owners of parent.

(3) Qualitative information on consolidated earnings forecast

(a) Revised consolidated performance forecast for the year ending March 31, 2018 (From April 1, 2017 to March 31, 2018)

|   | 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)                                 | 232,000     | 7,500            | 8,200           | 6,300                                   | 229.63             |
| Revised forecast (B)                                  | 232,000     | 8,000            | 8,700           | 6,450                                   | 235.10             |
| Difference (B)-(A)                                    | —           | 500              | 500             | 150                                     | —                  |
| Difference (%)  | —           | 6.7              | 6.1             | 2.4                                     | —                  |
| (Reference) Results for the year ended March 31, 2017 | 227,209     | 6,879            | 7,343           | 6,975                                   | 249.43             |

(b) Reason for the Revision

The overview of the first nine months of the fiscal year ending March 2018 showed that EMS business for electronic equipment and sales of semiconductors, our core businesses, as well as housing-related products increased favorably although the amusement machine-related market remained stagnant.

The Company reviewed its full-year forecast by taking into consideration such strong performance and carefully reflecting future uncertainties and concluded that it is expected to exceed the previous forecast, and accordingly the Company revised upward the full-year forecast as shown above.

## 2. Quarterly Consolidated Financial Statements and Major Notes

### (1) Quarterly consolidated balance sheet

(Million yen)

|   | Fiscal year ended March 2017<br>(As of March 31, 2017) | Third quarter ended December 2017<br>(As of December 31, 2017) |
|---|--|--|
| <b>ASSETS</b>                                       |  |  |
| Current assets                                      |  |  |
| Cash and deposits                                   | 26,423   | 30,945   |
| Notes and accounts receivable - trade               | 46,774   | 43,254   |
| Electronically recorded monetary claims - operating | 5,234  | 4,600  |
| Securities  | 188  | 203  |
| Merchandise and finished goods                      | 14,675   | 15,990   |
| Work in process                                     | 365  | 911  |
| Raw materials and supplies                          | 4,284  | 4,437  |
| Deferred tax assets                                 | 1,340  | 721  |
| Other   | 4,562  | 3,672  |
| Allowance for doubtful accounts                     | (166)  | (165)  |
| Total current assets                                | 103,684  | 104,571  |
| Non-current assets                                  |  |  |
| Property, plant and equipment                       |  |  |
| Buildings and structures, net                       | 4,859  | 4,638  |
| Machinery, equipment and vehicles, net              | 2,014  | 2,264  |
| Tools, furniture and fixtures, net                  | 742  | 742  |
| Land  | 4,126  | 4,036  |
| Construction in progress                            | 3  | 362  |
| Total property, plant and equipment                 | 11,745   | 12,045   |
| Intangible assets                                   |  |  |
| Goodwill  | 406  | 339  |
| Software  | 363  | 528  |
| Other   | 71   | 53   |
| Total intangible assets                             | 841  | 921  |
| Investments and other assets                        |  |  |
| Investment securities                               | 6,761  | 8,789  |
| Deferred tax assets                                 | 240  | 219  |
| Guarantee deposits                                  | 735  | 668  |
| Insurance funds                                     | 936  | 948  |
| Other   | 1,529  | 1,359  |
| Allowance for doubtful accounts                     | (723)  | (587)  |
| Total investments and other assets                  | 9,479  | 11,399   |
| Total non-current assets                            | 22,067   | 24,366   |
| Total assets  | 125,751  | 128,937  |

(Million yen)

|   | Fiscal year ended March 2017<br>(As of March 31, 2017) | Third quarter ended December 2017<br>(As of December 31, 2017) |
|---|--|--|
| <b>LIABILITIES</b>                                    |  |  |
| Current liabilities                                   |  |  |
| Notes and accounts payable - trade                    | 37,553   | 36,378   |
| Short-term loans payable                              | 4,883  | 5,136  |
| Accrued expenses                                      | 3,387  | 2,793  |
| Income taxes payable                                  | 888  | 686  |
| Provision for directors' bonuses                      | 204  | 140  |
| Other   | 3,325  | 3,535  |
| Total current liabilities                             | 50,242   | 48,671   |
| Non-current liabilities                               |  |  |
| Long-term loans payable                               | 4,603  | 3,482  |
| Deferred tax liabilities                              | 1,213  | 1,941  |
| Provision for directors' retirement benefits          | 1,222  | 1,258  |
| Net defined benefit liability                         | 1,669  | 1,626  |
| Asset retirement obligations                          | 144  | 154  |
| Other   | 723  | 798  |
| Total non-current liabilities                         | 9,576  | 9,262  |
| Total liabilities                                     | 59,819   | 57,933   |
| <b>NET ASSETS</b>                                     |  |  |
| Shareholders' equity                                  |  |  |
| Capital stock   | 12,133   | 12,133   |
| Capital surplus                                       | 13,912   | 13,853   |
| Retained earnings                                     | 40,476   | 44,203   |
| Treasury shares                                       | (2,040)  | (2,042)  |
| Total shareholders' equity                            | 64,481   | 68,148   |
| Accumulated other comprehensive income                |  |  |
| Valuation difference on available-for-sale securities | 1,159  | 1,929  |
| Deferred gains or losses on hedges                    | 0  | 0  |
| Foreign currency translation adjustment               | 421  | 980  |
| Remeasurements of defined benefit plans               | (190)  | (130)  |
| Total accumulated other comprehensive income          | 1,391  | 2,780  |
| Non-controlling interests                             | 59   | 75   |
| Total net assets                                      | 65,932   | 71,004   |
| Total liabilities and net assets                      | 125,751  | 128,937  |

## (2) Quarterly consolidated statements of income and comprehensive income

For the third quarter (April 1, 2017 – December 31, 2017)

(Million yen)

|   | Third quarter ended December 2016<br>(April 1, 2016 – December 31, 2016) | Third quarter ended December 2017<br>(April 1, 2017 – December 31, 2017) |
|---|--|--|
| Net sales   | 167,486  | 174,047  |
| Cost of sales   | 144,409  | 149,805  |
| Gross profit  | 23,076   | 24,242   |
| Selling, general and administrative expenses                | 17,898   | 17,628   |
| Operating income  | 5,178  | 6,613  |
| Non-operating income  |  |  |
| Interest income   | 43   | 78   |
| Dividends income  | 99   | 110  |
| Commission fee  | 140  | 133  |
| Foreign exchange gains                                      | —  | 80   |
| Other   | 201  | 235  |
| Total non-operating income                                  | 484  | 638  |
| Non-operating expenses                                      |  |  |
| Interest expenses   | 99   | 99   |
| Share of loss of entities accounted for using equity method | —  | 44   |
| Foreign exchange losses                                     | 25   | —  |
| Other   | 36   | 13   |
| Total non-operating expenses                                | 161  | 158  |
| Ordinary income   | 5,500  | 7,093  |
| Extraordinary income  |  |  |
| Gain on sales of non-current assets                         | 22   | 26   |
| Gain on sales of investment securities                      | 41   | 591  |
| Gain on bargain purchase                                    | 28   | —  |
| Gain on sales of shares of subsidiaries                     | —  | 467  |
| Gain on transfer of business                                | 89   | 12   |
| Total extraordinary income                                  | 181  | 1,098  |
| Extraordinary loss  |  |  |
| Loss on retirement of non-current assets                    | 7  | 8  |
| Loss on sales of investment securities                      | 31   | 23   |
| Loss on valuation of investment securities                  | —  | 133  |
| Impairment loss   | 10   | 224  |
| Business structure improvement expenses                     | 10   | —  |
| Loss on valuation of golf club membership                   | 11   | 6  |
| Other   | 0  | 0  |
| Total extraordinary loss                                    | 73   | 397  |
| Profit before income taxes                                  | 5,608  | 7,795  |
| Income taxes - current                                      | 1,073  | 1,254  |
| Income taxes - deferred                                     | (339)  | 1,015  |
| Total income taxes  | 734  | 2,269  |
| Profit  | 4,874  | 5,525  |
| Profit attributable to owners of parent                     | 4,863  | 5,510  |
| Profit attributable to non-controlling interests            | 11   | 14   |



(Million yen)

|  | Third quarter ended December 2016<br>(April 1, 2016 – December 31, 2016) | Third quarter ended December 2017<br>(April 1, 2017 – December 31, 2017) |
|--|--|--|
| Other comprehensive income                                     |  |  |
| Valuation difference on available-for-sale securities          | 425  | 771  |
| Deferred gains or losses on hedges                             | 28   | 0  |
| Foreign currency translation adjustment                        | (376)  | 559  |
| Remeasurements of defined benefit plans, net of tax            | 64   | 60   |
| Total other comprehensive income                               | 142  | 1,391  |
| Comprehensive income   | 5,017  | 6,916  |
| Comprehensive income attributable to owners of parent          | 5,004  | 6,900  |
| Comprehensive income attributable to non-controlling interests | 12   | 16   |

(3) Notes to quarterly consolidated financial statements

(Notes to going concern assumptions)

Not applicable

(Significant change in shareholders' equity)

Not applicable

(Additional information)

(Adoption of consolidated taxation system)

From the first quarter of the fiscal year ending March 31, 2018, the Company and its certain domestic subsidiaries have adopted the consolidated taxation system.

(Segment information, etc.)

**Segment information**

I. For the third quarter ended December 2016 (April 1, 2016 – December 31, 2016)

Information about net sales and income (loss) by reportable segments

(Million yen)

|                                     | Reportable segments      |                          |          |        |         | Adjustment<br>(Note 1) | Consolidated<br>(Note 2) |
|-------------------------------------|--------------------------|--------------------------|----------|--------|---------|------------------------|--------------------------|
|                                     | Electronic<br>components | Information<br>equipment | Software | Others | Total   |                        |                          |
| Net sales:                          |                          |                          |          |        |         |                        |                          |
| Sales to external<br>customers      | 127,268                  | 30,647                   | 1,992    | 7,577  | 167,486 | —                      | 167,486                  |
| Inter-segment sales<br>or transfers | 611                      | 368                      | 1,249    | 1,975  | 4,204   | (4,204)                | —                        |
| Total                               | 127,879                  | 31,015                   | 3,242    | 9,552  | 171,690 | (4,204)                | 167,486                  |
| Segment income<br>(loss)            | 4,061                    | 844                      | 300      | (144)  | 5,061   | 116                    | 5,178                    |

- Notes: 1. Adjustment in segment income of 116 million yen includes 116 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 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<br>(Note 1) | Consolidated<br>(Note 2) |
|-------------------------------------|--------------------------|--------------------------|----------|--------|---------|------------------------|--------------------------|
|                                     | Electronic<br>components | Information<br>equipment | Software | Others | Total   |                        |                          |
| Net sales:                          |                          |                          |          |        |         |                        |                          |
| Sales to external<br>customers      | 129,058                  | 34,745                   | 1,541    | 8,702  | 174,047 | —                      | 174,047                  |
| Inter-segment sales<br>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.