

KAGA ELECTRONICS (8154)

Consolidated Fiscal Year (Million Yen)		Sales	Operating Profit	Recurring Profit	Profit Attributable to Owners of Parent	EPS (Yen)	DPS (Yen)	BPS (Yen)
FY03/2018		235,921	8,119	8,740	6,490	236.6	70.0	2,571.8
FY03/2019		292,779	7,570	7,859	8,014	292.1	80.0	2,791.0
FY03/2020CoE		430,000	7,000	7,000	5,000	182.2	60.0	-
FY03/2019		YoY 24.1%	(6.8%)	(10.1%)	23.5%	-	-	-
FY03/2020CoE		YoY 46.9%	(7.5%)	(10.9%)	(37.6%)	-	-	-
Consolidated Half Year (Million Yen)		Sales	Operating Profit	Recurring Profit	Profit Attributable to Owners of Parent	EPS (Yen)	DPS (Yen)	BPS (Yen)
Q1 to Q2 FY03/2019		115,383	3,772	4,049	2,750	-	-	-
Q3 to Q4 FY03/2019		177,396	3,798	3,810	5,264	-	-	-
Q1 to Q2 FY03/2020		230,630	5,239	5,546	3,502	-	-	-
Q3 to Q4 FY03/2020CoE		199,370	1,761	1,454	1,498	-	-	-
Q1 to Q2 FY03/2020		YoY 99.9%	38.9%	37.0%	27.4%	-	-	-
Q3 to Q4 FY03/2020CoE		YoY 12.4%	(53.6%)	(61.8%)	(71.5%)	-	-	-

Source: Company Data, WRJ Calculation

1.0 Executive Summary (29 November 2019)

Focus on EMS Business

On 28 November 2019, KAGA ELECTRONICS or independent electronics trading company held its Q1 to Q2 FY03/2020 results meeting. It has been revealed that that EMS business is performing well, mainly in the domains of "Medical & Healthcare" and "Automotive". The Company is heavily involved with EMS business to cope with handling a wide variety of small lots of products primarily by cosigned substrate mounting, which is characterized by low cost operations with limited initial investments. On top of this, the Company has established a global production system and is developing EMS business in response to the needs of customers, mainly those of local operation bases run by Japanese manufacturers of assembled products at 19 locations in 10 countries. The Company is focusing on expanding sales of EMS business with good opportunities to grow fast, calling for prospective sales of ¥140,000m in FY03/2022 (1.5x FY03/2019 results). By domain, the Company is looking to "Automotive", "Industrial Machinery", "Air Conditioning" and "Medical & Healthcare" as the growth drivers. Meanwhile, consolidated net add-ons by the purchase of Fujitsu Electronics substantially drove sales and earnings in Q1 to Q2. Still, given that this was largely due to a temporary factor associated with termination of contract as distributor with Cypress, full-year Company forecasts have remained unchanged.


IR Information "Earnings Presentation Q2 FY03/2020": <https://www.taxan.co.jp/en/ir/backno.html>

IR Library "Integrated Report 2019": https://www.taxan.co.jp/en/ir/ir_library/library_05.html

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2.0 Company Profile

Independent Electronics Trading Company

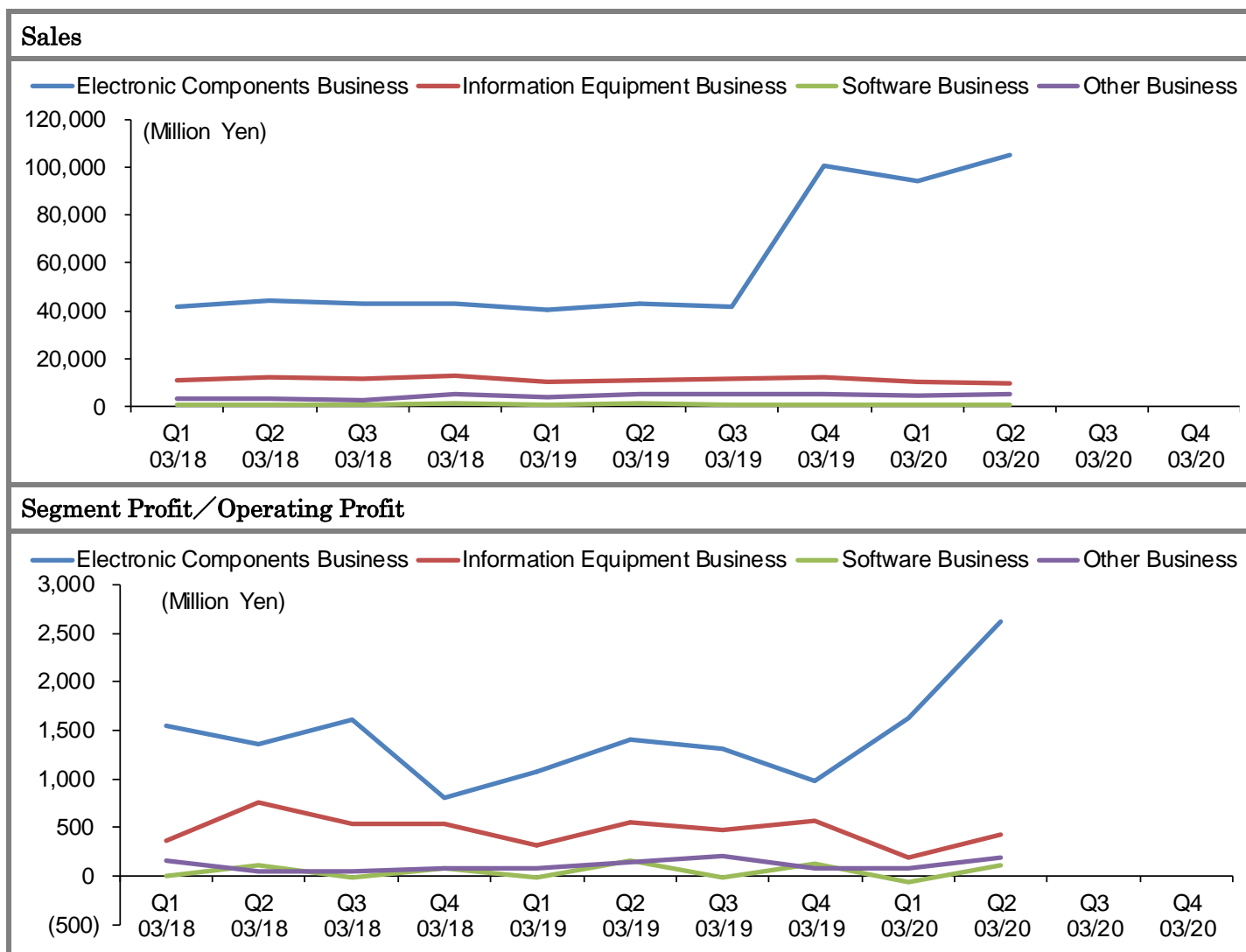
Company Name	KAGA ELECTRONICS CO.,LTD. Website IR Information Share Price (Japanese) 
Established	12 September 1968
Listing	4 December 1985: Tokyo Stock Exchange 1st section (ticker: 8154)
Capital	¥12,133m (as of the end of September 2019)
No. of Shares	28,702,118 shares, including 1,254,995 treasury shares (as of the end of Sep. 2019)
Main Features	<ul style="list-style-type: none"> ● Heavily involved with EMS business (consigned substrate mounting) with high growth potential ● Targeting stable growth of EMS business over the long term by means of being exposed to diverse domains ● Promoting sales to customers of Fujitsu Electronics to have been consolidated
Business Segments	I . Electronic Components Business II . Information Equipment Business III . Software Business IV . Other Business
Top Management	Founder & CEO: Isao Tsukamoto / President & COO: Ryoichi Kado
Shareholders	SANKYO Co. 13.3%, OKOZE Co. 6.4%, Japan Trustee Services, T. 4.6%, MUFG Bank 4.2%, Employees' Stockholding 4.0% (as of the end of September 2019)
Headquarters	Chiyoda-ku, Tokyo, JAPAN
No. of Employees	Consolidated: 6,482, Parent: 585 (as of the end of September 2019)

Source: Company Data

3.0 Recent Trading and Prospects

Q1 to Q2 FY03/2020 Results

In Q1 to Q2 FY03/2020, sales came in at ¥230,630m (up 99.9% YoY), operating profit ¥5,239m (up 38.9%), recurring profit ¥5,546m (up 37.0%) and profit attributable to owners of parent ¥3,502m (up 27.4%), while operating profit margin 2.3% (down 1.0% points).

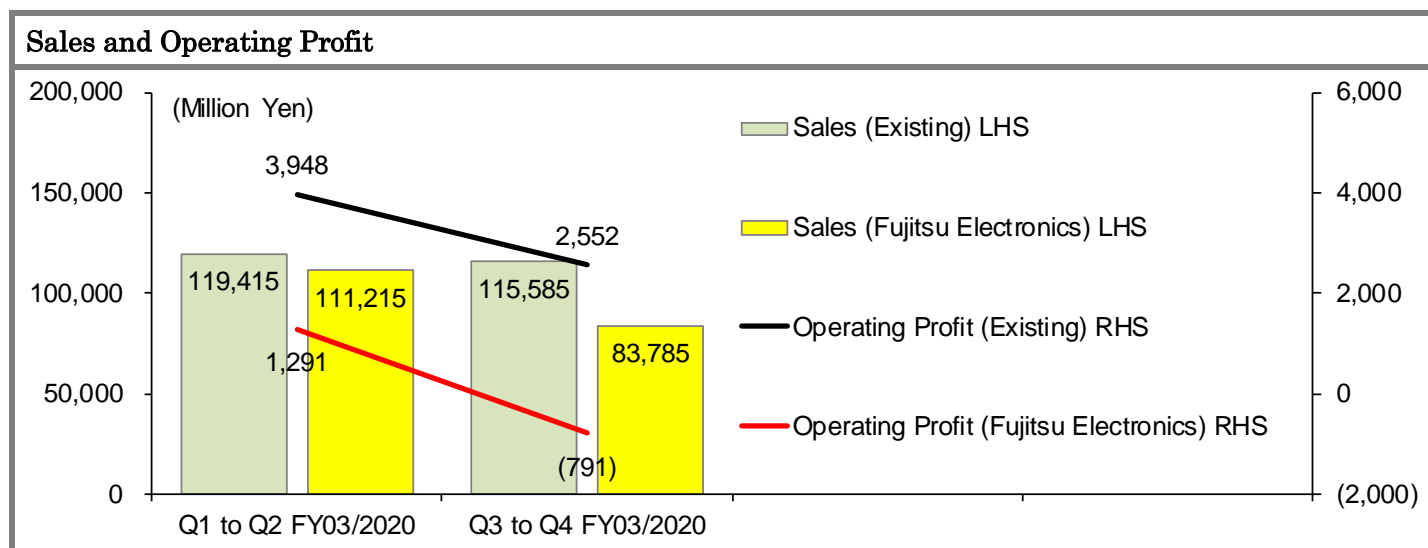


Source: Company Data, WRJ Calculation

Fujitsu Electronics, which has been consolidated since Q4 FY03/2019, saw sales of ¥111,215m (down 4.0%), operating profit of ¥1,291m (up 72.4%) and operating profit margin of 1.2% (up 0.5 points), when compared with the reference values during the same period of the previous year, having accounted for 75.5% (¥542m) out of net increases of operating profit as a whole for the Company (¥718m). Meanwhile, the Company suggests that EMS business saw sales of ¥46,945m (up 9.1%), segment profit of ¥2,100m (up 29.3%) and segment profit margin of 4.5% (up 0.7% points).

FY03/2020 Company Forecasts

FY03/2020 initial Company forecasts have remained unchanged, going for prospective sales of ¥430,000m (up 46.9% YoY), operating profit of ¥7,000m (down 7.5%), recurring profit of ¥7,000m (down 10.9%) and profit attributable to owners of parent of ¥5,000m (down 37.6%), while operating profit margin of 1.6% (down 1.0% point). At the same time, Company forecasts have also remained unchanged for prospective annual dividend, going for ¥60.00 per share, implying payout ratio of 32.9%.



Source: Company Data, WRJ Calculation

In H2 over Q1 to Q2, sales of Fujitsu Electronics are expected to come down sharply. Given the termination of contract as distributor with Cypress Semiconductor Corporation based in the United States on 10 October 2019, sales will decline accordingly. The Company suggests sales here in Q1 to Q2 equated to some ¥21,500m and gross profit some ¥1,800m. In Q2, inventory clearance (sales of inventory to handover distributor) took place, having driven sales considerably and gross profit margin higher than usual, according to the Company.

Income Statement (Cumulative, Quarterly)

Income Statement	Cons.Act	Cons.Act	Cons.Act	Cons.Act	Cons.Act	Cons.Act	Cons.Act	Cons.Act	Cons.Act	
	Q1	Q1 to Q2	Q1 to Q3	Q1 to Q4	Q1	Q1 to Q2	Q1 to Q3	Q1 to Q4		YoY
(Million Yen)	03/2019	03/2019	03/2019	03/2019	03/2020	03/2020	03/2020	03/2020		Net Chg.
Sales	55,493	115,383	173,782	292,779	109,564	230,630	-	-	-	+115,247
CoGS	47,851	99,360	149,758	257,233	98,501	206,859	-	-	-	+107,499
Gross Profit	7,641	16,023	24,023	35,546	11,062	23,771	-	-	-	+7,748
SG&A Expenses	6,152	12,251	18,275	27,976	9,212	18,531	-	-	-	+6,280
Operating Profit	1,489	3,772	5,748	7,570	1,850	5,239	-	-	-	+1,467
Non Operating Balance	190	277	252	289	195	307	-	-	-	+30
Recurring Profit	1,679	4,049	6,000	7,859	2,045	5,546	-	-	-	+1,497
Extraordinary Balance	83	93	(254)	1,790	(246)	(244)	-	-	-	(337)
Profit before Income Taxes	1,762	4,142	5,746	9,649	1,799	5,302	-	-	-	+1,160
Total Income Taxes	609	1,384	861	1,597	368	1,453	-	-	-	+69
NP Belonging to Non-Controlling SHs	3	7	9	37	80	346	-	-	-	+339
Profit Attributable to Owners of Parent	1,148	2,750	4,874	8,014	1,350	3,502	-	-	-	+752
Sales YoY	(1.2%)	(1.0%)	(0.2%)	+24.1%	+97.4%	+99.9%	-	-	-	-
Operating Profit YoY	(28.7%)	(14.2%)	(13.1%)	(6.8%)	+24.2%	+38.9%	-	-	-	-
Recurring Profit YoY	(23.8%)	(13.9%)	(15.4%)	(10.1%)	+21.8%	+37.0%	-	-	-	-
Profit Attributable to Owners of Parent YoY	(34.4%)	(21.8%)	(11.5%)	+23.5%	+17.6%	+27.4%	-	-	-	-
Gross Profit Margin	13.8%	13.9%	13.8%	12.1%	10.1%	10.3%	-	-	-	(3.6%)
Sales to SG&A Expenses Ratio	11.1%	10.6%	10.5%	9.6%	8.4%	8.0%	-	-	-	(2.6%)
Operating Profit Margin	2.7%	3.3%	3.3%	2.6%	1.7%	2.3%	-	-	-	(1.0%)
Recurring Profit Margin	3.0%	3.5%	3.5%	2.7%	1.9%	2.4%	-	-	-	(1.1%)
Profit Attributable to Owners of Parent Margin	2.1%	2.4%	2.8%	2.7%	1.2%	1.5%	-	-	-	(0.9%)
Total Income Taxes / Profit before Income Taxes	34.6%	33.4%	15.0%	16.6%	20.5%	27.4%	-	-	-	(6.0%)
Income Statement	Cons.Act	Cons.Act	Cons.Act	Cons.Act	Cons.Act	Cons.Act	Cons.Act	Cons.Act	Cons.Act	
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4		YoY
(Million Yen)	03/2019	03/2019	03/2019	03/2019	03/2020	03/2020	03/2020	03/2020		Net Chg.
Sales	55,493	59,890	58,399	118,997	109,564	121,066	-	-	-	+61,176
CoGS	47,851	51,509	50,398	107,475	98,501	108,358	-	-	-	+56,849
Gross Profit	7,641	8,382	8,000	11,523	11,062	12,709	-	-	-	+4,327
SG&A Expenses	6,152	6,099	6,024	9,701	9,212	9,319	-	-	-	+3,220
Operating Profit	1,489	2,283	1,976	1,822	1,850	3,389	-	-	-	+1,106
Non Operating Balance	190	87	(25)	37	195	112	-	-	-	+25
Recurring Profit	1,679	2,370	1,951	1,859	2,045	3,501	-	-	-	+1,131
Extraordinary Balance	83	10	(347)	2,044	(246)	2	-	-	-	(8)
Profit before Income Taxes	1,762	2,380	1,604	3,903	1,799	3,503	-	-	-	+1,123
Total Income Taxes	609	775	(523)	736	368	1,085	-	-	-	+310
NP Belonging to Non-Controlling SHs	3	4	2	28	80	266	-	-	-	+262
Profit Attributable to Owners of Parent	1,148	1,602	2,124	3,140	1,350	2,152	-	-	-	+550
Sales YoY	(1.2%)	(0.9%)	+1.6%	+92.3%	+97.4%	+102.1%	-	-	-	-
Operating Profit YoY	(28.7%)	(1.0%)	(11.0%)	+21.0%	+24.2%	+48.4%	-	-	-	-
Recurring Profit YoY	(23.8%)	(5.1%)	(18.4%)	+12.9%	+21.8%	+47.7%	-	-	-	-
Profit Attributable to Owners of Parent YoY	(34.4%)	(9.3%)	+6.5%	+220.4%	+17.6%	+34.3%	-	-	-	-
Gross Profit Margin	13.8%	14.0%	13.7%	9.7%	10.1%	10.5%	-	-	-	(3.5%)
Sales to SG&A Expenses Ratio	11.1%	10.2%	10.3%	8.2%	8.4%	7.7%	-	-	-	(2.5%)
Operating Profit Margin	2.7%	3.8%	3.4%	1.5%	1.7%	2.8%	-	-	-	(1.0%)
Recurring Profit Margin	3.0%	4.0%	3.3%	1.6%	1.9%	2.9%	-	-	-	(1.1%)
Profit Attributable to Owners of Parent Margin	2.1%	2.7%	3.6%	2.6%	1.2%	1.8%	-	-	-	(0.9%)
Total Income Taxes / Profit before Income Taxes	34.6%	32.6%	(32.6%)	18.9%	20.5%	31.0%	-	-	-	(1.6%)

Source: Company Data, WRJ Calculation

Segmented Information (Cumulative, Quarterly)

Segmented Information	Cons.Act	Cons.Act	Cons.Act	Cons.Act	Cons.Act	Cons.Act	Cons.Act	Cons.Act	Cons.Act	YoY
(Million Yen)	Q1	Q1 to Q2	Q1 to Q3	Q1 to Q4	Q1	Q1 to Q2	Q1 to Q3	Q1 to Q4		Net Chg.
	03/2019	03/2019	03/2019	03/2019	03/2020	03/2020	03/2020	03/2020		
Electronic Components Business	40,507	83,455	124,893	225,598	94,587	199,818	-	-	-	+116,363
Information Equipment Business	10,417	21,143	32,374	44,344	10,126	19,968	-	-	-	(1,175)
Software Business	465	1,404	1,943	2,876	437	1,332	-	-	-	(72)
Other Business	4,103	9,379	14,570	19,959	4,412	9,510	-	-	-	+131
Sales	55,493	115,383	173,782	292,779	109,564	230,630	-	-	-	+115,247
Electronic Components Business	1,071	2,474	3,780	4,761	1,621	4,238	-	-	-	+1,764
Information Equipment Business	317	864	1,339	1,906	188	618	-	-	-	(246)
Software Business	(19)	143	122	247	(61)	46	-	-	-	(97)
Other Business	80	216	415	490	72	259	-	-	-	+43
Segment Profit	1,450	3,698	5,657	7,406	1,820	5,163	-	-	-	+1,465
Elimination	38	73	91	163	30	76	-	-	-	+3
Operating Profit	1,489	3,772	5,748	7,570	1,850	5,239	-	-	-	+1,467
Electronic Components Business	2.6%	3.0%	3.0%	2.1%	1.7%	2.1%	-	-	-	(0.8%)
Information Equipment Business	3.0%	4.1%	4.1%	4.3%	1.9%	3.1%	-	-	-	(1.0%)
Software Business	(4.1%)	10.2%	6.3%	8.6%	(14.0%)	3.5%	-	-	-	(6.7%)
Other Business	1.9%	2.3%	2.8%	2.5%	1.6%	2.7%	-	-	-	+0.4%
Segment Profit	2.6%	3.2%	3.3%	2.5%	1.7%	2.2%	-	-	-	(1.0%)
Elimination	0.1%	0.1%	0.1%	0.1%	0.0%	0.0%	-	-	-	(0.0%)
Operating Profit Margin	2.7%	3.3%	3.3%	2.6%	1.7%	2.3%	-	-	-	(1.0%)

Segmented Information	Cons.Act	Cons.Act	Cons.Act	Cons.Act	Cons.Act	Cons.Act	Cons.Act	Cons.Act	Cons.Act	YoY
(Million Yen)	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4		Net Chg.
	03/2019	03/2019	03/2019	03/2019	03/2020	03/2020	03/2020	03/2020		
Electronic Components Business	40,507	42,948	41,438	100,705	94,587	105,231	-	-	-	+62,283
Information Equipment Business	10,417	10,726	11,231	11,970	10,126	9,842	-	-	-	(884)
Software Business	465	939	539	933	437	895	-	-	-	(44)
Other Business	4,103	5,276	5,191	5,389	4,412	5,098	-	-	-	(178)
Sales	55,493	59,890	58,399	118,997	109,564	121,066	-	-	-	+61,176
Electronic Components Business	1,071	1,403	1,306	981	1,621	2,617	-	-	-	+1,214
Information Equipment Business	317	547	475	567	188	430	-	-	-	(117)
Software Business	(19)	162	(21)	125	(61)	107	-	-	-	(55)
Other Business	80	136	199	75	72	187	-	-	-	+51
Segment Profit	1,450	2,248	1,959	1,749	1,820	3,343	-	-	-	+1,095
Elimination	38	35	18	72	30	46	-	-	-	+11
Operating Profit	1,489	2,283	1,976	1,822	1,850	3,389	-	-	-	+1,106
Electronic Components Business	2.6%	3.3%	3.2%	1.0%	1.7%	2.5%	-	-	-	(0.8%)
Information Equipment Business	3.0%	5.1%	4.2%	4.7%	1.9%	4.4%	-	-	-	(0.7%)
Software Business	(4.1%)	17.3%	(3.9%)	13.4%	(14.0%)	12.0%	-	-	-	(5.3%)
Other Business	1.9%	2.6%	3.8%	1.4%	1.6%	3.7%	-	-	-	+1.1%
Elimination	0.1%	0.1%	0.0%	0.1%	0.0%	0.0%	-	-	-	(0.0%)
Operating Profit Margin	2.7%	3.8%	3.4%	1.5%	1.7%	2.8%	-	-	-	(1.0%)

Source: Company Data, WRJ Calculation

Balance Sheet (Quarterly)

Balance Sheet (Million Yen)	Cons.Act	Cons.Act	Cons.Act	Cons.Act	Cons.Act	Cons.Act	Cons.Act	Cons.Act	Cons.Act	YoY Net Chg.
	Q1 03/2019	Q2 03/2019	Q3 03/2019	Q4 03/2019	Q1 03/2020	Q2 03/2020	Q3 03/2020	Q4 03/2020		
Cash & Deposit	30,765	30,412	24,669	35,003	32,668	42,931	-	-	+12,519	
Accounts Receivables	46,360	48,353	47,918	101,506	93,234	97,509	-	-	+49,156	
Inventory	22,635	22,074	24,794	40,025	43,923	34,792	-	-	+12,718	
Other	5,221	3,425	28,086	5,862	6,824	6,901	-	-	+3,476	
Current Assets	104,981	104,264	125,467	182,396	176,649	182,133	-	-	+77,869	
Tangible Assets	12,250	12,456	13,187	15,011	16,599	17,020	-	-	+4,564	
Intangible Assets	861	964	952	2,206	2,167	1,957	-	-	+993	
Investments & Other Assets	12,385	13,126	13,277	14,147	13,856	13,364	-	-	+238	
Fixed Assets	25,498	26,547	27,418	31,364	32,623	32,341	-	-	+5,794	
Total Assets	130,479	130,811	152,885	213,761	209,272	214,475	-	-	+83,664	
Accounts Payables	37,448	35,381	35,789	77,884	71,685	74,696	-	-	+39,315	
Short Term Debt	5,803	6,731	29,531	30,656	33,690	31,710	-	-	+24,979	
Other	7,679	7,216	6,989	12,800	11,792	14,220	-	-	+7,004	
Current Liabilities	50,930	49,328	72,309	121,340	117,167	120,626	-	-	+71,298	
Long Term Debt	2,850	2,540	2,194	1,882	1,692	1,372	-	-	(1,168)	
Other	5,697	5,695	5,444	6,279	6,940	7,010	-	-	+1,315	
Fixed Liabilities	8,547	8,235	7,638	8,161	8,632	8,382	-	-	+147	
Total Liabilities	59,477	57,564	79,948	129,501	125,800	129,008	-	-	+71,444	
Shareholders' Equity	69,308	70,909	72,110	75,272	75,387	77,539	-	-	+6,630	
Other	1,693	2,338	827	8,987	8,085	7,927	-	-	+5,589	
Net Assets	71,001	73,247	72,937	84,259	83,472	85,466	-	-	+12,219	
Total Liabilities & Net Assets	130,479	130,811	152,885	213,761	209,272	214,475	-	-	+83,664	
Equity Capital	70,921	73,162	72,852	76,604	75,837	77,617	-	-	+4,455	
Interest Bearing Debt	8,653	9,271	31,725	32,538	35,382	33,082	-	-	+23,811	
Net Debt	(22,112)	(21,141)	7,056	(2,465)	2,714	(9,849)	-	-	+11,292	
Equity Ratio	54.4%	55.9%	47.7%	35.8%	36.2%	36.2%	-	-	-	
Net Debt Equity Ratio	(31.2%)	(28.9%)	9.7%	(3.2%)	3.6%	(12.7%)	-	-	-	
ROE (12 months)	8.5%	8.1%	8.1%	10.9%	11.2%	11.6%	-	-	-	
ROA (12 months)	6.5%	6.3%	5.4%	4.6%	4.8%	5.4%	-	-	-	
Days for Inventory Turnover	43	39	45	34	41	29	-	-	-	
Quick Ratio	151%	160%	100%	113%	107%	116%	-	-	-	
Current Ratio	206%	211%	174%	150%	151%	151%	-	-	-	

Source: Company Data, WRJ Calculation

Cash Flow Statement (Cumulative, Quarterly)

Cash Flow Statement (Million Yen)	Cons.Act	Cons.Act	Cons.Act	Cons.Act	Cons.Act	Cons.Act	Cons.Act	Cons.Act	Cons.Act	YoY Net Chg.
	Q1 03/2019	Q1 to Q2 03/2019	Q1 to Q3 03/2019	Q1 to Q4 03/2019	Q1 03/2020	Q1 to Q2 03/2020	Q1 to Q3 03/2020	Q1 to Q4 03/2020		
Operating Cash Flow	-	1,898	-	(1,547)	-	12,242	-	-	+10,344	
Investing Cash Flow	-	(4,938)	-	(6,860)	-	(1,899)	-	-	+3,039	
Operating CF and Investing CF	-	(3,040)	-	(8,407)	-	10,343	-	-	+13,383	
Financing Cash Flow	-	(685)	-	11,684	-	(746)	-	-	(61)	

Source: Company Data, WRJ Calculation

Disclaimer

Information here is a summary of “IR Information” of the Company, compiled by Walden Research Japan, from a neutral and professional standing point, in the form of a report. “IR Information” of the Company comprises a) contents of our interview with the Company, b) contents of presentations for institutional investors, c) contents of timely disclosed information and d) contents of the homepage etc.

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