

Financial Results for the Second Quarter of FY 2019 [Based on the Japanese Accounting Standards] (Consolidated)

November 5, 2019

Name of the company: Takachiho Koheki Co., Ltd. Stock Market: Tokyo Stock Exchange First Section
 Code No.: 2676 URL: <http://www.takachiho-kk.co.jp>
 Representative (job title): Takano Ide (President and CEO)
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 General Manager of the Corporate Management Division)
 TEL: 03-3355-1111
 Registration date of quarterly report: November 8, 2019
 Date of dividends payment: December 5, 2019

(Amounts less than one million yen are rounded down.)

1. Consolidated Financial Results for the Second Quarter of FY 2019 (from April 1, 2019 to September 30, 2019)

(1) Consolidated Operating Results (Cumulative) (Percent figures represent changes from the same period last year)

	Net sales		Operating income		Ordinary income		Quarterly net income attributable to the shareholders of the parent company	
	million yen	%	million yen	%	million yen	%	million yen	%
Second quarter of FY 2019	10,173	11.6	381	32.6	439	25.6	298	57.5
Second quarter of FY 2018	9,114	(3.2)	287	36.0	350	38.5	189	53.5

Note: Comprehensive income: 319million yen 24.1% for the second quarter of FY 2019,
 257million yen (21.7)% for the second quarter of FY 2018

	Quarterly net income per share	Fully diluted quarterly net income per share
Second quarter of FY 2019	yen 33.54	-
Second quarter of FY 2018	20.28	20.28

(2) Consolidated Financial Position

	Total assets	Net assets	Equity ratio	Net assets per share
Second quarter of FY 2019	million yen 18,713	million yen 13,979	74.7%	yen 1,569.03
FY 2018	18,883	13,766	72.9	1,545.18

Reference: Owner's equity: 13,973 million yen for the second quarter of FY 2019
 13,760 million yen for FY 2018

2. Dividends

	Annual cash dividends per share				
	At 1st quarter end	At 2nd quarter end	At 3rd quarter end	At fiscal year end	Total
FY 2018	-	yen 12.00	-	yen 12.00	yen 24.00
FY 2019	-	12.00	-	-	-
FY 2019 forecast	-	-	-	-	-

Note: Revisions to the most recently disclosed dividend forecasts: None

On May 10, 2019, we announced the changes in dividend policy. Although the amount of the dividend has not been decided at present, according to this policy, a stable dividend (24 yen a year) until now will be the lower limit for the dividend for the fiscal year ending March 2020. We plan to pay a dividend of 12 yen at the end of the second quarter and a year-end dividend of 40% or more for the consolidated payout ratio. Therefore, "-" is used for the year-end dividend and annual dividend.

3. Forecast of Consolidated Operating Results for FY 2019 (from April 1, 2019 to March 31, 2020)

(Percent figures represent year-on-year changes)

	Net sales		Operating income		Ordinary income		Net income attributable to the shareholders of the parent company		Net income per share
	million yen	%	million yen	%	million yen	%	million yen	%	yen
FY 2019	22,100	11.1	1,200	21.3	1,200	10.4	800	62.9	89.83

Note: Revisions to the most recently disclosed forecast of operating results: None

* Notes:

(1) Changes to principal subsidiaries for the current consolidated cumulative quarter (changes to specified subsidiary companies accompanying changes to the scope of consolidation): None

(2) Application of special accounting treatment to the preparation of quarterly consolidated financial statements: None

(3) Changes in accounting policies and estimates, and retrospective restatement:

(i) Changes in accounting policies due to amendments of accounting standards: None

(ii) Changes in accounting policies other than (i) above: Yes

(iii) Changes in accounting estimates: None

(iv) Retrospective restatement: None

(4) Number of shares issued (common stock)

(i) Number of shares issued at the end of the period (including treasury shares)

FY 2019 2Q	10,171,800	FY 2018	10,171,800
FY 2019 2Q	1,266,058	FY 2018	1,266,036
FY 2019 2Q	8,905,759	FY 2018 2Q	9,350,893

(ii) Number of treasury shares at the end of the period

(iii) Average number of shares issued during the period (QTD)

* This quarterly financial summary is not subject to audit quarter review.

* Appropriate use of forecasts and other items warranting special mention:

(Notes to the forecasts)

The operating result forecast and other forward-looking statements contained in this report are based on the information currently available to the Company and certain assumptions the Company considers reasonable, and the Company by no means guarantees such achievement. In addition, final results may differ significantly from forecasts due to a variety of factors.

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1. Qualitative information on financial results for the current quarter

(1) Explanation of Operating Results

For the current consolidated cumulative second quarter, Japan's economy continues to be weak mainly in the area of exports. On the other hand, it has shown a gradual recovery with a slow improvement in capital investment, and consumer spending supported by improvement in the employment/income environment.

For the outlook, amid the continuing improvement trend in the employment/income environment despite weakness remaining, the economy is expected to continue to gradually recover as a result of various economic countermeasures. However, we need to pay attention to the situation overseas, including BREXIT, the management of economic policies in the United States, and the effect of trade problems on the stock market and foreign exchange market.

Although the market environment for our Group remains harsh due to increasingly fierce competition, we are striving to strengthen competitiveness and improve profitability through added value to achieve further growth and create revenue bases by expanding our global business and new business.

In the System Segment, we have made efforts to increase the added value of our flagship products, Electronic Article Surveillance Systems and Access Control Systems. We are promoting sales for Cloud-based Wireless LAN Systems and are developing new markets for RFID Systems and Retail Solutions related to labor saving systems. We are expanding the Advanced Fire Protection System Business, which is operated in Thailand and the ASEAN region.

In the Device Segment, we have promoted sales mainly in the telecom infrastructure area and the automotive area in the Semiconductor Business. In the Industrial Systems Business, we have focused on sales of Mechanical Components for residential equipment in North America, the ASEAN region and China, in addition to conventional sales of Mechanical Components for ATMs and the development of the automobile interior components market in Japan and overseas.

Amid these circumstances, operating results in the current consolidated cumulative second quarter show an increase in net sales of 11.6 percent YOY to 10,173 million yen.

In terms of profit and loss, operating income increased by 32.6 percent YOY to 381 million yen. This was due to strong sales for the Device Segment of the Semiconductor Business and Industrial Systems Business.

Ordinary income increased by 25.6 percent YOY to 439 million yen.

Net income attributable to shareholders of the parent company increased by 57.5 percent YOY to 298 million yen mainly due to the recording of the gain on sales of investment securities.

The Operating results of each Segment are as follows:

From this first quarter consolidated accounting period, we have classified the three groups for System Segments; Security Solution Products, Other System Solution Products and Customer Service Products, as the four groups: Retail Solution Products, Office Solution Products, Global Products and Service & Support Products. We judged this classification could disclose our actual state of business management more appropriately in these points.

We mainly classify the segments by market, divide the construction and installation for products, which was in Customer Service Solution Products, into Retail Solution Products and Office Solution Products, and classify the stock business, such as maintenance, operation management and MSP (Managed Service Provider), as Service & Support Products. With these changes, part of the Industrial Systems Business in the Device Segment is classified as the System Segment.

(System Segment)

System Segment sales increased by 10.0 percent YOY to 6,287 million yen and operating income increased by 4.2 percent YOY to 231 million yen.

For Retail Solution Products, sales decreased by 9.4 percent YOY to 1,766 million yen under sluggish sales in Electronic Article Surveillance Systems and CCTV (Closed Circuit Television).

For Office Solution Products, sales increased by 5.1 percent YOY to 1,855 million yen as a result of strong sales in Access Control Systems for data center.

For Global Products, the receipt of large orders in the previous fiscal year for Advanced Fire Protection Systems in Thailand is connected with steady sales. For this reason, sales increased by 51.3 percent YOY to 1,689 million yen.

For Service & Support Products, sales increased by 10.4 percent YOY to 976 million yen as a result of solid sales for the stock business in Cloud-based Wireless LAN Systems

(Device Segment)

Device Segment sales increased by 14.3 percent YOY to 3,885 million yen and operating income increased by 105.7 percent YOY to 149 million yen. For Semiconductor products, sales increased by 29.6 percent YOY to 1,850 million yen due to strong sales of electronic parts for the automotive market and base stations.

For Mechanical Component Products, sales increased by 3.2 percent YOY to 2,035 million yen as a result of strong sales for automobile interior and housing equipment products.

(2) Explanation of Financial Position

Total assets as of the end of the current consolidated cumulative second quarter decreased by 169 million yen from the end of the previous consolidated fiscal year to 18,713 million yen. This is due to cash and deposits, notes and accounts receivable-trade, investment securities are decreased by 341 million yen, 170 million yen, and 133 million yen respectively, while merchandise and finished goods increased by 486 million yen.

Liabilities decreased by 383 million yen YOY to 4,733 million yen. This is due to the fact that notes and accounts payable – trade decreased by 225 million yen.

Net assets increased by 213 million yen YOY to 13,979 million yen. This is due to the fact that net income attributable to owners of the parent company amounted to 298 million yen.

The equity ratio increased by 1.8 points from the end of the previous consolidated fiscal year to 74.7 percent.

(3) Explanation of the Future Outlook, including Forecast of Consolidated Operating Results

Consolidated operating result forecasts for the full year published in the summary of financial statements for the fiscal year ended March 2019 on May 10, 2019, are unchanged.

2. Quarterly Consolidated Financial Statements
 (1) Quarterly Consolidated Balance Sheet

(Millions of yen)

	Previous consolidated fiscal year (as of March 31, 2019)	Second quarter of the current consolidated fiscal year (as of September 30, 2019)
Assets		
Current assets		
Cash and deposits	6,303	5,962
Notes and accounts receivable - trade	6,690	6,519
Merchandise and finished goods	2,445	2,932
Raw materials	130	128
Other	652	661
Allowance for doubtful accounts	(13)	(13)
Total current assets	16,209	16,191
Non-current assets		
Property, plant and equipment	338	319
Intangible assets		
Goodwill	350	307
Other	104	132
Total intangible assets	455	440
Investments and other assets		
Investment securities	1,140	1,006
Other	739	755
Allowance for doubtful accounts	(0)	(0)
Total investments and other assets	1,879	1,761
Total non-current assets	2,673	2,521
Total assets	18,883	18,713

(Millions of yen)

	Previous consolidated fiscal year (as of March 31, 2019)	Second quarter of the current consolidated fiscal year (as of September 30, 2019)
Liabilities		
Current liabilities		
Notes and accounts payable - trade	2,827	2,601
Income taxes payable	255	202
Provision for bonuses	267	272
Provision for bonuses for directors (and other officers)	22	15
Other	1,047	912
Total current liabilities	4,420	4,005
Non-current liabilities		
Retirement benefit liability	657	696
Other	38	31
Total non-current liabilities	695	728
Total liabilities	5,116	4,733
Net assets		
Shareholders' equity		
Share capital	1,209	1,209
Capital surplus	1,172	1,172
Retained earnings	12,411	12,603
Treasury shares	(1,231)	(1,231)
Total shareholders' equity	13,561	13,752
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	266	261
Foreign currency translation adjustment	(55)	(33)
Remeasurements of defined benefit plans	(11)	(7)
Total accumulated other comprehensive income	199	220
Share acquisition rights	5	6
Non-controlling interests	0	0
Total net assets	13,766	13,979
Total liabilities and net assets	18,883	18,713

(2) Quarterly Consolidated Income Statements and Statements of Comprehensive Income
(Quarterly Consolidated Income Statement)
(Consolidated cumulative second quarter)

(Millions of yen)

	Previous consolidated cumulative second quarter (From April 1, 2018 to September 30, 2018)	Current consolidated cumulative second quarter (From April 1, 2019 to September 30, 2019)
Net sales	9,114	10,173
Cost of sales	6,763	7,666
Gross profit	2,351	2,507
Selling, general and administrative expenses	2,063	2,125
Operating profit	287	381
Non-operating income		
Interest income	0	0
Dividend income	10	13
Foreign exchange gains	41	19
Insurance claim income	1	18
Share of profit of entities accounted for using equity method	4	1
Other	7	6
Total non-operating income	65	59
Non-operating expenses		
Interest expenses	0	0
Commission expenses	1	0
Other	0	0
Total non-operating expenses	2	1
Ordinary profit	350	439
Extraordinary income		
Gain on sales of investment securities	—	67
Gain on reversal of share acquisition rights	3	0
Total extraordinary income	3	67
Extraordinary losses		
Impairment loss	—	※ 10
Total extraordinary losses	—	10
Profit before income taxes	353	497
Income taxes - current	157	195
Income taxes - deferred	7	3
Total income taxes	164	198
Profit	189	298
Profit attributable to owners of parent	189	298

(Quarterly Consolidated Statements of Comprehensive Income)
(Consolidated cumulative second quarter)

(Millions of yen)

	Previous consolidated cumulative second quarter (From April 1, 2018 to September 30, 2018)	Current consolidated cumulative second quarter (From April 1, 2019 to September 30, 2019)
Profit	189	298
Other comprehensive income		
Valuation difference on available-for-sale securities	(8)	(5)
Foreign currency translation adjustment	74	22
Remeasurements of defined benefit plans, net of tax	1	3
Total other comprehensive income	67	20
Comprehensive income	257	319
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	257	319

(3) Notes on the quarterly consolidated financial statements

(Changes in accounting policies that are difficult to distinguish from changes in accounting estimates)

(Change in depreciation method for tangible fixed assets)

Some domestic consolidated subsidiaries had adopted the declining-balance method for the depreciation of tangible fixed assets (tools, furniture, and fixtures), but this has been changed to the straight-line method from this first quarter consolidated accounting period.

We reexamined the depreciation method for tangible fixed assets from the viewpoint of unifying the Group's depreciation method and calculating the appropriate period profit and loss with the change in the management strategy of domestic consolidated subsidiaries focusing on development. As a result, we decided this change is a reasonable way to better reflect our economic substance.

With this change, operating income, ordinary income, and income before income taxes for the current consolidated cumulative second quarter have increased by 1 million yen compared to the previous method.

(Note on going-concern assumption)

Not applicable

(Note in case of remarkable changes in amount of shareholders' equity)

No changes in the applicable matter

(Quarterly Consolidated Income Statements)

※ Impairment loss

For the current consolidated cumulative second quarter, our Group posted an impairment loss for the following asset group:

Location	Use	Type
Tsumagoi-mura, Agatsuma-gun, Gunma Prefecture, and five other places	Idle assets	Land

Our Group fundamentally groups business assets by type of business and idle assets by each asset.

For the current consolidated cumulative second quarter, regarding the asset group with the recoverable amount being remarkably lower than book value of idle assets not used for business, an impairment loss of 10 million yen was recorded. Idle assets are related to land. The recoverable amount of idle assets is measured by the net selling value and is calculated based on the real estate appraisal value and rationally adjusted using the fixed asset appraisal value.

(Segment Information, etc.)

[Segment Information]

I Previous consolidated cumulative second quarter (From April 1, 2018 to September 30, 2018)

1. Information concerning amounts of sales and profit or loss for each reporting segment

(Unit : Millions of yen)

	System	Device	Total	Adjustments (Note) 1	Amount stated on the quarterly consolidated income statements (Note) 2
Sales					
Sales to external customers	5,715	3,399	9,114	—	9,114
Internal sales and transfers between segments	—	—	—	—	—
Total	5,715	3,399	9,114	—	9,114
Segment profit	222	72	295	(7)	287

(Notes) 1. Adjustments to segment profit of (7) million yen are consolidated adjustments.

2. Segment profit is reconciled to operating income on the quarterly consolidated income statements.

2. Matters concerning reporting segment changes

Refer to 3. Matters concerning reporting segment changes in II Current consolidated cumulative second quarter.

II Current consolidated cumulative second quarter (From April 1, 2019 to September 30, 2019)

1. Information concerning amounts of sales and profit or loss for each reporting segment

(Unit : Millions of yen)

	System	Device	Total	Adjustments	Amount stated on the quarterly consolidated income statements
Sales					
Sales to external customers	6,287	3,885	10,173	—	10,173
Internal sales and transfers between segments	—	—	—	—	—
Total	6,287	3,885	10,173	—	10,173
Segment profit	231	149	381	—	381

2. Information on fixed assets impairment loss or goodwill by reporting segment

(Significant impairment loss on fixed assets)

Impairment losses on land classified as idle assets are recorded as corporate assets that are not allocated to each reporting segment. The impairment loss of 10 million yen was recorded in the current consolidated cumulative second quarter.

3. Matters concerning reporting segment changes

From this first quarter consolidated accounting period, the business segment classification has changed. Please refer to the 3. Supplementary Information for details.

With these changes, part of the Industrial Systems Business in the Device Segment is classified as the System Segment.

The figures for the previous consolidated cumulative second quarter have been described according to the classification after the changes.

3. Supplementary Information

Actual results of sales

(Unit : Millions of yen)

Segment	Previous consolidated cumulative second quarter (From April 1, 2018 to September 30, 2018)	Current consolidated cumulative second quarter (From April 1, 2019 to September 30, 2019)
Retail Solution Products	1,949	1,766
Office Solution Products	1,764	1,855
Global Products	1,116	1,689
Service & Support Products	885	976
System Total	5,715	6,287
Semiconductor Products	1,428	1,850
Mechanical Component Products	1,971	2,035
Device Total	3,399	3,885
Total	9,114	10,173

(Notes) Matters concerning reporting segment changes

From this first quarter consolidated accounting period, we have classified the three groups for System Segments; Security Solution Products, Other System Solution Products and Customer Service Products, as the four groups: Retail Solution Products, Office Solution Products, Global Products and Service & Support Products. We judged this classification could disclose our actual state of business management more appropriately in these points.

We mainly classify the segments by market, divide the construction and installation for products, which was in Customer Service Solution Products, into Retail Solution Products and Office Solution Products, and classify the stock business, such as maintenance, operation management and MSP (Managed Service Provider), as Service & Support Products.

With these changes, part of the Industrial Systems Business in the Device Segment is classified as the System Segment.

The figures for the previous consolidated cumulative second quarter have been described according to the classification after the changes.