

Financial Results for the Second Quarter of FY 2016 [Based on the Japanese Accounting Standards] (Consolidated)

November 4, 2016

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): Hideo Toda (President and CEO)
 Contact person (job title): Masazumi Uematsu (Director, Executive Officer,
 General Manager of the Corporate Management Division)
 TEL: 03-3355-1111
 Registration date of quarterly report: November 11, 2016
 Date of dividends payment: December 5, 2016

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

1. Consolidated Financial Results for the Second Quarter of FY 2016 (from April 1, 2016 to September 30, 2016)

(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 2016	8,780	(15.6)	126	(47.6)	196	10.8	77	-
Second quarter of FY 2015	10,408	20.6	242	1.6	176	(46.5)	(15)	-

Note: Comprehensive income: (227) million yen —% for the second quarter of FY 2016,
 (307) million yen —% for the second quarter of FY 2015

	Quarterly net income per share	Fully diluted quarterly net income per share
Second quarter of FY 2016	yen 8.10	-
Second quarter of FY 2015	(1.57)	-

(2) Consolidated Financial Position

	Total assets	Net assets	Equity ratio	Net assets per share
	million yen	million yen	%	yen
Second quarter of FY 2016	17,486	13,305	76.0	1,424.05
FY 2015	18,253	13,844	75.8	1,449.95

Reference: Owner's equity: 13,297 million yen for the second quarter of FY 2016
 13,827 million yen for FY 2015

2. Dividends

	Annual cash dividends per share				
	At 1st quarter end	At 2nd quarter end	At 3rd quarter end	At fiscal year end	Total
	yen	yen	yen	yen	yen
FY 2015	-	12.00	-	12.00	24.00
FY 2016	-	12.00			
FY 2016 forecast			-	12.00	24.00

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

3. Forecast of Consolidated Operating Results for FY 2016 (from April 1, 2016 to March 31, 2017)

(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 2016	20,280	1.5	800	83.2	800	94.7	400	287.5	41.99

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: Applicable
 - (ii) Changes in accounting policies other than (i) above: None
 - (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 2016 2Q	10,171,800	FY 2015	10,170,300
(ii) Number of treasury shares at the end of the period	FY 2016 2Q	833,857	FY 2015	633,857
(iii) Average number of shares issued during the period (QTD)	FY 2016 2Q	9,524,970	FY 2015 2Q	9,603,039

* Implementation of quarter review procedures

This summary of quarterly financial results is exempt from quarterly review procedures under the Financial Instrument and Exchange Act of Japan. As of the release of this summary of quarterly financial results, the review procedures for quarterly financial statements are in progress.

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

(Notes to the forecasts)

The forecast of operating results and other forward-looking statements in this report are based on information currently available to the Company and certain assumptions that the Company considers reasonable, but the Company does not guarantee results and forecasts. The results may differ significantly from the forecasts due to a variety of factors.

○Table of Contents to the Attached Materials

1. Qualitative information on financial results for the current quarter.....	2
(1) Explanation of Operating Results	2
(2) Explanation of Financial Position	2
2. Summary information (notes)	3
(1) Changes to principal subsidiaries for the current consolidated cumulative quarter.....	3
(2) Changes in accounting policies and accounting estimates and restatement	3
(3) Additional information.....	3
3. Quarterly Consolidated Financial Statements	4
(1) Quarterly Consolidated Balance Sheet.....	4
(2) Quarterly Consolidated Income Statements and Statements of Comprehensive Income	6
(Quarterly Consolidated Income Statement)	
(Consolidated cumulative second quarter).....	6
(Quarterly Consolidated Statements of Comprehensive Income)	
(Consolidated cumulative second quarter).....	7
(3) Notes on the quarterly consolidated financial statements.....	8
(Note on going-concern assumption).....	8
(Note in case of remarkable changes in amount of shareholders' equity).....	8
(Segment Information, etc.).....	8
4. Supplementary Information.....	9
Actual results of sales	9

1. Qualitative information on financial results for the current quarter

(1) Explanation of Operating Results

The Japanese economy for the current consolidated cumulative second quarter showed improvement in employment and income. With regard to corporate results, however, there was a drop in business performance caused by the strength of the yen and a slump in overseas demand for the products in China and Asia, as well as weak consumption and slow growth in capital spending in the non-manufacturing sector.

During the trend of improvement in employment and income, the economy is expected to slowly recover because of various economic countermeasures, but there is fear of a deterioration in corporate earnings arising from uncertainties overseas including the Brexit issue, the U.S. presidential election and the slowdown of Chinese economic growth.

Although the market environment for our Group remains harsh due to increasingly fierce competition, we are striving to improve profitability by creating original added value to achieve further growth and expand our global business by entering growing markets primarily in Asia.

In the System Segment, by increasing the added value of our flagship products - Electronic Article Surveillance Systems and Access Control Systems, developing new markets for RFID Systems, Retail Security Solutions, Cloud-based Wireless LAN Systems - and establishing the Fire Protection System Business conducted in Thailand by Takachiho Fire, Security & Services (Thailand) Ltd. as a core business by expanding to the ASEAN region through the acquisition of Guardfire, we have endeavored to expand our global business.

In the Device Segment Semiconductor Business, we have promoted the sale of new telecom-related products and enhancing board design proposals using a variety of semiconductors. In the Industrial Systems Business, we have focused on sales promotions in global markets by promoting the sale of Electronic Lock for overseas ATMs and establishing new sales channels for Mechanical Components in the U.S.

For operating results in the current consolidated cumulative second quarter, sales decreased 15.6% YOY to 8,780 million yen. The sales decrease was due to weak sales of Mechanical Components in the Chinese ATM market, delays in transactions for RFID systems and the sales of overseas subsidiaries affected by the appreciation of the yen, despite solid sales of Access Control Systems to foreign companies.

In terms of profit/loss status, the gross margin rate was better and the cost was lower than the original plan. However, it was not enough to cover the profit loss from the decrease in sales. As a result, operating income decreased 47.6% YOY to 126 million yen.

Ordinary income increased 10.8% YOY to 196 million yen for the current consolidated cumulative second quarter due to the recording of foreign exchange gains of 31 million yen, compared with the same period of the previous fiscal year when foreign exchange losses were recorded. Quarterly net income attributable to the shareholders of the parent company increased 92 million yen YOY to 77 million yen.

The Operating results of each Segment are as follows:

(System Segment)

System Segment sales decreased 13.3% YOY to 5,014 million yen and operating income decreased 75.2% YOY to 5 million yen.

For Security Solution Products, sales decreased 15.0% YOY to 3,116 million yen due to weak sales of products for apparel retailers and GMSs (general merchandise stores), despite solid sales of Access Control Systems for foreign companies.

For Other System Solution Products, sales decreased 29.4% YOY to 652 million yen due to delays in sales transactions for RFID systems, and sales of mailing equipment affected by the dissipation of "The Social Security and Tax Number System"-related special demand seen in the previous year, despite the grow in sales of network equipment including Cloud-based Wireless LAN Systems.

For Customer Service Products, sales increased 4.3% YOY to 1,245 million yen due to increase of income from large spot maintenance transactions in merchandising security for Smartphones.

(Device Segment)

Device Segment sales decreased 18.6% YOY to 3,765 million yen and operating income decreased 43.5% YOY to 123 million yen.

For Semiconductor Products, sales decreased 14.4% YOY to 1,524 million yen due to weak sales of products for smartphones and delays in the mass production of products for IP-PBX, despite solid sales of products for industrial machines and the amusement market.

For Mechanical Component Products, sales decreased 21.2% YOY to 2,240 million yen due to weak sales in the Chinese ATM market and poor sales of products for the amusement market resulting from fierce competition, despite gaining large transactions of Mechanical Components for the financial terminal devices of overseas retailers.

(2) Explanation of Financial Position

Total assets as of the end of the second quarter of the current consolidated fiscal year decreased 767 million yen from the end of the previous consolidated fiscal year to 17,486 million yen.

This is because while cash and deposits increased 269 million yen and merchandise and finished goods increased 211 million yen, notes and accounts receivable-trade decreased 868 million yen and goodwill decreased 301 million yen, respectively.

Liabilities decreased 228 million yen from the end of the previous consolidated fiscal year to 4,181 million yen.

This is because notes and accounts payable-trade decreased 141 million yen and income taxes payable decreased 138 million yen, respectively.

Net assets decreased 539 million yen from the end of the previous consolidated fiscal year to 13,305 million yen because treasury shares of 179 million yen were acquired and foreign currency translation adjustments decreased 307 million yen.

The equity ratio increased 0.2% from the end of the previous consolidated fiscal year to 76.0%.

2. Summary information (notes)

(1) Changes in significant subsidiaries during the current consolidated cumulative quarter

Not applicable

Takachiho America, Inc. was included into the scope of consolidation from the first quarter of the current consolidated fiscal year due to the increase of its importance. This is not considered to be a change in a specific subsidiary.

(2) Changes in accounting policies and accounting estimates and restatement

(Changes in accounting policies)

(Application of Accounting Standards for Business Combinations)

We applied the “Practical Solution on Change in Depreciation Method due to Tax Reform 2016” (Practical Solution No. 32 of June 17, 2016) in the first quarter of the current consolidated fiscal year due to amendments to the Corporation Tax Act.

Given this, the depreciation method was changed from the declining balance method to the straight-line method for building improvements and structures acquired after April 1, 2016.

The change has a minimal effect on profit and loss.

(3) Additional information

(Application of the Implementation Guidelines on Recoverability of Deferred Tax Assets)

We applied the “Implementation Guidelines on Recoverability of Deferred Tax Assets” (ASBJ Guidance No. 26 of March 28, 2016) from the first quarter of the current consolidated fiscal year.

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

(Unit : Millions of yen)

	Previous consolidated fiscal year (as of March 31, 2016)	Second quarter of the current consolidated fiscal year (as of September 30, 2016)
Assets		
Current assets		
Cash and deposits	5,758	6,028
Notes and accounts receivable - trade	5,863	4,994
Securities	500	500
Merchandise and finished goods	2,218	2,429
Raw materials	109	94
Other	554	536
Allowance for doubtful accounts	(12)	(9)
Total current assets	14,992	14,574
Non-current assets		
Property, plant and equipment	306	307
Intangible assets		
Goodwill	1,465	1,163
Other	122	100
Total intangible assets	1,587	1,264
Investments and other assets		
Investment securities	772	747
Other	595	593
Allowance for doubtful accounts	(0)	(0)
Total investments and other assets	1,367	1,340
Total non-current assets	3,261	2,912
Total assets	18,253	17,486

(Unit : Millions of yen)

	Previous consolidated fiscal year (as of March 31, 2016)	Second quarter of the current consolidated fiscal year (as of September 30, 2016)
Liabilities		
Current liabilities		
Notes and accounts payable - trade	2,466	2,324
Income taxes payable	277	138
Provision for bonuses	244	239
Provision for directors' bonuses	3	3
Other	701	756
Total current liabilities	3,693	3,462
Non-current liabilities		
Net defined benefit liability	645	648
Other	70	70
Total non-current liabilities	716	718
Total liabilities	4,409	4,181
Net assets		
Shareholders' equity		
Capital stock	1,208	1,209
Capital surplus	1,169	1,170
Retained earnings	12,194	12,147
Treasury shares	(604)	(783)
Total shareholders' equity	13,967	13,742
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	158	157
Foreign currency translation adjustment	(265)	(572)
Remeasurements of defined benefit plans	(33)	(30)
Total accumulated other comprehensive income	(140)	(445)
Subscription rights to shares	17	7
Non-controlling interests	0	0
Total net assets	13,844	13,305
Total liabilities and net assets	18,253	17,486

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

(Unit : Millions of yen)

	Previous consolidated cumulative second quarter (From April 1, 2015 to September 30, 2015)	Current consolidated cumulative second quarter (From April 1, 2016 to September 30, 2016)
Net sales	10,408	8,780
Cost of sales	7,860	6,474
Gross profit	2,547	2,305
Selling, general and administrative expenses	2,305	2,178
Operating income	242	126
Non-operating income		
Interest income	1	0
Dividend income	8	8
Foreign exchange gains	—	31
Insurance income	—	2
Compensation income	6	—
Share of profit of entities accounted for using equity method	0	0
Gain on adjustment of account payable	—	25
Other	11	3
Total non-operating income	28	71
Non-operating expenses		
Interest expenses	0	1
Foreign exchange losses	91	—
Other	2	1
Total non-operating expenses	94	2
Ordinary income	176	196
Extraordinary income		
Gain on sales of investment securities	21	0
Gain on reversal of subscription rights to shares	0	11
Total extraordinary income	21	11
Extraordinary losses		
Loss on valuation of investment securities	69	—
Total extraordinary losses	69	—
Profit before income taxes	129	207
Income taxes - current	144	129
Income taxes - deferred	(1)	0
Total income taxes	142	130
Profit (loss)	(13)	77
Profit attributable to non-controlling interests	1	—
Profit (loss) attributable to owners of parent	(15)	77

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

(Unit : Millions of yen)

	Previous consolidated cumulative second quarter (From April 1, 2015 to September 30, 2015)	Current consolidated cumulative second quarter (From April 1, 2016 to September 30, 2016)
Profit (loss)	(13)	77
Other comprehensive income		
Valuation difference on available-for-sale securities	(40)	(0)
Foreign currency translation adjustment	(252)	(307)
Remeasurements of defined benefit plans, net of tax	(0)	3
Total other comprehensive income	(293)	(304)
Comprehensive income	(307)	(227)
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	(309)	(227)
Comprehensive income attributable to non-controlling interests	1	—

(3) Notes on the quarterly consolidated financial statements

(Note on going-concern assumption)

Not applicable

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

No changes in the applicable matter

(Segment Information, etc.)

[Segment Information]

I Previous consolidated cumulative second quarter (From April 1, 2015 to September 30, 2015)

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	5,785	4,623	10,408	—	10,408
Internal sales and transfers between segments	—	—	—	—	—
Total	5,785	4,623	10,408	—	10,408
Segment profit (loss)	22	219	241	1	242

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

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

II Current consolidated cumulative second quarter (From April 1, 2016 to September 30, 2016)

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	5,014	3,765	8,780	—	8,780
Internal sales and transfers between segments	—	—	—	—	—
Total	5,014	3,765	8,780	—	8,780
Segment profit	5	123	129	(2)	126

(Notes) 1. Adjustments to segment profit or loss of (2) million yen are consolidated adjustments.

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

4. Supplementary Information

Actual results of sales

(Unit : Millions of yen)

Segment	Previous quarter (Second quarter of FY 2015)	Current quarter (Second quarter of FY 2016)
Security Solution Products	3,666	3,116
Other System Solution Products	923	652
Customer Service Products	1,195	1,245
System Total	5,785	5,014
Semiconductors Products	1,780	1,524
Mechanical Component Products	2,842	2,240
Device Total	4,623	3,765
Total	10,408	8,780