

Financial Results for the Second Quarter of FY 2018 [Based on the Japanese Accounting Standards] (Consolidated)

November 5, 2018

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): Takanobu Ide (President and CEO)
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 General Manager of the Corporate Management Division)
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 Registration date of quarterly report: November 7, 2018
 Date of dividends payment: December 5, 2018

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

1. Consolidated Financial Results for the Second Quarter of FY 2018 (from April 1, 2018 to September 30, 2018)

(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 2018	9,114	(3.2)	287	36.0	350	38.5	189	53.5
Second quarter of FY 2017	9,415	7.2	211	66.7	252	29.0	123	60.2

Note: Comprehensive income: 257million yen (21.7)% for the second quarter of FY 2018,
 328million yen —% for the second quarter of FY 2017

	Quarterly net income per share	Fully diluted quarterly net income per share
Second quarter of FY 2018	20.28 yen	20.28 yen
Second quarter of FY 2017	13.23	13.22

(2) Consolidated Financial Position

	Total assets	Net assets	Equity ratio	Net assets per share
Second quarter of FY 2018	18,532 million yen	14,111 million yen	76.1 %	1,507.78 yen
FY 2017	18,566	13,958	75.1	1,492.86

Reference: Owner's equity: 14,106 million yen for the second quarter of FY 2018
 13,948 million yen for FY 2017

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 2017	-	12.00 yen	-	12.00 yen	24.00 yen
FY 2018	-	12.00	-	12.00	24.00
FY 2018 forecast			-	12.00	24.00

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

3. Forecast of Consolidated Operating Results for FY 2018 (from April 1, 2018 to March 31, 2019)

(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 2018	22,500	15.0	1,200	80.8	1,200	69.8	800	511.2	85.55

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: 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)
- (ii) Number of treasury shares at the end of the period
- (iii) Average number of shares issued during the period (QTD)

FY 2018 2Q	10,171,800	FY 2017	10,171,800
FY 2018 2Q	816,036	FY 2017	827,990
FY 2018 2Q	9,350,893	FY 2017 2Q	9,337,843

* 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.

○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	3
(3) Explanation of the Future Outlook, including Forecast of Consolidated Operating Results	3
2. 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
(Additional information).....	8
(Segment Information, etc.).....	8
3. Supplementary Information.....	9
Actual results of sales	9

1. Qualitative information on financial results for the current quarter

(1) Explanation of Operating Results

For the current consolidated cumulative second quarter, the economy in Japan has been slowing in an export environment. On the other hand, it has shown a continuing and gradual recovery trend with an improvement in capital investment, and consumer spending backed by steady improvement in the employment/income environment. For the outlook, amid the continuing improvement trend in the employment/income environment, the economy is expected to gradually recover as a result of various economic countermeasures. However, we need to pay attention to the overseas situation, including the impact of trends in trade problems in the global economy, BREXIT, and the operation of economic policies in the United States.

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, we have made efforts to increase the added value of our flagship products, Electronic Article Surveillance Systems and Access Control Systems, develop new markets for RFID Systems, Retail Security Solutions, and Cloud-based Wireless LAN Systems, and expand the Fire Protection System Business, which is operated in Thailand and the ASEAN region.

In the Device Segment Semiconductor Business, we have promoted sales in the telecom infrastructure area and increasing added value, such as unique board designs using a variety of semiconductors. 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, as well as the development of the automobile interior components market in Japan and overseas.

For operating results in the current consolidated cumulative second quarter, sales decreased by 3.2 percent YOY to 9,114 million yen. This is because the receipt of new orders for Fire Protection Systems for large power generation industries has yet to follow the sales in the current year.

In terms of profit/loss status, operating income increased 36.0 percent YOY to 287 million yen due to an improvement in the profit margin on sales in the System Segment in Japan and a contribution to cost reduction in selling, general and administrative expenses despite the weak sales circumstances. Ordinary income increased 38.5 percent YOY to 350 million yen, mainly due to a foreign exchange profit of 41 million yen. Quarterly net income attributable to owners of parent increased 53.5 percent YOY to 189 million yen.

The Operating results of each Segment are as follows:

(System Segment)

System Segment sales decreased 4.2 percent YOY to 5,645 million yen, and operating income increased 13.9 percent YOY to 258 million yen.

For Security Solution Products, despite the sales increase resulting from the Access Control Systems under promotion for workstyle reform, sales decreased 13.9 percent YOY to 3,278 million yen. This is because the receipt of large orders for Fire Protection Systems in Thailand has yet to follow sales in the current year, and due to weak sales of Display Security Systems. For Other System Solution Products, sales increased 38.4 percent YOY to 1,016 million yen due to solid sales of cloud-based wireless LAN Systems and automated postal mail inserters (folding and inserting machines).

For Customer Service Products, sales decreased 0.1 percent YOY to 1,349 million yen in line with the previous year.

(Device Segment)

Device Segment sales decreased 1.5 percent YOY to 3,469 million yen and operating income increased 54 million yen YOY to 37 million yen.

For Semiconductor products, sales decreased 9.7 percent YOY to 1,428 million yen due to shrinking sales of electronic parts for smartphones.

For Mechanical component products, sales increased 5.2 percent YOY to 2,041 million yen because we made solid sales progress in the main market of Mechanical Components for housing equipment and office furniture.

(2) Explanation of Financial Position

Total assets as of the end of the current consolidated cumulative second quarter decreased 33 million yen from the end of the previous consolidated fiscal year to 18,532 million yen. This is because notes and accounts receivable decreased 531 million yen, while cash and deposits increased 403 million yen, and merchandise and finished goods increased 124 million yen.

Liabilities decreased 186 million yen from the end of the previous consolidated fiscal year to 4,421 million yen. This is because notes and accounts payable decreased 205 million yen respectively.

Net assets increased 153 million yen from the end of the previous consolidated fiscal year to 14,111 million yen. This is because quarterly net income attributable to owners of parent amounted to 189 million yen. The equity ratio increased 1.0 points from the end of the previous consolidated fiscal year to 76.1 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 2018 on May 9, 2018, are unchanged.

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

(Millions of yen)

	Previous consolidated fiscal year (as of March 31, 2018)	Second quarter of the current consolidated fiscal year (as of September 30, 2018)
Assets		
Current assets		
Cash and deposits	6,169	6,572
Notes and accounts receivable - trade	6,277	5,745
Merchandise and finished goods	2,416	2,541
Raw materials	107	171
Other	587	605
Allowance for doubtful accounts	(18)	(14)
Total current assets	15,540	15,622
Non-current assets		
Property, plant and equipment	302	288
Intangible assets		
Goodwill	659	607
Other	70	81
Total intangible assets	729	689
Investments and other assets		
Investment securities	1,238	1,229
Other	755	702
Allowance for doubtful accounts	(0)	(0)
Total investments and other assets	1,993	1,932
Total non-current assets	3,025	2,910
Total assets	18,566	18,532

(Millions of yen)

	Previous consolidated fiscal year (as of March 31, 2018)	Second quarter of the current consolidated fiscal year (as of September 30, 2018)
Liabilities		
Current liabilities		
Notes and accounts payable - trade	2,640	2,435
Income taxes payable	188	163
Provision for bonuses	245	254
Provision for directors' bonuses	10	12
Other	802	874
Total current liabilities	3,887	3,740
Non-current liabilities		
Net defined benefit liability	658	644
Other	61	36
Total non-current liabilities	719	680
Total liabilities	4,607	4,421
Net assets		
Shareholders' equity		
Capital stock	1,209	1,209
Capital surplus	1,171	1,172
Retained earnings	12,144	12,221
Treasury shares	(777)	(766)
Total shareholders' equity	13,746	13,836
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	339	331
Foreign currency translation adjustment	(119)	(45)
Remeasurements of defined benefit plans	(17)	(16)
Total accumulated other comprehensive income	202	269
Share acquisition rights	9	5
Non-controlling interests	0	0
Total net assets	13,958	14,111
Total liabilities and net assets	18,566	18,532

(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, 2017 to September 30, 2017)	Current consolidated cumulative second quarter (From April 1, 2018 to September 30, 2018)
Net sales	9,415	9,114
Cost of sales	7,118	6,763
Gross profit	2,297	2,351
Selling, general and administrative expenses	2,085	2,063
Operating profit	211	287
Non-operating income		
Interest income	0	0
Dividend income	8	10
Foreign exchange gains	22	41
Insurance income	0	1
Share of profit of entities accounted for using equity method	0	4
Other	10	7
Total non-operating income	43	65
Non-operating expenses		
Interest expenses	0	0
Commission fee	0	1
Other	0	0
Total non-operating expenses	1	2
Ordinary profit	252	350
Extraordinary income		
Gain on reversal of share acquisition rights	—	3
Total extraordinary income	—	3
Extraordinary losses		
Loss on retirement of non-current assets	1	—
Total extraordinary losses	1	—
Profit before income taxes	251	353
Income taxes - current	122	157
Income taxes - deferred	5	7
Total income taxes	128	164
Profit	123	189
Profit attributable to owners of parent	123	189

(Quarterly Consolidated Statements of Comprehensive Income)

(Consolidated cumulative second quarter)

(Millions of yen)

	Previous consolidated cumulative second quarter (From April 1, 2017 to September 30, 2017)	Current consolidated cumulative second quarter (From April 1, 2018 to September 30, 2018)
Profit	123	189
Other comprehensive income		
Valuation difference on available-for-sale securities	122	(8)
Foreign currency translation adjustment	81	74
Remeasurements of defined benefit plans, net of tax	1	1
Total other comprehensive income	205	67
Comprehensive income	328	257
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	328	257

(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

(Additional information)

(Adoption of "Partial Amendments to Accounting Standard for Tax Effect Accounting" etc.)

We have adopted "Partial Amendments to Accounting Standard for Tax Effect Accounting" (ASBJ Statement NO.28 on February 16, 2018), etc., from the beginning of the first quarter of the fiscal year under review. As a result, deferred tax assets are presented in investments and other assets, and deferred tax liabilities are presented in non-current liabilities.

(Segment Information, etc.)

[Segment Information]

I Previous consolidated cumulative second quarter (From April 1, 2017 to September 30, 2017)

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	5,893	3,521	9,415	—	9,415
Internal sales and transfers between segments	—	—	—	—	—
Total	5,893	3,521	9,415	—	9,415
Segment profit (loss)	226	(17)	209	2	211

(Notes) 1. Adjustments to segment profit or loss of 2 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, 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	5,645	3,469	9,114	—	9,114
Internal sales and transfers between segments	—	—	—	—	—
Total	5,645	3,469	9,114	—	9,114
Segment profit	258	37	295	(7)	287

(Notes) 1. Adjustments to segment profit (7) 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 2017)	Current quarter (Second quarter of FY 2018)
Security Solution Products	3,806	3,278
Other System Solution Products	734	1,016
Customer Service Products	1,351	1,349
System Total	5,893	5,645
Semiconductors Products	1,581	1,428
Mechanical Component Products	1,940	2,041
Device Total	3,521	3,469
Total	9,415	9,114