

Financial Report for the 9-month Period Ended September 30, 2017 (Consolidated - Japanese Standards)

Company name: DAITRON CO., LTD.
 Stock exchange listing: 1st Section of the Tokyo Stock Exchange
 Code number: 7609 URL: <http://www.daitron.co.jp/>
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Scheduled date of submitting quarterly statement: November 14, 2017

Scheduled date of starting dividend payment: —

Support explanatory material for quarterly settlement: None

Explanatory meeting for quarterly settlement: None

(Figures less than a million yen are rounded down.)

1. Financial results for 9-month period ended September 30, 2017 (Consolidated)

(1) Operating results (Cumulative)

(Figures shown in percentages indicate the year-on-year rates of increase/decrease.)

	Net sales		Operating income		Ordinary income		Quarterly net income belonging to parent shareholders	
	Mil. yen	%	Mil. yen	%	Mil. yen	%	Mil. yen	%
3Q/2017	38,275	16.9	2,021	28.7	2,051	36.5	1,426	54.5
3Q/2016	32,731	3.1	1,570	42.1	1,502	39.3	923	27.0

Note: Comprehensive Income 3Q/2017: 1,583 million yen (115.9%) 3Q/2016: 733 million yen (0.1%)

	Quarterly net income per share		Diluted quarterly net income per share	
	Yen		Yen	
3Q/2017	129.21		—	
3Q/2016	83.16		—	

Note: Diluted quarterly net income per share is not shown because there existed no potential common stocks.

(2) Financial standing

	Total assets	Net assets	Shareholders' equity ratio	Net assets per share
	Million yen	Million yen	%	Yen
3Q/2017	33,872	14,926	44.1	1,352.71
FY2016	32,068	13,914	43.4	1,252.94

(Reference) Shareholders' equity 3Q/2017: 14,922 million yen FY2016: 13,911 million yen

2. Dividend payments

	Annual dividend payment (Yen)				
	1Q end	2Q end	3Q end	fiscal end	Total
FY2016	—	0.00	—	30.00	30.00
FY2017	—	15.00	—	—	—
FY2017 (expected)	—	—	—	20.00	35.00

(Note) Revision of the most recently announced dividend payment expectation: None

3. Consolidated earnings forecast for fiscal 2017 ending December 31, 2017

(Figures shown in percentages indicate the year-on-year rates of increase/decrease.)

	Net sales		Operating income		Ordinary income		Quarterly net income belonging to parent shareholders		Net income per share
	Mil.yen	%	Mil.yen	%	Mil.yen	%	Mil.yen	%	Yen
Full year	50,000	11.3	2,270	18.8	2,300	23.4	1,620	33.1	146.75

(Note) Revision of the most recently announced operating estimates: None

* Notes

(1) Change in significant subsidiaries (change in specific subsidiaries that entails a change in the scope of consolidation) during the quarter: None

(2) Application of accounting procedures specially applicable to preparation of quarterly consolidated financial statements: None

(3) Change in accounting principles/estimates or restatement:

- ① Change in accounting principles associated with revision in accounting standards, etc.: None
- ② Other change in accounting principles: None
- ③ Change in accounting estimates: None
- ④ Restatement: None

(4) Number of outstanding shares (common shares)

① number of outstanding shares at period-end (including treasury shares)

3Q 2017 : 11,155,979 shares

FY 2016 : 11,155,979 shares

② number of treasury shares at period-end

3Q 2017 : 124,144 shares

FY 2016 : 53,027 shares

③ average number of shares during period (cumulative)

3Q 2017 : 11,041,783 shares

3Q 2016 : 11,103,259 shares

* Quarterly Financial Reports are not subject to quarterly reviews.

* Explanations on appropriate use of earnings forecasts and other special comments

(Note on mentions of the future)

Please note that the statements concerning the future contained in this Report, including earnings forecasts, are based on information obtained by the Company to date and given assumptions considered reasonable, but not a commitment to achieve them. In addition, the actual results may differ to a great extent depending on various factors that may arise in the future.

[Contents of Appendix]

1. Qualitative information on accounts for the current quarter
 - (1) Discussion regarding operating results
 - (2) Discussion regarding financial conditions
 - (3) Discussion regarding forecast information such as consolidated earnings forecast
2. Quarterly Consolidated Financial Statements and Notes
 - (1) Consolidated Balance Sheet
 - (2) Consolidated Statement of Income and Consolidated Statement of Comprehensive Income
 - Consolidated Statement of Income
 - Consolidated Statement of Comprehensive Income
 - (3) Notes to Quarterly Consolidated Financial Statements
 - (Notes regarding premises of going concern)
 - (Notes for significant change in the amount of shareholders' equity)
 - (Change in significant subsidiaries during the quarter)
 - (Additional information)
 - (Segment information, etc.)
 - (Important subsequent events)

1. Qualitative information on accounts for the current quarter

(1) Discussion regarding operating results

The Japanese economy during the cumulative third quarter remained on a gradual growing trend in general with corporate earnings and the employment and income environments improved.

The global economy continued uncertain about the future with the concerns over the geopolitical risks in the Middle East and East Asia, while the US and European economies remained solid.

In our electronics industry, production activities and facility investments remained firm in the automobile, industrial robots, and IoT related fields.

In these circumstances, the Group worked on sales expansion of original products, development of new markets, and expansion of overseas operations under the 9th Mid-Term Management Plan for the four years starting 2017 toward 2020.

Consequently, the Group obtained the following results in the current cumulative third quarter: net sales 38,275 million yen (up 16.9% from the same term last year); operating income 2,021 million yen (up 28.7%); ordinary income 2,051 million yen (up 36.5%); and quarterly net income attributable to parent shareholders 1,426 million yen (up 54.5%).

The outline of segmental performance is as follows:

The Company merged Daitron Technology Co., Ltd. and Daito Denso Co., Ltd., which were its wholly-owned consolidated subsidiaries, as of January 1, 2017.

With this merger, the names of the Report Segments have been changed as from the first quarter, from the former "Domestic Sales Companies" to "Domestic Sales Business," and from "Domestic Manufacturing Companies" to "Domestic Manufacturing Business," respectively.

In addition, the expense allocation standards were reviewed and the calculation method for report segment income was changed. On account of these, in the year-on-year comparison of each segment, the amounts of the same term in the previous year recalculated based on the new expense allocation standards are used.

- Domestic Sales Business

As for this segment, supported by the increasing demand for communications and automobile electronic parts, both sales and profits exceeded those of the same term last year buoyed by the good sales of connectors of the "Electronic Components & Assembly Products," cameras, lenses, and lights of "Image-Related Equipment and Parts," and embedded board computers of the "Embedded System," respectively, for production facility manufacturers, in addition to the strong sales of uninterruptible power systems (UPS) for data centers.

Consequently, net sales of this segment totaled 31,609 million yen (up 15.0% from the same term last year) with a segmental (operating) income of 1,137 million yen (up 124.4%).

- Domestic Manufacturing Business

In this segment, as for the performance of the equipment business operation dealing with manufacturing equipment, both sales and profits fell below those of the same term last year with the sales of electronic parts manufacturing equipment to electronic parts manufacturers decreased. As for the component business operation dealing with electronic equipment and components, profits fell below those of the previous year with the decreased sales ratios of special harnesses and special connectors, which are profitable, though the net sales stayed at almost the same level as in the same term last year.

Consequently, net sales of this segment totaled 2,009 million yen (down 0.9% from the same term last year), total sales including inter-segmental sales amounted to 6,096 million yen (down 5.7%), with the segmental (operating) income of 493 million yen (down 46.4%).

- Overseas Subsidiaries

As for this segment, both sales and profits exceeded those of the same term last year supported by the good sales of the "Electronic Components & Assembly Products" and "Electronic Components Manufacturing Equipment" in the North American market as well as the increased sales of the "Image-Related Equipment and Parts," "Electronic Components & Assembly Products," and "Semiconductors" in the Chinese, Korean, and Southeast Asian markets.

Consequently, net sales of this segment totaled 4,655 million yen (up 44.2% from the same term last year) with a segmental (operating) income of 459 million yen (up 141.2 million yen).

(2) Discussion regarding financial conditions

(Assets)

Current assets at the end of this quarter amounted to 27,570 million yen (up 1,581 million yen from the previous fiscal-end), primarily due to the increases in notes and accounts receivable-trade by 1,571 million yen. Fixed assets amounted to 6,301 million yen (up 222 million yen), mainly as a result of the increase in tangible fixed assets by 61 million yen and investment and other assets by 177 million yen.

Consequently, the total assets stood at 33,872 million yen, up 1,803 million yen from the end of the previous fiscal year.

(Liabilities)

Current liabilities at the end of this quarter amounted to 15,676 million yen (up 731 million yen from the previous fiscal-end), primarily due to the increase in electronically recorded monetary obligations by 1,093 million yen. Fixed liabilities amounted to 3,269 million yen (up 60 million yen) primarily due to the increase in liabilities pertaining to employees' retirement benefits by 75 million yen.

Consequently, the total liabilities stood at 18,946 million yen, up 792 million yen from the end of the previous fiscal year.

(Net assets)

Total net assets at the end of this quarter amounted to 14,926 million yen (up 1,011 million yen from the previous fiscal-end), primarily due to the quarterly net income belonging to parent shareholders of 1,426 million yen, dividend of surplus of 498 million yen, and purchase of treasure stocks of 73 million yen.

Consequently, the shareholders' equity ratio stood at 44.1%, up 0.7 point from that in the end of the previous fiscal year.

(3) Discussion regarding forecast information such as consolidated earnings forecasts

There has been no change in the consolidated earnings forecasts from those stated in the Financial Report for the 3-month Period Ended June 30, 2017 announced on August 2, 2017. Please note that the earnings forecasts are prepared based on the information available at the announcement date of this material and that actual results may differ depending on various factors that may arise in the future. When they need to be revised, the Company will disclose them as soon as possible.

2. Consolidated Financial Statements

(1) Consolidated Balance Sheet

(Unit: thousand yen)

	at December 31, 2016	at September 30, 2017
Assets		
Current assets		
Cash and deposits	6,757,712	4,091,752
Notes and accounts receivable - Trade	10,720,663	12,292,526
Electronically recorded monetary claims	4,207,404	5,225,651
Goods and products	1,651,418	2,226,496
Work in process	1,052,211	2,051,450
Raw materials	329,788	354,450
Other current assets	1,273,131	1,330,061
Allowance for doubtful accounts	(2,782)	(1,837)
Total current assets	25,989,547	27,570,551
Fixed assets		
Tangible fixed assets	4,096,067	4,157,794
Intangible fixed assets	81,071	64,222
Investments and other assets		
Other investments and other assets	1,908,581	2,086,474
Allowance for doubtful accounts	(6,569)	(6,700)
Total investments and other assets	1,902,011	2,079,773
Total fixed assets	6,079,150	6,301,790
Total assets	32,068,697	33,872,341

	at December 31, 2016	at September 30, 2017
Liabilities		
Current liabilities		
Notes and accounts payable - trade	5,864,912	6,806,847
Electronically recorded monetary obligation	4,832,972	5,926,095
Short-term loans payable	100,000	112,698
Long-term loans payable due within one year	978,901	139,996
Accrued Income taxes, etc.	378,810	472,349
Allowance for bonuses	73,706	507,318
Other allowance	78,095	82,670
Other current liabilities	2,637,797	1,628,800
Total current liabilities	<u>14,945,194</u>	<u>15,676,776</u>
Fixed liabilities		
Long-term loans payable	451,674	446,677
Liabilities pertaining to employees' retirement benefits	2,652,744	2,728,500
Asset retirement obligation	46,208	46,759
Other fixed liabilities	58,163	47,355
Total fixed liabilities	<u>3,208,790</u>	<u>3,269,291</u>
Total liabilities	<u>18,153,985</u>	<u>18,946,068</u>
Net assets		
Shareholders' equity		
Common stock	2,200,708	2,200,708
Capital surplus	2,482,918	2,482,918
Retained earnings	9,181,548	10,109,677
Treasury stock	(20,764)	(94,415)
Total shareholders' equity	<u>13,844,410</u>	<u>14,698,889</u>
Accumulated other comprehensive income		
Difference from evaluation of other investment securities	481,544	637,003
Deferred gains or losses on hedges	3,046	(1,670)
Foreign currency translation adjustments	(10,269)	(39,395)
Accumulated adjustment pertaining to employees' retirement benefits	(407,386)	(371,919)
Total accumulated other comprehensive income	<u>66,935</u>	<u>224,017</u>
Minority interests	3,366	3,366
Total net assets	<u>13,914,712</u>	<u>14,926,273</u>
Total liabilities and net assets	<u>32,068,697</u>	<u>33,872,341</u>

(2) Consolidated Statement of Income and Consolidated Statement of Comprehensive Income

(Consolidated Statement of Income)

(Unit: thousand yen)

	9 months Ended September 30, 2016	9 months Ended September 30, 2017
Net sales	32,731,900	38,275,168
Cost of sales	25,223,629	29,744,897
Gross profit	7,508,270	8,530,271
Selling, general and administrative expenses	5,937,327	6,509,246
Operating income	1,570,943	2,021,024
Non-operating income		
Interest income	1,974	1,820
Dividend income	10,797	12,301
Insurance dividend	13,029	13,735
Foreign exchange profit	—	22,924
Other non-operating income	16,044	21,936
Total non-operating income	41,845	72,718
Non-operating expenses		
Interest expense	17,146	15,592
Loss on sale of trade notes	2,000	1,216
Sales discount	10,259	9,905
Foreign exchange loss	78,431	—
Commission paid	—	11,145
Other non-operating losses	2,021	4,783
Total non-operating expenses	109,859	42,643
Ordinary income	1,502,929	2,051,099
Extraordinary income		
Gain on sale of fixed assets	1,026	1,434
Total extraordinary income	1,026	1,434
Extraordinary losses		
Loss on sale and retirement of fixed assets	245	1,108
Total extraordinary losses	245	1,108
Net income before taxes and adjustments	1,503,710	2,051,425
Income, inhabitants and enterprise taxes	718,496	765,285
Income taxes-deferred	(138,096)	(140,556)
Total income taxes	580,399	624,729
Quarterly net income	923,310	1,426,696
Quarterly net income belonging to parent shareholders	923,310	1,426,696

(Consolidated Statement of Comprehensive Income)

(Unit: thousand yen)

	9 months Ended September 30, 2016	9 months Ended September 30, 2017
Net income before taxes and adjustments	923,310	1,426,696
Other comprehensive income		
Difference from evaluation of other securities	(66,990)	155,459
Deferred gains or losses on hedges	(1,384)	(4,717)
Foreign currency translation adjustments	(135,041)	(29,126)
Adjustment pertaining to employees' retirement benefits	13,611	35,466
Total other comprehensive income	(189,805)	157,081
Quarterly comprehensive income	733,505	1,583,778
(breakdown)		
Quarterly comprehensive income pertaining to parent stock	733,505	1,583,778
Quarterly comprehensive income pertaining to non-controlling shareholders	—	—

(3) Notes regarding Quarterly Consolidated Financial Statements

(Notes regarding premises of going concern) N.A.

(Notes for significant change in the amount of shareholders' equity) N.A.

(Change in significant subsidiaries during the quarter) N.A.

Daitron Technology Co., Ltd. and Daito Denso Co., Ltd., which were the Company's consolidated subsidiaries, though not corresponding to specified subsidiaries, have been excluded from the scope of consolidation as they disappeared in the first quarter by an absorption-type merger whose surviving company is the Company.

(Additional information)

- Application of the Application Guidelines concerning Realizability of Deferred Tax Assets

The Company has adopted the Application Guidelines concerning Realizability of Deferred Tax Assets (Corporate Accounting Standards Application Guidelines No.26, March 28, 2016) as from the first quarter.

(Segment information, etc.)

Segment information

[9 months Ended September 30, 2016]

a. Information on the amounts of net sales and profits by report segment

(Unit: thousand yen)

	Report Segment			
	Domestic Sales Companies	Domestic Manufacturing Companies	Overseas Subsidiaries	Total
Net sales				
- Sales to outside customers	27,476,004	2,027,735	3,228,161	32,731,900
- Inter-segmental sales or transfer	903,748	4,440,545	91,848	5,436,142
Total	28,379,753	6,468,280	3,320,010	38,168,043
Segment income	506,888	919,563	190,639	1,617,092,

	Adjustment (*1)	Amount on Consolidated Financial Statements (*2)
Net sales		
- Sales to outside customers	—	32,731,900
- Inter-segmental sales or transfer	(5,436,142)	—
Total	(5,436,142)	32,731,900
Segment income	(46,148)	1,570,943

(Notes) 1. Adjustment in Segment income of (46,148) thousand yen includes the inter-segmental transaction elimination of 28,391 thousand yen and Corporate allocation not allocated to each Report Segment of (74,539) thousand yen. The main portion of Corporate allocation is Selling, general and administrative expenses not attributable to Report Segments.

2. Segmental income is adjusted to Operating income on the quarterly Consolidated Statement of Income.

b. Information on Impairment loss on fixed assets or Goodwill, etc. by Report Segment: N.A.

[9 months Ended September 30, 2017]

a. Information on the amounts of net sales and profits by report segment

(Unit: thousand yen)

	Report Segment			
	Domestic Sales Companies	Domestic Manufacturing Companies	Overseas Subsidiaries	Total
Net sales				
- Sales to outside customers	31,609,862	2,009,804	4,655,502	38,275,168
- Inter-segmental sales or transfer	1,354,582	4,086,816	166,672	5,608,072
Total	32,964,444	6,096,620	4,822,175	43,883,240
Segment income	1,137,511	493,014	459,834	2,090,360

	Adjustment (*1)	Amount on Consolidated Financial Statements (*2)
Net sales		
- Sales to outside customers	—	38,275,168
- Inter-segmental sales or transfer	(5,608,072)	—
Total	(5,608,072)	38,275,168
Segment income	(69,335)	2,021,024

(Notes) 1. Adjustment in Segment income of (69,335) thousand yen includes the inter-segmental transaction elimination of (600) thousand yen and Corporate allocation not allocated to each Report Segment of (68,735) thousand yen. The main portion of Corporate allocation is Selling, general and administrative expenses not attributable to Report Segments.

2. Segmental income is adjusted to Operating income on the quarterly Consolidated Statement of Income.

b. Matters regarding Change in Report Segment

(Change in Report Segment names, etc.)

The Company effected an absorption-type merger with Daitron Technology Co., Ltd. and Daito Denso Co., Ltd., which were its wholly-owned consolidated subsidiaries, as of January 1, 2017. With this merger, the names of the Report Segments have been changed as from the first quarter, from the former "Domestic Sales Companies" to "Domestic Sales Business," and from "Domestic Manufacturing Companies" to "Domestic Manufacturing Business," respectively. In addition, for more appropriate evaluation of the performance by the respective Report Segments, the Company has reviewed the allocation standards for Selling, general and administrative expenses not attributable to Report Segments, and changed the calculation method for Report Segment income.

The Segment Information for the previous consolidated cumulative third quarter is prepared and disclosed based on the segment names and allocation standards after change.

c. Information on Impairment loss on fixed assets or Goodwill, etc. by Report Segment: N.A.

(Important subsequent events)

- Disposal of treasury shares as stock compensation

The Company resolved at its board of directors meeting on October 20, 2017 on disposal of treasury shares as stock compensation (hereinafter called "Disposal") as follows:

1. Outline of Disposal

- (1) Payment date: December 4, 2017
- (2) Class and number of shares to be disposed of: 48,500 Company common shares
- (3) Disposal value: JPY 1,999 per share
- (4) Total amount of disposal value: JPY 96,951,500
- (5) Allotment method for shares for subscription: third-party allotment
- (6) Planned allottee and number of shares to be allotted: 485 subject Company employees
(48,500 shares)
- (7) Other: For this Disposal, a securities notice has been submitted pursuant to the Financial Instruments and Exchange Act.

2. Purpose and reason of Disposal

To reward the employees' contribution to the Company's development by continuous long-term service in commemoration of the Company's absorption-type merger with Daitron Technology Co., Ltd. and Daito Denso Co., Ltd. as of January 1, 2017 and the change in its trade name associated therewith.