

Financial Report for the 6-month Period Ended June 30, 2018 (Consolidated - Japanese Standards)

Company name: DAITRON CO., LTD.
 Stock exchange listing: 1st Section of the Tokyo Stock Exchange
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Scheduled date of submitting quarterly statement: August 10, 2018
 Scheduled date of starting dividend payment: September 7, 2018
 Support explanatory material for quarterly settlement: Prepared
 Explanatory meeting for quarterly settlement: Held (for institutional investors and analysts)

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

1. Financial results for 6-month period ended June 30, 2018 (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	%
2Q/2018	28,491	12.1	1,683	25.0	1,730	25.1	1,183	22.0
2Q/2017	25,410	16.3	1,347	24.4	1,383	37.5	970	68.3

Note: Comprehensive income 2Q/2018: 1,090 million yen (3.5%) 2Q/2017: 1,054 million yen (195.0%)

	Quarterly net income per share	Diluted quarterly net income per share
	Yen	Yen
2Q/2018	106.82	—
2Q/2017	87.84	—

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
2Q/2018	35,850	16,270	45.4	1,467.13
FY2017	35,383	15,492	43.8	1,397.97

(Reference) Shareholders' equity 2Q/2018: 16,266 million yen FY2017: 15,489 million yen

2. Dividend payments

	Annual dividend payment (Yen)				
	1Q end	2Q end	3Q end	fiscal end	Total
FY2017	—	15.00	—	30.00	45.00
FY2018	—	20.00	—	—	—
FY2018 (forecast)	—	—	—	30.00	50.00

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

3. Consolidated earnings forecast for fiscal 2018 ending December 31, 2018

(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	58,500	13.2	3,200	26.9	3,200	23.9	2,200	17.8	198.49

(Note) Revision of the most recently announced operating estimates: Revised

* Notes

(1) Change in significant subsidiaries (change in specific subsidiaries that entails a change in the scope of consolidation) during the current cumulative 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 associated with revision in accounting principles, 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 stock)
 - 2Q 2018 : 11,155,979 shares
 - FY 2017 : 11,155,979 shares
- ② number of treasury stocks at period-end
 - 2Q 2018 : 68,470 shares
 - FY 2017 : 75,903 shares
- ③ average number of shares during period (cumulative)
 - 2Q 2018 : 11,080,152 shares
 - 2Q 2017 : 11,046,821 shares

* This Quarterly Financial Report is not subject to an audit of a certified public accountant or audit corporation.

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

(Note on statements on 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.

(Acquisition method for the quarterly settlement support explanatory material and the content of the quarterly settlement explanatory meeting)

The Company is scheduled to hold an explanatory meeting for institutional investors and analysts on August 6, 2018. The explanatory material to be used there will be put on the Company website as soon as possible after the meeting.

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1. Qualitative information on accounts for the current quarter

(1) Discussion regarding operating results

The Japanese economy during this consolidated cumulative second quarter remained solid in general with the employment and income environments improved and the production activities gradually but continuingly expanded.

The global economy continued uncertain about the future with the concerns over the impacts of the US trade policy and the geopolitical risks in some regions.

In our electronics industry, both domestic and overseas demand for electronic components and production equipment for various scenes grew with increased use of electric/electronic parts in vehicles and industrial robots in production sites.

In these circumstances, the Group worked for sales expansion of original products, development of new markets, and expansion of overseas operations under the basic policy of the 9th Mid-Term Management Plan (2017 -2020).

Consequently, the Group obtained the following results in this consolidated cumulative second quarter: net sales 28,491 million yen (up 12.1% from the same term last year); operating income 1,683 million yen (up 25.0%); ordinary income 1,730 million yen (up 25.1%); and quarterly net income attributable to parent shareholders 1,183 million yen (up 22.0%).

The outline of segmental performance is as shown below:

- Domestic Sales Business

As for this segment, in the electronic equipment and components business, sales remained brisk in cameras, lenses and lights of "Image-Related Equipment and Parts" for production equipment for semiconductors and auto electronic parts; connectors and cable harnesses of "Electronic Components & Assembly Products" for production equipment for the semiconductors and robot industries; and large uninterruptible power systems (UPS) for data centers, respectively. In the manufacturing equipment business, electronic components manufacturing equipment for production of laser diodes and electronic parts recorded good sales.

Consequently, net sales of this segment totaled 23,543 million yen (up 11.7% from the same term last year) with a segmental (operating) income of 724 million yen (down 13.5%) due to the increases in Cost of sales and Selling, general and administrative expenses.

- Domestic Manufacturing Business

In this segment, as for the performance of the equipment business operation dealing with manufacturing equipment, sales of semiconductor/FPD manufacturing equipment for production of semiconductor materials and those of electronic components manufacturing equipment for production of laser diodes and electronic components remained strong, respectively. As for the component business operation dealing with electronic equipment and components, both sales and profits exceeded those of the same term of the previous year supported by the good sales of underwater connectors and cable harnesses.

Consequently, the total sales including inter-segmental sales amounted to 5,066 million yen (up 36.3% from the same term last year), and sales to outside customers amounted to 1,651 million yen (up 25.3%), with a segmental (operating) income of 719 million yen (up 188.0%).

- Overseas Subsidiaries

As for this segment, sales of "Semiconductor/FPD Manufacturing Equipment" and "Electronic Components Manufacturing Equipment" in the North American market and "Semiconductors" in the Chinese market increased, while those of "Electronic Components & Assembly Products" and "Image-Related Equipment and Parts" decreased in general.

Consequently, net sales of this segment totaled 3,296 million yen (up 9.1% from the same term last year) with a segmental (operating) income of 262 million yen (down 15.1%) due to the increase in Selling, general and administrative expenses.

(2) Discussion regarding financial conditions

① Assets, liabilities, and net assets

(Assets)

Current assets at the end of the current period amounted to 29,351 million yen (up 326 million yen from the previous fiscal-end), primarily due to the increases in Cash and deposits by 1,432 million yen and Goods and products by 581 million yen, respectively, despite the decrease in Work in process by 1,647 million yen. Fixed assets amounted to 6,498 million yen (up 141 million yen), primarily due to the increase in Tangible fixed assets by 188 million yen.

Consequently, the total assets stood at 35,850 million yen, up 467 million yen from the end of the previous fiscal year.

(Liabilities)

Current liabilities at the end of the current period amounted to 16,420 million yen (down 275 million yen from the previous fiscal-end), primarily due to the decrease in Notes and accounts payable by 347 million yen, despite the increase in Advance received included in Other current liabilities by 123 million yen. Fixed liabilities amounted to 3,159 million yen (down 34 million yen).

Consequently, the total liabilities stood at 19,580 million yen, down 309 million yen from the end of the previous fiscal year.

(Net assets)

Total net assets at the end of the current period amounted to 16,270 million yen (up 777 million yen from the previous fiscal-end), primarily due to the Quarterly net income belonging to parent shareholders of 1,183 million yen and the payment of Surplus dividend of 332 million yen.

Consequently, the shareholders' equity ratio stood at 45.4%, up 1.6 point from that at the end of the previous fiscal year.

② Cash flow

The balance of cash and cash equivalents at the end of the current period (hereinafter called "Fund") stood at 6,527 million yen, up 1,432 million yen from the previous fiscal-end.

The status of each cash flow during the current period and the factors are as follows:

(Cash flows from operating activities)

The Fund increased 2,176 million yen (345 million yen increase in the same term last year) as a result of operating activities: the major increasing factors are the decreases in Net income before taxes and adjustments by 1,732 million yen and in Inventories by 1,037 million yen, while the major decreasing factors are the increase in Accounts receivable by 517 million yen and the decrease in Trade notes and accounts payable by 582 million yen.

(Cash flows from investing activities)

The Fund decreased 347 million yen (114 million yen decrease in the same term last year) as a result of investing activities: the major decreasing factor is Payment for purchase of tangible fixed assets by 326 million yen.

(Cash flows from financing activities)

The Fund decreased 360 million yen (533 million yen decrease in the same term last year) as a result of Dividends paid by 332 million yen.

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

In our electronics industry, both domestic and overseas demand for electronic components and production equipment for various scenes is growing associated with increased use of electric/electronic parts in vehicles and industrial robots in production sites, and it is expected to continue steady.

In light of such business circumstances and the performance of the consolidated cumulative second quarter, the Company revised its business forecast for fiscal 2018 as announced in the "Financial Report for the 3-month Period Ended March 31, 2018" on May 9, 2018.

For the details, please refer to the "Announcement of Differences between Consolidated Business Forecast and Result for Cumulative 2Q And Revision of Business Forecast for Fiscal Year of 2018" announced August 1, 2018.

2. Consolidated Financial Statements

(1) Consolidated Balance Sheet

(Unit: thousand yen)

	at December 31, 2017	at June 30, 2018
Assets		
Current assets		
Cash and deposits	5,124,988	6,557,360
Notes and accounts receivable - trade	11,948,266	11,011,561
Electronically recorded monetary claims	5,295,514	6,715,861
Goods and products	2,028,015	2,609,291
Work in process	3,030,345	1,382,386
Raw materials	328,130	338,713
Other current assets	1,270,803	736,795
Allowance for doubtful accounts	(341)	(191)
Total current assets	29,025,722	29,351,779
Fixed assets		
Tangible fixed assets	4,149,677	4,337,873
Intangible fixed assets	79,406	71,351
Investments and other assets		
Other investments and other assets	2,135,178	2,098,014
Allowance for doubtful accounts	(6,692)	(8,492)
Total investments and other assets	2,128,486	2,089,522
Total fixed assets	6,357,569	6,498,746
Total assets	35,383,291	35,850,526

	at December 31, 2017	at June 30, 2018
Liabilities		
Current liabilities		
Notes and accounts payable - trade	6,535,324	6,188,060
Electronically recorded monetary obligation	6,522,875	6,266,670
Short-term loans payable	310,962	359,471
Long-term loans payable due within one year	239,996	239,966
Accrued Income taxes, etc.	476,617	597,256
Allowance for bonuses	91,445	107,142
Other allowance	58,108	59,852
Other current liabilities	2,461,169	2,602,232
Total current liabilities	16,696,499	16,420,681
Fixed liabilities		
Long-term loans payable	311,678	241,680
Liabilities pertaining to employees' retirement benefits	2,791,080	2,828,321
Asset retirement obligation	46,943	47,318
Other fixed liabilities	44,139	42,359
Total fixed liabilities	3,193,841	3,159,679
Total liabilities	19,890,341	19,580,360
Net assets		
Shareholders' equity		
Common stock	2,200,708	2,200,708
Capital surplus	2,542,815	2,556,016
Retained earnings	10,550,928	11,402,161
Treasury stock	(57,946)	(52,371)
Total shareholders' equity	15,236,506	16,106,515
Accumulated other comprehensive income		
Difference from evaluation of other investment securities	663,209	588,841
Deferred gains or losses on hedges	(489)	(2,836)
Foreign currency translation adjustments	(26,571)	(67,295)
Accumulated adjustment pertaining to employees' retirement benefits	(383,070)	(358,425)
Total accumulated other comprehensive income	253,077	160,283
Minority interests	3,366	3,366
Total net assets	15,492,950	16,270,165
Total liabilities and net assets	35,383,291	35,850,526

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

(Consolidated Statement of Income)

(Unit: thousand yen)

	6 months Ended June 30, 2017	6 months Ended June 30, 2018
Net sales	25,410,482	28,491,806
Cost of sales	19,736,945	22,295,090
Gross profit	5,673,537	6,196,715
Selling, general and administrative expenses	4,326,152	4,512,966
Operating income	1,347,385	1,683,749
Non-operating income		
Interest income	1,055	1,155
Dividend income	8,514	11,954
Insurance dividend	13,735	6,194
Foreign exchange profit	27,503	—
Subsidy income	—	59,087
Other non-operating income	16,264	12,112
Total non-operating income	67,072	90,504
Non-operating expenses		
Interest expense	11,218	6,392
Loss on sale of trade notes	839	787
Sales discount	6,695	7,451
Foreign exchange loss	—	23,893
Other non-operating losses	12,692	4,912
Total non-operating expenses	31,445	43,437
Ordinary income	1,383,011	1,730,815
Extraordinary income		
Gain on sale of fixed assets	1,434	3,531
Total extraordinary income	1,434	3,531
Extraordinary losses		
Loss on sale and retirement of fixed assets	1,094	2,212
Total extraordinary losses	1,094	2,212
Net income before taxes and adjustments	1,383,351	1,732,134
Income, inhabitants and enterprise taxes	418,541	588,174
Income taxes-deferred	(5,578)	(39,674)
Total income taxes	412,962	548,499
Quarterly net income	970,389	1,183,635
Quarterly net income attributable to parent shareholders	970,389	1,183,635

(Consolidated Statement of Comprehensive Income)

(Unit: thousand yen)

	6 months Ended June 30, 2017	6 months Ended June 30, 2018
Quarterly net income	970,389	1,183,635
Other comprehensive income		
Difference from evaluation of other securities	111,229	(74,368)
Deferred gains or losses on hedges	(4,243)	(2,346)
Foreign currency translation adjustments	(45,773)	(40,724)
Adjustment pertaining to employees' retirement benefits	22,778	24,645
Total other comprehensive income	83,990	(92,794)
Quarterly comprehensive income	1,054,379	1,090,840
(breakdown)		
Quarterly comprehensive income pertaining to parent stock	1,054,379	1,090,840
Quarterly comprehensive income pertaining to non-controlling shareholders	—	—

(3) Consolidated Statement of Cash Flows

(Unit: thousand yen)

	6 months Ended June 30, 2017	6 months Ended June 30, 2018
Cash flows from operating activities		
Net income before taxes and adjustments	1,383,351	1,732,134
Depreciation and amortization	135,289	129,971
Interest and dividend income	(9,569)	(13,110)
Interest expense	11,218	6,392
(Gain)/Loss on sale and retirement of fixed assets	(339)	(1,318)
Decrease/(increase) in accounts receivable	(382,752)	(517,916)
Decrease/(increase) in inventories	(1,151,141)	(1,037,486)
Decrease/(increase) in advance payment	619,973	401,153
Increase/(decrease) in trade notes and accounts payable	1,147,580	(582,191)
Increase/(decrease) in advance received	(835,669)	127,718
Increase/(decrease) in allowances	3,738	19,058
Others	(174,631)	294,344
Sub-total	747,047	2,633,721
Interest and dividend received	9,316	13,205
Interest paid	(11,806)	(8,970)
Income tax and other taxes paid	(398,737)	(461,361)
Net cash provided by/(used in) operating activities	345,820	2,176,593
Cash flows from investing activities		
Payment for purchase of tangible fixed assets	(111,835)	(326,942)
Proceeds from sale of tangible fixed assets	8,828	9,343
Payment for purchase of investment securities	(10,311)	(10,710)
Others	(1,285)	(19,414)
Net cash provided by/(used in) investing activities	(114,603)	(347,784)
Cash flows from financing activities		
Increase/(decrease) in short-term loans payable -net	(100,000)	55,543
Proceeds from long-term loans	100,000	—
Repayment of long-term loans payable	(103,328)	(69,998)
Dividends paid	(333,082)	(332,279)
Others	(96,735)	(13,666)
Net cash provided by/(used in) financing activities	(533,146)	(360,399)
Effect of exchange rate changes on cash and cash equivalents	(28,358)	(36,037)
Increase/(decrease) in cash and cash equivalents	(330,288)	1,432,372
Cash and cash equivalents at beginning of period	6,727,712	5,094,988
Cash and cash equivalents at quarter end	6,397,424	6,527,360

(4) 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.

(Segment Information, etc.)

Segment Information

[6 months Ended June 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	21,071,430	1,318,303	3,020,747	25,410,482
- Inter-segmental sales or transfer	869,141	2,398,461	113,657	3,381,261
Total	21,940,572	3,716,765	3,134,405	28,791,743
Segment income	837,832	249,968	309,490	1,397,291

	Adjustment (*1)	Amount on Consolidated Financial Statements (*2)
Net sales		
- Sales to outside customers	—	25,410,482
- Inter-segmental sales or transfer	(3,381,261)	—
Total	(3,381,261)	25,410,482
Segment income	(49,906)	1,347,385

(Notes) 1. Adjustment in Segment income of (49,906) thousand yen includes the inter-segmental transaction elimination of (155) thousand yen and Corporate allocation not allocated to each Report Segment of (49,750) 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.

[6 months Ended June 30, 2018]

a. Information on amounts of net sales and profits by Report Segment

(Unit: thousand yen)

	Report Segment			
	Domestic Sales Business	Domestic Manufacturing Business	Overseas Subsidiaries	Total
Net sales				
- Sales to outside customers	23,543,291	1,651,891	3,296,623	28,491,806
- Inter-segmental sales or transfer	1,091,963	3,414,721	80,233	4,586,918
Total	24,635,254	5,066,613	3,376,856	33,078,725
Segment income	724,506	719,869	262,617	1,706,994

	Adjustment (*1)	Amount on Consolidated Financial Statements (*2)
Net sales		
- Sales to outside customers	—	28,491,806
- Inter-segmental sales or transfer	(4,586,918)	—
Total	(4,586,918)	28,491,806
Segment income	(23,244)	1,683,749

(Notes) 1. Adjustment in Segment income of (23,244) thousand yen includes the inter-segmental transaction elimination of (69) thousand yen and Corporate allocation not allocated to each Report Segment of (23,175) 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.