Operating Results

The current year under review saw an acceleration of the economic downturn in China due to concerns about US-China trade friction and Europe, which is highly dependent on China, trended towards economic slowdown. Certain emerging economies were impacted by currency depreciation and geopolitical instability and Japan showed signs of economic downturn in manufacturing sectors. Overall, the global environment transitioned with a lack of transparency about the future economy. Amid such a lack of transparency and a global environment subject to dramatic changes in business markets, we have implemented companywide structural reforms to ensure our ability to respond rapidly to change.

In highly profitable businesses such as the Timepiece Business and Scientific Calculators, we have aimed for sustainable business growth based on our existing proven business model. For businesses facing issues such as Musical Instruments and Projectors Businesses, we engaged in structural reforms to stabilize business while also aggressively promoting the creation of new genres and businesses that will serve as revenue pillars and contribute to profits.

Although net sales decreased owing to the impact of the withdrawal from the Compact Camera Business last fiscal year and external factors such as economic slowdown in China and Europe, and currency depreciation in emerging markets, we implemented structural reforms to improve our revenue structure.

Net Sales

Net sales for FYE 3/2019 were 298.1 billion yen (down 5.3% YoY).

Consumer Segment

Segment net sales were 257.3 billion yen (down 4.3% YoY) due to the withdrawal from the Compact Camera Business. Net sales for the Timepieces Business were favorable thanks mainly to sales of the GMW-B5000, the first full metal model for the original 5000 series G-SHOCK. Sales also benefitted from G-SHOCK events held in Japan and China.

System Equipment Segment

System Equipment segment sales were 33.8 billion yen, down 11.7% year on year on poor sales of projectors in North America due to increasing competition and reduced revenues due to the impact of the postponement of special orders for mandated electronic cash registers in France.

Others Segment

Segment net sales were 6.9 billion yen (down 7.9% YoY). This segment includes formed parts, molds, and other Group company proprietary businesses.

Operating Profit

Operating profit was 30.2 billion yen (up 2.3% YoY), and the operating margin increased by 0.7 points year on year to 10.1%.

Consumer Segment

The segment operating profit increased to 38.2 billion yen, up 9.1% year on year. The Timepiece Business was profitable on favorable sales of highly profitable products and the Calculators Business secured profitability thanks to a stable student market for scientific calculators.

System Equipment Segment

The segment recorded operating loss of 0.9 billion yen due to poor projector sales.

Others Segment

The segment operating profit was 0.3 billion yen, down 41.1%.

Profit Attributable to Owners of Parent

Profit before income taxes was 29.3 billion yen (up 19.3% YoY). Profit attributable to owners of parent was 22.1 billion yen (up 13.1% YoY), and basic earnings per share was 89.86 yen (up 10.44 yen YoY).

Financial Position

Assets

Total assets at the end of FYE 3/2019 decreased by 6.6 billion yen to 357.5 billion yen year on year. Current assets increased by 1.1 billion yen to 238.6 billion yen on increased inventory assets, etc. Non-current assets decreased by 7.7 billion yen year on year to 118.9 billion yen on decreased marketable securities.

Segment-specific assets are as follows:

Segment name	Assets	YoY
Consumer	196.3 billion yen	Increased 3.7 billion yen
System Equipment	37.9 billion yen	Increased 0.6 billion yen
Others	15.8 billion yen	Decreased 2.1 billion yen

Liabilities

Total liabilities at the end of FYE 3/2019 decreased by 11.5 billion yen year on year to 145.9 billion yen. Current liabilities decreased 10.9 billion yen year on year to 82.7 billion yen on reductions in the current portion of long-term loans payable and converting bonds with share acquisition rights to bonds with share acquisition rights redeemable within one year. Non-current liabilities decreased by 0.6 billion yen to 63.1 billion yen year on year on the conversation of bonds with share acquisition rights to bonds with share acquisition rights redeemable within one year and increased long-term loans payable.

Net Assets

Total net assets at the end of FYE 3/2019 increased by 4.9 billion yen year on year to 211.5 billion yen due to increased retained earnings.

Our Group engages in growth sector investments while securing our financial position to achieve medium- to long-term growth and sustainable ROE improvement. We will continue improving our corporate value by conducting business activities with due consideration to the cost of capital, and by working to optimize capital efficiency and generate free cash flow. As a result, ROE was 10.6%, up by 0.9 points year on year.

Cash Flows

Cash and cash equivalents at end of FYE 3/2019 were 132.2 billion yen, down 2.3 billion yen year on year. This represents sufficient capital liquidity. Free cash flows decreased by 11.7 billion yen year on year to 14.5 billion yen.

Cash Flows from Operating Activities

Cash flows from operating activities decreased by 13.8 billion yen year on year to 20.7 billion yen. Major factors included profit before income taxes of 29.3 billion yen (previous FY was 24.6 billion yen), depreciation of 9.6 billion yen (previous FY was 9.3 billion yen), gain on sales of investment securities of 4.8 billion yen (previous FY was 0.5 billion yen), increase in operating capital (notes and accounts receivable-trade, inventory, notes and accounts payable-trade) of 6.8 billion yen (previous FY decrease was 5.2 billion yen), and 5.4 billion yen in income taxes paid (previous FY was 3.5 billion yen).

Cash Flows from Investing Activities

Cash flows from investing activities resulted in expenditures of 6.2 billion yen, down by 2.0 billion yen year on year. Major factors included expenditures of 12.7 billion yen for the purchase of property, plant and equipment (previous FY was 10.4 billion yen) and net proceeds of 6.5 billion yen from the proceeds from sales and redemption of investment securities (previous FY net proceeds were 1.5 billion yen).

Cash Flows from Financing Activities

Cash flows from financing activities resulted in expenditures of 16.9 billion yen, a 6.3 billion yen increase in expenditures compared to the previous fiscal year. Major factors included net expenditures of 3.9 billion yen due to the execution and repayment of short and long-term loans (previous FY was net income of 50 million yen) and cash dividends paid of 12.3 billion yen (previous FY was 9.8 billion yen).

Capital Funding and Capital Liquidity

Our Group's most significant capital demands are related to manufacturing expenses, including materials procurement for product manufacturing, operating capital related to SG&A and other operating expenses, and capital for capital expenditures. Furthermore, significant operating expenses include personnel expenses, R&D expenses, advertising and marketing expenses, and sales promotion expenses.

To strengthen our financial structure, our Group is working to reduce interest-bearing debt. This fiscal year, we conducted capital procurement of 12.4 billion yen while also repaying 16.5 billion yen. As a result, the interest-bearing debt balance as of the end of FYE 3/2019 decreased 3.9 billion yen year on year to 69.2 billion yen. Furthermore, our Group concluded agreements with our main financial institutions for specified lines of credit. As of the end of FYE 3/2019, the unused balance for these agreements is 56.8 billion yen.

Research & Development

The Casio Group (Casio Computer Co., Ltd. and consolidated subsidiaries) embraces the corporate philosophy of Creativity for Contribution. We engage aggressively in R&D activities with the goal of contributing to society through the development of creative products.

During FYE 3/2019, we established the Business Strategy Headquarters to consolidate product planning and marketing functions. To achieve the strategy established by the Business Strategy Headquarters, we also established the Product Development Headquarters to promote efficient manufacturing. Furthermore, we established the Business & Technology Development Center to promote and advance new business development. Under this structure for promoting groupwide technology fusion that transcends individual business sectors, we will expand existing business and establish new businesses.

Our R&D structure is comprised of our Business & Technology Development Center, which is responsible for fundamental research and elemental technology development that are used to support new businesses and long-term growth, and the Product Development Headquarters, which oversee commercial development related to existing businesses.

A breakdown of R&D expenses for FYE 3/2019 is as follows:

Consumer Segment	3,460 million yen
System Equipment Segment	543 million yen
Others Segment	3 million yen
Fundamental Research	3,348 million yen
Total	7,354 million yen

Business Risks

Of matters related to the status of operations and accounting indicated on the marketable securities report, matters with the potential to have a serious impact on investor decisions include the following.
Furthermore, forward-looking matters indicated in this document are judgments made by this Group as of the end of FYE 3/2019.

(1) Status of Japanese and global economies

Casio Group products are sold in Japan and countries around the world, and product demand is influenced by the economic conditions of each country. As the majority of Casio Group products are geared towards consumer markets, the personal spending trends of each country have a significant impact on Group business.

(2) Price fluctuations

Industries associated with the Casio Group continue to see severe competition for domestic and foreign market share among numerous companies. There is a possibility that dramatic price fluctuations in a short period of time could have a negative impact on Group performance.

(3) New products

In a situation where the Casio Group is unable to sell new popular products quickly and with regularity, or in a case where a competitor launches a product similar to a Casio Group new product based on similar timing to a Casio Group product launch, there is a possibility that the Casio Group may see a decline in the market superiority that comes with being a market pioneer or an industry-leading organization.

(4) Transactions with major clients

A change in the strategies or product specifications of a major Casio Group client, order cancellations, or schedule changes could have a negative impact on Group performance.

(5) Outsourcing

To improve production efficiency and profit margin, the Casio Group outsources certain manufacturing and assembly processes to external suppliers. As such, there is the possibility that thorough quality management may become difficult. Furthermore, problems such as violations of relevant laws or third-party intellectual property rights infringement by said suppliers could have a negative impact on Group consolidated performance and the reputation of our products.

(6) Technology development and changes in technology

Rapid or dramatic changes in the technology or market needs of the business fields in which we operate could lead to Casio Group product obsolescence that is faster than expected and cause a dramatic decline in sales.

(7) Risks related to international activities and overseas market engagement

The majority of Casio Group production and product sales takes place outside of Japan. As such, the financial position, earnings, and future outlook for the Casio Group are, to a significant degree, impacted by overseas political, economic, and legal environments. In particular, it is difficult to project unexpected regulatory changes or application of laws, and thus there is a possibility of a negative impact on Group performance.

(8) Intellectual property

In general, the Casio Group uses proprietary technology developed in-house, and we protect our technology through a combination of patents, trademarks, and other intellectual property rights. However, our Group does face the following types of risks.

- Proprietary development of similar technology by competitors
- Rejection of a pending patent application filed by the Casio Group
- Measures taken to prevent the misuse/infringement of Casio Group intellectual property are not sufficiently effective
- Laws and regulations related to intellectual property are insufficient for protecting Casio Group intellectual property
- A future Casio Group product or technology is deemed to be an infringement of a third party's intellectual property

(9) Product defects/litigation problems

As a manufacturer and distributor of consumer products, the Casio Group conducts strict product quality management. At no point since our founding has the Casio Group been subject to a serious claim or bad reputation. However, this is no guarantee that Casio Group products will not be the subject of a product liability or safety-related claim at some point in the future.

(10) Information management risks

The Casio Group retains vast amounts of personal information and confidential information related to our business activities and development. We reinforce enhanced information management by outlining internal regulations and through employee education but this is no guarantee against an information leak. A leak of such information could have a negative impact on Casio Group business, financial position, and performance.

(11) Partnerships, joint ventures, strategic investments

The Casio Group engages in partnerships, joint ventures, and strategic investments in Japan and various countries around the world for the purpose of promoting and developing business and to increase operational efficiency. There is the possibility that changes in the operating conditions, management policies, or business environment of a transaction partner could have a negative impact on Casio Group business, financial position, and performance.

(12) Foreign currency risks and interest risks

The Casio Group conducts business all over the world and, as such, we are subject to the influences of currency rate fluctuations. Casio Group income could be negatively impacted by fluctuations in currency rates between the Japanese yen and other currencies. The Casio Group is also subject to interest fluctuation risks. These risks have the potential to impact overall operating expenses, procurement costs, and financial assets and liabilities (particularly long-term loans).

(13) Other risks

In addition to the above, the following factors could possibly have a future impact on Group business and performance.

- Cyclicality of the IT industry
- The ability to procure instruments, raw materials, equipment, electricity, etc., when necessary at adequate costs
- Decline in value of marketable securities retained by the Casio Group
- Revisions to laws or systems, or a dramatic change in operating environment relevant to defined benefit accounting
- Fire, earthquake, or other natural disaster, operational accident, etc.
- Social unrest due to war, terrorism, infectious disease, etc.