Financial Review

Operating Results

The global economy during the current consolidated fiscal year was firm overall. Japan, the United States, and Europe saw mild recovery trends on improved corporate earnings and employment environments while China and emerging markets showed signs of recovery.

Amid such an environment, the Casio Group (Casio Computer Co., Ltd. and consolidated subsidiaries) aimed for sustainable business growth by applying successful business models to drive continued improvement in highly profitable businesses such as the timepiece business and the education business, which centers on scientific calculators and electronic dictionaries. In addition to advancing initiatives related to fundamental reforms in problem segments such as digital cameras, musical instruments, and projectors, we also proactively advanced efforts to create new genres and new businesses that will become new revenue pillars and contribute to profits.

As a result of these efforts, net sales for the current consolidated fiscal year were 314.7 billion yen (down 2.0% YoY) and operating profit was 29.5 billion yen (down 3.5% YoY). Despite lower revenues and earnings for the full year, we were able to establish a starting point for the promotion of fundamental business structure reforms. This was made possible by withdrawing from the compact camera market, which has seen dramatic market contraction, and by implementing organizational reforms including the establishment of an organizational structure that will enable us to reevaluate business strategies and increase profits.

We also recorded improvements in ordinary profit, which increased by 9.5% YoY to 28.7 billion yen, profit attributable to owners of parent, which increased by 6.3% YoY to 19.5 billion yen, and earnings per share, which increased by 9.3% YoY to 79.42 yen.

Since our founding, the Casio Group has embraced the corporate philosophy of Creativity for Contribution. With the creative ingenuity to go from "0" to "1" and our advanced technology, we believe it our corporate mission to contribute to society, thereby achieving corporate growth and increasing our corporate value. We will continue to uphold a user-first perspective and unite as a Group to achieve business structure reforms and establish a stable, sustainable profit platform so that we may continue creating new products that contribute to global society.

Segment-specific Summary

■ Consumer

Timepiece Business

Net sales remained firm on the effect of marketing to promote the 35th anniversary of the G-SHOCK. The mid-priced G-STEEL performed particularly well year-round and drove growth for the entire business.

Education Business

Net sales of scientific calculators for students remained favorable thanks to new market development and initiatives to respond flexibly to changes in student classes and testing. For musical instruments, we established a base for improving profitability by implementing business structure reforms such as strengthening our in-house manufacturing structure, optimizing our product line, and developing new sound sources.

Digital Camera Business

After careful review of future growth potential amid dramatic market contraction for the compact camera market, we decided to withdraw from this business. Coincidental to this decision, we recorded extraordinary losses.

As a result, segment net sales were 268.9 billion yen (down 1.4% YoY). In terms of profit and losses, we recorded operating profit of 35.0 billion yen (down 5.8% YoY). Timepieces remained highly profitable on favorable sales of highly profitable products. Calculators secured profitability on favorable sales of scientific calculators overseas. Digital cameras resulted in increased losses on having recorded expenses incidental to our withdrawal from the compact digital camera market.

■ System

During the previous fiscal year, withdrawing from the low profitability printer business resulted in a dramatic improvement in profitability and helped us return to recording an operating profit.

Segment net sales were 38.3 billion yen (down 3.6% YoY). In terms of profit and losses, we established a stable revenue platform and recorded operating profit of 0.5 billion yen (the previous fiscal year saw operating losses of 2.2 billion yen).

■ Others

This segment reflects mold manufacturing and other unique businesses of Group companies. Net sales were 7.5 billion yen (down 12.6% YoY). In terms of profit and losses, operating profit was 0.5 billion yen (up 70.1% YoY).

Financial Position

■ Assets

Total assets as of the end of the consolidated fiscal year were 364.3 billion yen, up 12.9 billion yen year on year. Current assets increased by 10.3 billion yen year on year to 243.8 billion yen, largely due to increased cash and deposits. Non-current assets increased by 2.5 billion yen year on year to 120.5 billion yen, largely due to the acquisition of buildings and structures, and increased investment securities.

■ Assets by Segment

Consumer

Segment assets increased by 2.4 billion yen year on year to 192.5 billion yen, largely due to capital expenditures such as a dedicated timepiece factory for Casio Yamagata.

System

Segment assets decreased by 3.4 billion yen year on year to 37.3 billion yen, largely due to the impact of business structure reforms implemented during the previous fiscal year.

Others

Segment assets decreased by 1.9 billion yen year on year to 18.0 billion yen.

■ Liabilities

Total liabilities as of the end of the consolidated fiscal year were 157.7 billion yen, up 2.5 billion yen year on year. Current liabilities increased by 18.2 billion yen year on year to 93.7 billion yen, largely due to increases in income taxes payable and accrued expenses, and the transfer of amounts from long-term loans payable to the current portion of long-term loans payable. Non-current liabilities decreased by 15.6 billion yen year on year to 63.9 billion yen, largely due to the transfer of amounts from long-term loans payable to the current portion of long-term loans payable.

■ Net Assets

Net assets as of the end of the consolidated fiscal year were 206.6 billion yen, up by 10.3 billion yen year on year, largely due to an increase in retained earnings.

The Casio Group aims to significantly expand income while maintaining a secure financial position to promote 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 9.7%, up by 0.5 percentage points year on year.

Cash Flows

■ Cash Flows from Operating Activities

Cash flows from operating activities increased by 6.6 billion yen year on year to 34.5 billion yen. Major factors included profit before income taxes of 24.6 billion yen (previous FY was 23.4 billion yen), depreciation expenses of 9.3 billion yen (previous FY was 9.7 billion yen), decrease in operating capital (notes and accounts receivable-trade, inventory assets, notes and accounts payable-trade) of 5.2 billion yen (previous FY decrease was 1.8 billion yen), and 3.5 billion yen in income taxes paid (previous FY amount was 6.9 billion yen).

■ Cash Flows from Investing Activities

Cash flows from investing activities resulted in expenditures of 8.3 billion yen, up by 5.0 billion yen year on year. Major factors included expenditures of 10.4 billion yen for the acquisition of non-current assets (previous FY was 8.9 billion yen), proceeds of 0.6 billion yen from the sale of tangible non-current assets (previous FY was 3.5 billion yen), and net proceeds of 1.5 billion yen from the acquisition, sale, and redemption of marketable securities (previous FY net proceeds were 1.7 billion yen).

As a result, free cash flows increased by 1.5 billion yen year on year to 26.2 billion yen.

■ Cash Flows from Financing Activities

Cash flows from financing activities resulted in expenditures of 10.5 billion yen, a 20.3 billion decrease in expenditures compared to the previous fiscal year when we recorded 14.9 billion yen for the purchase of treasury shares. Major factors include cash dividends paid of 9.8 billion yen (previous FY was 10.8 billion yen).

As a result of the above, cash and cash equivalents at end of period were 134.5 billion yen, up 15.7 billion yen year on year. This represents sufficient 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.

There is nothing significant to report concerning capital procurement for the current consolidated fiscal year.

Research & Development Activities

The Casio Group 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.

Our R&D structure is comprised of our in-house R&D Department, which is responsible for fundamental research and elemental technology development that are used to support new businesses and long-term growth, and the development departments of our operating companies and affiliates, which oversee commercial development related to existing businesses.

During the current consolidated fiscal year, R&D expenses were 7,183 million yen. As a per-segment breakdown, this includes 3,639 million yen for the consumer segment, 445 million yen for the systems segment, and 3,099 million yen for fundamental research not attributable to any specific segment.

Business Risks

Of the matters related to the Casio Group's financial position and operating performance, 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 the current consolidated fiscal year.

(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 a competitor
- 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
- 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.