# MANAGEMENT'S DISCUSSION AND ANALYSIS

GLORY LTD. and consolidated subsidiaries
Year ended March 31, 2019

## ECONOMIC OVERVIEW

In the fiscal year ended March 31, 2019, the Japanese economy continued a trend of gradual recovery as personal consumption recovered and capital investment picked up owing to improvements in the employment and income situations as well as in corporate earnings. As for the global economy, the recovery continued in the U.S. amid concerns over the U.S.-China trade issues, and the European economy also maintained its trend of gradual recovery despite the uncertainty surrounding Brexit and other issues. The Asian economy as a whole remained steady, although China experienced a moderate slowdown in its economy.

## BUSINESS OVERVIEW

### Net Sales

Net sales for the fiscal year under review totaled ¥235,762 million, up by 3.7% from the previous fiscal year. Total net sales consisted of ¥167,565 million in net sales of finished products and merchandise, which increased by 4.9% year on year, and ¥68,197 million in sales of maintenance services, which edged up by 0.8%. Overseas sales amounted to ¥103,287 million, down by 3.3% year on year. (Sales by reportable segment are described in the "Overview by Reportable Segment" section.)

### Cost of Sales

Cost of sales increased by 5.1% from the previous fiscal year to ¥147,274 million, affected by the product mix change in the overseas markets to the worse. Accordingly, the cost of sales ratio rose by 0.8 percentage points to 62.5%.

### Selling, General and Administrative Expenses

Selling, general and administrative ("SG&A") expenses slightly increased by 0.5% from the previous fiscal year to ¥67,912 million. The ratio of SG&A expenses to net sales, on the other hand, improved by 0.9 percentage point to 28.8%.

### Operating Income

Operating income results for the fiscal year under review were ¥20,576 million, up by 4.9% year on year. This increase was mainly attributable to the increase in net sales in the domestic business. The operating margin also rose by 0.1 percentage points to 8.7%. (Operating income by reportable segment is described in the "Overview by Reportable Segment" section.)

### Other Income (Expenses)

Net other income (expenses) results totaled net expenses of ¥14 million, down by 99.3% from the net expenses for the previous fiscal year. This significant drop was due to the decrease in net foreign currency exchange loss to ¥17 million from ¥2,124 million. Other expense/ loss items include interest expense of ¥601 million, while major income factors were interest and dividend income of ¥322 million and settlement received of ¥280 million.

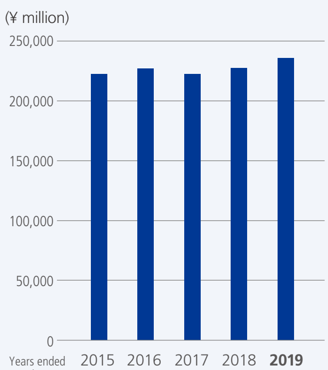
### Income before Income Taxes

Income before income taxes amounted to ¥20,562 million, up by 17.2% from the previous fiscal year.

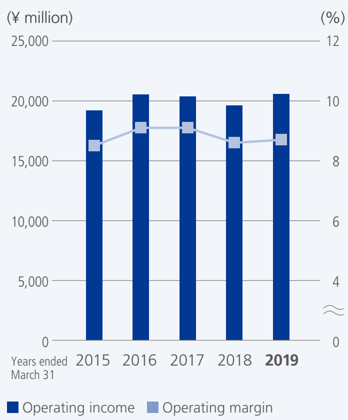
### Income Taxes

Income taxes increased to ¥7,007 million from ¥6,267 million in the previous fiscal year. On the other hand,

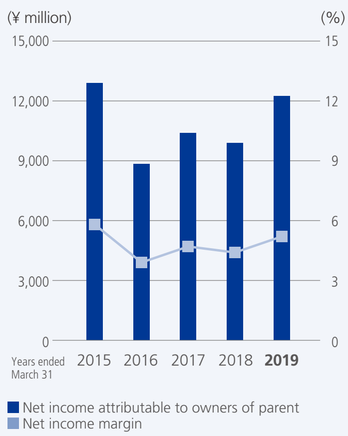
**Net Sales**




**Operating Income/ Operating Margin**




**Net Income Attributable to Owners of Parent/Net Income Margin**



the actual effective tax rate after application of tax effect accounting dropped from 35.7% to 34.1%.

### Net Income Attributable to Owners of Parent

Net income attributable to owners of parent increased by 23.9% from the previous fiscal year to ¥12,256 million.

### Comprehensive Income

Net income for the fiscal year under review resulted in ¥13,554 million. Adding up total other comprehensive gain of ¥265 million, which included ¥1,603 million in foreign currency translation adjustments and negative ¥650 million in defined retirement benefit plan remeasurements, comprehensive income for the fiscal year ended March 31, 2019 was ¥13,820 million.

## OVERVIEW BY REPORTABLE SEGMENT

### Financial Market

Net sales of this segment increased by 4.9% year on year to ¥56,636 million. Operating income as well rose by 67.3% to ¥6,764 million.

Sales of open teller systems, this segment's mainstay product, were strong. Sales of coin and banknote recyclers for tellers were also robust due to our capturing of replacement demand.

### Retail and Transportation Market

Net sales of this segment increased by 20.3% year on year to ¥51,985 million. Operating income also grew by 32.7% to ¥4,611 million.

Sales of this segment's mainstay product, coin and banknote recyclers for cashiers were strong, especially for convenience stores. Sales of sales proceeds deposit machines for the cash-in-transit market were also robust.

### Amusement Market

Net sales of this segment decreased by 0.3% year on year to ¥20,511 million. Operating income, on the other hand, rose by 47.2% to ¥1,959 million.

Sales of this segment's mainstay products such as card systems were steady due to our capturing of replacement demand, and sales of pachinko prize dispensing machines for pachinko parlors were also strong. However, sales of devices such as pachinko ball counters were sluggish.

### Overseas Market

Net sales of this segment declined by 3.3% year on year to ¥103,287 million. Operating income also dropped by 21.5% to ¥8,761 million mainly due to the product mix change to the worse.

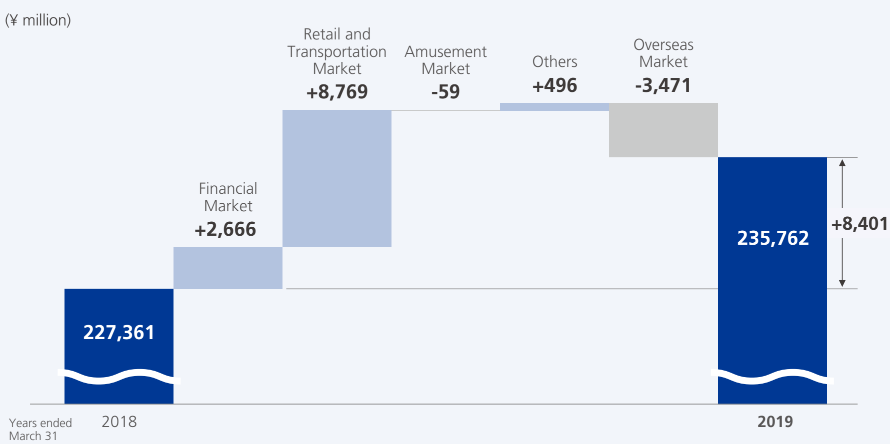
Sales of banknote recyclers <RBG series> for financial institutions were strong in Europe. However, sales of sales proceeds deposit machines <CI series> for the retail industry were sluggish. In the United States, sales of banknote recyclers <RBG series> for financial institutions were slow and, in Asia, sales of these products were also sluggish in China. Meanwhile, sales of banknote deposit modules for ATMs which are OEM products were steady.

### "Others" Segment

Aggregate net sales of the "Others" segment, the businesses of which are not reported as independent reportable segments, were ¥3,341 million, up by 17.4% year on year. Operating loss of the segment was ¥1,521 million, increased from operating loss of ¥403 million reported in the previous fiscal year.

All amounts in this section do not include consumption taxes.

### Factors of Net Sales Change



## FINANCIAL POSITION

### Assets

Total assets as of March 31, 2019 stood at ¥318,228 million, an increase of ¥15,402 million from the previous fiscal year-end. This increase was mainly the result of increases in cash and cash equivalents and in receivables, which were partially offset by the decrease in inventories.

### Liabilities

Total liabilities as of March 31, 2018 amounted to ¥124,971 million, an increase of ¥14,310 million year on year. This is mainly due to the increase in corporate bonds, while long-term debt decreased.

### Equity

Total equity as of March 31, 2019 amounted to ¥193,257 million, an increase of ¥1,092 million from the previous fiscal year-end. This increase was mainly due to the increase in retained earnings, partially offset by the purchase of treasury stock.

## CASH FLOWS

Cash and cash equivalents as of March 31, 2019 increased by ¥12,774 million from the previous fiscal year-end to ¥75,149 million.

### Cash Flows from Operating Activities

Net cash provided by operating activities for the fiscal year under review was ¥24,300 million, compared to ¥14,585 million cash provided in the previous fiscal year. The major cash-decreasing factors included a ¥2,317 million increase in trade receivables, a ¥2,564 million decrease in trade payables, and ¥5,357 million income taxes paid. The major cash-increasing factors, on the other hand, included ¥20,562 million income before income taxes, ¥8,945 million depreciation and amortization, ¥3,622 million amortization of goodwill, and a ¥3,808 million decrease in inventories.

### Cash Flows from Investing Activities

Net cash used in investing activities was ¥11,388 million, compared to ¥8,609 million cash used in the previous fiscal year. The major cash-flow items included a ¥5,424 million cash out-flow for purchases of property, plant and equipment, and a ¥3,630 million cash out-flow for purchases of investment securities. The purchases of property, plant and equipment consisted mainly of the molds, tools and other equipment used to manufacture products.

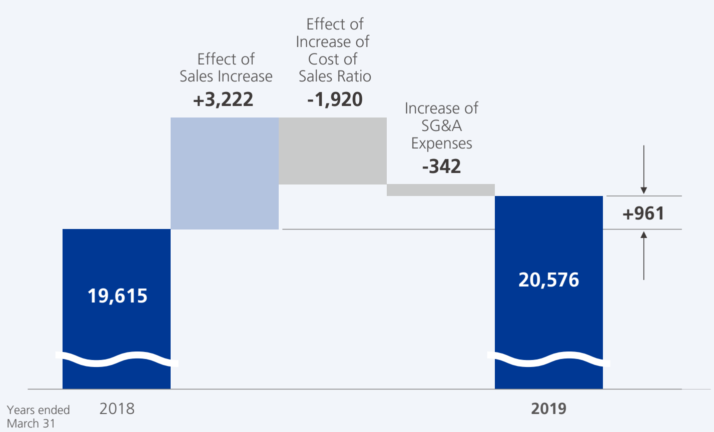
As a result of the above, free cash flows (the sum of cash flows from operating and investing activities) amounted to ¥12,912 million.

### Cash Flows from Financing Activities

Net cash used in financing activities was ¥361 million, compared to ¥23,574 million cash used in the previous fiscal year. The major cash out-flow items were ¥9,059 million repayments of long-term debt, ¥5,140 million dividends paid, and ¥6,575 million purchase of treasury stock. The major cash in-flow items included ¥19,901 million proceeds from issuance of bonds.

**Factors of Operating Income Change**

(¥ million)



**RISK INFORMATION**

The Glory Group ("the Group") is exposed to various risks that have the potential to affect its operating results and financial conditions, including variable factors and other matters considered to be material.

The forward-looking statements made below are based on judgements made by the Group as of March 31, 2019.

(1) Extraordinary Fluctuations in the Group's Operating Results and Financial Conditions Due to Special Factors Influencing the Market Environment

The Group is subject to business authorizations, import and export regulations, as well as various laws and regulations in the countries and regions where the Group operates. Should these laws and regulations be revised or repealed, or if new public regulations were to be established, or if any other special factors influencing the market environment were to arise, the performance of the Group may be adversely affected.

(2) High Level of Reliance on a Specific Industry Sector

The composition of the Group's sales is highly dependent on the domestic and overseas financial institutions. Should it become necessary for the financial institutions to cut their capital investments due to their major operational or financial problems, the performance of the Group may be adversely affected. In addition, should any unexpected circumstances occur to the particular suppliers of parts and materials, the performance of the Group may be adversely affected.

(3) Overseas Business Conditions

The Group's overseas business activities are wide-ranging, including sales and maintenance of products, and overseas production and procurement. Should a rapid change occur in the political and/or economic situation in countries or regions where the Group operates, or if foreign exchange markets were to fluctuate beyond the anticipated scope, the performance of the Group may be adversely affected.

(4) R&D Investment

The Group is an R&D-based enterprise and continues to invest in R&D aggressively. However, the development of new products always involves certain risks. Depending on the R&D themes, the development period could be longer, and the costs higher, than initially planned. If such circumstances were to occur, the performance of the Group may be adversely affected.

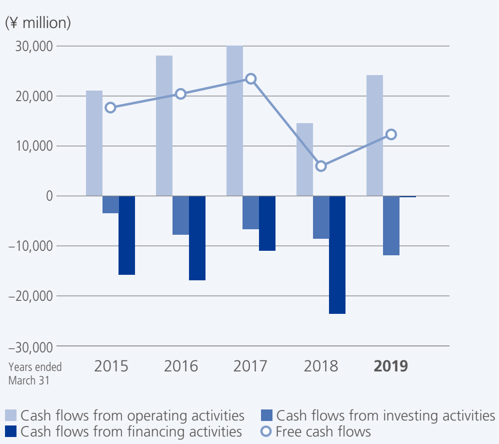
(5) Intellectual Property Rights

The Group is not aware of any infringements by its products on material intellectual property rights of third parties. However, it is difficult for an R&D-based corporate group like the Group to completely avoid the occurrence of intellectual property infringement issues. If such circumstances were to occur, the performance of the Group may be adversely affected.

(6) Rapid Development of Cashless Economy

While the Group deals in various products and merchandise for non-cash business sector, its mainstay business remains in the cash handling machine sector. Should the cashless economy develop drastically and globally in a short time, the performance of the Group may be adversely affected.

**Cash Flows**




*Free cash flows: Total of net cash flows provided by (used in) operating activities, and net cash flows provided by (used in) investing activities.