

For Institutional Investors/Analysts



KAGA ELECTRONICS CO., LTD.
Financial Results Briefing Materials
for the First Half of the Fiscal Year Ending March 31, 2019

November 29, 2018
KAGA ELECTRONICS CO., LTD.

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A growth scenario of KAGA ELECTRONICS

Next Medium Term Business Plan &
Acquisition of Shares in Fujitsu Electronics

KAGA ELECTRONICS CO., LTD.
President & Representative Director
Ryoichi Kado

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My name is Kado, and I am the President of Kaga Electronics. Thank you for your constant support of the Company and our IR activities. Today, my part is titled “Kaga Electronics Group Growth Scenario” and I will give an explanation focusing on the outline of Medium Term Management Plan 2021, which was released on the 6th of this month.

Review of the Medium Term Management Plan 2018 (2015 - 2018)

Review of the Medium Term Management Plan 2018 (2015 - 2018) : Key Topics

Main Results	
Expansion of EMS Business	<p>Expansion of overseas EMS bases towards an increase in business scale</p> <ul style="list-style-type: none"> •Sept. 2016 Establishment of Mexico base (Opened Jan. 2018) •Jul. 2017 Establishment of Vietnam base (Opened Mar. 2018) •Dec. 2017 Establishment of Turkey base (Opened Oct. 2018) •Sep. 2018 Establishment of India base (Scheduled to open spring 2019)
Structural Reform	<p>Execution of group company reorganization and consolidation towards improving management efficiency</p> <ul style="list-style-type: none"> •Jan. 2016 Integration of three domestic subsidiaries engaged in the information devices business into a single company •Oct. 2017 Transfer of a part of shares in SiC substrate development subsidiary to external company, migrate to a joint venture •Jan. 2018 Integration of two domestic manufacturing subsidiaries into a single company
Venture Investment	<p>With the objective of building a new revenue base in the future, commencing investment activities in venture companies and start ups with a budget of 5.0 billion yen over three years</p> <ul style="list-style-type: none"> •FY2017 Invested 930 million yen in 17 companies •FY2018 Invested 160 million yen in four companies (as of October 2018)

· To begin with, I will review our major achievements since 2016 in relation to the major themes identified to achieve growth for the Group, in order to reflect on the current medium term management plan.

· The first theme is “expanding the EMS business.” For the last several years, we have given priority to expanding overseas manufacturing sites. With regard to EMS sites, we follow our customers as they expand from Japan by establishing Chinese production sites, and continue to do so as customers expand into Thailand and the ASEAN region following China + 1 policies, as well as into the Americas and Europe including Mexico and Turkey, and most recently into India. By doing this, we have nearly completed the first phase of the Company’s global EMS site plan in the period from 2016 to 2018.

· The second theme is “structural reform.” Group companies have promoted restructuring and integration. The purpose of doing this is to eliminate unproductive companies, organizations, and people, and to transition to an efficient and sturdy corporate structure.

· The final theme is “venture investment.” In the three-year period from fiscal 2017 to fiscal 2019, the Company promoted investment activities in venture companies and start-ups that provide unique technologies, products, and services, with a budget of 5 billion yen. To date, approximately 1 billion yen has been invested in 21 companies. Each investment has been small, ranging from tens of millions of yen through to hundreds of millions of yen. The purpose of these investments is not to gain management rights, but to sow the seeds of the Group’s future revenue, such as by supporting the investment target’s products and services with the Company’s sales and manufacturing capabilities and by developing new products and businesses by combining the technologies of the Company and the investment target.

Review of the Medium Term Management Plan 2018 (2015-2018) : Management Targets

Incorporating the conversion of Fujitsu Electronics to subsidiary*, the management targets for sales and ROE are generally expected to be achieved.

* Note: Consolidation scheduled from FY2018 Q4

	Current Mid-term Management Plan Targets (FY2018)	FY2018 Forecast	Factors
Net Sales	290 billion yen	290 billion yen	Incorporating the Fujitsu Electronics Q4 sales, the target is expected to be achieved ・The contribution to sales through conversion to subsidiary shall be 58 billion yen
Ordinary Income	10 billion yen	8.0 billion yen	There is a risk of the target not being achieved ・Delay of contribution from newly established overseas EMS factories ・The contribution to income through conversion to subsidiary shall be limited ・Reserve provision for bankruptcy of a major client in Japan
ROE	8.0% or higher	9.9%	The target of above 8% in the medium term plan has constantly been achieved ・10.9%/FY16→9.5%/FY17→10.0%/Forecast for FY18 ・Contribution of "negative goodwill" in conjunction with the conversion to subsidiary

- ・ The current medium term management plan listed three KPIs for the final year of the plan (FY2018) as shown on this slide. As you are aware, we released the fiscal 2018 results forecasts a while ago, which we did not release at the beginning of this fiscal year. Having acquired Fujitsu Electronics as a subsidiary, it looks as though we will achieve our net sales and ROE targets; however, unfortunately, it looks as though we will not meet our ordinary income target.
- ・ The main reasons we didn't reach our ordinary income target are as follows. Firstly, the full-scale start up of overseas factories, such as in Vietnam and Mexico, was slower than initially projected, and rather than contributing income, they ended up being a source of costs. Secondly, the income contributed by the acquisition of Fujitsu Electronics as a subsidiary was limited. Thirdly, the bankruptcy of one of our major customers caused us to record a loss. Each of these factors impacted the Company by hundreds of millions of yen.

Medium Term Management Plan 2021 (2019 - 2021) Outline

announced on November 6, 2018

Medium to Long Term Vision of Kaga Electronics Group

Through the establishment and taking hold of “profit-focused management”,



and furthermore, aiming to become a “World Class Company”.

- This slide indicates my medium to long term vision. That is the fundamental principles that underlie the current medium term plan, as well as the next medium term plan.
- The first fundamental principle is “profit-oriented management.” During the three-year period of the current medium term management plan, we gave priority to establishing this profit-oriented management and ensuring it takes root. As part of this policy, we simultaneously expanded the EMS business and conducted structural reforms, as explained previously.
- In the three years leading up to now, we set our sights on implementing profit-oriented management, so we put our hand up to acquire Fujitsu Electronics as a subsidiary, with the aim of becoming the “industry leader in Japan.” In addition, having achieved that, the next target for the Group to achieve is to become a “world-class company.”
- When we say “an industry leader,” we are talking about scale — namely, the scale of net sales and the scale of profit. I will go into more detail in the following slides, but we aim to achieve net sales of 500 billion yen.
- Our next goal is to become a “world-class company.” Specifically, this entails the Group being “victorious in global competition.” Internationally, we have competitors with net sales of around one trillion yen. In order to compete with them and be victorious, we must increase our scale accordingly. Thus, I believe that we must continue to actively work to increase our scale.

Medium Term Management Plan 2021 (2019 - 2021) : Basic Policies

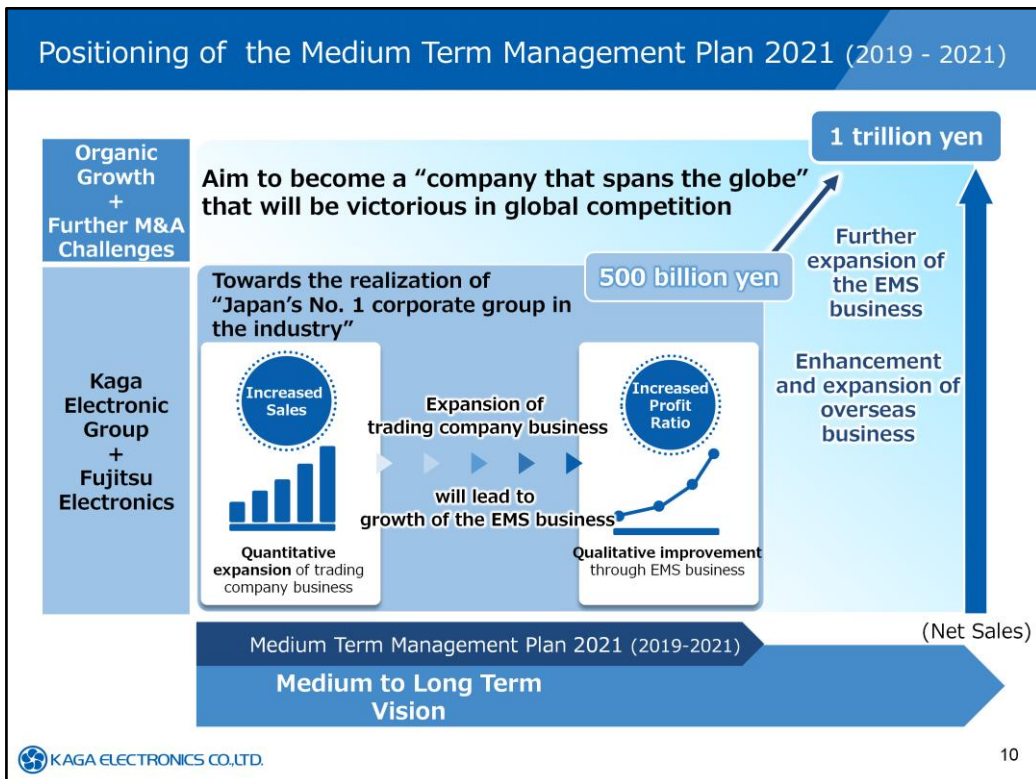
	Key Issues
1 Enhancement of Revenue Base	Utilizing the Group's DNA to see things ahead of time, we shall focus on markets and customers forecast to have high growth potential and profitability , and will aim to strengthen the revenue base <ul style="list-style-type: none"> • Strengthening initiatives for growth sectors: In-vehicle, communications, environment, industrial equipment, medical and healthcare • Enhancement and expansion of EMS business and overseas business
2 Stabilization of Management Base	Aiming to stabilize the management base towards early improvement of efficiency and financial soundness after conversion of Fujitsu Electronics to subsidiary <ul style="list-style-type: none"> • Continuation of group-wide cost reduction measures • Promotion of improve group management efficiency through the preparation of an organizational structure • Enhancement of corporate governance, cultivating human resources to lead the next generation
3 Creation of New Business	In order to enhance resistance to changes in the external environment , we shall endeavor to create new business through the proactive use of our own resources and M&A <ul style="list-style-type: none"> • Launching of social issues (childcare, welfare, nursing care, etc.) business and materials business • Promotion of open innovation through venture investment • Proactive use of M&A activities

- I will now talk about Medium Term Management Plan 2021, which is the main topic of my presentation.
- As shown on this slide, our three basic policies are “enhancement of revenue base,” “stabilization of management base,” and “creation of new business.”
- In terms of “enhancement of revenue base,” our initiatives are focused on markets in which high growth potential and profitability are expected. The fields in which we will conduct initiatives are automotive devices, communication equipment, environment, industrial equipment, and medical & healthcare, and we aim to achieve our goals through expansion of the EMS business and enhancement of the overseas electronic components business.
- In terms of “stabilization of management base,” we are working to quickly improve profitability, which may drop sharply after acquisition of Fujitsu Electronics as a subsidiary, as well as group management efficiency and financial soundness. In order to do this, we are promoting group-wide cost reduction measures and establishment of a group-wide organizational structure. Furthermore, we are aware that enhancing corporate governance and cultivating human resources are important issues for us as we are rapidly growing in scale as a corporate group.
- In terms of “creation of new business,” in addition to venture investment activities, we are considering engaging in businesses that tackle social issues, such as childcare, welfare, and nursing care.

“Medium Term Management Plan 2021 (2019-2021)” Management Targets

	FY2018 Forecast	Management Targets FY2021	Growth Rate Compared to FY2018
Net Sales	290 billion yen	500 billion yen	Up 72%
Operating Income	7.7 billion yen	13 billion yen	Up 69%
ROE	9.9%	8% or higher	—
FOREX	• Assumed Exchange Rate : US\$1.00 = ¥ 110		

- This slide shows the management targets for fiscal 2021, which is the final year of Medium Term Management Plan 2021.
- The target of 500 billion yen of net sales is a 72% increase over fiscal 2018.
- From this plan, income targets are for operating income, which indicates profit from our primary business, rather than ordinary income. The final-year target of 13 billion yen of operating income is a 69% increase over fiscal 2018.
- The ROE target is 8% or better. Firstly, I will address the frequently asked question of “why is the target lower than the outlook for fiscal 2018 of 9.9%?” Actually, due to the acquisition of Fujitsu Electronics as a subsidiary, net sales in fiscal will increase greatly in 2019, which is the first year of the new medium term plan; however, the amount of profit will be limited, so the profit ratio will temporarily fall. ROE may even drop below 8%. We anticipate a scenario where, after bottoming out, we expect profitability to begin to improve from fiscal 2020, and recover to 8% or higher by fiscal 2021. I hope that we are able to hit 10% or higher, but I am cautious by nature, so I set the medium term target at 8% or higher.

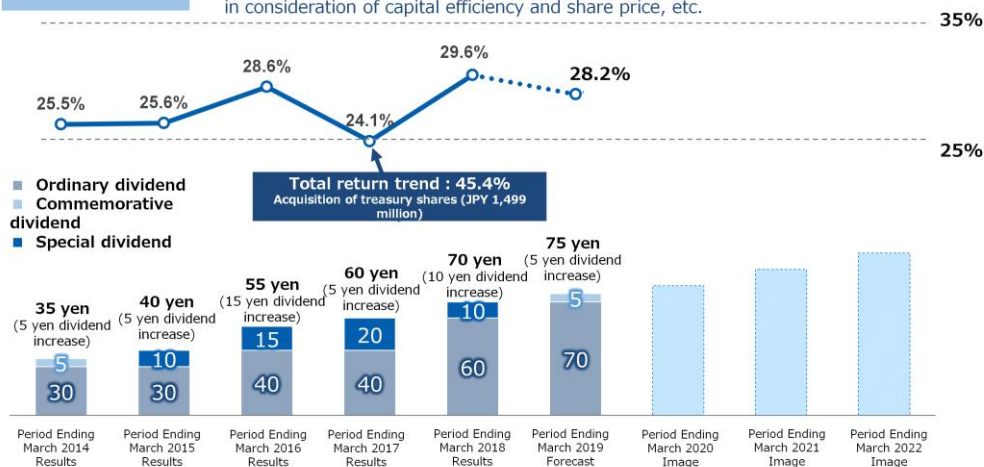


- This slide shows a diagram of the positioning of Medium Term Management Plan 2021.
- In the middle of the slide, it is written in large letters that we hope to leverage the acquisition of Fujitsu Electronics as a subsidiary to expand discontinuously the electronic component business, which is the central pillar on which the Group was founded, and become the industry leader in Japan that we aim to be.
- Our short term goal is to expand the trading company business. This means to quantitatively expand the net sales and profit of the trading company business by sharing products and customer bases between companies.
- Next, we will use the quantitatively expanded trading company business to add value to our EMS business, which is our strength. This is our medium term goal. In this way, we will effect qualitative improvements, and thereby increase our profit ratio. First, we will achieve quantitative expansion, and then we will achieve qualitative improvements. This is the Company’s scenario.
- With this acquisition, our goal of becoming a 500 billion yen corporation is within reach. Our next goal is to be the first to become a trillion yen corporation. In addition to the organic growth of the EMS and overseas businesses, we aim to daringly challenge ourselves to acquire more businesses and become a world-class company that is victorious over its global competitors.

Shareholder Return Policy

Basic Policy on Dividends of Surplus

- We shall perform **stable dividends**, while securing a **consolidated dividend ratio of 25 to 35%**.
- We shall use **funds for business investments, capital investments, and M&A**, etc. in order to contribute to future growth.
- Decisions on the **acquisition of treasury shares** shall be made appropriately, in consideration of capital efficiency and share price, etc.



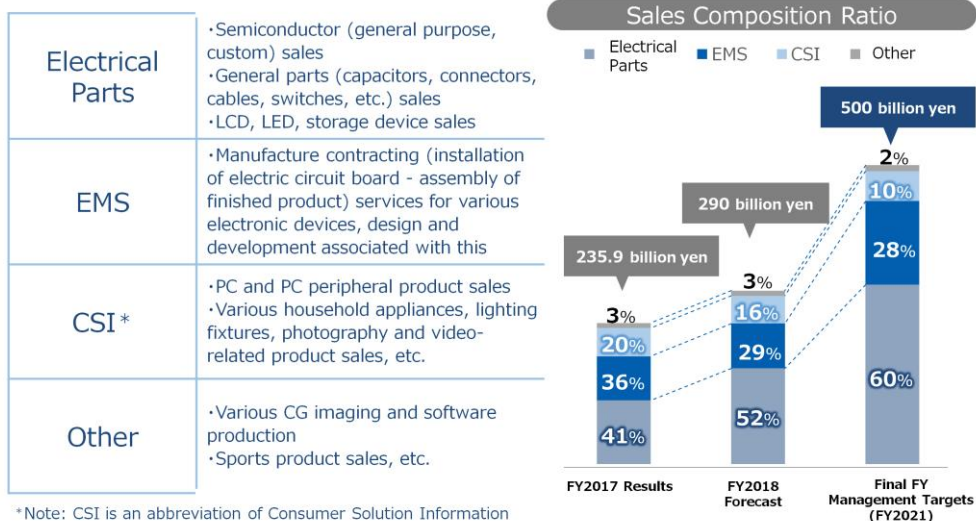
- The final slide is about shareholder returns.
- Returning profits to shareholders is an important management issue for the Company, and we are working to achieve stable dividends in accordance with the basic policies described here. The essential elements of this are “a payout ratio of 25 to 35%”, “actively using funds for growth investments”, and “making appropriate and flexible decisions with regard to acquisition of treasury stock”.
- For the period ending March 2019, the interim dividend was 30 yen per share as initially forecast, which amounted to 35 yen per share with the inclusion of our 50th anniversary commemorative dividend of 5 yen. Our annual dividend will be 75 yen.
- As shown by this graph, dividends have increased for six consecutive years from the period ended March 2014. Going forward, we hope to achieve stable and continuous dividend increases on the assumption of sustainable profit growth.

This concludes my explanation of the outline of Medium Term Management Plan 2021, which was released on November 6. However, I have prepared two more supplementary slides. I will now explain what we will expand and how we will expand it in order to reach our target of 500 billion yen.

IR Supplementary Information On Medium Term Management Plan 2021

Business Portfolio Concept

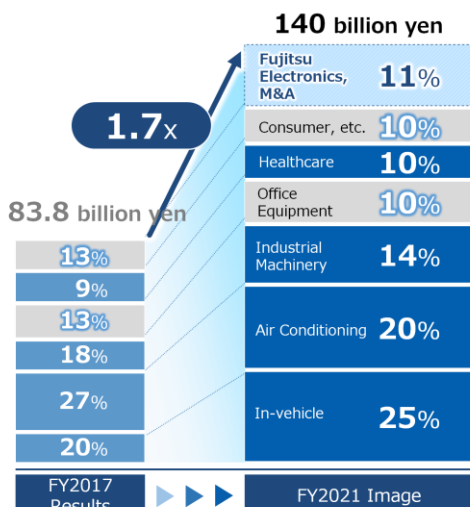
In the new medium term plan, we plan to review future disclosure segments, and to perform a reclassification into the following four categories.



- This slide is a diagram of the segment composition with sales of 500 billion yen. Furthermore, under the next medium term plan we plan to revise business segments and change the four existing classifications of “electronic components,” “information equipment,” “software,” and “others” to “electronic components,” “EMS,” “CSI (Consumer & System Integrator),” and “others.” The major change is to separate the EMS business from the electronic components business in which it has been contained, until now, so that it can be easily understood from an external perspective.
- Light blue indicates the electronic components business and the so-called trading company business. With the addition of Fujitsu Electronics, this will become our largest business, accounting for 60% of the Group’s sales in 2021.
- Dark blue indicates the EMS business. This is our second largest business, accounting for about 30% of our sales. In the medium to long term, we would like to increase its presence to around 40 to 50%.
- In the short term, increasing the profitability of the trading company business, which is our largest business, is the key to the Group’s profit growth. In the medium to long term, increasing the weight of the EMS business is the key to the Group’s profit growth.

EMS Business Growth Scenario Concept

Driven by the growth of in-vehicle, air conditioning, industrial machinery, and medical and healthcare, we shall aim for drastic growth of business size of 1.7x that of FY2017



Points



- In addition to our existing production capacity in China, ASEAN, and Europe, we shall aim to expand business in growth areas such as in-vehicle, air conditioning, and industrial machinery, through full scale investment in new bases in Vietnam, Mexico, Turkey, and India.
- We shall develop a “Key Device + EMS” approach for the major customers of Fujitsu Electronics.
- We shall aim to further expand the size of the EMS business, and search for new M&A opportunities inside and outside of Japan.

- The next slide is a diagram of the growth scenario for the EMS business.
- It illustrates how the net sales of 83.8 billion yen in 2017 will expand to 140 billion yen in 2021 under the next medium term plan. Growth drivers will be organic growth in fields such as air conditioning, industrial machinery, and medical & healthcare, with a particular focus on automotive devices, and we hope to challenge ourselves to introduce EMS to the customers of Fujitsu Electronics and to conduct further M&As.

This concludes my explanation of the outline of Medium Term Management Plan 2021. The following slides are excerpts from the explanatory materials concerning the acquisition of Fujitsu Electronics as a subsidiary, which have been prepared for your reference. I have touched on the essence of these slides in my explanation so far, so I will refrain from further explanation.

I hope my explanation has proved useful. If you have any questions, we will take some time for questions and answers from now. Thank you for your attention.

Acquisition of shares in Fujitsu Electronics Inc. (and Making It a Subsidiary)

IR Presentation on September 18, 2018

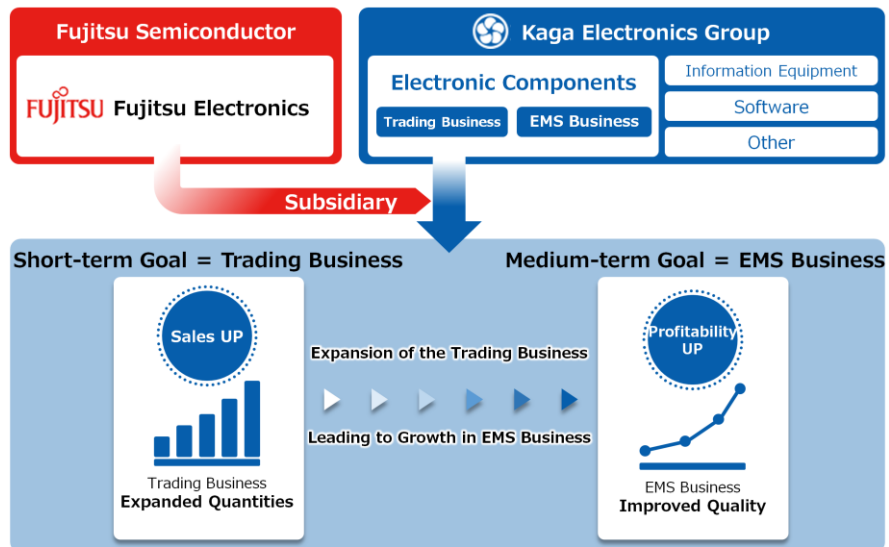
Overview of the Acquisition

Scheme	<ul style="list-style-type: none"> Acquire 70% of shares in Fujitsu Electronics from Fujitsu Semiconductor, forming a subsidiary. Acquire gradually until becoming a wholly owned subsidiary in January 2022
Acquisition Price	<ul style="list-style-type: none"> Total 20.5 billion yen (forecast total)
Financing	<ul style="list-style-type: none"> Plan to finance with self-funding and new bridging loan Consider switching to the procurement of various long-term funding for this bridging loan
Financial Impact	<ul style="list-style-type: none"> Amortization schedule of goodwill and intangible fixed assets to be released after acquisition However, Acquisition Price \approx Net Assets, so the impact is expected to be slight
Schedule of Stock Transfer	<ul style="list-style-type: none"> First Phase : January 2019 (70%) Second Phase: December 2020 (15%) Third Phase : December 2021 (15%)

- The acquisition price at each phase will be adjusted based on fluctuations in the value of the consolidated net assets of Fujitsu Electronics, and the above acquisition price is the estimated amount at current prices.
- This share acquisition is subject to approval by relevant authorities in accordance with domestic and international competition laws.

Purpose of the Acquisition

- Drastic expansion of business scale for core electronic components business becoming the “Industry No. 1”



Industry Positioning after Acquisition (FY Ended March 2018 Results Base)

- The birth of an industry-leading class 500 billion yen Group.
Lead the further reorganization of the industry

【Top10 of Electronics Trading Company : Net Sales】

Rank	Company name	amount of sales
1	MACNICA FUJI ELECTRONICS HOLDINGS, INC.	504.1
2	MARUBUN CORPORATION	347.5
3	UKC Holdings Corporation	301.4
4	Fujitsu Electronics Inc.	258.8
5	RYOSAN	254.1
6	RYODEN CORPORATION	236.5
7	KAGA ELECTRONICS CO.,LTD.	235.9
8	SIIX Corporation	233.2
9	TOMEN DEVICES CORPORATION	197.6
10	Elematec Corporation	196.2
11	VITEK HOLDINGS CO., LTD	185.9

【Top5 of after Acquisition】

Rank	Company name	amount of sales
1	MACNICA FUJI ELECTRONICS HOLDINGS, INC	504.1
2	KAGA ELECTRONICS CO.,LTD. + Fujitsu Electronics Inc.	494.7
3	Rester Holdings Corporation (UKC + VITEK)	487.3
4	MARUBUN CORPORATION	347.5
5	RYOSAN	254.1

Note: Simple sum base for "Kaga Electronics + Fujitsu Electronics" and Rester SIIX figures for FY ended December 2017

※Data Source: Internal study

Strengths of Fujitsu Electronics Group

- The Fujitsu Electronics Group aims to develop our business based on the following strengths.



(Reference) Products and Services by Business Segment

Electronic components	<ul style="list-style-type: none"> • Sale of semiconductors (general-purpose products and customized products) • Sale of electronic components (transformers, condensers, cables, connectors, and switches, etc.), LED, and storage devices • Development, manufacture and sales related to EMS (air-conditioning, office equipment, automotive devices, industrial equipment, amusement machines, communication equipment, medical equipment, etc.)
Information equipment	<ul style="list-style-type: none"> • Sales of PCs and PC peripherals, home electric appliances/lighting fixtures, photograph and imaging products, original brand products, etc.)
Software	<ul style="list-style-type: none"> • Production of computer graphics, planning and development of amusement products, and other activities
Others	<ul style="list-style-type: none"> • Repair and supports for electronics equipment, manufacture and sales of amusement equipment, and wholesale/retail of sports goods, etc.)

**“Everything we do is
for our customers”**



20 Kandamatsunagacho, Chiyoda-ku, Tokyo 101-8629

Contact: Investor Relations & Public Relations Office

TEL: +81-3-5657-0106

FAX: +81-3-3254-7133

E-mail : webmaster@taxan.co.jp

<https://www.taxan.co.jp>

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Number : Truncated less than the display unit.

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