

Kaga Electronics Co., Ltd.
Financial Results Briefing
for the Fiscal Year Ended March 31, 2020 (52nd Period)
Main Questions and Answers

Date and time: Thursday, May 28, 2020 16:00-16:30
(Online briefing)

<Points to note>

“Main Questions and Answers” has been posted as a reference for the convenience of those who were unable to attend the financial results briefing. Please be aware that it is not a transcription of all matters discussed at the financial results briefing, but rather a brief summary of what Kaga Electronics judges to be the key points.

Please also note that the statements contained in this document that relate to the future, such as results forecasts, are based on information currently in the possession of Kaga Electronics and certain assumptions that have been judged to be reasonable. Actual performance, etc. may differ substantially due to a range of factors.

Q: In the fiscal year ended March 31, 2020, operating income amounted to 10 billion yen, which exceeded your initial forecast by 3 billion yen. Fujitsu Electronics was probably a contributing factor to this. What is your analysis regarding this point?

A: Fujitsu Electronics ended up with an operating income of 2 billion yen, while the initial forecast figure was 0.5 billion yen.

Income increased to the extent that the agreement with Cypress and Mie Fujitsu Semiconductor’s foundry business exceeded initial forecasts. Furthermore, we exceeded forecast income as we sold out of Cypress-related inventory. In addition, we believe that a major factor was the 0.5% improvement in Fujitsu Electronics’ profit margin due to its marketing capabilities since becoming a Group company.

Q: EMS was positive, but what specific services did well? What about the outlook for next fiscal year?

A: In the fiscal year ended March 31, 2020, the novel coronavirus disease (COVID-19) impacted China in February and March; however, operation resumed extremely quickly, partly thanks to the efforts of our local staff. Furthermore, the Chinese government provided subsidies through the end of March, which partly made up for any losses. Breaking down our customers by industry, medical devices for the US market did well, which greatly contributed to earnings.

It has been a difficult start for automotive devices for the fiscal year ending March 31, 2021. The first half will also be difficult for office equipment and HVAC. The impact of factories of such customers being shut down has been considerable; however all but a few are gradually resuming operation, and they are attempting to clear any backlog, so even though the first half will be difficult, we expect a recovery in the second half.

Also, net sales of medical devices for the US market are steadily increasing. Stay-home orders have unexpectedly resulted in increased quotes for motors and servo amplifiers for manufacturing equipment, etc., due to increased orders for production of electronic musical instruments and increased production of mask manufacturing equipment. Production of toilet-seats with a cleaning function have also increased in response to the novel coronavirus (COVID-19). For the above reasons, even though we think that revenue will fall to a certain extent in the first half of the fiscal year, we expect things to pick up somewhat in the second half.

Q: Tell us about the degree of impact of the consolidation of Excel. In the forecast made at the end of the fiscal year ended March 31, 2020, you expected to record a loss, so do you have any reform measures for the fiscal year ending March 31, 2021?

A: With regard to Excel, in the year ended March 31, 2020, net sales amounted to 53.3 billion yen, operating loss amounted to 690 million yen, and profit amounted to 950 million yen. Due to the transfer to the company, a loss was recorded, which reflects the settlement of negative legacies, such as disposal of retained stock; however, going forward, this will not apply, so we believe things will return to normal. The fiscal year ending March 31, 2021, is the year immediately following the purchase, so we are being conservative in our forecasts, but we expect net sales to amount to 50.0 billion yen and operating income to amount to ±0 (zero).

Q: You expect to record reduced income and profit with regard to net sales and operating income for the fiscal year ending March 31, 2021. Will you still record reduced income with the addition of Excel's net sales of 50.0 billion yen? Will the reduced income recorded by Fujitsu Electronics have a large impact?

A: We believe that we will be able to make up for the reduced income from Fujitsu Electronics by the incorporation of Excel, so we expect our overall capabilities to be on par with the fiscal year ended March 31, 2020. At this point, we cannot rationally forecast the extent of the negative impact of the novel coronavirus (COVID-19), so we have had to rely on a general sense that we will have reduced income and profit.

Q: You expect Cypress' net sales to fall by about 20.0 billion yen. How much will Mie Fuji Semiconductor's net sales fall?

A: We expect Mie Fuji Semiconductor to show a decline in net sales of 30.0 to 40.0 billion yen. However, this business works on a low margin, so we expect the impact on profit to be limited.

Q: You will lose a major commercial right in the fiscal year ending March 31, 2021. How do you intend to handle this going forward?

A: Fujitsu Electronics will be set back by the cancellation of one of its commercial rights; however, we believe we can recover from this by expanding sales of existing and new products and increasing EMS sales. We will not be able to recover immediately, but we aim to achieve increased profit each period from next fiscal year.

Q: Recording reduced income and profit for this fiscal year feels like a step back from the targets in the medium-term management plan. How do you aim to achieve the operating income target of 13.0 billion yen expressed in the plan?

A: Due to the impact of the unforeseen novel coronavirus (COVID-19), the fiscal year ending March 31, 2021, which is the second year of the medium-term management plan, will see a temporary levelling off. However, there are still two years until the final year of the plan, so the Group intends to remain united and keep moving forward.

Q: April and May have already passed in the fiscal year ending March 31, 2021. How have things started?

A: With regard to the EMS business, factories have shut down in Mexico and India, but otherwise things are proceeding smoothly. We have a feeling that the period from July to September will be more difficult than the period from April to June. With regard the electronic component business, we feel that the period from April to June went smoothly; however we are concerned that there will be an adjustment in the period from July to September.

Q: Please give us an update about the status of EMS, Mexico, and India.

A: At present, operation has been suspended; however, our customers' factories have also been unable to operate, and we are awaiting instructions from the governments of each country. We are prepared to recommence operation at any time. (Both of Mexico and India factories has resumed operation from June 1st.)