

Kaga Electronics Co., Ltd.
Financial Results Briefing
for the Fiscal Year Ended March 2021
Main Questions and Answers

Date and time: 4:00-5:00 pm, Thursday, May 27, 2021
(Online Briefing)

<Points to note>

The “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 those points that Kaga Electronics deems to be key.

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

Conditions in the fiscal year ended March 2021

Q: Why did interest-bearing debt rise and the A/R turnover increase? Will they improve going forward?

A: This was due to the consolidation of Excel. We posted about 8.0 billion yen in a “gain on bargain purchase,” but this was used as working capital for Excel, and resulted in an increase in interest-bearing debt. Moreover, Excel’s accounts receivable, accounts payable and inventory are poor compared to Kaga Electronics’ levels, but we expect this to improve since Excel is changing its approach to inventory and will ensure that it operates similarly to Kaga Electronics.

Q: Some companies are increasing their inventory due to the recent shortage of semiconductors, but Kaga Electronics’ basic policy is to minimize inventory. Can you tell us your thoughts on this?

A: Our basic approach has not changed. We are trying to maintain safety stock, including automotive products, but even when we do hold safety stock, the Group only does so after receiving orders.

Q: What initiatives have been taken to counter COVID-19 and what are your forecasts?

A: We sell Kaltech Co., Ltd.’s sanitizer/deodorizers, which use photocatalysts. In addition, we applied photocatalytic antibacterial coatings in the Akihabara headquarters and our Hacchobori offices, and also installed photocatalysts in air conditioners. We received more requests from other companies that wanted the same done at their offices. At the request of a major home appliance retailer, we installed photocatalytic LED lightbulbs and light fixtures in all their stores and also applied a photocatalytic coating at their headquarters. We think this photocatalyst-related business could pick up in the future, in part due to the impact of COVID-19.

EMS Business

Q: What were the factors behind higher income in the EMS business? What do you expect for the fiscal year ending in March 2022?

A: The EMS business benefited from the extremely fast recovery in China, and results far exceeded forecasts at operation bases in China. Even at other operation bases, the recovery was smooth overall in H2, despite the temporary closure of factories in response to COVID-19. We expect solid performance in the fiscal year ending in March 2022 as well. In the future, we hope to extend this business, particularly for automotive products. We have been affected by tight semiconductor supplies, but we can predict orders for the next four years, and expect orders to double from current levels.

Q: What percentage of the EMS business consists of automotive products? Which industries will grow in the future?

A: Automotive products account for about 30% of this business, and we expect it to increase going forward. We can determine the order status for automotive products several years ahead, and we expect them to account for more than 50% of this business in three years. However, if automotive products account for a higher proportion of this business, we will be affected by fluctuations in the auto industry, so we hope to steadily increase the percentages for such other fields as medical equipment and industrial equipment. That way we will not be dependent on a specific industry.

PMI at acquired companies

Q: What is the status of coordinating with Kaga FEI's EMS business?

A: We are steadily receiving orders at Kaga FEI as well. Through its semiconductor business, Kaga FEI has transactions with clients that Kaga Electronics has not had a business relationship with, and it also has a major foreign capital client that will begin mass production in the fiscal year ending in March 2022. We had new visits with 124 companies, and are currently engaged in sales talks with 74 companies, and hope to increase this even further.

Q: How much progress has been made with structural reforms at Kaga FEI? Will the profit margin improve?

A: Due to differences in systems, the integration of US sales companies has been slightly delayed compared to our original plans, but structural reforms are generally complete. The only remaining reform is the integration of sales companies in South Korea, and we expect this to be completed in the first half of the fiscal year ending in March 2022. We think Kaga FEI is on the way to raising its profit margin.

Q: Excel predicts 750 million yen in operating income in the fiscal year ending in March 2022; can this be achieved?

A: Excel's main focus is its LCD business where it has low margins, but by ensuring low-cost operations, Excel will be able to achieve a profit margin at about the same level as Kaga Electronics in its domestic business. Moreover, the overseas business also has a low margin, but Excel is changing its initiatives significantly by carrying out a fundamental review of its costs, making choices about its transactions and implementing transactions that do not incur costs even if the margins are low. At present, its overseas business for mid-sized LCD panels for computers is performing extremely well, but we should not be too optimistic, in part because of tight demand for driver IC. However, as noted above, the system is in place, so we think Excel can achieve 750 million yen in operating income by boosting income.

Next fiscal year (ending in March 2022)

Q: What are the net sales and operating income forecasts for segments in the Medium-Term Management Plan for the fiscal year ending in March 2022?

A: In the electronic components business we expect net sales to total 303 billion yen and operating income to reach 4.3 billion yen; in the EMS business we forecast 110 billion yen in net sales and 6 billion yen in operating income; in the CSI business we forecast 45 billion yen in net sales and 2.3 billion yen in operating income; and in the Others business we forecast 12 billion yen in net sales and 400 million yen in operating income.

Q: What are your earnings forecasts for Kaga Electronics, Kaga FEI and Excel in the fiscal year ending in March 2022?

A: We expect 255 billion yen in net sales and 11.25 billion yen in operating income for Kaga Electronics, 145 billion yen in net sales and 1 billion yen in operating income for Kaga FEI, and 70 billion yen in net sales and 750 million yen in operating income for Excel.

Q: As the economy recovers, what do you predict for SG&A expenses?

A: In the fiscal year ended in March 2021, entertainment expenses and travel & transportation costs accounted for one-third of SG&A expenses. These two categories are expected to be about half of the previous year's amount in the fiscal year ending in March 2022. We now pay the actual cost of employees' transportation rather than paying for commuter passes, so we expect to reduce SG&A costs.

Other management issues

Q: When considering the next medium-term plan, are you thinking about a wide range of possibilities, including additional M&A?

A: We are always considering M&A.