

Kaga Electronics Co., Ltd.
Financial Results Briefing
for the First Half of the Fiscal Year Ending March 2025
Main Questions and Answers

Date and time: 4:00-5:00 pm, Thursday, November 28, 2024
(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.

Medium-Term Management Plan 2027

Q: I believe the EMS business is the growth driver in the Medium-Term Management Plan 2027 and you have set an ambitious target of a nearly twofold increase in net sales over the next three years. Can you please explain this in more depth, such as by segment?

A: While performance is currently spotty, some areas such as industrial equipment have been mildly recovering. The three-year target is the number that is built up on the ground and is by no means an unrealistic goal.

One of the regions we are focusing on for future growth is China. Some customers have already teamed up with us to move their production to ASEAN countries. Considering, among other things, Donald Trump’s election to the Presidency, we expect this trend to accelerate going forward. As such, our expectations are on the business of exporting to the U.S. from ASEAN by moving production there in partnership with Chinese manufacturers.

Q: I understand that a key point in the EMS business is growth in Mexico. How do you view the uncertainties that may arise from the outcome of the latest U.S. presidential election?

A: What we are manufacturing in our EMS business are “components” and not finished products. Although currently there is talk of tariff hikes on finished car products, we are of the view that there will be some time-lag before these are applied to components. Currently, the largest customer of our factory in Mexico is a manufacturer of air-conditioning equipment, and this company has commented that “if exporting to the U.S. becomes difficult, we will shift to Central and South America.” Should that happen, we will closely follow such developments.

Q: If we look at growth in the EMS business by region, growth in Japan is high. What is it that are you planning to grow?

A: In Japan, both Kaga EMS Towada and Kyokuto Electric have been successfully acquiring new customers since they joined our Group. Towada, which has been engaged in manufacturing of auto-related components from its days of Towada Pioneer, has a high technological level and is steadily expanding its customer base. Likewise at Kyokuto Electric, which previously was focused on a limited range of products such as earth leakage breakers, some large customers are coming along.

A: Let me add that the growth includes around 30 billion yen from small wireless module business and sales in the E2MS business that we have been working on to date at Kaga FEI.

Q: Am I correct in my understanding that the net sales target of 230 billion yen in the EMS business does not include M&As?

A: M&As are not included in the 230 billion yen. We are continuously looking for M&A targets both in Japan and globally, and will proactively make a bid if we find one.

Q: On the net sales target by corporate group, how do you intend to improve Kaga FEI's profit margin and increase sales at Excel following the loss of business with a major customer?

A: The termination of business with a major customer of Excel related to transactions with low profit margin relative to the risk involved and actually resulted in profit margin improvement. Previously, there were low margin businesses, but following the acquisition, profit margin has been improving under the concept of pursuit of profit. We will continue our efforts to make Excel a profit-generating company.

A: Kaga FEI recorded decrease in profit margin in 1Q due to changes in the sales mix such as the recent decrease in sales of products with high profit margin. As there are products that will grow over the next fiscal year, we have high expectations for them.

Q: M&As are also viewed as one of your growth strategies in the current Medium-Term Management Plan. What are the factors that prevented realization of this strategy? Are there any changes to your views on M&As in the Medium-Term Management Plan 2027?

A: While we are actively seeking to explore M&As, there are many companies that are not proactive, and there are also cases in which we are not selected. Although we could take an aggressive stance, such an approach is not always appropriate in Japan. There is not much change in the M&A environment.

Q: You stated that you are looking to invest around 30 billion yen or more in M&As over a three-year period. Please tell us about your targets.

A: We are considering trading companies in electronic components and EMS businesses. In terms of sales size, we are assuming 20 to 30 billion yen even on the low side, or around 200 billion yen in large deals.

Q: On business portfolio management, which businesses are currently classified as “pending businesses” in the lower left?

A: While I will refrain from mentioning specific names, these are businesses that we believe will experience difficulty in continuing to grow into the future if they simply follow an extension of their current status.

Q: On page 10 of the briefing materials on the Medium-Term Management Plan 2027, there are references to A Business Division, B Business Division, Company G and so forth. To what do these specifically refer?

A: This is just a conceptual diagram of the framework. It visualizes the numbers given in the Medium-Term Management Plan for each business division and Group company, with growth potential of net sales shown on the vertical axis and operating income margin on the horizontal axis. Going forward, we will examine how we can move each division or company toward the upper right of this diagram by reviewing the management plan in discussion with people on the ground or considering measures such as reorganization.

Q It appears that the small wireless module business that you acquired from Taiyo Yuden would make a good contribution to profit. In which areas are the products used and how much sales can be expected?

A: There are mainly two types of wireless modules that Kaga FEI handles, Wi-Fi modules and BLE, or Wireless LAN/Bluetooth Low Energy modules. BLE is the world’s smallest product acquired from Taiyo Yuden. As a manufacturer, Kaga FEI will be engaged in both production and sales of BLE, which means the profit margin will be higher than doing business as a trading company. Additionally, we believe demand will increase in such applications as IoT devices.

A: In terms of sales scale, we hope to increase annual sales from the current approximately 4 billion yen level to around 10 billion yen within three years. It is sold under the unique brand of CONTINECT, and product details can be found on KAGA FEI’s website.

Results for the first half of the fiscal year ending in March 2025
--

Q: Going into the second half, please tell us how you view your current business conditions. Is inventory adjustment completed to kickstart the engine for growth, or does performance remain very spotty?

A: We believe it to be the latter. We are not optimistic about the second half because rebound particularly in consumer-related areas is slow. Our full-year forecast remains unchanged.

Q: With no change in the full-year forecast, operating income in the second half is set at 14.5 billion yen. What is the balance between 3Q and 4Q?

A: Roughly, 6.5 billion yen in 3Q and 8.0 billion yen in 4Q.