

Kaga Electronics Co., Ltd.
Financial Results Briefing
for the Fiscal Year Ended March 2023
Main Questions and Answers

Date and time: 4:00-5:00 pm, Thursday, May 25, 2023
(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.

Results for the fiscal year ended March 2023 and earnings forecasts for the fiscal year ending March 2024

Q: What factors were behind the strong earnings in the fiscal year ended March 2023? I understand that spot sales grew more than expected in the 1Q, 2Q, and 3Q, but are there any factors contributing to the strong 4Q results?

A: We believe that our solid efforts to reduce inventory have resulted in our earnings performance.

Q: The EMS business was strong in the previous fiscal year but a decrease in profit is projected for the current fiscal year. How much is this decrease in profit expected to be? Also, why does Kaga Electronics see a decrease in profit, whereas other EMS companies in the same industry expect an increase in profit? Please explain your forecast for the current year.

A: In the fiscal year ended March 2023, the EMS business posted sales of about 150 billion yen, and the budget for the fiscal year ending March 2024 is 140 billion yen, which would result in a 10 billion yen decrease. We project a decrease of 0.5 billion yen in profit from 9.5 billion yen to 9.0 billion yen. These figures are based on a conservative estimate, by adding up figures from all business sites and segments. I expect that our profit will be at least as high as in the previous fiscal year.

Q: Amid a downturn in the electronics industry as a whole since the second half of fiscal 2022, I find it remarkable that sales have continued to increase in the fourth quarter of fiscal year ended March 2023. What is your forecast for the fiscal year ending March 2024? Should we accept that the situation is getting worse and more difficult or not?

A: I would say that all companies are experiencing an excess of inventory. Our company began inventory adjustment in 2022, but quite a few companies had not yet started it until the beginning of 2023. We think that many trading companies and manufacturers are also in the process of adjusting their inventories, so the adjustment will not be completed in the first half, and in some cases, it may not even be completed by the end of the year.

Q: The forecast for the fiscal year ending March 2024 states that spot sales would be reduced to zero, but will there be any residual sales? Also, you say that SG&A will be reduced by 2.3 billion yen, but do you have a specific target in mind?

A: For the fiscal year ending March 2024, we can assume that there will be almost no spot sales. We expect to achieve cost reductions as well.

Q: Regarding Kaga Electronics' plans for the first and second half of the fiscal year ending March 2024, in the first half, net sales and operating income are expected to be 148 billion yen and 7.2 billion yen, respectively, and in the second half, operating income is expected to be 11 billion yen on net sales of 172 billion yen. Please explain the level of operating income of 7.2 billion yen in the first half versus 11.0 billion yen in the second half, as well as the rationale for this, even if it is only a rough estimate. You expect an increase in the EMS business, given the absence of spot sales. Does this mean that profit margin of the EMS business will rise in the second half? Or do you see the profit margin rising to some extent from the sales of electronic components trading companies?

A: Looking at the quarterly results, the profit margin in the second half of the fiscal year ended March 2023 was low at 5.4% due to one-time payments of inflation allowances and year-end bonuses to employees.

Year-end bonuses will be paid once profits exceed expectations, so the current budget for the fiscal year ending March 2024 does not reflect one-time payments, including inflation allowances. This is one of the factors behind SG&A reductions, and we expect the profit margin to rise at 6.4% in the second half of the fiscal year ending March 2024.

Q: What is the scale of the business for Socionext products at Kaga FEI? Please also explain your plan for the future.

A: Kaga FEI is the distributor for Socionext's business, which had sales of about 80 billion yen in the fiscal year ended March 2023. We expect sales for the fiscal year ending March 2024 to be about the same as in the fiscal year ended March 2023.

Medium-Term Management Plan 2024 and Medium- to Long-Term Sustainability Management Plan

Q: Regarding the revisions to the Medium-Term Management Plan, you announced a change of the operating income target from the previous 20 billion yen to 30 billion yen or more. What is the reason for this change?

A: The premise for the revisions was the fact that operating income in the fiscal year ended March 2023 surpassed 30 billion yen even with an increase in expenses that included inflation allowances and one-time payments. In addition, even though spot sales are excluded from these figures, we see that actual results have clearly demonstrated a true earning potential that exceeds 30 billion yen. This is why we decided to revise the plan.

For the fiscal year ending March 2024, we are forecasting a decrease in profit due to inventory adjustments by our customers and other factors that may depress earnings. However, we

expect to return to a growth path in the fiscal year ending March 2025, the final year of the Medium-Term Management Plan, as the situation is expected to be resolved.

Q: Recently, semiconductor trading companies are moving toward a business integration with each other, but I would like to ask you about your M&A policy in terms of management targets. What, if any, partners are you considering?

A: We will continue to actively consider partners, including those in the same industry.

Q: The fiscal year ending March 2025 marks the final year of the Medium-Term Management Plan. It may be early to say, but would it be a good idea to aim to become a 1 trillion-yen company in the next medium-term management plan, which is two years ahead of schedule?

A: Yes, we are aiming for that. We would like to go beyond the 1 trillion-yen target and aim even higher.

Q: Regarding the introduction of renewable energy at domestic manufacturing sites, as stated in the Medium- to Long-Term Sustainability Management Plan to use 100% renewable energy, do you have any specific details or timelines for the installation of solar panels and the calculation of power generation?

A: In Japan, Kaga EMS Towada Co., Ltd. in Aomori Prefecture is calculating the amount of electricity to be generated and designing the site to install solar panels in the fiscal year ending March 2024. In addition, we are also considering installing solar panels at Kyokuto Electric Co., Ltd. in Tottori Prefecture, which is expected to be installed during the fiscal year ending March 2025.

Other

Q: When Satori Electric recently conducted a share buyback, your company was selling its shares. What made you become a major shareholder of Satori Electric, and why did you sell your shares this time?

A: As to how we became the major shareholder, we decided to invest in Satori Electric in the belief that its stock price was not valued in terms of the price-to-book ratio and that such a situation was unusual for a company in the same industry. Then, as we continued to purchase the company's shares, we eventually acquired a large shareholding of more than 10% of the company.

Even though we were able to purchase shares of Satori Electric, when it came time to sell our shares, the illiquidity of the company's stock made it difficult for us to sell our holdings in the market in a single transaction. At that time, Satori Electric approached us about acquiring its shares through a tender offer, and we agreed to accept the offer if the company agreed to underwrite the transaction in a lump sum.

Q: Did you hold Satori Electric's shares as a net investment? Were you not considering a business alliance with the company?

A: Yes, it was a net investment.

Q: Macnica achieved sales of 1.0 trillion yen in the fiscal year ended March 2023. Now that Ryosan and Ryoyo Electro have announced their management integration, how do you see the changes in the industry as a whole?

A: We think that Macnica's achievement of 1.0 trillion yen in sales is truly remarkable. We also find it impressive that Ryosan and Ryoyo Electro are integrating their management. I personally hope that such reorganizations will take place more frequently in the future. Kaga Electronics would also like to take aggressive steps to survive in this challenging environment.