Kaga Electronics Co., Ltd.
Financial Results Briefing
for the Fiscal Year Ended March 2024
Main Questions and Answers

Date and time: 4:00-5:00 pm, Thursday, May 23, 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.

Results for the fiscal year ended March 2024

Q: You said that the impact of inventory adjustment became more serious from the second half of the fiscal year. What were the causes? Also, how long will it take to return to normal?

A: Because inventory adjustment is dictated by customers' inventory situation, the causes vary depending on customer circumstances. In the first place, we had initially assumed that inventory adjustment would continue throughout the first half of the fiscal year ended March 2024, and that the situation would start to recover in the second half. In reality, however, the impact of inventory adjustment was not significant in the first half. We believe it was delayed to the second half.

As for the timing of recovery, our view is that, while this will vary from customer to customer, generally, it will be from the second half of the fiscal year ending March 2025.

Q: With respect to income margin of the electronic components business, why is the margin almost unchanged even though spot sales (whose income margin is relatively high) have disappeared?

A: Although there was a significant decrease in sales to a major customer of our subsidiary, Excel, because it was a very low-profit transaction, overall margin improved as a result. In addition, I believe that the day-to-day efforts of our sales force as well as boost from alternative sales had a positive effect.

Forecast for the fiscal year ending March 2025

Q: What is your forecast for net sales and operating income by company, respectively for Kaga Electronics, Kaga FEI, and Excel?

A: In terms of net sales, a small increase is projected for both Kaga Electronics, at 325 billion yen, and for Kaga FEI, at 200 billion yen. As for Excel, a decrease to 30 billion yen is projected due to a decrease in transaction with a specific customer. On operating income, the forecast is Kaga Electronics 19.8 billion yen, Kaga FEI 4.7 billion yen, and Excel 1.5 billion yen.

<FY2025/3 Outlook>

(billion yen)

	Kaga Electronics	Kaga FEI	Excel	Total
Net Sales	325.0	200.0	30.0	555.0
Operation Income	19.8	4.7	1.5	26.0

EMS business

Q: My impression is that the EMS business is currently not performing as expected. How do you plan to bolster performance in the fiscal year ending March 2025 and beyond?

A: As you pointed out, sales in the EMS business declined in the fiscal year ended March 2024. The biggest factor of the decrease, we believe, is the impact of customers' inventory adjustment. In particular, production stalled at a customer of air-conditioning equipment, as it carried a large inventory. This was the main cause. There was also a significant decline in sales to a medical equipment manufacturer and an industrial equipment manufacturer for the US market.

Still, the customer of air-conditioning equipment tells us that, going forward, it anticipates production to increase, having started operation of its large-scale plant located next to our new plant in Mexico. With respect to the customer of medical equipment for the US market, we have established a joint venture with a Chinese company and have started production at a facility next to our new plant in Mexico. With these two operations as the drivers for sales expansion in the fiscal year ending March 2025, we intend to put the business firmly back on track.

Current Medium-Term Management Plan

Q: In the current Medium-Term Management Plan, the latest outlook for operating income is set at 30 billion or more. However, you have indicated 26 billion yen as commitment due notably to prolonged inventory adjustment and higher-than-expected rise in personnel costs. How do you intend to turn around your performance?

A: Although the fiscal year ending March 2025 will see expenses increasing on some fronts as a result of such factors as the decision to raise wages, we continue to position "operating income of 30 billion or more" as our challenging target, to which end we are pushing forward with the united efforts of the whole Group.

Q: You also mentioned M&A. How do you view the recent market environment?

A: In our view, the environment over the past two years or so has been a difficult one to consider M&As, as components trading companies have been enjoying good performance. We believe there is a good possibility that the situation will change if the market environment changes, such as prolongation of inventory adjustment and its impact. We will continue to consider M&A opportunities from various angles.

Next Medium-Term Management Plan

Q: With respect to the next Medium-Term Management Plan, my impression is that it is difficult to see where the next profit driver is. What will be needed to further increase income going forward?

A: Since the fiscal year ending March 2025 is the final year of the current Medium-Term Management Plan, we are preparing to present the next growth scenario as the next Medium-Term Management Plan in early November.

First of all, we believe that the EMS business is our strongest asset and will continue to be a profit driver. Also, we have set a target of 1 trillion yen in net sales for the upcoming 60th anniversary of our founding, and an indispensable factor in achieving this target, we believe, is M&A. M&A remains a subject of consideration.

While we are an electronic components trading company, we have been implementing various initiatives for new customers in areas other than electronic components, and have achieved some good results. I cannot give you the details at this time, but would like to report as soon as we are ready to make an announcement.

A: All previous medium-term management plans have been three-year plans, but for the next medium-term management plan, we are discussing also the question of how many years the plan should cover, whether it should be three, four, or even five years.

Others

Q: How did the business with Socionext go in the fiscal year ended March 2024? For the fiscal year ending March 2025, Socionext is forecasting a decrease in net sales. In your plan, how do you see the business?

A: Sales of Socionext products by Kaga FEI were approximately 84 billion yen in the fiscal year ended March 2024, up 5% year on year. For the fiscal year ending March 2025, we understand that Socionext has announced its forecast for a net sales decrease of about 10%. This is more or less in line with our projection.

Q: TSMC's semiconductor plants are operating in Kyushu and Hokkaido. Is there any possibility that Kaga Electronics will get involved in the scheme from a medium- to long-term perspective?

A: There are a few examples of us getting involved between a fabless manufacturer and a foundry in Korea, but I think it is difficult to do business in a similar way by liaising between fabless manufacturers and TSMC.

Q: Are EFINIX products growing?

A: They are growing. I think they are good products.