

Kaga Electronics Co., Ltd.

Financial Results Discussion for the Third Quarter of the Fiscal Year ending March 2023 Main Questions and Answers

Date of earnings announcement: Tuesday, February 7, 2023

<Points to note>

Kaga Electronics does not hold a financial results briefing for the third quarter, but we have summarized questions and answers from IR interviews with analysts and investors after financial results were announced, in the form of "Main Questions and Answers." Please be aware that it is not a transcription of all matters discussed, but rather a brief summary created at Kaga Electronics' discretion.

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.

Q: What was the reason for lower profit in the third quarter compared to the second quarter?

A: While spot sales decreased due in part to easing of tight supply-demand conditions for semiconductors and electronic components, this was offset by a production rebound in a wide range of industries, which resulted in strong sales. Nonetheless, profit decreased because we made a provision of approximately 1.7 billion yen for special bonuses to employees, in such forms as inflation and one-time allowances. The information equipment business and the software business are generally performing well, a trend that we expect will continue in the coming period.

Q: What were the factors behind the decline in Kaga FEI profit compared to the second quarter?

A: Despite an increase in net sales driven by growth in sales of Socionext products, profit declined due to a decrease in spot sales that continued from the beginning of the fiscal year.

Q: What is the situation with respect to the components shortage? Will spot sales continue?

A: The components shortage has almost been resolved, but the shortage is still felt in some automotive-related products. Against this backdrop, the purchase prices of components have been stabilizing, and spot sales are likely to decline further toward the end of the fiscal year.

Q: Inventories have been increasing. What is your outlook for the future?

A: Inventories have been increasing in the recent quarters, but in the component sales business, these are inventories that we hold at customers' request, while in the EMS business, the inventories are kept because the lack of even a single component can disrupt production. As our inventories are basically tied to orders from customers, there is no risk of loss on disposal

or valuation. Still, we are looking to reduce inventories toward the end of the current fiscal year and bring them down to around the same levels as the end of the previous fiscal year.

Q: Why have you revised upward your earnings and dividend forecasts?

A: We have revised upward our earnings forecast in view of strong third-quarter sales of automotive, medical equipment, and other products for a wide range of industries. Although we anticipate that performance will continue to exceed the forecast in the fourth quarter, we have decided to incorporate only what was overachieved in the third-quarter results because supply-demand trends for semiconductors and electronic components, exchange rate fluctuations, and other factors make it difficult to predict the outlook.

A forecast revision was also made to the year-end dividend, with an upward revision from the previous forecast of 100 yen per share to 120 yen per share by adding 20 yen of extraordinary dividend. As a result, the annual dividend will be 220 yen, an increase of 100 yen from 120 yen paid in the previous fiscal year.

Q: What is your outlook for the fiscal year ending March 31, 2024?

A: We anticipate that our operating environment in the next fiscal year will be challenging, as it is projected that spot sales will virtually disappear and that demand for components will decrease due to customers' inventory adjustments. On the other hand, in terms of expenses, there will be no increase in personnel expenses that were incurred in the current fiscal year, such as special bonuses and inflation allowances.

Q: What is the state of earthquake damage at the Turkish plant?

A: There was no earthquake damage to our plant in the Republic of Türkiye, as it is located in Düzce, which is more than 1,000 km from the epicenter. In this connection, in order to aid those impacted by the earthquake and contribute to recovery and reconstruction in the affected regions, we made a 10 million yen donation in relief funds through the Embassy of Türkiye in Japan.

<News Release: Aid to those affected by the earthquake in Türkiye >

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