

Kaga Electronics Co., Ltd.  
Financial Results Briefing  
for the First Half of the Fiscal Year Ending March 2024  
Main Questions and Answers

Date and time: 4:00-5:00 pm, Friday, November 24, 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 first half of the fiscal year ending in March 2024
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**Q: Looking at net sales by region, there was a large fall in Asia. What was the background to this?**

A: In China, there was a large decline amid worsening economic conditions in the country, and sales also fell at our Shenzhen Factory, which has previously been a driver of sales. To date, we have taken on Japanese customers’ production targeting the Chinese domestic market in our EMS business, but sales from this business have fallen. We had been expecting these circumstances, however, so we have also been approaching local Chinese manufacturers, and these efforts are gradually generating results. We intend to continue focusing on working with major Chinese manufacturers.

**Q: In the electronic components business, profit margins were approximately 4% prior to COVID-19, and approximately 6% last year, when spot sales increased. This year, you have maintained a profit margin of 5% despite a lack of spot sales. What was the background to this?**

A: We lost sales of 13.0 billion yen from a major customer of our subsidiary, Excel, but margins were extremely low on this transaction. Accordingly, profit margins improved as a result. I also think the day-to-day efforts of our sales force contributed to performance.

**Q: You mentioned that there are transactions that have continued from spot sales. What is the background to the continuation of these transactions?**

A: Spot sales are a kind of “helping out business” whereby we sell items lacking from existing distribution channels to customers amid component shortages. Subsequently, to ensure that our trading relationship does not end when the supply-demand balance recovers, we maintain these transactions by making alternative proposals based on products for which we have commercial rights. This year, power semiconductor and FPGA sales will be approximately 2.4 billion yen, and we expect sales of around 4.0 billion yen next year, including orders that have already been placed. Business talks over the year also cover transactions worth over 12.0 billion yen.

**Q: What is the impact of the weak yen on the inventory amount?**

A: For inventories at overseas subsidiaries on a foreign currency basis (as of end-September 2023), the impact from the difference in forex rates at the end of the previous fiscal year was approximately 1.6 billion yen (increase in inventories).

**Q: Please tell us about any changes in utilization rates at domestic factories.**

A: Utilization rates at domestic factories have been steadily increasing. We believe this is partly due to a trend toward restoring domestic production among customers, as well as contributions from the return of major customers to domestic operations, and growth in capturing new orders at Kaga EMS Towada.

**Outlook for the full year (second half) ending in March 2024**

**Q: Please tell us about the outlook for the second half at Kaga FEI. Although profits fell in the first half, my impression is that performance was better than expected. Are there future uncertainties for the second half?**

A: At Kaga FEI, Socionext products performed well in the first half, but we expect performance to slow in the second half. We are uncertain whether other products will be able to fully cover this decline.

**Q: While you outperformed your targets in the first half, my impression is that you are cautious about the second half. What downside risks are there for the second half?**

A: In addition to the possibility that the impact of inventory adjustments will fall into the second half and put downward pressure on earnings, we consider the increasing uncertainty in the management environment to be a risk, including forex movements, U.S.–China friction, and fairly high geopolitical risk.

**Q: I think alternative sales are one of the main reasons for good performance in the first half. Is it fair to expect that earnings will continue to grow as EVs become more popular, etc.?**

A: Naturally, we expect to make alternative proposals for in-vehicle applications in the future, but we also think there will be robust demand for industrial equipment applications. In addition to existing makers of in-vehicle equipment, there will also be demand generated by the shift to inverters among ICE customers as they transition to EVs, so we are working to capture this demand.

## Outlook for next year (fiscal year ending in March 2025)

**Q: President Kado gave a summary of the first half, but could you tell us your views on the outlook for next year regarding whether air conditioning, etc., which was part of the “group in adjustment process,” will enter the “group with solid sales” next year?**

A: We expect fields that were in the “group in adjustment process” this year to rise up in the next year. Additionally, in the “group with solid sales,” we think it is possible that there will be a slight decline in amusement- and consumer-related sales, although we expect in-vehicle sales to rise even further next year. As a result, we think that overall, we may be able to go higher than this year.

**Q: Next year will be the final fiscal year of your Medium-Term Management Plan. How confident are you about achieving your targets? Please update us on your level of certainty with regard to achieving your management targets, progress on M&A, etc.**

A: We are unable to disclose anything in relation to M&A at this time. Excluding this, we certainly aim to achieve our management targets of “net sales of 600 billion yen, and operating income of 30 billion yen or higher.”

## EMS business

**Q: In the EMS business, I understand that there was a large decline in sales of industrial and medical equipment in the first half of the fiscal year ending March 2024. When do you expect a recovery?**

A: We think a recovery in the second half of this year will be difficult, but based on the current status of inquiries, we think sales might gradually increase during the first half of next year, and recover to their previous level during next year. In-vehicle sales are expected to remain steady, and we also have a strong pipeline of inquiries about air conditioners.

**Q: In President Kado’s presentation, he presented an aggressive target of 300 billion yen for sales from the EMS business in five years, double the current level. I expect sales growth when your new factory in Mexico comes online, but what will be the composition of industries?**

A: Our current factory building in Mexico covers an area of approximately 4,000 m<sup>2</sup>, but we have purchased 80,000 m<sup>2</sup> of land to enable us to expand the floor area to 20,000 m<sup>2</sup> in April 2024, and add an additional 20,000 m<sup>2</sup> in three years’ time. This shows the extent of work that we anticipate in the future. In terms of industries, in addition to in-vehicle applications, we also expect to add air-conditioning and medical applications.

**Q: When will you be able to perform circuit board mounting at the Turkey Factory? Also, have you already completed the expansion of SMT lines at your domestic factories?**

A: We have already begun circuit board mounting in Turkey, and are trying to add an additional new line. In Japan, we have also completed the installation of lines at both Towada and Kyokuto and have begun production.

**Q: I believe your target is based on sales growth centered on Mexico, but in what order will your other factories in Malaysia, Turkey, Towada, and Tottori contribute to sales growth?**

A: Besides Mexico, we also expect steady growth in sales in China, where sales are currently highest, as well as Thailand, Vietnam, and Indonesia in the ASEAN region, etc. Accordingly, if I were to put these in order, it would probably be: 1. China, 2. ASEAN, and 3. others.

**Q: Please tell us about your customers' needs and the impact on profit of the shift in the content of your business, from unit assembly and circuit board mounting to an increase in finished product assembly in the future.**

A: Previously, we have mainly engaged in circuit board mounting, but there has also been demand for us to make half-finished products and modules, and we have actually responded to such needs. Accordingly, I hope you will understand that in the EMS business in the future, we will focus mainly on circuit board mounting, while also developing our business with half-finished products and modules. As a result, added value will increase and our profit margins will also rise.

Other

**Q: Please tell us about appropriate inventory levels.**

A: In terms of our approach to inventories, we have set target levels of 15 days' inventory turnover for electronic components and 45 days for EMS, meaning that we target 30 days on average. Inventory turnover is slightly long in the EMS business because some inventories are in transit, and we start production when we hold a certain level of inventories.

**Q: Please tell us about the type of trading company that Kaga Electronics aims to be, i.e., your vision.**

A: As you can see if you look at our Medium-Term Management Plan materials, we aim to be an all-round company capable of performing all processes from the development of semiconductors to product development and finally maintenance, mainly for electronic components, in an integrated manner. We are also focusing on sales of electronic components, and we are focusing on the EMS business.