Kaga Electronics Co., Ltd.
Financial Results Briefing
for the Fiscal Year Ended March 2022
Main Questions and Answers

Date and time: 4:00-5:00 pm, Thursday, May 26, 2022
(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 2022 and earnings forecasts for the fiscal year ending March 2023

Q: In the EMS business, earnings grew steadily despite tough conditions, such as difficulties in procuring parts. How do you see the business environment? Are there any risks going forward in terms of distribution, parts procurement, or other areas?

A: We had a range of problems, including a spike in parts and distribution costs and lockdowns in Shanghai, but earnings in the EMS business were strong. I think this was because our ability to procure parts is excellent, but the main cause was the impressive efforts made by our local subsidiaries.
We were able to continue operations despite lockdowns in Shanghai because our factory is in Suzhou. We were unable to get deliveries of some parts, but we took measures such as avoiding Shanghai Port and instead unloading parts at a different port and using air freight, and didn't have to stop operations. Our customers in Shanghai could not make sales calls due to the lockdown, and they were unable to receive deliveries from us from April, but we heard that the lockdown was lifted in June, so deliveries are expected to be resumed as a result.
Previously, we often produced and shipped products in China, but currently we are expanding globally to countries and regions such as Mexico, Europe, ASEAN, and India. We have factories in each of these areas, so we are trying to produce products near the customer as much as possible, which not only lowers distribution costs, but will also serve as a hedge against the risks faced by our China hubs.
There are problems such as a shortage of semiconductors, but customers have devised optimistic plans, and we are following suit with bullish plans of our own.

Q In the segment forecasts for the fiscal year ending March 2023, net sales are expected to increase 3% to 447 billion yen and operating income to total 18.5 billion yen in the electronic components business. Wouldn't it be possible to increase income a little more? What do you think?

A: In electronic component sales, operating income from spot sales totaled 4.1 billion yen in the fiscal year ended March 2022, which was a significant contribution to income. However, we cannot predict how long spot sales will continue, so we are forecasting a 3.1 billion decrease from the previous year to about 1.0 billion yen in the fiscal year ending March 2023. Operating income matches the increase in sales, and there are no substantial changes in the operating income margin.

Q: What are "spot sales"?

A: Spot sales are a short-term procurement from a supplier that is not part of the normal commercial distribution, and such trades do not continue when market conditions normalize. We also propose alternative products with these trades, and are making efforts so that these transactions continue as normal sales even after spot sales have wound down. If this switch goes well, spot sales would decline, but normal sales would increase instead.

Q: Kaga Electronics has continued to meet customer requests since it was founded, which brought it to its current position, so I don't think that spot sales can be dismissed as a one off. Is it really a good idea to give the impression that 1.0 billion yen in spot sales would remain in the fiscal year ending March 2023, but would result in a 1.0 billion yen decrease in the next fiscal year?

A: We assume that the 4.1 billion yen in income earned through spot sales in the fiscal year ended March 2022 would decrease to 1.0 billion yen in the fiscal year ending March 2023. As you point out, of this 3.0 billion yen decrease, some would become regular sales.

Kaga FEI and Excel

Q: Kaga FEI's gross profit margin improved by about two points in the fiscal year ended March 2022, and it has improved from about 6% when it was acquired to nearly 10%. What factors were behind this improvement in the profit margin? Will it remain at this level?

A: The improvement in revenue for Kaga FEI can be attributed to ongoing efforts to improve the profit margin, as well as to spot sales. Acting together as part of the Kaga Electronics Group has led to the spread of a new awareness of the importance of profit, and they are also making progress in improving their structure. Their efforts with spot sales, in which they procure from market inventory and supply customers, led to improvements in the profit margin. In the fiscal year ending March 2023, the profit margin will fall slightly, but we think we can maintain it at levels above 9%. We will continue our efforts to raise the profit margin.

Q: Excel's profit margin did not improve when it was initially acquired, so why did it improve so dramatically in the second year?

A: Excel had an extremely high amount of waste, so we took our time and eliminated this waste. In addition, its inventory management methods were reformed and defective inventory was cleaned out. In addition, we worked on reforming Excel's approach to trade from the time that we acquired the company. Through these initiatives, we were left with a company that was able to generate profit sooner than expected.

Medium-Term Management Plan 2024

Q: The operating income target of 20 billion yen in Medium-Term Management Plan 2024 was already surpassed in the previous fiscal year, and your forecast for this fiscal year is also higher. You said that this would be reviewed in six months, but will changes be limited to the numbers, or will the basic approach be changed as well?

A: We are considering revisions in six months, but we do not expect to change policies and management themes. In fact, we would like to revise figures after thoroughly assessing conditions in Russia and Ukraine, lockdowns, future supply/demand forecasts for areas that have seen rapid growth in sales, such as autos and industrial equipment, and the sustainability of spot sales, among other factors.
The figures we forecast could go in several directions, but we would like to take a more thorough look in six months.

Q: As part of Medium-Term Management Plan 2024, the Company plans to carry out M&As equivalent to about 150 billion yen in net sales. Will the targets be general trading firms or manufacturers?

A: Basically, we think that both are worth considering.

Medium- to Long-Term Sustainability Management Plan

Q: I was impressed by the way that the Medium- to Long-Term Sustainability Management Plan really digs into ESG. Can you speak a little on what Kaga Electronics is doing in terms of ESG initiatives and future issues?

A: Since before the Medium- to Long-Term Sustainability Management Plan was established, we worked on replacing our sales vehicles in Japan with hybrid vehicles, so that now 78.5% of our sales vehicles are hybrid vehicles. Our target for 2024 is 85%, and we are making good progress toward that.
In the future, we need to continue to take measures to support the active role of women in the workplace. At present, 14% of our managers are women, but this figure includes overseas Group companies, and the figure is much lower if we just look at Japan. On this matter, we need to increase the number of women we hire for career-track positions.

Q: On the “environment,” an important KPI in the Medium- to Long-Term Sustainability Management Plan, the Company notes that efforts to use 100% renewable energy will be considered going forward. If this involves external procurement, how much do you estimate costs would increase? If costs increase significantly to the point that they pressure profits, would you still try to reach this 100% goal?

A: We estimate that electricity costs would be about 50% higher than current levels. Whether it means solar power or wind power, we would like to do whatever we can to reach this goal of 100% renewable energy. That said, we do not expect to be able to fully make up the difference, so we want to use in-house power generation in addition to keeping the cost increase (which we currently estimate to be about 50%) down to 30%–40%.

Q: You speak of in-house power generation and solar panels, but specifically what do you plan to install and at which factories?

A: Since the EMS factory is in a relatively remote location and land is available, we are considering installing solar panels there.