Financial Results Discussion
for the Third Quarter of the Fiscal Year ending March 2024
Main Questions and Answers

Date of earnings announcement: Wednesday, February 7, 2024

<Points to note>
Kaga Electronics does not hold a financial results briefing for the first 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 were the causes of the year-on-year decrease in net sales and income in the third quarter?

A: Although net sales increased in the information equipment business and the others business, net sales in the electronic components business were affected by such negative factors as disappearance of spot demand given easing of supply shortages of semiconductors and electronic components, as well as diminution of transactions with a certain major customer of an overseas subsidiary of Excel Co., Ltd., which pushed down net sales by 18.3 billion yen and 17.5 billion yen, respectively, in addition to the more recent impact of full-scale inventory adjustments by customers in general. As a result of these and other factors, net sales decreased by 45.7 billion year on year.
Operating income decreased by 5.5 billion yen year on year despite efforts to reduce selling, general and administrative expenses in the face of a decline in gross profit due to lower net sales. Operating income margin, however, maintained the second-quarter level.

Q: Specifically in which industries have inventory adjustments been taking place?

A: In the third quarter, we saw the impact of inventory adjustments mainly in applications related to medical and industrial equipment. By contrast, the automotive sector enjoyed growth due to improved supply and demand balance of semiconductors and electronic components.

Q: When do you expect inventory adjustments to subside?

A: The impact of inventory adjustments at the close of the first half was not as visible as we had initially predicted, with the result that both net sales and operating income exceeded the internal plan. As the impact has started to emerge on a full-scale from the second half, we believe that there has been a delay in inventory adjustments. We therefore expect the inventory adjustment phase to continue for some time, and a full-fledged recovery in demand to happen in the first half of the next fiscal year.

Q: Inventories increased in the third quarter compared to the second quarter. Is the inventory level appropriate?

A: Our inventories comprise those that are kept at customers' request mainly in the component sales business, and those that are kept for the EMS business to avoid stockouts that could cause suspension of production lines. Although inventories increased compared to the second quarter, there is no risk of loss on disposal or write-down of inventories, as they are fundamentally linked to orders placed by customers. However, from the perspective of securing cash generation capacity, we would like to bring the inventories down to the target level of around 50 billion yen by the end of the current fiscal year.

Q: Operating income exceeded the internal plan by 2 billion yen. Do you not intend to revise your earnings forecasts?

A: Performance in the third quarter continued to make steady progress and exceeded the internal plan. However, no revision is made to the full-year earnings forecasts, as it is difficult to predict the future given such situation as the current expansion of inventory adjustments by customers in general, in addition to geopolitical risks arising notably from the prolonged situation in Ukraine and the Middle East, concerns of an economic slowdown in Japan and globally, and the impact of drastic exchange rate fluctuations.