

Kaga Electronics Co., Ltd.
Financial Results Briefing
for the Fiscal Year Ended March 2025
Main Questions and Answers

Date and time: 4:30-5:00 pm, Thursday, May 22, 2025
(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 2025
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Q: In the results of the fiscal year ended March 2025, a quarterly comparison of third and fourth quarters shows a decrease in operating income. Please tell us the causes of the decrease.

A: Operating income decreased mainly due to an increase in litigation expenses incurred overseas and fiscal year-end bonus payments. Without these factors, we believe the fourth quarter result would have been more or less the same as the third quarter.

Q: SG&A expenses in the fiscal year ended March 2025 had increases in personnel expenses and logistics costs. What is the outlook for the fiscal year ending March 2026?

A: We implemented wage increases in the fiscal year ended March 2025 but not in the current fiscal year, so SG&A expenses in the fiscal year ending March 2026 will be at about the same level as the fiscal year ended March 2025. As to litigation expenses, which increased in the fiscal year ended March 2025, we have already factored them in for the current fiscal year. With regard to the earnings forecasts for the current fiscal year, these are estimates that basically are in line with the preceding year's levels but a notch or two higher and to which exchange rates and the impacts of tariffs are factored in as risk factors.

Earnings forecasts for the fiscal year ending March 2026
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Q: You said that a recovery in inventory adjustments would start in the second half. Please tell us the current situation by industry and recovery outlook.

A: On inventory adjustments, we had expected to see a recovery by the second half of the fiscal year ended March 2025, but unfortunately, the situation did not turn out to be as we had anticipated. Although we have again projected a recovery in the second half, rather than any particular industries, we anticipate an overall recovery to start in the second half of the fiscal year ending March 2026.

Q: Going forward, do you anticipate demand for replacement of PCs such as in response to termination of Windows upgrade services?

A: We are already witnessing moves for replacement of PCs in response to demand generated by the GIGA School Program four to five years ago. We expect to see PC sales increase going forward.

Medium-Term Management Plan 2027

Q: In Medium-Term Management Plan 2027, you are projecting a large net sales increase in the EMS business. Can you elaborate on the EMS business such as the current situation, future outlook, and timeline?

A: The EMS business recorded net sales of 134.5 billion yen in the fiscal year ended March 2025. In Medium-Term Management Plan 2027, we are targeting 230 billion yen for the fiscal year ending March 2028. This means an increase of around 100 billion yen. By region, we project large increases in Japan, China, Asia, and Mexico. We are seeing strong growth in Japan while in China, possibly due to U.S. President Trump's tariffs, inquiries are increasing from Chinese companies on production in ASEAN countries or Mexico. We are already beginning to respond to these inquiries. Given that some of the transactions are on a scale of 10 billion yen per company, we feel that, for us, the Trump tariffs do have certain positive aspects.

Q: You explained that you will aggressively pursue M&As. Do you have any objectives or criteria for your M&As, such as strengthening of existing businesses or expansion into new areas? Also, can you tell us the anticipated timing of M&As, if you have any in mind?

A: Our approach to M&As remains unchanged. We envision companies in the same business as we are, such as electronic components trading companies or companies engaged in the EMS business, as counterparties. The timing of deal execution is not yet determined.

Q: In Medium-Term Management Plan 2027, you have increased dividend payout ratio from 25~35% to 30~40%, and plan to allocate cash of 22 to 30 billion yen in total for shareholder returns. If you continue to pay out 110 yen each year, this will add up to a little over 6 billion yen annually, falling short of 20 billion yen in three years. Assuming the upper limit of 30 billion yen, the dividend payment would be substantial. Will you be conducting any other shareholder returns?

A: In Medium-Term Management Plan 2027, operating cash flow generation is estimated at around 60 billion yen, and our basic approach is to allocate this actively to "growth investment" and "shareholder returns." Our intention is to use up and not carry over cash generated during the period of the Plan, for such purposes as growth investment including M&As and capital investment, shareholder returns including dividends, and venture capital investment.

Q: On the 4% that you have set for DOE, there is a general perception that this is the lower limit of dividend. How should we interpret this?

A: We set it as a minimum dividend target, so please take it as a guideline for stable dividends.

Management Topics

Q: In the Nikkei, there was an article on wireless modules business conducted at KAGA EMS TOWADA. Please tell us the scale of the business and features of the product.

A: At present, net sales are in the region of 3 billion yen, but we aim to bring this to 10 billion yen within three years. The latest small-type product is manufactured in Japan, and other types in overseas factories.

A feature of the product is that it is extremely small. As such, it can be embedded on various Bluetooth and wireless devices such as electronic locks and wireless controllers.

Q: The amusement business in the U.S. is seeing remarkable growth. Who is your counterparty?

A: A new business partner of ours expanded to overseas markets about three years ago, and KAGA AMUSEMENT, our Group company, sells claw machines and other products to them. As they have several hundreds of shops as shown in the photo on page 38 of the Financial Results Briefing Material, we believe that this momentum will continue for some time. In the amusement equipment business, we are moving forward with tapping into new markets not only in the U.S. but also in Asia, and aiming for net sales of 15 billion yen within five years.