

Kaga Electronics Co., Ltd.
Financial Results Briefing
for the Fiscal Year Ended March 31, 2019 (51st Period)
Main Questions and Answers

Date and time: Thursday, May 23, 2019 16:00-17:00

Place: Kaga Electronics Co., Ltd. Headquarters Main Conference Room

<Points to note>

“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 what Kaga Electronics judges to be the key points.

Please also note that the statements contained in this document that relate to the future, such as results forecasts, are based on information currently in the possession of Kaga Electronics and certain assumptions that have been judged to be reasonable. Actual performance, etc. may differ substantially due to a range of factors.

[On the results for the fiscal year ended March 2019]

Q: Due to the effects of U.S.-China trade issues, economic slowdown in China is becoming visible. Is there any impact of this from April onward?

A: In connection with tariff and trade issues between the U.S. and China, there has been a sharp increase in customers wishing to transfer their production out of China to such countries as Vietnam, Thailand, Indonesia, and Mexico. Kaga Electronics is responding to these demands but there will be no impact on sales since, for Kaga Electronics, these will be intra-Group transfers. Moreover, we are receiving a lot of contact from customers with whom we have had no business dealings in the past, with inquiries on transferring their manufacturing bases from China to somewhere outside of China. Although this factor has not been incorporated at the start of the current fiscal year, we envisage that it will have a positive impact on Kaga Electronics' results in the future.

Q: Inventory turnover of Kaga Electronics appears to have worsened substantially in comparison with Fujitsu Electronics. What are the causes? Are there any factors that could lead to further worsening from April onward?

A: With respect to inventory turnover, Kaga Electronics sets a target of 15 days in components business sites and 45 days in manufacturing sites. Because products are manufactured within the EMS business operation, we must inevitably keep inventories of raw materials, semi-finished and finished products, leading to a longer turnover. On the other hand, Fujitsu Electronics' core operation is in the components business and hence its turnover appears shorter in comparison with Kaga Electronics as a whole. If we look specifically at Kaga Electronics' components business, the turnover is roughly 20 days although some sites are more successful than others in meeting the target number of days I just mentioned.

Q: In the Medium Term Management Plan, you are planning to increase sales by a further 70 billion yen over the next 2 years. Are there any elements in the current EMS business that would actually lead to sales growth? Are there any challenges going forward?

A: We believe that a major growth driver for the Group is to provide customers of Fujitsu Electronics with EMS services in addition to key devices. To realize this, we are pushing forward with personnel exchanges in the EMS area with 2 members of Kaga Electronics being seconded to Fujitsu Electronics and 2 members of Fujitsu Electronics seconded to Kaga Electronics. Furthermore, within Fujitsu Electronics, "EMS/ODM Business Division" was newly established in April as an organization dedicated to the promotion of EMS business. With a team of 9 members, the division has kicked off its activities of making proposals to customers. Although we have yet to secure orders, there are several dozens of inquiries which are proceeding to the negotiation phase. My impression is that it is making a good start, more than expected.

[On Fujitsu Electronics]

Q: Fujitsu Electronics was converted to a subsidiary in January this year. Could you please tell us your impression?

A: Positive points are that there are many talented people and that there is a friendly atmosphere for working together with the Group. In terms of business operation, they have, in a way, become accustomed to doing business at a low profit margin, so I believe the challenge going forward is to change the mindset to one of "profit-focused management."

Q: In the document, you mention about expecting "a risk of the cancellation of large-lot commercial rights." What do you mean by this? Can you give us a sense of the scale you are expecting?

A: In the forecast for the fiscal year ending March 31, 2020, a sales decrease in excess of 20 billion yen is incorporated as a worst case scenario due to the risk of a change in commercial rights / commercial distribution in relation to a certain vendor of Fujitsu Electronics. As negotiations are currently ongoing, I will refrain from going into further details but this is the primary factor for forecasting a substantial decrease in sales in comparison with the preceding year.

Q: How do you intend to improve the profitability of Fujitsu Electronics?

A: Among the key components handled by Fujitsu Electronics are microcomputers. Inasmuch as being engaged in microcomputers and custom-made products makes it relatively well-suited for developing the EMS business, we plan to use these as a springboard to expand the EMS platform.
Since the EMS business has a higher profit margin in comparison with the electronic components business, we will promptly move forward in developing the EMS business operation.

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