

Kaga Electronics Co., Ltd.
Financial Results Discussion
for the First Quarter of the Fiscal Year ending March 2026
Main Questions and Answers

Date of earnings announcement: Thursday, August 7, 2025

<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.

Results for the first quarter

Q: Can you provide us with an overview of 1Q financial results?

A: Net sales and all types of income recorded year-on-year increases. We therefore made a steady progress against our internal plans and got off to a good start in the first year of the new Medium-Term Management Plan.

Sales growth was driven by the EMS business in the electronic components business segment, PC sales in the information equipment business segment, and amusement equipment sales in the others business segment. Income growth is attributable to the increase in gross profit resulting from higher net sales and improved profit margin, combined with the control of SG&A expenses.

Q: What are the factors behind decreases in segment income and income margin in the electronic components business segment under the Medium-Term Management Plan?

A: While net sales increased by 1.4% year-on-year, segment income decreased by 9.2%, or 230 million yen, year-on-year. This was primarily due to an increase in SG&A expenses reflecting approximately 500 million yen in litigation costs (up 300 million yen year-on-year) at Kaga FEI.

This litigation relates to the lawsuit against a certain semiconductor manufacturer which issued a notice of termination of the distributor agreement following the consolidation of Kaga FEI (then operating as Fujitsu Electronics) as a Group company in 2019. The dispute has been ongoing since then but is expected to be resolved during the current fiscal year.

Q: What is the outlook for the electronic components sales business?

A: In our outlook for the fiscal year ending March 31, 2026, we anticipated decreases in net sales and income, having factored in risks such as yen appreciation and decreased demand stemming from U.S. tariff policies. None of these risks materialized in the first quarter, and the business achieved increases in both net sales and income that exceeded our projections.

While performance has continued to exceed expectations thus far, we remain cautious about the outlook given the risk of a downturn in demand following last-minute demand in response to U.S. tariff measures and continued inventory adjustments by some customers.

In connection with this, please also refer to the announcement titled “Notice Regarding Upward Revision to Forecasts for Full-Year Earnings and Dividends (Dividend Increase) and Recording of Extraordinary Income (Gain on Bargain Purchase)”, dated August 7, 2025. https://www.taxan.co.jp/jp/ir/upload_file/tdnrelease/8154_20250807534705_P01_.pdf

Q: What are the factors behind net sales and income increases and profit margin improvement in the information equipment business segment?

A: In the PC sales business, sales to educational institutions were strong as the first quarter typically sees high demand for newly enrolled students. Also, sales of PCs for consumer electronics retailers were robust due to the expansion of product lines. On the income side, strong sales of relatively profitable security software contributed to income growth.

Q: What are the factors behind substantial net sales and income increases in the others business segment?

A: Sales of amusement equipment for the U.S. market, which surged in the latter half of the previous fiscal year (fiscal year ended March 31, 2025) against the backdrop of last-minute demand ahead of U.S. tariff measures, continued its strong trend into the first quarter.

Earnings revisions, dividends

Q: Why have you revised your earnings and dividend forecasts at this particular time?

A: The revision to our earnings forecast at this time reflects the integration of Kyoei Sangyo as a consolidated subsidiary from the second quarter following the tender offer. From Kyoei Sangyo’s initial forecast disclosed on May 13, 2025, we took out projections for the second quarter onward and simply added these to our initial forecast announced on May 14, 2025, and also incorporated a 7.2 billion yen gain on bargain purchase associated with the acquisition.

The revision to our dividend forecast was made to reflect the revision to income on a real basis exclusive of the 7.2 billion yen gain on bargain purchase that does not involve a cash-in. The annual dividend per share will now be 120 yen, an increase of 10 yen per share. As a result, the DOE is expected to be 4.2%, thereby meeting the 4.0% target set forth in our shareholder return policy in the Medium-Term Management Plan 2027.

Q: Has the cash allocation target under the Medium-Term Management Plan 2027 been fully achieved with the acquisition of own shares conducted in August 2025? Will there be no share buybacks during the current Medium-Term Management Plan period?

A: The acquisition of own shares and the cancellation of all repurchased shares in August 2025 were conducted using the 46.6 billion yen in net cash accumulated during the previous Medium-Term Management Plan period. The shareholder return policy set out in the Medium-Term Management Plan 2027 is our capital strategy, based on cash inflows to be generated during the current Medium-Term Management Plan period. We will continue to actively allocate funds to both growth investments and shareholder returns.

Q: What are the objectives of acquiring Kyoei Sangyo?

A: Improved operational efficiency can be expected through the sharing of management resources, such as complementary product portfolios and sales channels, expanded market reach leveraging our operational network, and strengthened sales capabilities by combining our respective technologies.

Specific examples include:

- (1) Semiconductor devices: complement each other in products that do not overlap and create added value leveraging our EMS network
- (2) Industrial equipment systems: expand sales in India and other overseas markets using our global adaptability
- (3) Systems development: expand solution proposals by combining the assets that we possess with those of Kyoei Sangyo.