

Kaga Electronics Co., Ltd.
Financial Results Briefing
for the First Half of the Fiscal Year Ended March 2023
Main Questions and Answers

Date and time: 4:00-5:00 pm, Thursday, November 24, 2022
(Online Briefing)

Results for the first half of the fiscal year ending in March 2023 and earnings forecasts for the full year ending in March 2023
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Q: The first half of the fiscal year was strong in various respects. What points do you think were particularly solid?

A: One factor behind the surprisingly strong results in the first half was the major contributions made by spot sales—a trend that has continued since the second half of the previous fiscal year. We do not expect substantial spot sales in the second half.
In the second half, we expect some spot sales to be replaced by regular transactions, but this will not be enough to make up for the decline in spot sales.

Q: Our reporting on other companies' spot sales has not shown that they have sufficient stock of electronic components. What is the actual situation? Please also explain your forecast for the second half.

A: I wouldn't say that we'll have no spot sales in the second half, but we do not expect sales like we recorded in the first half, and project spot sales amounting to several billion yen. Even now, we only have several hundred million yen in spot sales, and we expect this to decline in the second half as well.

Q: Kaga FEI's earnings recovery in the first half has exceeded expectations and was really quite impressive. The improvement in profit margins was particularly good, but will this solid performance continue? In particular, purchases from Socionext Inc. are substantial. In its growth strategy, Socionext expects double-digit annualized growth, so will Kaga FEI's contributions to the Group increase significantly going forward as well?

A: In terms of the improvement in the profit margin, Kaga FEI had about 4 billion yen in spot sales in the previous fiscal year's second half and about 5.5 billion yen in the first half of this fiscal year. Kaga FEI has many large customers, but has not handled spot sales before, so I think that this is one factor behind the improvement in the profit margin. We have heard that Socionext plans to expand direct sales in the US in part. However, Kaga FEI supplies 45–50% of the products that Socionext sells, so its earnings will grow in the future.

Q: Profit grew significantly due in part to spot sales and improvements in a subsidiary's PMI, but are there any issues at this stage?

A: The main issue is inventory. At present (end of September 2022), inventories total 71.2 billion yen, and we want to get this down to 50 billion yen or less by the end of March 2023.

EMS business

Q: The profit margin in the first half for the EMS business has improved since last year. Can this profit margin be sustained?

A: We plan to do everything possible to maintain this level with highly efficient manufacturing.

Q: Regarding the new factory in Turkey, what is the investment amount, where is the new factory located in relation to the current factory, and how much will production capacity increase compared to the current factory? What will happen to the current factory?

A: The factory's assembly lines will be increased from the current four to five, and two surface mount technology (SMT) lines will be newly built. The initial investment is expected to be about 400 million yen in fiscal 2022. We plan to make an additional 500 million to 1 billion yen in investments into 2024. This factory is being built about 5 km from the current factory, so this will just be a move within the same area. After operations begin in the new factory, the current factory will be closed. Currently, this factory primarily manufactures parts for air conditioners, but other customers have requested surface mounting, so we decided to move the factory and expand functions. Production of air-conditioner parts did not involve surface mounting previously, but with this new construction of an SMT line, we intend to expand into this area. Please refer to page 29 for sales forecasts.

Q: There are 330 employees, but will you hire new employees or move the current employees?

A: The employees on the assembly line in the current factory (about 120) will simply move to the new factory. In addition, we will initially add 50 employees for SMT operations, and plan to run a system of a total of 330 employees by the time the two lines are complete in 2024.

Q: Recently, a range of industries are returning operations to Japan. Is Kaga Electronics responding by expanding the type of items produced at its EMS factories in Japan?

A: We've had requests that we produce in Japan what we sell in Japan, in line with the concept of local production and local consumption, and are already returning products that had been produced overseas to production in Japan.

A: In this respect, the acquisition of Kaga EMS Towada Co., Ltd. in Aomori Prefecture (former Towada Pioneer Corporation) and that of Kyokuto Electric Co., Ltd. in Tottori Prefecture have had a very positive effect on our EMS business.

Revisions to Medium-Term Management Plan 2024

Q: The time period for revisions to operating income in the Medium-Term Management Plan has been extended to May next year in order to raise precision, but initially the results exceeded forecasts, so I am assuming that this will be an upward revision. However, is the objective to raise the accuracy of the extent of the upward revision, given the uncertain outlook?

A: Yes, we are considering upward revisions. Nothing is finalized yet, but we are factoring in the impact of a reactionary decline in the fiscal year ending in March 2024, and expect it to increase again in the fiscal year ending in March 2025.

Q: You have said that one reason that the Medium-Term Management Plan was not revised was that the momentum of the first half is expected to continue in the second half, but will the business environment in the second half change compared to the first half, in the way that spot sales are expected to?

A: We had expected that in the first half, besides spot sales, the supply of parts from Socionext, a major supplier for Kaga FEI, would become difficult and that even if parts were ordered, delivery would not always be possible, but in reality, parts were supplied and Kaga FEI made major contributions to first-half earnings. As such, we are still uncertain about some aspects, such as whether parts supply will lag or whether supply will be steady with no impact in the second half, so we do not want to make any decisions at this stage and instead will make our final assessment once we know the results for the fiscal year ending in March 2023. It looks like the parts supply from Socionext will remain unaffected, which raises our hopes for the second half.

Other: EFINIX business

Q: What is the status of business with FPGA's EFINIX? What are the sales forecasts?

A: Net sales are currently about 1 billion yen. With supply shortages continuing, there have been many inquiries about these products, so in the near future, we expect that transactions will reach nearly 10 billion yen. In conjunction with this, we expect that sales of EFINIX products will be the start of relationships with customers that we have not had transactions with before, and naturally, our marketing will encourage customers to buy not only the products, but also ancillary products. I think that our ability to make these kinds of cross-sells and up-sells represents the merits of doing business with Kaga Electronics and is also a chance for us to demonstrate our strengths.