

Kaga Electronics Co., Ltd.
IR Briefing on the Acquisition of Fujitsu Electronics as a Subsidiary
Major Questions and Answers

Time: Tuesday, September 18, 2018 2:00 pm - 3:00 pm
Place: Kaga Electronics Co., Ltd. Headquarters Main Conference Room

<Notes>

Major Questions and Answers has been posted as a reference for the convenience of those who did not attend the financial results briefing. Please be aware that it is not a transcription of all matters discussed at the financial results briefing; rather it is a brief summary of the points that Kaga Electronics considers to be of value.

Furthermore, please be aware that 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 greatly due to a range of factors.

Q1: Fujitsu Electronics' sales incorporate many of the Fujitsu Group's products. Of these products, which are considered to be major products?

A1: We consider major products to be the products of Socionext and Cypress.

Q2: Fujitsu Electronics has a low profit ratio because it is a pure trading company. What measures are being considered to alleviate this?

A2: Fujitsu Electronics specializes in semiconductors and electronic components, so although it trades component products, it has exceptional customers in every industry. Products include microcomputers, which are key devices, and we hope to link microcomputer sales to EMS sales going forward.

Furthermore, Fujitsu Electronics procures products from Fujitsu Semiconductor and the Fujitsu Group, so to a certain extent, it operates with predetermined margins; however, because we are an independent trading company, we are able to source products from all over the world. Thus, we believe that it will be possible to increase the profit ratio by combining our attributes.

In addition, Fujitsu Electronics possesses outlets to influential overseas manufacturers (customers), which we currently lack. We feel that we would be able to leverage these outlets to provide solutions already at our disposal.

In this manner, we will increase added value by sharing customer bases and shifting to EMS businesses, while improving profit ratio by working to optimize sales-related systems and various functions, and maximize mutual exploitation of resources.

Q3: For example, if there were sales of 200 billion yen and the gross margin ratio were to rise by three points, the gross margin would increase by 6 billion yen, which is not an insignificant change. It would still be a lower gross margin ratio than Kaga Electronics, but if there is a high probability of improvements in the gross margin ratio, wouldn't that still make this a worthwhile acquisition?

A3: Exactly. With regard to our EMS, for on-vehicle devices, we see the main competition for lamps, etc., as coming from vehicle peripherals. Furthermore, Fujitsu Electronics mainly sells key devices such as microcomputers, which have a high unit price. This means that the peripheral components in which they are incorporated will also be expensive. In addition to pushing key devices, it should not be difficult for Fujitsu Electronics to transition to EMS. As the president has stated, Fujitsu Electronics, which carries expensive key devices, should be able to rapidly increase its profit ratio by transitioning to EMS.

Q4: With regard to the gross margin ratio, Kaga Electronics' figure of 14% is one of the higher figures in the industry. What is the difference between Kaga Electronics and a regular electronics trading company?

A4: The reasons that our gross margin ratio is high are firstly that the EMS business accounts for a high proportion of our sales mix, and secondly that the sales mix also includes a certain proportion of businesses that have no expenses beyond labor costs, such as service and software development businesses. For the above two reasons, we have a much higher profit ratio than regular electronics trading companies.

Q5: Last week, another company also announced that it will conduct a business integration. Please tell us your views and thoughts on whether the industry as a whole will proceed with further restructuring.

A5: We will refrain from commenting on individual cases, however, we feel that it would be a good idea for the industry to undergo restructuring. If we hear any good suggestions, we will pursue them without delay.

End