

Acquisition of Shares in Fujitsu Electronics Inc. (and Making It a Subsidiary)

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KAGA ELECTRONICS CO., LTD.
President & COO
Ryoichi Kado

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- Display method in this material
Number : Truncated less than the display unit.
Ratio : After calculation in yen units, Round down one digit of Display unit.

Framework of the Medium-Term Management Plan



• This slide shows the outline of the company's "Medium-Term Business Plan 2018". The basic policies and management goals of this plan are as shown here.

• In addition, the "Medium to Long-Term Vision" for which the company is aiming at through this Medium-Term Management Plan are the three points listed. Of these, becoming a "world class company" is the goal to be achieved once realizing the aim of becoming the "Japan's No. 1 corporate group in the industry". The establishment of the "Fujitsu Electronics Subsidiary" discussed today is a measure towards the achievement of this growth strategy.

• The definition of the term "No. 1 in the Industry" here refers to scale (size). That is, the size of sales and profit. As will be explained on a later slide, one indicator for this is "sales of 500 billion yen".

• The next aim that is raised is to be a "world class company". The intent behind this goal is to be a "company able to survive in a global/mega-competitive environment. Overseas, there are competitors on trillion-yen scales. In order to compete with these companies, and ultimately to survive, it will be necessary to have a suitable scale. This acquisition, therefore, is intended as a measure towards gaining a foothold and expanding our scale.

"Five important themes" for the Group's growth

EMS business	<ul style="list-style-type: none"> • Expand overseas bases toward business scale expansion
Automotive devices	<ul style="list-style-type: none"> • Response to market needs and new technologies of ADAS/DMS* • Response to a shift to hybrid/electric vehicles
Tele-communication (IoT)	<ul style="list-style-type: none"> • Develop LPWA* market and create cloud business using AI
Execution of M&A	<ul style="list-style-type: none"> • Reinforce management foundations and profit foundations while monitoring industry reorganization
Investment in ventures	<ul style="list-style-type: none"> • Start investment activity targeting venture companies and businesses using 5 billion yen over three years

• This slide also notes the key themes for growth as set out in the Medium-Term Management Plan. These include expansion overseas of the Group's core "EMS business", as well as a focus on planting seeds and cultivating measures in growth areas such as "in-vehicle" "communications".

• Then we come to today's theme of "Promoting M&A". Our company has already been in the position of "actively promoting" the restructuring of the industry. The reasons for this are obvious if you look at the shifts in the industry in which our company is surrounded. In every industry, restructuring has been taking place, both in upstream manufacturing and downstream distribution. For companies to survive, there is a desperate need to expand sales and raise competitiveness and profitability through repeated consolidation.


• Looking at the overall industry, the marketplace is crowded with more than 30 listed companies. When unlisted companies are added, this list probably grows to more than 100 companies. This year our company celebrated its 50th anniversary, but according to our senior employees, at the time of our foundation there were more than 1,000 companies in the industry, including smaller brokers. Compared to this, there has already been some restructuring, but there are still too many companies. This makes it difficult to earn good margins.

• For this reason, our company has been on the side of promoting the restructuring of the industry. The method can be anything, from management integration, to mergers, or acquisitions like this. In any case, our company should be the one taking the initiative. We need to be the one doing the eating, and not being eaten. For this reason, our company has been working on the need to strengthen our management and earnings bases as key themes in our Medium-Term Plans.

Overview of the Acquisition

Scheme	<ul style="list-style-type: none"> Acquire 70% of shares in Fujitsu Electronics from Fujitsu Semiconductor, forming a subsidiary. Acquire gradually until becoming a wholly owned subsidiary in January 2022
Acquisition Price	<ul style="list-style-type: none"> Total 20.5 billion yen (forecast total)
Financing	<ul style="list-style-type: none"> Plan to finance with self-funding and new bridging loan Consider switching to the procurement of various long-term funding for this bridging loan
Financial Impact	<ul style="list-style-type: none"> Amortization schedule of goodwill and intangible fixed assets to be released after acquisition However, Acquisition Price \approx Net Assets, so the impact is expected to be slight
Schedule of Stock Transfer	<ul style="list-style-type: none"> First Phase : January 2019 (70%) Second Phase: December 2020 (15%) Third Phase : December 2021 (15%)

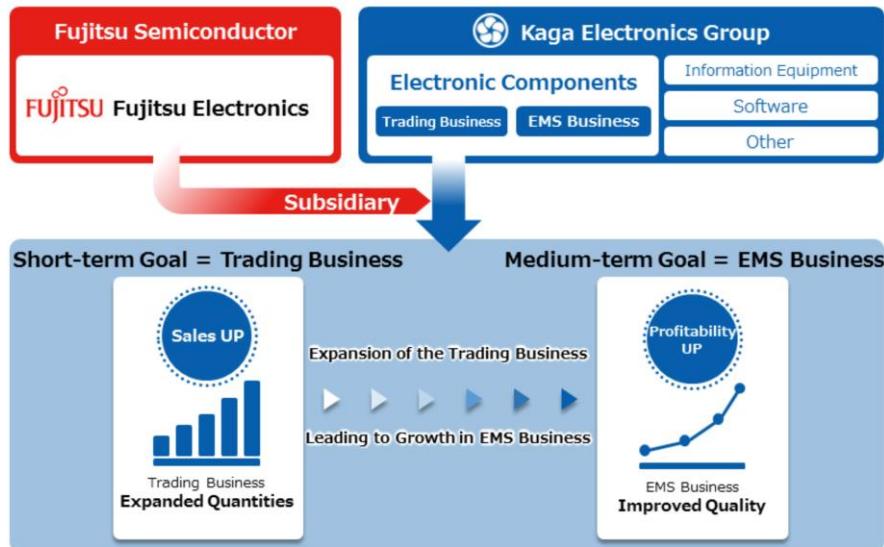
• The acquisition price at each phase will be adjusted based on fluctuations in the value of the consolidated net assets of Fujitsu Electronics, and the above acquisition price is the estimated amount at current prices.
 • This share acquisition is subject to approval by relevant authorities in accordance with domestic and international competition laws.
 • The impact on consolidated results for the current fiscal year (ending March 2019) will be released after confirmation.


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- We will now give an overview of this acquisition.
- First, regarding the scheme to establish a subsidiary of Fujitsu Electronics. 70% of the company's shares will be transferred in January 2019 from the parent company Fujitsu Semiconductor to form a consolidated subsidiary of the company. Regarding the remaining 30%, 15% will be transferred in each of the end of December 2020 and the end of December 2021, creating a wholly owned subsidiary of the company. (This stock acquisition is conditional on approvals by relevant authorities under Japanese and foreign competition laws.) With the commitment of the business of Fujitsu Electronics under the Fujitsu Group, by holding shares for a certain period of time, including in Fujitsu Semiconductors, we aim to provide a smooth transition for various stakeholders, including customers and employees.
- The acquisition price is expected to be a total of 20.5 billion yen, including FA expenses. However, the acquisition price is expected to be adjusted based on fluctuations to the consolidated net assets of Fujitsu Electronics etc. and is estimated to be 20.5 billion yen at the present time.
- The funds for acquisition will be procured by self-funding and a newly contracted bridging loan. Also, for the bridging loan, long-term funds are planned to be procured early.
- Regarding the impact on financial affairs, no major impacts are anticipated at the present time. Given that the "acquisition price \leq net assets", there is not expected to be any amortization of goodwill and intangible assets arising from this.

Purpose of the Acquisition

- Drastic expansion of business scale for core electronic components business becoming the "Industry No. 1"



- This slide summarizes the purposes of this acquisition.
- As can be seen written in large letters, the aim of this acquisition is to become the "Japan's No. 1 corporate group in the industry" as part of our Medium-Term Plan, by continually expanding the core business of the Group, our electronic parts business.
- The business areas of the Group are shown in the upper right. These are the "Electronic Parts Business" made up of the founding electronic parts and semiconductor "trading company business" and the "EMS business". The company's other business segments are "information equipment business", "software business" and "other business".
- The short-term purpose of this Fujitsu Electronics acquisition is the expansion of the trading company business. By sharing the two company's products and customer bases, the first area of synergy will be the quantitative expansion of the trading company business.
- The next step is to take the quantitative expansion of the trading company business to the value-added EMS business. This is the second area of synergy, as part of the medium-term purposes of the company. We will attempt to improve the quality of our electronic parts business and profit margins. First, we will try to expand quantitatively, and then improve qualitatively. This is the scenario. With this acquisition, the company is prepared for a temporary drop in our profit ratio, prioritizing scale for sustainable growth in the future. By prioritizing scale, we will eventually be able to build profitability in our way of management (EMS). How many years would it take to create 100 or 200 billion yen in sales organically? We feel a sense of crisis, knowing that we don't have that kind of time to sit around and wait.

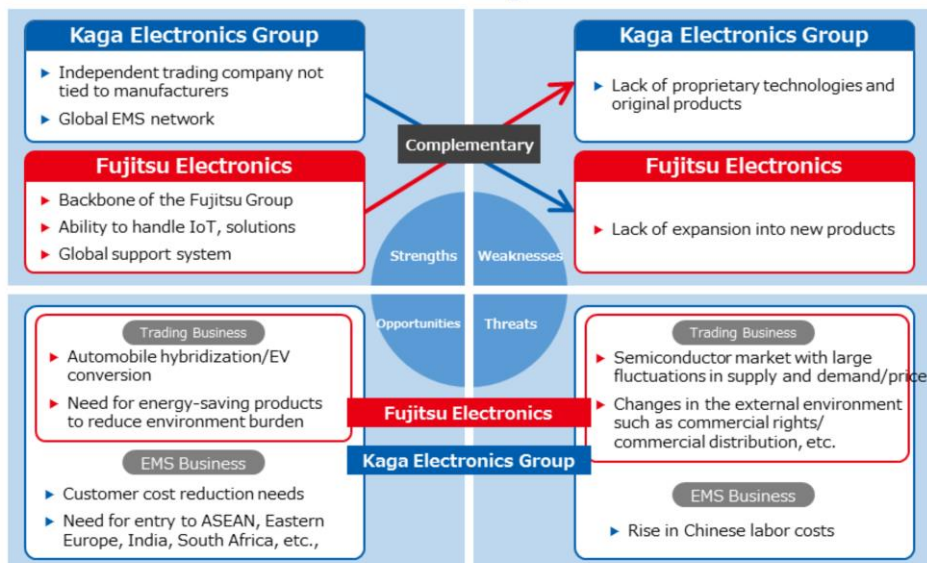
Aims of This Acquisition



- The three aims of this acquisition are summarized on this slide Again,
- The first is to expand the product offerings of the two companies, sharing our customer bases to form a corporate group that can be “the No. 1 electronics trading company in Japan”.
- Secondly, to increase the scale of revenue through the expansion of our trading company business. Next, by sharing this from the trading company business to the EMS business, we will improve profitability.
- Then finally (and this is our long-term vision), we aim, as a result of this acquisition to become a world class company, whereby our Group is able to survive in a global and mega-competitive environment. Our current state is insufficient for achieving this, and we believe that a scale in at least the trillion-yen class will be necessary. If the chance is there, we will also seek discontinual growth opportunities, with a mission of achieving this and connecting with the coming generation.

SWOT Analysis of the Acquisition

- Aim to maximize revenue through acquisition synergy by supplementing each other's weaknesses with our strengths



• This slide sets out the “strengths” and “weaknesses” of our company and Fujitsu Electronics, as well as the “opportunities” and “threats” facing the “trading company business” and “EMS business” of the two operating companies. This is a so-called SWOT analysis.

• Firstly, as for the “strengths” of our company, we have developed an “independent trading” company such as not found in any other manufacturer, in the 50 years since our founding. With the management philosophy of “all for the customer”, we have sought to provide a wide range of services both domestically and internationally, thinking of the customer first, including the sale of electronics parts and semiconductors to our EMS business, as well as the planning and development of products for customers, and software, AR/VR and system support etc. Our policy is to do whatever is asked of us by our customers, and to never say “No”.

In terms of the “weaknesses” facing Fujitsu Electronics, we have a “shortage of new products”, but we believe that this can be complemented by the broad procurement capabilities of an independent trading company.

• The main strength of Fujitsu Electronics is certainly its backbone of the IT industry leading Fujitsu Group. Also, it is in our technical capabilities, as well as IoT and solutions support. The company also have a global support system in the United States, China, Hong Kong, Korea and Germany. This is thought to be a very powerful weapon in our Group’s business activities.

• Next are the “opportunities” and “threats”. In terms of the electronic parts and semiconductor trading company businesses which are the core businesses of both companies, there is a significant opportunity to expand into the on-board vehicle field with the development of automotive electronics for automatic driving and driving support etc. as hybrid and EV vehicles expand. While the issue of demand is common for all of humanity, both citizens and corporations, in order to preserve our global environment, there will be a need for electronics technologies such as for inverters for energy-saving products that reduce our environmental impact.

• At the same time, as already noted, the semiconductor market fluctuates dramatically, not only due to the silicon cycle (recently known as the super cycle) and boom/bust cycles, but with the difficulty in reading the future due to a faster speed of technological innovation and shortening product life cycle in recent years. Our trading company business also faces “threats” of an changing external environment such as the restructuring and review of the policies for agencies by manufacturers and shifts of customers to overseas production etc.

• Our company has strengthened its EMS business as a measure against such changes in the external environment. We see a significant “opportunity” in the need for customers to reduce costs, and for production needs in overseas production, particularly in recent times outside of China, in places like ASEAN, Eastern Europe and India etc. Our company is improving and expanding our EMS global systems in response to such needs. In addition to this infrastructure, this acquisition will make it possible to share the customer base of Fujitsu Electronics, presenting an “opportunity” to increase the profitability of the Group.

Industry Positioning after Acquisition (FY Ended March 2018 Results Base)

- The birth of an industry-leading class 500 billion yen Group.
Lead the further reorganization of the industry

[Top10 of Electronics trading company : net sales]

Rank	Company name	amount of sales
1	MACNICA FUJI ELECTRONICS HOLDINGS, INC.	504.1
2	MARUBUN CORPORATION	347.5
3	UKC Holdings Corporation	301.4
4	Fujitsu Electronics Inc.	258.7
5	RYOSAN	254.1
6	RYODEN CORPORATION	236.5
7	KAGA ELECTRONICS CO.,LTD.	235.9
8	SIIX Corporation	233.2
9	TOMEN DEVICES CORPORATION	197.6
10	Elematec Corporation	196.2

[Top5 of after Acquisition]

Rank	Company name	amount of sales (Billion yen)
1	MACNICA FUJI ELECTRONICS HOLDINGS, INC.	504.1
2	KAGA ELECTRONICS CO.,LTD. + Fujitsu Electronics Inc.	494.6
3	MARUBUN CORPORATION	347.5
4	UKC Holdings Corporation	301.4
5	RYOSAN	254.1

Note: Simple sum base for "Kaga Electronics + Fujitsu Electronics";
SIIX figures for FY ended December 2017

※Data Source: Internal study

- This slide shows the sense of scale that the Group will see as a result of this acquisition, and its positioning in the industry.
- All figures are based on actual results from FY ended March 2018, from disclosures as a listed company, and in simple terms, this acquisition will solidify the formation of an industry-leading class Group with sales in the class of 500 billion yen. This in itself is not the goal, but rather to form the core for our Group to further restructure within the industry, and, as mentioned earlier, the final goal is to become an electronics trading company with a trillion yen class sales, capable of surviving in the global marketplace.

(Reference)

Specialist Trading Company Sales Rankings (FY Ended March 2018 Results)

- “500 billion yen to trillions yen Class”: Requirements to become an industry leader in a mega-competitive industry

			(Billion yen)		
Rank	Company name	amount of sales	Rank	Company name	amount of sales
[Pharmaceutical wholesale]			[Steel · Metal Products wholesale]		
1	MEDIPAL HOLDINGS CORPORATION	3,146.3	△ 1	Marubeni-Itochu Steel Inc.	2,152.3
2	SUZUKEN CO.,LTD.	2,124.0	△ 2	Metal One Corporation	2,118.0
3	Alfresa Corporation	2,067.5	3	NIPPON STEEL & SUMIKIN BUSSAN CORPORATION	2,062.3
4	TOHO HOLDINGS CO., LTD.	1,213.3	4	HANWA Co.,Ltd.	1,791.1
5	VITAL KSK HOLDINGS, INC.	565.5	△ 5	JFE Shoji Trade Corporation	1,279.3
[Grocery wholesale]			[Textile · Clothing wholesale]		
△ 1	NIPPON ACCESS,INC.	2,137.4	△ 1	Toray International,Inc.	587.7
△ 2	KOKUBU GROUP CORP.	1,879.7	2	CHORI CO.,LTD.	317.7
3	KATO SANGYO CO., LTD.	973.8	△ 3	World Co., Ltd.	245.8
4	Coca-Cola Bottlers Japan Inc.	872.6	4	Onward Kashiyama Co, Ltd.	243.0
△ 5	MITSUI FOODS CO.,LTD.	816.4	△ 5	TEIJIN FRONTIER CO., LTD.	215.6

Note: Figures for Kokubu Group Headquarters, Coca-Cola Bottlers Japan for FY ended December 2017, and Onward Kashiyama for FY ended February 2018

※Data Source: Internal study

△...Indicates unlisted companies.

• This slide is for reference, to help you to understand “why we are seeking to be a trillion yen class company”.

• This is a list of the top five companies by sales of specialist trading companies in the four industries of “pharmaceuticals”, “foods”, “steel and metals” and “textiles and clothing”. As you can see, in most of these industries, the top-class companies have sales in the 2 to 3 trillion-yen class. The figures for textiles and clothing are slightly smaller, but the top company still exceeds 500 billion yen. It is difficult for a company to show its presence as a leading company, and a leader in the industry, without this level of scale. In the past, according to “the theory that trading companies are unnecessary”, investors wouldn’t even look at companies without such a scale.

• Our company has long had an awareness and sense of crisis over this concept. And in addition to investors, there is no way that we can continue to achieve sustainable growth in the future global marketplace and leave Kaga Electronics behind to the rising generation without becoming a company of this kind of scale. This is an important mission, and these are the reasons behind this acquisition.

• We are within reach of being the “Japan’s No. 1 corporate group in the industry” but looking overseas there are competitors with trillions of yen in sales. If we are to begin a battle with such companies, we will have to succeed. Also, there are other top companies in the trillion-yen class in Japan, in other industries, with which we will be compared. This is not the end, but rather the beginning for further growth.

Outline of Fujitsu Electronics

Company Name	• Fujitsu Electronics Inc.
Representative	• President and Representative Director Junji Ogihara
Locations	• Headquarters: 2-100-45, Shin-Yokohama, Kohoku-Ku, Yokohama-shi, Kanagawa, Japan
History	<ul style="list-style-type: none">• 1952: Established as Hirayama Denki Shoji Co., Ltd.• 1968: Involvement of Fujitsu Corporation in management• 2008: Fujitsu Limited spun off its LSI division to establish Fujitsu Microelectronics Limited, becoming a wholly owned subsidiary
Business Activities	• Design, development, and sale of electronic devices

- After acquiring the 70% stake in January 2019, Isao Tsukamoto (current representative director and chairman) from the Company, It is scheduled to take office as chairman of the company's representative director.

• This is an overview of Fujitsu Electronics. The company name, domestic and overseas bases, organizational system and employment structure are planned to continue as is.

• In terms of representatives, in addition to Mr. Ogihara, who is currently President and Representative Director, the current Chairman and Representative Director of our company Mr. Isao Tsukamoto will be appointed Chairman and Representative Director. We are planning to dispatch a majority of executives from our company, in addition to Mr. Tsukamoto.

Business Content and Recent Achievements of Fujitsu Electronics

- Aim to become a global electronics solutions provider

Device Solutions

High quality and high-performance cutting-edge device line-up in addition to Fujitsu Semiconductor products

IoT Solutions

Support customer businesses with AI and platforms centered on the Fujitsu Group IoT services

Original Products and Services

Develop optimized hardware and software, and provide customers with one stop for processes from design to mass production.

FUJITSU Fujitsu Electronics

Consolidated Sales

(Billion yen)



Consolidated Ordinary Income/Net Profit

(Billion yen)



•The business of Fujitsu Electronics consists of three pillars, “device solutions (parts sales business)”, “IoT solutions (systems solutions business)”, and “original products and services”. Through these businesses, the company aims to be a global electronics solutions provider.

•This graph shows the trends in sales and earnings for the last three years. The most recent earnings are down due to the loss of some commercial rights and sales channel changes, but the company is currently working on expanding its new products etc.

Strengths of the Fujitsu Electronics Group

- The Fujitsu Electronics Group aims to develop our business based on the following strengths.



• Here we will explain a little further about Fujitsu Electronics. Firstly, we will explain the four strengths of the company.

• The first, as mentioned in the SWOT analysis earlier, is the backbone of the IT industry leading Fujitsu Group. As you know, Fujitsu is the largest IT company in Japan, and the fourth largest in the world.

• The second is the company's sales channels and sales sites for device sales. There are a total of 3,500 companies in Japan and overseas. (many of these are major companies.) Together with our 4,000 companies this will lead to a very large customer base within the industry.

• The third is the unit of 140 engineers of the company.

• The fourth is the global support system, extended into 13 locations domestically, and 19 locations overseas. Here, the company has 268 engineers.

• In this sense, Fujitsu Electronics has a strength in its domestic and overseas engineer group, within the Fujitsu Group, which leads the IT industry.

Direction for the Business Goals of Fujitsu Electronics

- Aim to expand business by (1) Expanding Products, (2) Expanding Solutions, and (3) Strengthening Global Development

1. Expansion of Products

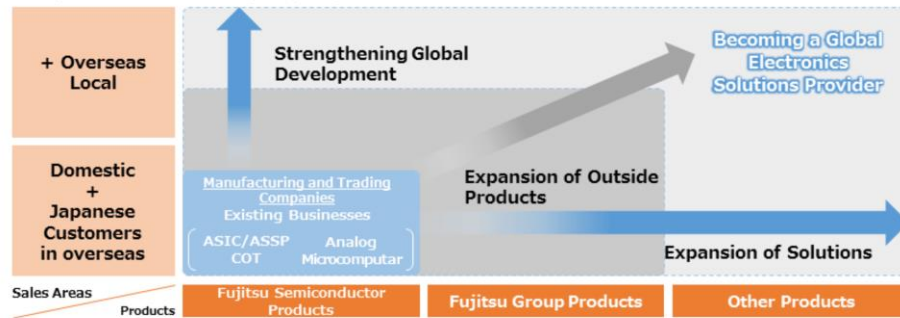
- Expansion of product offerings on a global level

2. Provision of Added Value to Customers through the Strengthening of Solutions Technologies

- Provision of solutions combining optimal technologies and products from inside and outside of the company
- Utilization of Fujitsu Group resources (development and cooperation with manufacturing companies)

3. Acceleration of Global Development through the Leveraging of Overseas Bases

- Active development of Japanese customers and local customers in overseas market
- Strengthening global supply chains



Aim to expand business from a semiconductor manufacturing trading company to a global electronics solutions provider

• Finally, we will discuss the direction that Fujitsu Electronics is heading in.

• As shown at the bottom of this slide, the company aims to grow out of being purely a semiconductor manufacturing trading company, to become a global electronics solutions provider. To accomplish this, the company is promoting three measures, “the expansion of external products”, “the expansion of added value and solutions for customers” and “the acceleration of global expansion”. These are all consistent with the values of our company and the directions in which our company has been working to strengthen our business, and with these two companies coming together to work on these areas, we are convinced that we will be able to realize a stronger name and industry leading business.

<memo>

**“Everything we do is
for our customers”**



20 Kandamatsunagacho, Chiyoda-ku, Tokyo 101-8629
Contact: Investor Relations & Public Relations Office
TEL: +81-3-5657-0106
FAX: +81-3-3254-7133
E-mail : webmaster@taxan.co.jp
<https://www.taxan.co.jp>