



*"Manufacturing will never fade away"*

## Toward the Further Growth of the EMS Business



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\* Effective January 1, 2025, Managing Executive Officer Motonori Toshinari has been delegated to the position of Division Director of the EMS Business Division.

The Kaga Electronics Group has a structure for delivering products anywhere in the world our customers are located through its network of suppliers and production plants spanning China, ASEAN, Europe, and even the Americas. We provide total support, including product design and development, highly reliable, high-mix low-volume production, and flexible support for everything from semi-finished to finished products.

### Creed of the industry's strongest behind-the-scenes players

I proudly believe KAGA ELECTRONICS' EMS Business to be the industry's strongest behind-the-scenes player. If a customer decides to "go overseas" (i.e., to build a factory), we will, of course, accompany them in our capacity as a reliable right-hand man. This stems from the conviction that "Everything we do is for our customers," a corporate philosophy that we have adhered to since our founding. I believe that decisiveness and flexibility are the greatest of the Company's unique strengths.

Once the decision to go has been made, we remain thoroughly committed to ensuring the profitability of our relationship, a relationship whose profitability is not determined by how it rewards us but by how the client

perceives it and considers us a compatible match. This approach demonstrates the very essence of an independent parts dealer. Because we prioritize profit over sales, we have no interest in accepting unprofitable work simply to keep a plant operating.

In terms of flexibility, the axis of manufacturing in the EMS business has evolved with the times, beginning with audio equipment and transitioning to office automation equipment, such as copiers and printers, and later to in-vehicle and industrial equipment. The ability to discern and skillfully adapt to change can also be said to be one of the Company's unique strengths. As a future growth area, we are focusing on robots used in manufacturing.

In its EMS Business, KAGA ELECTRONICS places great importance on hiring local people, working with them, and returning profits made through local production for local consumption to the employees first. In addition to creating jobs, we contribute to local communities by

fulfilling our tax obligations as a corporation. So, in order to continue contributing to stakeholders in 5, 10, and even 20 years, a high level of profitability is essential.

### Current issues in the EMS Business

Going forward, our policy of local production for local consumption, in which we align ourselves with Japanese companies operating overseas, assisting them in their manufacturing activities, will remain unchanged. However, with regard to manufacturing in the EMS industry, unless we adopt a different approach, growth cannot be sustained.

While our current clients are mainly Japanese companies, in the future we must increase the number of foreign companies among our clientele. This imposes several challenges with regard to the cultivation of overseas customers, as the very essence of our business is local production for local consumption. The biggest challenge we face is human resource training. In pursuing local production for local consumption, we believe it is important to have a global training system and need to therefore determine the best way to train local human resources at each location.

In Japan, KAGA EMS TOWADA CO., LTD. has a department dedicated to human resource training as a part of its system for taking on foreign technical intern trainees.

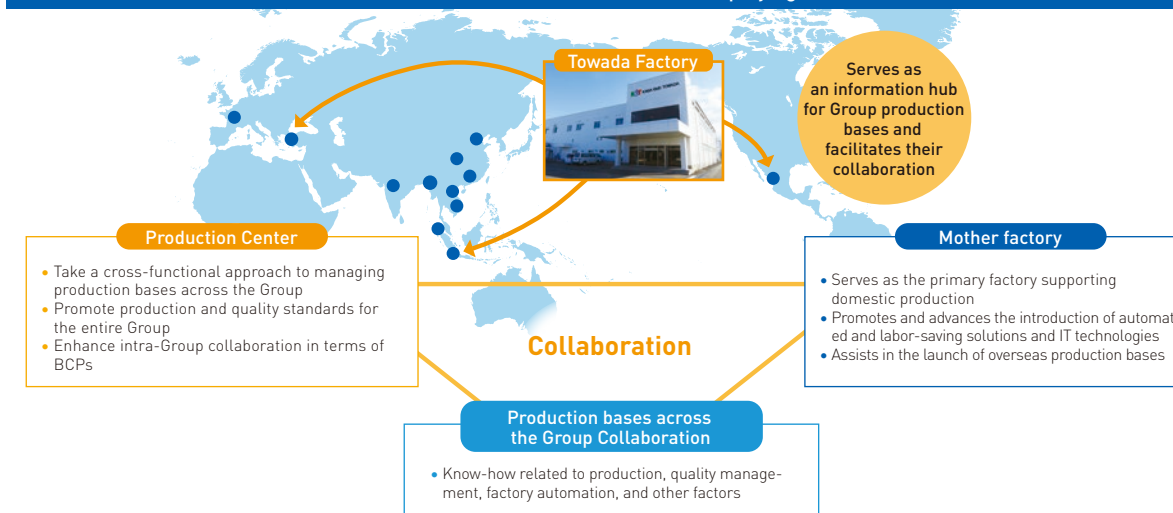
When I was stationed in China, I also established a "KAGA ELECTRONICS Class" at a vocational school in Xi'an to teach Japanese-style manufacturing and KAGA ELECTRONICS-style business, and accepted graduates into the Company. Now, based on this same principle, we are preparing to establish a system in each country to dispatch Japanese

experts to oversee training and coaching in local areas.

Another challenge we face is the growing level of geopolitical risk surrounding China, such as restrictions on imports and exports of Chinese products and tariff hikes due to the normalization of the U.S.-China conflict, which makes it difficult for companies to continue manufacturing in China. With new investment in China by Japanese companies stagnating, I expect that the percentage of manufacturing in ASEAN nations will increase in the future. We have positioned KAGA EMS TOWADA as the main factory in Japan to serve as the hub of our EMS business and KAGA TAXAN (SUZHOU) ELECTRONICS CO., LTD. as our main factory in China. In order to respond to market changes, however, the Company intends to establish a three-site system, with operations in Thailand as the main factory in the ASEAN region.

Although the current trend is to avoid production in China, China's manufacturing potential is very high and a supply chain is already established. Therefore, we are focusing on exploiting the high quality manufacturing capabilities unique to KAGA ELECTRONICS as a Japanese company, while skillfully leveraging China's manufacturing and technological capabilities. We intend to maintain a good relationship with China, which produces an abundance of inexpensive components.

Facilitate collaboration among our bases around the globe and establish a human resource development structure, with KAGA EMS TOWADA (Production Center) playing a central role



## Future EMS Business Strategy

As a growth strategy for the EMS business, we believe that 10% to 15% annual growth is a healthy level while maintaining the quality KAGA ELECTRONICS is known for. To increase at a faster pace runs the risk of disaster, which, in the world of manufacturing, can be catastrophic. I personally have seen a single mishap wipe out an entire year of a business' profits. That experience has since led me to carefully consider ways to maintain quality levels when developing growth strategies.

One approach to expanding the scale of EMS operations is to increase the number of countries and locations in which we operate, in other words, to expand our coverage. Another approach is to grow by digging deeper into the business, in other words, increasing the value added by enhancing the functionality the business provides.

Using the human body as an analogy, we are strengthening the muscles and bones while simultaneously enlarging the overall size of the body. Of particular importance is to train against any possibility of developing an "Achilles heel." This is something I believe is essential even if we have to push ourselves to do so. Much in the same way one would assemble a detailed model, if the time isn't taken to ensure each vital piece is present and accounted for, to get the job done we will have to resort to tie-ups with other companies or even divestitures.

With this in mind, there are three points of focus I feel we must train for.

The first of these is purchasing power. Customer expectations regarding KAGA ELECTRONICS' manufacturing are based on whether our electric components are reasonably priced with stable and global procurement conditions. With a market size of approximately ¥4 trillion for electronic component trading companies, we believe that there is significant room for growth through acquisitions targeting trading companies with parts procurement capabilities.

The second is the design capability of circuit boards. With the progression of digitalization, the functions loaded onto each circuit board have multiplied, with circuit design divided by function, such as power supply systems and communication systems. At the same time, due to the widespread use of convenient design support software, the design capabilities of even major set makers have weakened. The ability of designers to look at the entire electrical circuitry is weakening, and

it is becoming increasingly difficult to determine, in the event of a model change, which parts of the circuit board of an existing product are usable and which parts are not. I am confident that we can further enhance our competitive advantage over our competitors by providing solid support in this area.

The last point is manufacturing capability. Frankly speaking, we are aware that our current EMS business still has a lot of room for improvement in terms of quality and manufacturing capabilities. However, within the next three years, we expect to demonstrate a difference in quality. In 2018, we established KAGA TECHNOLOGY (SUZHOU) ELECTRONICS CO., LTD in China, and we are promoting the in-house production of SMT (Surface Mount Technology, electronic component mounting) lines consisting of such equipment as solder baths, surface mount machines, and various inspection machines. We are currently in the process of further evolving these in-house manufactured instruments. We have also adopted the latest automation technology to handle everything from the assembly of electronic circuit boards to whole units, and are accelerating our efforts to improve mounting accuracy, production, and quality.

In addition to our efforts in times of normalcy to expand low-cost operations around the world through the introduction of in-house production equipment, we also do our utmost to protect our customers' production lines in times of emergency, the most recent example of which that springs to mind being during the 2011 flooding in Thailand. At the time, as our Thai factory was also submerged in water, we switched to a system that enabled us to supply parts from our Chinese factory to customers who had stopped receiving parts in the 10 days following the disaster.

Highlighting our ability to respond flexibly on a global scale, this is an apt demonstration of our manufacturing capabilities as well as our ability to respond to issues by utilizing business continuity planning (BCP). In other words, the KAGA ELECTRONICS way of thinking benefits the customer by providing added value. I believe that the key to success in our future growth strategy is the degree to which we can satisfy our customers and be regarded as a reliable partner through our BCP response capabilities in times of emergency, while at the same time improving our "supply," "design," and "manufacturing" capabilities on a daily basis.

## "Manufacturing will never fade away"

Finally, I would like to talk about what I see going forward.

Given Japan's extremely low birthrate and aging society, the number of people involved in manufacturing will not increase in the future. In such an environment, the question now becomes how to maintain the high quality unique to Japanese companies. In order for the Japanese manufacturing industry to survive, we must never lose this unique quality.

In other words, we must establish a method to "achieve Japanese quality without relying solely on Japanese people," bearing in mind the risks involved in relying solely on Japanese people to succeed in the global marketplace.

To achieve this, a higher level of standardization is critical to manufacturing. However, this

"standardization" does not entail complete automation. This is because complete automation makes it difficult to quickly optimize production lines following model changeovers. With our semi-automated yet borderless system, we aim to achieve uniform Japanese quality at all international factories bearing the KAGA ELECTRONICS name.

Borderless standardization simultaneously enables manufacturing that does not rely on language. This allows us to expand our business in any country free of language limitations when recruiting local talent.

I have adopted "borderless" and "language-less" as keywords for our next stage of growth. Underlying this outlook is the conviction that the need for manufacturing will never fade away.

## Main Items Manufactured in the EMS Business

