

# KAGA ELECTRONICS Is Pursuing an Ideal Governance Structure Based on Our Suggestions

Here, we present the summary of a roundtable talk among our three outside directors, Susumu Miyoshi, Akira Tamura and Noritomo Hashimoto, all of whom are seasoned corporate managers, to discuss the Kaga Electronics Group's ideals for corporate governance.

**Akira Tamura**  
Outside Director

**Susumu Miyoshi**  
Outside Director

**Noritomo Hashimoto**  
Outside Director



**KAGA ELECTRONICS downsized its Board of Directors, with the Board's membership being split between outside and internal directors. Please provide your assessments regarding recent revisions executed to update the Company's governance structure.**

**Miyoshi:** The downsizing of the Board's membership resulted in a better governance structure. This move will help the Board of Directors narrow its focus on determining the future direction the Company must take, identify priority agenda items, respond to changes in the external situation, and handle crisis management, information disclosure, M&A and other important matters even as it delegates authority over business execution to the executive officers. Although the Board is also expected to address and update its vision regarding how it should look going forward, I consider the downsizing of its membership a positive move in the right direction.

Having reduced the number of members, the Board of Directors is better positioned to spend time discussing each topic in depth. In addition, the roles to be borne by the Board have become much clearer. While supervising business execution is an important function of the Board of Directors, I believe that enabling the Board to robustly discuss what the Company should aim to accomplish is a matter of utmost importance. I believe the Board is now fully equipped to conduct future-oriented discussions.

**Tamura:** Attendees of Board of Directors meetings, Nomination and Compensation Committee meetings, Management Meetings, budget meetings and other important meetings are engaged in a free-spirited exchange of unfettered opinions. What supports these discussions are relationships of mutual trust among officers. At the same time, the differences in their standpoints enable them to avoid growing complacent and too cozy with each other. This is especially true of individuals from outside the Group with different backgrounds and are capable of providing fresh insights to those who have built their careers mostly within the Group. Moreover, the external environment surrounding the Company encompasses a diverse range of aspects. Accordingly, bringing multilateral perspectives into discussions will help us yield better results. On the other hand, a reduction in the number of Board members to the smallest possible extent was necessary in light of the importance of enabling the Board to engage in meaningful discussions.

Previously, separation between the Company's executive functions and its monitoring / supervisory functions had not been so clear. However, the Company transitioned to a structure in which authority over detailed management matters is delegated to executive officers to accelerate business execution, with the Board of Directors tasked with deliberating matters deemed particularly important for the Company as a whole. Although the three of us have repeatedly suggested that the Board of Directors focus on monitoring and providing necessary advice to executives, the recent revisions enabled the Board to realize just that.

Furthermore, the downsizing of the Board has put its members in a position in which they can harness their diverse backgrounds in discussions.

For the Company to maintain sustainable growth, it is important to secure excellent human resources capable of handling corporate management. To that end, we attend various important internal meetings, including Nomination and Compensation Committee meetings, in order to identify candidates from among individuals in a rank immediately under top management. We also conduct interviews to assess their awareness of issues confronting the Company.

To date, the Company has upheld KAGA-ism, which summarizes principles to be observed by employees and features various quotes selected from remarks by Chairman Tsukamoto in line with

a corporate philosophy of "Everything we do is for our customers." Although these principles have taken root among the workforce and provided employees with action guidelines, I believe the Company should update and align them with social norms, which evolve over time. Businesspeople who operate solely within the scope of a specific business could end up becoming ignorant to changes in society. I feel that the Board of Directors is called upon to stay apprised of such changes, believing that to do so is one form of the supervisory functions it is expected to exercise.

**Hashimoto:** A corporation can only exist by keeping its business running. Accordingly, the Management Meeting is deemed an extremely important meeting to support business execution. While this meeting is aimed at thoroughly deliberating on ways to accumulate sales and profit, the Board of Directors, including the three of us, will focus on discussing the Company's reason for being and the true value of its business as well as how it should look and what it aims to achieve going forward, based on the hard-earned results of its business operations. In short, the Company has secured a proper separation between supervisory functions, which employ an overarching perspective that takes the status of the entire Group into account, and executive functions, which are provided by the Management Meeting to robustly accumulate operating results.

For the former functions to be fully exercised, securing objectivity is of the utmost importance. In this light, the Board of Directors has gained a greater ability to objectively address issues affecting the entire Group while avoiding losing touch with what external stakeholders would say about its operations. I consider this ability to be the Board's most notable feature deserving appreciation.

Currently, KAGA ELECTRONICS adopts a system of a company with a board of corporate auditors with considerations toward a possible transition to a company with an audit committee system in the future. In addition, transitioning to a system of a company with three committees could one day become a viable option in the course of pursuing further corporate growth. In any case, the Board of Directors has now developed full capabilities to address these and other future-oriented subjects.

The updating of the governance structure also bears relevance to the Group's net sales target of ¥1 trillion. Doubling net sales from ¥100 billion to ¥200 billion is one thing, but doubling net sales of ¥500 billion to ¥1 trillion is something totally different. The latter will very likely cause various stakeholders in society to scrutinize whether the Company's conventional management structure is capable of maintaining this scale of operations. Employees will similarly be anxious about the same issue. I believe that, therefore, the Company must continue to update its governance structure in one way or the other.

**Miyoshi:** Since joining the Company's Board of Directors, I have been vocal about the necessity of female officers and have suggested appointing a female outside auditor as a first step. I am happy about the recent reconfiguration of the Board's membership, which included the appointment of the right person.

Although Mr. Hashimoto has touched on a topic associated with the Company's net sales target of ¥1 trillion, the Board of Directors will be called upon to discuss it as an important subject. I will elaborate on this subject from the following three aspects.

First, the pursuit of this target requires the alignment of the Company's business model. Previously, KAGA ELECTRONICS has largely been focused on procuring electronic parts from manufacturers and selling these parts. However, the Company needs to increase its emphasis on the provision of modules, namely, the EMS business, to meet customer requests. Failing to do so will deprive KAGA ELECTRONICS of its potential for corporate growth.

Second, M&A must be considered. Although nearly 30 listed companies operate in the electronics industry, there is an ongoing trend toward reorganization and mergers among them. This trend will continue. KAGA ELECTRONICS should similarly examine an option of merging with a partner capable of achieving mutual





Director Tamura

development with the Company itself. In addition, in order to expand its EMS business overseas at an even faster pace, the Company must consider forming alliances with EMS corporations abroad or signing M&A deals with them. It is about time for the Board of Directors to robustly deliberate on these issues to crystalize its strategies.

The third aspect is diversity. I consider promoting diversity to be a matter of extreme urgency. Specifically, the Company needs to empower women to serve as key workforce members in addition to effectively utilizing capabilities of employees of an advanced age and hiring foreign nationals. In particular, managers of overseas bases should be appointed from among employees local to the area. In this regard, the Company has recently decided to do just that in China. As employees local to the area are well-versed in local affairs, the Company should fully utilize their capabilities and networks in the course of expanding its EMS business overseas.

The Board of Directors needs to thoroughly address these three aspects going forward.

The aforementioned net sales target of ¥1 trillion must be achieved in a few years subsequent to the close of the current Medium-Term Management Plan. It is not a target for 2040. Rather, the Company is called upon to meet this target by 2028, in which it will celebrate the 60th anniversary of its founding. Accordingly, gaining greater momentum to this end is the foremost issue.

**Tamura:** The ¥1 trillion net sales target is not far-fetched, while, in the context of gaining the momentum for achieving it, the Company has thus far earned operating results in excess of its targets under its Medium-Term Management Plan. These results have, in turn, positively affected the morale of the Company's officers and employees as well as the market participants' assessment of its potential. KAGA ELECTRONICS should keep up the good work. In this regard, the appointment of a female corporate auditor is yet another positive move. Securing diverse human resources in terms of backgrounds and expertise is essential to enhancing the quality of discussions by key bodies, be it the Board of Directors or the Board of Auditors. Therefore, benefits arising from the aforementioned appointment transcend mere conformity with the growing public call for promoting diversity.

Meanwhile, the Sales Planning Department and other business units are currently striving to develop new businesses, to this end taking a forward-looking approach while abolishing the silo-based internal structure. Moreover, to better motivate employees, incentives granted to top-tier salespersons were substantially increased. Biannually, employees who achieved excellent performance are being commended in front of their peers. In addition, the overall salaries of employees have been upwardly revised.

The Company has also begun providing employees with special subsidies for the purchase of its shares. This measure was

introduced based on our suggestions aimed at invigorating the Employee Shareowners Association. When a growing proportion of employees become shareowners, employee affection and loyalty toward the Company will grow stronger. Share ownership among employees could also support share prices. We can conclude that our suggestions have contributed to a rise in share prices, expansion in sales and the enhancement of operating results as a whole while helping realize a virtuous cycle of these improvements.

**The Company's operating results forecasts for FY2024/3 include decreases in sales and profit due to a recoil from a temporary surge in demand during the COVID-19 pandemic and an inventory adjustment to be undertaken by customers. Please share your thoughts on initiatives the Kaga Electronics Group should undertake at this point of time to achieve further growth.**

**Hashimoto:** Although recovery in market demand from previous stagnation brought on by the COVID-19 pandemic resulted in widespread shortages of goods, the Kaga Electronics Group was able to expand sales as it handles a diverse range of parts without limiting the scope of markets it serves. Furthermore, the Group has succeeded in translating rises in raw material prices and other cost items into sales prices. It can be said that this achievement is a testament to customers' appreciation for the Group's procurement capabilities.

Taking these factors into account, I believe that it is not fair to pass a superficial judgment on the Company's single-year operating results, which were down from the previous fiscal year. Rather, KAGA ELECTRONICS has performed robustly despite unfavorable external conditions. This is where I give a positive assessment to the Company in light of its genuine function as a trading company.

**Miyoshi:** In the course of achieving business growth, plateaus are inevitable. It is important for companies to determine what should be done while facing a plateau. At present, KAGA ELECTRONICS should therefore work to improve internal operational efficiency in preparation for the coming of the next growth opportunity. It is time for the Company, in my opinion, to plan these and other preparatory measures.

When a corporation continues to grow, there is little time to pause and think. However, corporations that fail to do so will grow weaker in the long term. Experiencing a plateau could be a golden opportunity to think, plan and implement measures to grow even stronger. In summation, discussing what should be done at times of stagnation is of particular importance. As a director, I think that all of us at the Board are called upon to fulfill this crucial mission.

**Tamura:** From the management crisis amid chaos in the immediate aftermath of the World War II, Toyota learned the important lesson of securing cash and empowering human resources being vital to the company.

With regard to the former, a corporation with robust cash-generating capabilities is, indeed, better positioned to exercise management freedom. These capabilities will provide us with a basis for the execution of genuinely essential strategies. In line with Chairman Tsukamoto's remark that "Inventory is a liability," KAGA ELECTRONICS is currently striving to reduce the volume of inventories while also developing a foundation supporting its endeavors to attain a next growth stage.

As for the latter, a corporation whose employees work vibrantly typically achieves growth. I believe that the Company is about to establish a virtuous cycle of generating a robust volume of cash and motivating employees to work energetically.

**Hashimoto:** Concerns over a possible shortage of products is always on the minds of employees at the sales front lines as that will, in turn, cause them to fail to meet customer requests. On the

other hand, inventories are a source of risks as they could turn into dead inventories at any time. While inventories of raw materials may possibly be used for alternative purposes, KAGA ELECTRONICS handles parts and products. Once they become obsolete, these offerings could not be sold at even ¥1. Accordingly, inventories held by the Company are entirely based on orders placed by customers. Although the volume of inventories has been accumulated over the course of the period leading up to December 31, 2022, this volume was successfully reduced in the three months ended March 31, 2023 to a level below the volume at the beginning of the previous fiscal year.

**Miyoshi:** The phrase "bare minimum" has recently become customary among us when discussing the volume of inventories. In this regard, there is always a conflict of interest between sales and administrative departments. If we reduce the volume of inventories to zero, there would be no sales at all. Therefore, we should work to visualize an optimal level of inventories, issue an alert when the volume of inventories exceeds such a level and replenish them when the level is less than optimal. It is important to constantly monitor the volume of inventories to keep it at an optimal level.

**Tamura:** When it comes to empowering employees, establishing a positive cycle of achieving corporate growth, improving stock prices and raising wages for employees is of importance. Recently, KAGA ELECTRONICS placed 27th in a ranking compiled by Nikkei Newspaper of listed companies that substantially increased wages for employees. Going forward, employee shortages will become even more widespread in regions across Japan. Improvement in wages will help prevent the resignation of young employees. Accordingly, it is important to create a Company in which employees are highly motivated to pull together to support ongoing corporate growth.

**Although "business management conscious of stock prices" is a subject of public discourse, could you explain the stance taken by KAGA ELECTRONICS in this regard?**

**Tamura:** The Company's stock prices are trending stably while garnering robust market appreciation. For the Company to maintain these trends, it is extremely important to steadily implement IR and other activities aimed at gaining deeper public understanding of the good points of KAGA ELECTRONICS.

We often discuss these activities at Board of Directors meetings and remain aware of their importance.

**Miyoshi:** Stock prices are determined by the market. No corporations are in a position to manipulate the value of their shares. The Company is just called upon to do what it should do while maintaining proper information disclosure. I hope that the Company will take a more proactive approach to IR activities



Director Miyoshi



Director Hashimoto

because doing so could help it earn market appreciation, which will, in turn, lead to an improvement in stock prices and the establishment of an even better corporate image among the general public. Of course, achieving robust operating results is a basis for the success of these activities. Stock prices typically reflect the market's trust in a corporation. Accordingly, the speed-oriented execution of the management plan is another matter of importance.

Looking at ESG initiatives undertaken by the Company, discussions are underway regarding the near-future installation of solar panels at domestic manufacturing bases. Meanwhile, these panels have already been installed and are in operation at two overseas manufacturing bases. I think that it would be even better if solar panels are introduced at all the Group factories. I expect the Company to pursue this initiative, beginning in areas from which it can currently work on.

**Hashimoto:** Stock prices always involve a complex issue. For example, if all shareholders decided not to sell their shares, stock prices would no longer increase. When I joined the Company's Board of Directors, I was curious as to why its stock prices had not risen despite achieving solid sales and being in good shape. I also discussed this with my fellow outside directors to address this question from diverse perspectives.

Although the Company's stock prices have since risen in recent years, we must also stay alert about the possible consequence of stably high stock prices, which could lead to lower liquidity. This can also be detrimental to us, making it difficult to assess the genuine market reputation of the Company. Because of this, we cannot simplistically focus solely on pursuing higher stock prices.

Given these factors, if stock prices were to stay at the current level, we may need to consider reducing the minimum number of share units to enable shareholders to easily buy and sell, or execute a share split. These would be viable options for measures to be implemented by the Company to counter the possible deterioration of liquidity. I believe that discussing these subjects is another important role to be borne by the Board of Directors.

**Tamura:** In the course of IR activities, sincerely heeding opinions voiced by shareholders and investors is important. I deem it essential to directly engage with investors, both domestic and overseas, take heed of what they say about the Company and respond to their requests.

**Hashimoto:** For the Company to achieve higher stock prices backed by solid market reputation for its operating results and shareholder returns, IR activities are indeed a matter of extreme importance. As Mr. Miyoshi has noted, however, improving operating results will be a basis for the success of these activities. The Company therefore should swiftly execute measures to achieve goals of its management plan so that it can maintain the market's trust, which will, in turn, affect stock prices.