

# Reaching New Stages of Growth through the Maximization of Our Unique Strengths

**Motonori Toshinari** Managing Executive Officer

## Our strengths in the EMS business

Operations undertaken by the Kaga Electronics Group in its EMS business have mostly emerged from customer transactions based on our parts dealership. As an electronic component trading company, we have been involved in negotiations with customers from the design stage of semiconductors and delivered needed parts to them, with these negotiations often evolving into customer requests for EMS. Therefore, what distinguishes us from other companies is an environment conducive to the development of parts delivery transactions into EMS. Transactional relationships with our EMS customers typically last a decade or two as these operations are built upon hard-earned customer trust.

Our area of expertise is consistently concentrated on

low-volume, high-mix manufacture as opposed to mass-producing PC and cell phone components. Moreover, we locate our bases close to our clientele in order to follow the local-production, local-consumption model, exactly as convenience store chains do. Even while an EMS transaction typically begins with an order for the monthly manufacture of 100 units, other transactions could involve the manufacturing of up to 10,000 units each month.

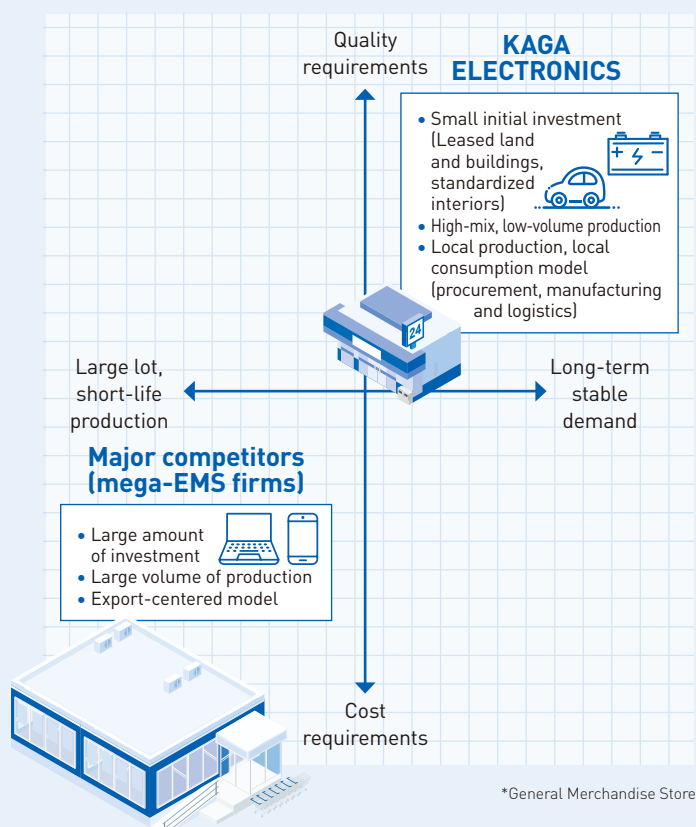
Under the assumption that we rank around 20th within the global EMS industry, we aim to secure a position among top 10 companies. As our Japanese customers currently account for approximately 85% of our EMS customer portfolio, we consider securing a growing number of non-Japanese customers key to raising our industry ranking. Although the proportion of Chinese customers is expanding in our customer portfolio, European and U.S. customers still remain a minority. Accordingly, we are proactively striving to reach out to the latter customer group. To that end, our bases in Mexico and Turkey play important roles in our bid to serve customers in the United States and Europe, respectively.

## The genuine capabilities of the Kaga Electronics Group demonstrated during the COVID-19 pandemic

Amid the COVID-19 pandemic, we thoroughly implemented measures to curb infections among our workforce based on an awareness of the risk of disruption in factory operations as a result of the spread of the virus. We also addressed emerging

Point  
1

## Convenience store-type EMS vs GMS\* type-EMS



Point  
2

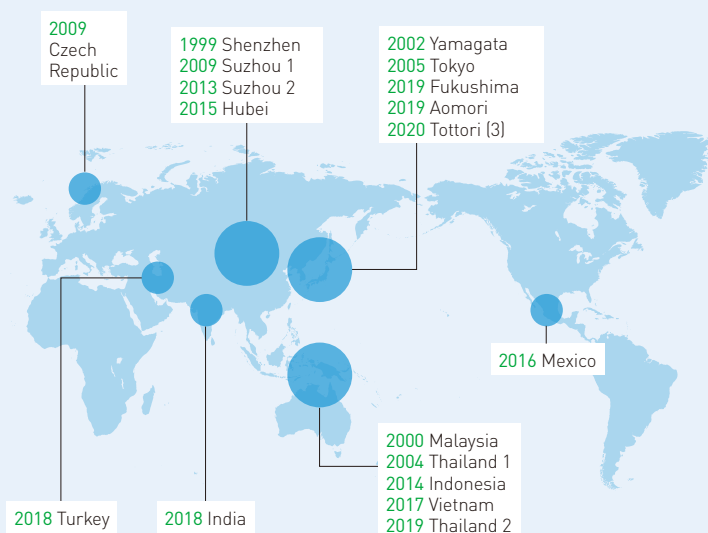
## Global expansion

### Maintaining 20 production bases in 10 countries

**"We act as a close partner for our customers"**

Securing a back-up system under which bases swiftly supplement one another to avoid country risks

**Procurement from the closest source, production at the closest base, JIT supply**





Managing Executive Officer  
Motonori Toshinari

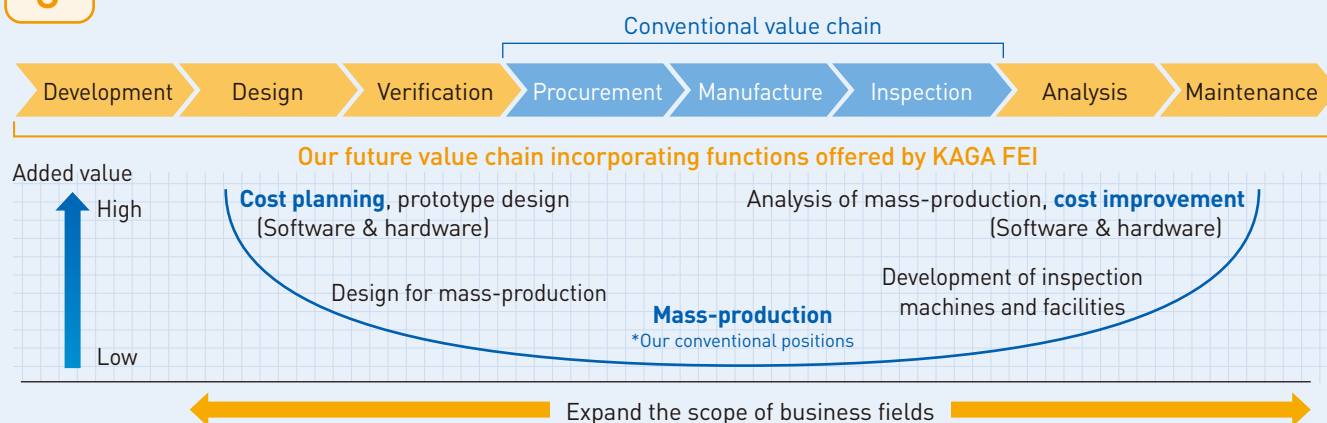
subsequent issues arising from supply chain disruption, surging logistics costs, and the shortage of electronic parts. Specifically, we have leveraged all of the routes at our disposal as an electronic parts trading company to either gather necessary parts or propose alternative products to customers. Thanks to these efforts, we were able to overcome this challenging period.

Fortunately, there were no supply disruptions, and at no time did our production stoppages cause any customer line stoppages.

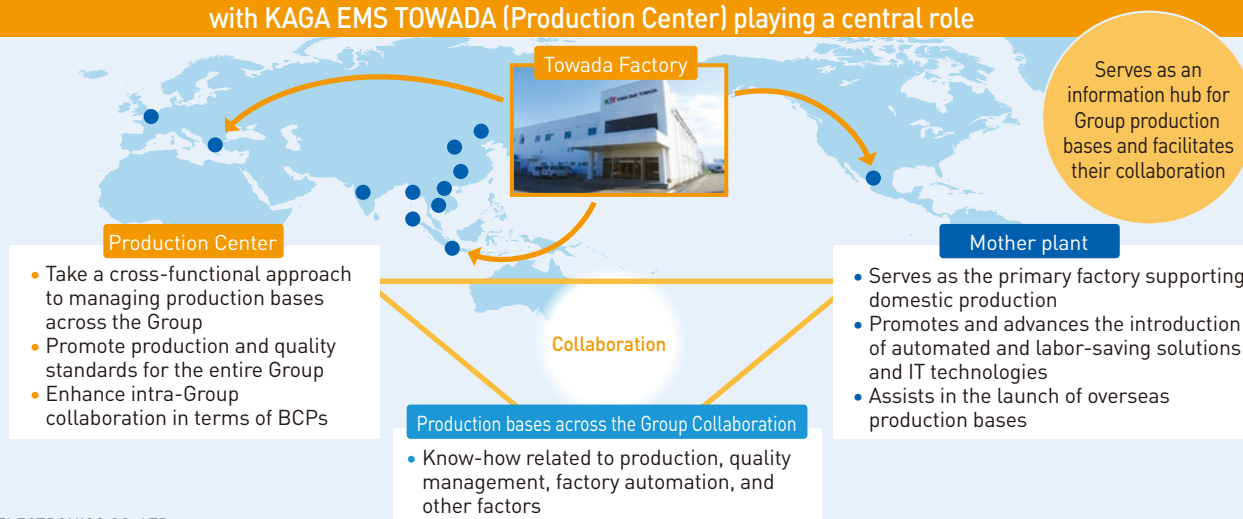
The markets for electronic parts and semiconductors are expanding due to the increasing use of electronics in all products, not just automobiles. Customers who want to reduce the burden of capital investment in these products are accelerating their active use of EMS. The use of EMS to reduce fixed costs is already well-established among Western companies. Similarly, Japanese companies are beginning to employ EMS, including our services, rather than investing in their own production lines, with the aim of focusing more on development and sales than ever before. Ultimately, someone has to make the goods. As a company that fills lines with orders from various companies, we can utilize EMS from small lots, and we expect that the number of situations in which our Company can be utilized will continue to expand in the future.

### Point 3

#### Shifting our value chain to high-value-added fields: Development / design + EMS services



#### 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



For example, our bases in China serve local corporations who prefer Japanese EMS providers to ensure that their products for exports are in conformity with global quality standards. Meanwhile, our customers in Japan utilize EMS offered by our bases in Turkey and Mexico in the course of manufacturing products for the United States and Europe in order to mitigate geopolitical risks.

## Building a foundation supporting the future growth of the EMS business

We sometimes encounter customers who have never prepared the necessary documents for commissioned parts manufacturing, as they have always been dependent on their own in-house manufacturing know-how. For customers unfamiliar with this type of EMS, the staff at KAGA EMS TOWADA CO., LTD. (TOWADA) has formed a team to provide onsite EMS launch support. We are also developing a framework in which TOWADA serves as the mother plant and production center, serving as a connecting hub for each base as well as dispatching its own staff.

To nurture human resources capable of supporting EMS, TOWADA, along with the Tottori Factory, another domestic

EMS base run by Kyokuto Electric Co., Ltd., have begun hiring graduates of industrial high schools and technical colleges. We are currently training these individuals with the aim of dispatching them to bases overseas. At the same time, we also invite human resources from overseas, including Vietnam and Indonesia, to undergo training programs in Japan.

The Kaga Electronics Group is aiming to become a company with sales of ¥1 trillion, of which we hope to generate at least ¥300 billion in EMS sales. Currently, sales are approximately ¥150 billion, and we are on track to reach ¥200 billion. The ratio between Japanese-affiliated and non-Japanese-affiliated customers is 6:4, with 40% believed to be non-Japanese-affiliated. In order to expand our non-Japanese affiliated customer base, local employees are indispensable. The Japanese way of thinking alone will never be enough. In terms of regions, Mexico, Turkey, and then India are next. As India is a vast country, we believe that multiple bases are necessary.

Looking ahead, we will not only offer EMS but also strive to secure customer understanding of our unique, comprehensive strength in the provision of one-stop services ranging from the procurement of electronic parts and repair to after-sales services. We are confident that the Group could be even stronger if we assess needs of each customer and sector in depth and accommodate such needs in a steadfast manner.

## Proactive expansion of the EMS business

**Oct. 2022**

The relocated and expanded plant in Malaysia is now in full-scale operation. Invested approximately ¥1 billion to expand its facilities by more than 20% from the existing plant.



**ASEAN ▶ New factory in Malaysia**



**Apr. 2024**

The relocated and expanded Mexican base will be operational. The Company will invest approximately ¥5 billion over the next five years, aiming for sales of ¥50 billion and the creation of approximately 2,000 jobs within the first five years of operations.

**The Americas ▶ New factory in Mexico**

**June 2023**

A new factory in Turkey started operation. In light of strong needs arising from manufacturers' aversion of geopolitical risks, this factory is expected to serve as a main factor serving Europe.



**Europe ▶ New factory in Turkey**