

Roundtable
Discussion of
Outside Directors

A More In-Depth Discussion of the Ideal Kaga Electronics Group

Here, we present a summary of a roundtable talk among our three outside directors, Susumu Miyoshi, Noritomo Hashimoto, and Mamoru Yoshida, in which they discuss the future direction of the Kaga Electronics Group.



Noritomo Hashimoto

Outside Director

Susumu Miyoshi

Outside Director

Mamoru Yoshida

Outside Director

Please describe your view of and most valued principles pertaining to management.

Miyoshi: There are six perspectives from which I view management—people, goods, money, information, time, and energy. While people, goods, and money have traditionally been referred to as the three elements of management, I also include information, time, and the general ambient energy of the environment in the mix. With information, the key is knowing the correct perspective to take, while time can refer to a time frame, a time span, or even timing and speed.

By energy, I mean the zeitgeist, that is, trends and prevailing attitudes. It is said that a company's value can be discerned by observing internal trends and prevailing attitudes, and I believe that, when it comes to management, this is an area that must always be monitored closely. The absence of even one of these elements will lead to management that is lacking.

The "5-Gen Doctrine" forms the basis of both my management style and the way in which I conduct my work. It comprises awareness of space (*genchi*), authenticity (*genbutsu*), up-to-date analysis (*genjo bunseki*), fundamental truths (*genri*), and ideals (*gensoku*). Of these, locality, authenticity, and up-to-date analysis represent where we are currently as a company, while fundamental truths and ideals represent what we hope to become. The two sides diverge, and we believe maintaining awareness of this divergence is essential. Each of us should continually work to formulate

our ideal state while at the same time establishing a multi-step path to reach it.

Furthermore, one cannot hope to bring about fundamental truths and ideals without adequate up-to-date analyses. To achieve the results we desire in any given situation, we must first look at it from a number of perspectives, determining how the current situation came to be, the underlying rules, at what the current level of urgency is.

Finally, the creed by which I live my life is *Batsuzan Gaisei*, which roughly translates to having mental fortitude mighty enough to crush mountains. For a manager, I believe that having a conviction strong enough to either achieve a goal or to push forward in a certain direction once it has been set is the most essential aspect of management. As I always say, "Strength alone is not enough, one must also have strong convictions."

Hashimoto: "A man needs but half a tatami mat to sit and a full one to sleep." In the current context, the implication of this saying is that as human beings we require very little to get by and anything more we gain constitutes a boon that we should share with those around us.

This is a sentiment that I have always taken to heart and applied to management, believing that there is only so much power an individual can responsibly hold. It is only when people come together and create even stronger systems that this limitation be surpassed.

Without uniting under a singular goal, a group of individuals will remain scattered and individualistic. When united, the power of a thousand, or even a hundred, people

becomes a force greater than anything they could accomplish alone. The most essential part of uniting the hearts of the masses is exercising a common respect for each other as human beings.

Although each and every single person has their own sensibilities, emotions, desires, and familial backgrounds, when it comes to work, we must be united. This begs the question, "How do we steer our employees toward this truth?" Strict and forceful guidance isn't the solution, nor is flattery and over-praising.

This is a common worry among managers. However, organizations with managers who struggle with this idea are often the ones doing the best. This is because such managers have a clear view of their subordinates' strengths and weaknesses and are doing their best to figure out how to draw out better results.

In the same way, I believe the Company is also being asked to find the best way to draw out its strengths.

Yoshida: It gives me great pleasure to announce my appointment as an outside director for the Kaga Electronics Group. I look forward to your continued support. Throughout my career, I have been in charge of three aspects of business—creating new businesses, solving business issues, and developing growth strategies. Specifically, during my time at Panasonic, I was responsible for launching the LUMIX digital camera brand as a new business, rebuilding the TV business, and establishing a growth strategy for the air conditioning business.

Recently, what this experience has made me particularly

conscious of is the need to create a culture in which we are always aware of the "management treasures" issues may offer and value of seeking and addressing them together.

An organization that boasts of having no issues is simply one that has low ambition, and I believe that it is extremely important to manage issues at a higher level, as part of the Company's corporate culture.

Next, allow me to detail some of the concepts I've come to value with regard to business management that answer the questions: "How can we best please the customer?" "What would be profitable for us?" and "How can we ensure that our employees are not only fulfilled by their work but growing?" These concepts of customer satisfaction, business performance, and employee satisfaction are ones that employees always wholeheartedly embrace whenever I bring them up.

In addition, my personal understanding of Panasonic founder Konosuke Matsushita's corporate philosophy boils down to the four Cs: Change, Challenge, and Create (value) for Customers. The Kaga Electronics Group's corporate philosophy, "Everything we do is for our customers," is a fundamental and important concept in business management, and shares what I understand the sentiment of Panasonic's philosophy to be: "always challenging ourselves to create value and contribute to our customers" and "always making new changes first in everything we do." Keeping these ideas in mind, I hope to contribute toward the management of the Kaga Electronics Group.



In your view, what are the Kaga Electronics Group's strengths and challenges?

Hashimoto: The Company has two main pillars.

The first is its trading business, which handles electronic components and semiconductors and has been in operation since the Company's founding. In the beginning, our main worry was acquiring semiconductors. However, as the field of electronics continued to grow, the Company, whose name reflects its involvement in the field, developed excellent business acumen and a keen perception in determining the business viability of products incorporating semiconductors, leading it to become a major pillar of the Company.

The other pillar is the Company's EMS business for manufacturing. When customers who use the electronic components sold by the Company need assistance in labor or other areas, the Company offers manufacturing services to support their production activities. Furthermore, the Company has experience in handling refurbishments of returned defective products.

These two pillars are the foundation of the Company's philosophy, "Everything we do is for our customers." Putting the concept of "for the customer" into practice on a case by case basis, the Company has sometimes bought out factories in need and revitalized their businesses. Successful revitalizations are achieved through the application of those factories' skills and capabilities in various businesses within the Group. This is proof that close attention is being paid to what Group companies are doing and what may be lacking.

Miyoshi: As we look to the future 10 to 20 years from now, it is important to re-examine the Company's business portfolio from the three perspectives of growth, safety, and profitability.

The most crucial of its businesses is the EMS business. The Company's EMS has yet to embody the fundamental truths and principles in terms of the 5-Gen Doctrine I mentioned earlier. The key phrase for improving to this level is achieving a concept shift from "[country X] made" to "Kaga made." In other words, it is important that products made by KAGA ELECTRONICS can satisfy customers with the same quality, no matter where in the world they are made.

Finally, we must aim to transform the EMS business into the EDMS business, with the "D" representing design.

I believe that over the next five to ten years, the Company should further enhance the value it provides and adds to its EMS business by ensuring its ability to consistently handle everything from planning, design, and production to quality assurance. Based on my 5-Gen Doctrine, I would say that the Company has made it somewhere around 70% of the way up the proverbial mountain. From here on out, many difficulties lie ahead on the road toward the summit.

Yoshida: In the EMS business, there is a wide array of circumstances and needs, including those related to the business strategies of our customers. For example, customers may face restrictions on capital investment or be unfamiliar with manufacturing in a particular business area.

In addition, as Mr. Miyoshi mentioned, there will be cases that require original design manufacturers (ODM) to handle everything from product development to manufacturing, perhaps even to the finished goods stage. Thus, the EMS business requires a wide range of capabilities, from technical product development to production and facility capabilities, as well as total quality management skills covering all aspects of construction.

In particular, the more inclusive a business model becomes, the more it requires a wide range of organizational capabilities and adaptability to operate within a matrix, including not only the above capabilities but also managerial competencies, as well as financial resources.

I feel that we are entering a very important stage in which we must strategically consider which of our business areas to focus on, at what level, and on what scale we will expand our EMS business, while at the same time satisfying the needs of a wide range of customers.

On the other hand, the Kaga Electronics Group has a history of bringing various companies together, and its business as it stands today is built on connections between individual salespeople and customers. This makes me a bit unsure as I feel that the connections and horizontal cooperation among people and between teams are somewhat tenuous. I see one of the major challenges we are now facing is the creation of higher value as a team while leveraging the strengths of each individual.

Hashimoto: The stock market has posed a very important conundrum for the Company's EMS business, namely, where does it go from here?

Will we continue to provide customers with the goods and services they demand in existing markets, or will we move in the direction of creating new markets on our own?

If the Company were one that just plodded along, serene in the knowledge that it could expect to enjoy annual net sales of ¥100 billion to ¥200 billion, it would, in a sense, be safer to simply collect and sell products that customers want, or to continue using its EMS services to support its customers' manufacturing activities.

However, KAGA ELECTRONICS has already grown into a dynamic corporate group with annual net sales exceeding ¥500 billion, and is on track to become the "¥1 trillion

company" of its long-term vision. Naturally, once ¥1 trillion is achieved, the goal will be to reach ¥2 trillion, then ¥3 trillion, then ¥4 trillion, ad infinitum.

If KAGA ELECTRONICS, a trading company, aims to create its own markets, a different category of human resources will be necessary. Our discussion here today focuses on how we see the Company's future, and, as soon as a consensus is reached, discussions must begin on how to build on that foundation. I believe that the Board of Directors is already well-equipped to engage in such discussions.

Miyoshi: If the Company were to aim for net sales of ¥2 trillion or ¥3 trillion, horizontal integration alone would not suffice and vertical integration will need to be considered as well. In the extreme, there could be collaboration with different industries, such as agriculture, forestry, and fishing.

When it comes to expanding the scope of business, we are suggesting that, vertically and horizontally, the composition of the business portfolio is the most important factor in creating the desired outline. Determine our limits, and verify that the necessary management resources can be put in place with the current financial resources. To do this, it is necessary to be prepared to tackle the task bravely and boldly.

Yoshida: I wholeheartedly agree. In manufacturing, strategies exist for the strong as well as for the weak. In some cases, by leveraging their insufficiencies the weak can become strong. It is always important to look at the business from various perspectives and to create a scenario that will determine whether you will be a strong player or a weak player.

Please describe how the Board of Directors discusses "management with an awareness of the capital costs and stock prices."

Miyoshi: The Company's ROE of 14.5% for the year ended March 31, 2024, is well above its cost of equity, which we recognize to be around 10%.

As interest rates rise, investors and shareholders demand higher dividends. As stock prices rise, capital costs will naturally rise, and this is where information disclosure



becomes important. If we do not disclose the risks that the business faces, we may end up raising expectations beyond our capabilities.

Although corporate efforts alone cannot overcome share price problems, the Board of Directors has spent the past year discussing ways to steadily increase corporate value while remaining more than fully aware of capital costs.

Hashimoto: The greatest challenge faced by a manager seeking to "manage with an awareness of capital cost and stock prices" is determining how to continue increasing profits and rewarding shareholders while contributing to society and then to strive to achieve these goals.

With net sales having exceeded ¥500 billion, and with plans to expand to ¥600 billion and ¥700 billion in the future, the Company's task is to seek the understanding and support of the market as it looks to broaden the scope of its business.

However, corporate management is more than simply being gung-ho about stock prices. My unwavering view is that we should be determined in this area.

Miyoshi: I can assure you that we are working faithfully and steadily to conform to the concept of an "ideal company."

Yoshida: Stock prices will be determined by how the market perceives the Company based on its communications conveying an expectation for the future. In this light, we would like to discuss at the Board of Directors how the Company can become one that can meet the expectations of society.

Hashimoto: KAGA ELECTRONICS has long operated as an electronic components and semiconductor trading company, and it is fair to say that there are now no electronic products that do not contain semiconductors.

While the corporate philosophy of "Everything we do is for our customers" will remain an unchanged part of the Company's DNA, I believe that from now on, stakeholders around the world will be asking, "What does KAGA ELECTRONICS want to do for its customers?"

From the standpoint of manufacturing, a field in which all three of us were trained and gained experience, we would like the Board of Directors to be able to discuss such issues as naivete on the part of those trained in the trading industry, and the need for this, that, and the other if serious action is to be taken.