

## Management Topics

President & Representative Director  
KAGA ELECTRONICS CO., LTD.


**Ryoichi Kado**


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Hello, everyone. I'm Ryoichi Kado, President & COO of Kaga Electronics Co., Ltd. Thank you very much for your continued cooperation in our IR activities. Now, let me report on important management issues that occurred during the first half, from April to September, of the current fiscal year.

## Response to the Spread of Novel Coronavirus Infection

Sales bases	・We continued with marketing activities while implementing safety measures in Japan and overseas, such as telework and staggered work times, in line with guidance from the central and local governments.								Number of COVID-19 cases	
			Apr.	May	June	July	Aug.	Sept.		
	Office attendance rate	Kaga Electronics	29.4%	27.0%	42.4%	46.8%	37.3%	48.6%		1
	Group companies	35.4%	30.3%	51.4%	55.8%	46.9%	54.1%	1		
Production bases	・We are continuing to operate with a minimum number of people while implementing safety measures in accordance with the guidance of the central government and regional governments. Overseas, some sites suspended operations during lockdowns.								Number of COVID-19 cases	
	Status of suspended operations following increase in COVID-19 cases									
		Feb.	Mar.	Apr.	May	June	July	Aug.	Sept.	
	Thailand・Indonesia・Turkey	No suspension of operations								
	Hubei, China	Feb.1~Mar.15								0
	Suzhou, China	Feb.1~Feb.9								0
	Shenzhen, China	Feb.1~Feb.13								0
	Malaysia		Mar.18~Apr.20							0
	Vietnam		Apr.1~Apr.15							0
	India		Mar.25~May31							0
Czech		Apr.7~Apr.9							1	
Mexico		Apr.1~May30							2	



 ... Operation suspension period

The first topic is about COVID-19. At the previous briefing in May, we explained the situation at that time. In this slide, we have updated the situation during April and September. In Japan, our sales offices were based on teleworking or staggered working hours. Overseas, according to the instructions of governments and agencies, employees continued sales activities with safety first, partly using telecommuting.

In this table, we summarized the rate of office attendance in Japan. Until May, when the Declaration of a State of Emergency was lifted, this rate was kept to 30% or less, and subsequently kept to 40% to 50% from June onward. From October, when there was a spread phase again, we directed that the attendance rate in the metropolitan areas around Tokyo and Osaka should be around 40%, and that the attendance rate in other areas should be 50% or so. During April and September, there was one infected employee at the Kaga Electronics Headquarters in August, and one at a Group company in September. There has been no infected person thereafter.

On the other hand, our production bases in Japan, Thailand, and Indonesia continued their production activities without having to suspend operations. However, as described in the slide, our plants in China, Malaysia, Vietnam, and etc., suspended operations in accordance with the lockdown triggered by the government of each country. Currently, the production activities are continuing at all sites while implementing safety measures.

At overseas business bases, we had one infected person in the Czech Republic in April and two in Mexico in July. There have been reports on several infection cases in the Czech Republic, Mexico, and Turkey amid the renewed spread of COVID-19 in Europe and North America. At the Kaga Group companies, both in Japan and overseas, employees of course wash hands and mouths and use hand sanitizers. In addition, we measure body temperatures of employees and visitors at the time of entry into buildings.

At our plants, we are working to prevent the spread of infections by establishing sanitizing showers, production lines with proper social distancing, and boundaries at employee dining halls to prevent contact between employees. So far, we had only separate cases of infections, and have had no cluster infections.

## Acquisition of Kyokuto Electric

Outline of Kyokuto Electric Co., Ltd.	Name	<ul style="list-style-type: none"> <li>• Kyokuto Electric Co., Ltd.</li> </ul>
	Representative	<ul style="list-style-type: none"> <li>• Representative Director and Chairman : Motonori Toshinari (Director, Division Manager of EMS Business Division of KAGA ELECTRONICS)</li> <li>• Representative Director and President : Yasuhiro Sawada (present position)</li> </ul>
	Address	<ul style="list-style-type: none"> <li>• 6-2-1 Shinmori, Asahi-ku, Osaka-shi, Osaka</li> </ul>
	Business description	<ul style="list-style-type: none"> <li>• Manufacture of safety breakers, power leakage circuit breakers, and DC switching device</li> <li>• Electronic equipment EMS Business</li> </ul>
Acquisition scheme	<ul style="list-style-type: none"> <li>• April 28, 2020: Kyokuto Electric petitioned the Osaka District Court for the application of the Civil Rehabilitation Act</li> <li>• August 31, 2020: Kaga Electronics concludes agreement to sponsor the civil rehabilitation of Kyokuto Electric</li> <li>• November 2, 2020: Kyokuto Electric is divided, Kaga Electronics acquires 100% of the shares of the newly established Kyokuto Electric and the new company becomes a consolidated subsidiary on the same day.</li> </ul>	
Purpose of acquisition	<ul style="list-style-type: none"> <li>• Continue to supply Kaga Electronics' automotive product EMS customers</li> <li>• Build an EMS site in western Japan to enhance domestic production capability</li> <li>• Contribute to Group revenue by strengthening competitiveness of Kyokuto Electric's unique products*</li> </ul> <p><small>*Products for which Kyokuto Electric has a 75-100% market share, such as earth leakage plugs, earth leakage relays, power leakage circuit breakers, and DC switching devices.</small></p>	
Effect on earnings	<ul style="list-style-type: none"> <li>• The effect on earnings in the fiscal year ending in March 2021 is expected to be minimal.</li> </ul>	



The next topic is the acquisition of shares of Kyokuto Electric Co., Ltd. and consolidation of the company into the Group. The company, headquartered in Osaka, manufactures safety breakers and power leakage circuit breakers. It also engages in the EMS business. It is the leading manufacturer of leakage protection plugs and leakage protection relays, dominating domestic market shares of 75% to 100%.

In April, Kyokuto Electric petitioned the Osaka District Court to commence civil rehabilitation procedures. The company, which had operated in Japan and overseas, fell into trouble as it was hit by COVID-19 this year after its Chinese business had been sluggish since last year.

As Kaga Electronics had outsourced its EMS business related to onboard automotive products for part of its customers to Kyokuto, the Company entered a sponsorship agreement with Kyokuto in August. Thereafter, on November 2, we acquired 100% of shares of the new Kyokuto Electric, which was established through a corporate split the same day after separating the old Kyokuto Electric's unnecessary businesses, such as the Chinese business. Kyokuto Electric is now our consolidated subsidiary.

The purposes of the acquisition are described here. In particular, the second point, establishing an EMS base in western Japan, is very important. Kyokuto has plants in Tottori, western Japan. By having Kaga EMS Towada Co., Ltd. in eastern Japan and Kyokuto in western Japan, Kaga Electronics will establish a system to be able to meet the need of a broad range of customers that are oriented toward production in Japan.

## Progress of PMI at Fujitsu Electronics

EMS initiatives	<ul style="list-style-type: none"> <li>Obtained orders for development, experimental production and mass production from five companies, including automotive equipment manufacturers and electronics manufacturers 84 companies/new visits → 40 companies/currently in sales talks</li> </ul> <p>&lt;Focus point&gt; Results from activities in first half of fiscal year were in line with results in the previous year; first order for overseas mass production was Obtained</p>				
Cross-selling initiatives	<ul style="list-style-type: none"> <li>Strengthened sales of Kaga Electronics' influential products to large and important clients</li> </ul> <p>&lt;Focus point&gt; Large-scale sales talks are underway in several fields, including information equipment, infrastructure equipment and home electronics</p>				
New product initiatives	<ul style="list-style-type: none"> <li>Expanded products and services in a wide range of fields, such as semiconductors, electronic parts and unit modules</li> </ul> <p>&lt;Focus point&gt; New products handled: 79 companies; estimated sales in current fiscal year: 14.7 billion yen (10.4 billion yen in previous fiscal year)</p>				
Consolidation of sales bases	<table border="0"> <tr> <td style="padding-right: 10px;">Japan</td> <td> <ul style="list-style-type: none"> <li>Relocation of FEI Osaka Office to KG Kansai Sales Office [December/2020]</li> <li>* Nagoya, Hiroshima and Niigata have already completed integration</li> </ul> </td> </tr> <tr> <td>Overseas</td> <td> <ul style="list-style-type: none"> <li>KG US sales company to integrate with FEI US sales company (spring 2021)</li> <li>Sales companies in Korea of both company are also under consideration [Spring/2021]</li> </ul> </td> </tr> </table> <p>*Abbreviations: Kaga Electronics → KG, Fujitsu Electronics → FEI</p>	Japan	<ul style="list-style-type: none"> <li>Relocation of FEI Osaka Office to KG Kansai Sales Office [December/2020]</li> <li>* Nagoya, Hiroshima and Niigata have already completed integration</li> </ul>	Overseas	<ul style="list-style-type: none"> <li>KG US sales company to integrate with FEI US sales company (spring 2021)</li> <li>Sales companies in Korea of both company are also under consideration [Spring/2021]</li> </ul>
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Others	<ul style="list-style-type: none"> <li>Company name will be changed to <b>Kaga FEI Co., Ltd.</b> effective December 28, 2022</li> </ul>				



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Next, I report on the PMI process after the acquisition of Fujitsu Electronics Inc. Regarding the initiatives for the EMS business, as I explained at the previous briefing, we established a sales team within Fujitsu Electronics specializing in EMS in April last year. This team cooperates with Kaga Electronics' EMS Business Division and conducts sales activities with FEI's major customers. During April and September, it approached 84 companies for business talks and obtained orders for development, trial production, and mass production from five of them.

In the previous fiscal year, it approached 90 companies and obtained orders from four, so its performance in the six months was equivalent to the full-year result. Many of the orders will generate sales from FY2021. Among them, we look forward to a project for an onboard automotive product for a Tier 1 parts supplier because it is a big project, worth billions of JPY.

The next important initiative is the third one, finding new products for sale. As we explained, FEI has lost major commercial rights in connection with Cypress Semiconductor of the US and other business partners and need new businesses to offset the loss. FEI has keenly been seeking new merchandise for five years. The Company has started transactions with 79 suppliers on a cumulative basis. For the current fiscal year, sales of the new merchandise are expected to total JPY15 billion, up 40% year on year. We look forward to further growth because there are four products whose sales are worth several billions of JPY.

We are also working diligently to consolidate the sales bases and organizations of both companies. In Japan, we have already been integrating and transferring operations in Nagoya, Hiroshima, and Niigata, and we plan to transfer FEI's sales office in Osaka by the end of the year. Overseas, we are in the process of integrating the US sales company toward the spring of next year. As the US is hit by the spread of COVID-19, we are moving ahead with safety first.

Finally, the Company will change its name to Kaga FEI on December 29. The Company will start next year with the new name.

## Progress of PMI at Kaga EMS Towada(Former Towada Pioneer)

Bring in new customers ①Collaboration with Kaga Electronics	Automotive	<ul style="list-style-type: none"> <li>Start of mass production of electronic boards for Japanese tier-1 companies (from July 2020)</li> <li>Mass production orders of electronic boards for Japanese tier-1 companies (from November 2021)</li> </ul>
	Office equipment	<ul style="list-style-type: none"> <li>Mass production orders of electronic boards for major Japanese office equipment manufacturer (from 2021)</li> </ul>
	Electronics	<ul style="list-style-type: none"> <li>Acquired “certified factory” accreditation from major Japanese electronics manufacturer</li> </ul>
Bring in new customers ②Own efforts	Medical equipment	<ul style="list-style-type: none"> <li>Contract manufacturing of sensors for Japanese medical equipment manufacturer (from December 2020)</li> <li>Contract manufacturing of units for Japanese medical equipment manufacturer (from May 2022)</li> </ul>
Initiatives as EMS mother factory		<ul style="list-style-type: none"> <li>Expansion of tools that incorporate IT into production (management software, facilities) developed by Kaga EMS Towada to manufacturing bases within Group</li> <li>Sharing standardization expertise on manufacturing</li> <li>Support for overseas manufacturing bases, deployment of human resources stationed overseas</li> <li>Accelerate training of human resources in quality management and manufacturing technology</li> <li>Promotion of IT from a manufacturing perspective (quality management, materials, factory operations, accounting)</li> </ul>

The next topic is the PMI process of Kaga EMS Towada Co., Ltd., which became a Group company, in October 2019, as a result of the acquisition of former Towada Pioneer. The company was originally manufacturing automotive navigation systems and others as Pioneer Corporation’s subsidiary. After entering our Group, the company has eagerly been seeking new customers not to depend on its existing products.

One approach is cooperation with Kaga Electronics’ EMS Business Division. Kaga EMS Towada has obtained two mass production orders for onboard automotive products and one mass production order for office automation equipment. As it was qualified as a certified plant of a major Japanese electronics manufacturer, transactions are expected to increase. The other way is through their own efforts. As Towada Pioneer, the company acquired a license for manufacturing medical equipment. Against this backdrop, it obtained two orders from Japanese medical equipment makers.

One of our purposes of the acquisition was to strengthen our manufacturing capabilities in the EMS business. We share Kaga EMS Towada’s long-standing expertise as a dedicated electronics maker, excellent human resources for production, production facilities, quality assurance system and other tangible and intangible assets and are making horizontal deployment globally. We aim to improve quality levels of our EMS business as the Group’s mother factory and enhance our competitive edge.

## Progress of PMI at EXCEL

New business Initiatives	<ul style="list-style-type: none"> <li>Expanded sales of photocatalytic sanitizer/deodorizer* manufactured by Kaltech Co., Ltd.</li> <li>Expanded sales of EV buses manufactured by China's Alfabus Co., Ltd.</li> </ul> <p>&lt;Focus point&gt; Utilization and full-scale deployment of networks owned by Kaga Electronics and EXL is currently underway</p> <p>*Orders for two EV buses were confirmed in H1</p>				
Cross-selling initiatives	<ul style="list-style-type: none"> <li>Strengthen sale of products held by Kaga Electronics to major customers</li> </ul> <p>&lt;Focus point&gt; A Group Synergy Promotion Office has been set up within EXL to strengthen the collaboration. Moreover, a Special Sales Marketing Division has been set up, and it is currently expanding the handling of products other than electronic parts.</p>				
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\*Abbreviations: EXCEL→EXL Advanced Display Solutions ( EXL's subsidiary ) →ADS



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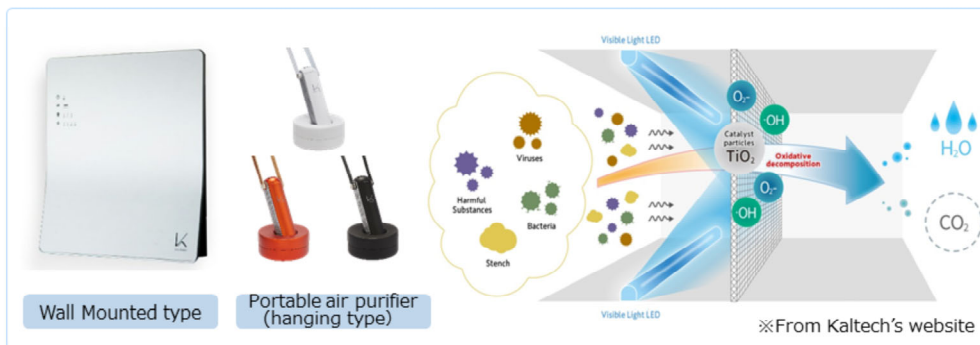
Excel Co., Ltd. is the final case of our PMI processes. We acquired the company in April this year with the aim of expanding the share of the Electronic Components business and the scale of the EMS business, and acquiring new businesses. Here, I will explain the progress made in the six months with respect to new businesses and consolidation and closure of business bases.

Regarding the initiatives for new businesses, we introduced two examples. As I will explain the first one, collaboration with Kaltech, in detail on the following slide, I would like to mention the EV bus business. Excel established Alfa Bus Japan Co., Ltd., in 2019, as a sales agent for Jiangsu Alfa Bus Co., Ltd., a Chinese EV bus manufacturer. Alfa Bus Japan is working to expand sales of environmentally friendly EV buses in Japan. Jiangsu Alfa Bus was established in 1999. It manufactures 12-meter-long large EV buses in alliance with a Swedish bus manufacturer in terms of production of vehicles and with a Japanese battery manufacturer in terms of batteries.

In China, which leads the world in EV buses, Alfa buses are adopted by the cities of Shanghai, Chengdu, and Wuxi. In Europe, they are also being used for route buses in major cities in Spain and Italy. In Japan, Alfa Bus Japan received two orders from local governments in the first half of the current fiscal year. Needless to say, EV buses are driven by clean energy with no carbon emissions, so I think it is a socially beneficial business in line with the UN SDGs.

Regarding the consolidation and closure of sales offices, we are steadily implementing important structural reforms at home and abroad, such as the integration and relocation of business bases and the liquidation of subsidiaries.

## Kaltech's photocatalytic sanitizer/deodorizer



### About Kaltech Co., Ltd.

- Kaltech is a venture company set up by a former Sharp engineers in 2018.
- The company works on sanitizer/deodorizer equipped with photocatalytic technology developed by Kaltech.
- EXL has invested in this company and expanded its relationship, signing a basic agreement to collaborate on sales and parts procurement in the Group overall. EMS development is being considered for the future.

### Kaltech's photocatalytic technology

- By radiating visible LED at a photocatalytic filter coated with titanium oxide using Kaltech's proprietary technology, viruses and harmful substances that attach to the filter are broken down into water and carbon dioxide.
- An evaluation of the functions carried out jointly by Riken and Nihon University School of Medicine found that the machine deactivated 99.9% of covid-19 in 20 minutes.



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Next, I would like to explain TURNED K, a photocatalytic sanitizing and deodorizing machine, which has been developed and sold by Kaltech. First, let me explain Kaltech. Kaltech is a venture company launched in 2018, led by Junichi Somei, a former Sharp Corporation engineer. Using proprietary photocatalytic technology, Caltech provides the world with environmental products for the purification of air and water.

As Excel invested part of the startup funds in Kaltech, we agreed to expand this relationship to the entire Kaga Electronics Group and collaborate in product sales and parts procurement. In the future, we are looking to collaborate on production by using our EMS network.

Next, I will explain the technical matters. Although it does not use new technology for photocatalysts, the points of the company's technology are its proprietary coating technology for titanium oxide as a photocatalyst and its use of visible light LEDs as light sources. This has resulted in world-class response efficiencies in decomposing viruses and germs, which are floating in the air, into water and CO<sub>2</sub>. In the case of influenza viruses, the Kaltech technology is confirmed to have eliminated 99.9% in five minutes.

In recent collaboration with RIKEN and Nihon University School of Medicine, the company conducted a trial of the efficacy of photocatalysts against the novel coronavirus within a certain space, and it was confirmed that more than 99.9% of the virus was removed in about 20 minutes. The result has already been announced by the company and has been covered by various media reports, such as newspapers and television. The deodorizing and sanitizing product is being sold very well at electronics mass retailers and on mail orders. There is a wall-hanging type and a neck-hanging type that I am wearing.



The last two slides explain our efforts for the sustainability and SDGs. This slide is a visualization of our sustainability efforts. We were originally a trading company and have been operating for 54 years with the motto of “not saying no” to our customers. As a result, we have expanded our business domains as a general trading company in electronics from sales of finished products to post-sales support, with the parts sales business and EMS business at the core.

In a conventional business, we sell high-quality PC products to schools and other educational institutions. We also contribute to the reduction of waste through recycling businesses, such as the reuse and recycling of PC products and home appliances. Although we are unable to select customers or select transactions in our parts sales and EMS business, we understand that our position is to be indirectly involved in the SDGs through products to be deployed by our customers in line with the SDGs and through our services to help them.

Meanwhile, we are challenging new businesses in line with the SDGs without being constrained by precedents and customs. We have launched a helicopter business for government agencies, which are increasingly aware of disaster prevention in response to frequent large-scale disasters such as earthquakes and heavy rains. We are also preparing to sell medical devices such as mobile CT scanners. In this way, we go beyond the boundaries of an electronics trading company and are working on the businesses to solve social issues. In order to accelerate the SDGs initiatives, collaboration with external parties is essential. We support start-up companies working to solve social issues through venture investments.

In addition, we are working to commercialize next-generation energy materials and other products through open innovations in industry-academia collaboration with Japan Advanced Institute of Science and Technology (JAIST) and others.



## New Initiatives: Sustainability

<p style="text-align: center;"><b>Medical equipment × QOL</b></p> <div style="display: flex; justify-content: space-around;"> <div style="text-align: center;">  <p>Mobile CT scanner</p> </div> <div style="text-align: center;">  <p>Breast cancer CT scanner</p> </div> </div> <div style="display: flex; justify-content: space-around; margin-top: 10px;"> <div style="text-align: center;">  <p>3 GOOD HEALTH AND WELL-BEING</p> </div> <div style="text-align: center;">  <p>4 QUALITY EDUCATION</p> </div> </div>	<p style="text-align: center;"><b>Wearable Device and Support of People with Disabilities</b></p> <div style="display: flex; justify-content: space-around;"> <div style="text-align: center;">  <p>ONTENNA</p> </div> <div style="text-align: center;">  </div> </div>
<div style="display: flex; justify-content: space-around; margin-bottom: 10px;"> <div style="text-align: center;">  <p>11 SUSTAINABLE CITIES AND COMMUNITIES</p> </div> <div style="text-align: center;">  <p>7 AFFORDABLE AND CLEAN ENERGY</p> </div> </div> <div style="display: flex; justify-content: space-around;"> <div style="text-align: center;">  <p>Care Support System</p> <p><b>“Watch-Over” System in an Aging Society</b></p> </div> <div style="text-align: center;">  <p>Green Capacitor</p> <p><b>Breakthrough × Next-generation battery storage devices</b></p> </div> </div>	



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The final slide introduces four specific examples in line with the SDGs. The top left picture is a mobile CT scanner we are preparing to sell. We hope that this will lead to the promotion of health for the elderly, who are difficult to walk. This flatbed CT scanner is used for women's breast cancer examinations. Unlike conventional mammography, it is painless, so I think that the number of examinations will increase, leading to a rise in early detections of cancer.

The photo on top right shows an interface called “Ontenna”, developed by FEI, to feel the sound with the surface of the body. By converting sounds with 60 decibels to 90 decibels into 256 levels of vibration and light intensity and transmitting them to the body, hearing impaired people can feel the rhythms, patterns, and magnitude of sounds. We expect the device to be used in schools for the deaf and other educational settings, as well as in sports and cultural events.

The photo at bottom left shows the care support system we sell. This system allows administrators to watch residents 24 hours a day with sensors installed at several points indoors. In addition to the detection of actions such as getting up and getting out of bed, in the event of an accident, such as falling to the floor or abnormal breaths, it will notify the staff's smartphones of the accident. Since the status of tenants can be confirmed by videos, appropriate measures can be taken at an early stage and operational efficiency can be improved dramatically. There were reports that the facilities that introduced this system have improved their operational efficiency by about 30%.

The last example is the Green Capacitor at bottom right. This was developed by Spacelink, which we invested in as a venture company. We are working with JAIST to commercialize this product in industry-academia collaboration. As an energy device capable of rapid, large-capacity charging, it is expected to be used in a wide range of fields, including consumer electronics devices like mobile terminals and wearable terminals, industrial equipment like robots and drones, and EVs.

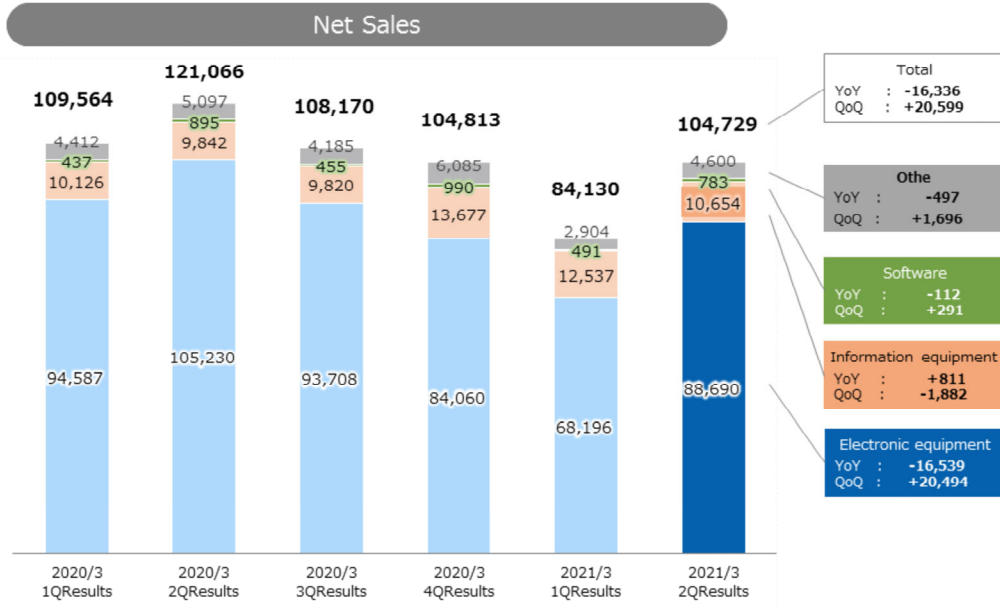
In this way, we will contribute to the SDGs through a three-way combination: conventional businesses, new businesses, and external collaboration.

My explanation is over. Thank you for listening.

Refelence

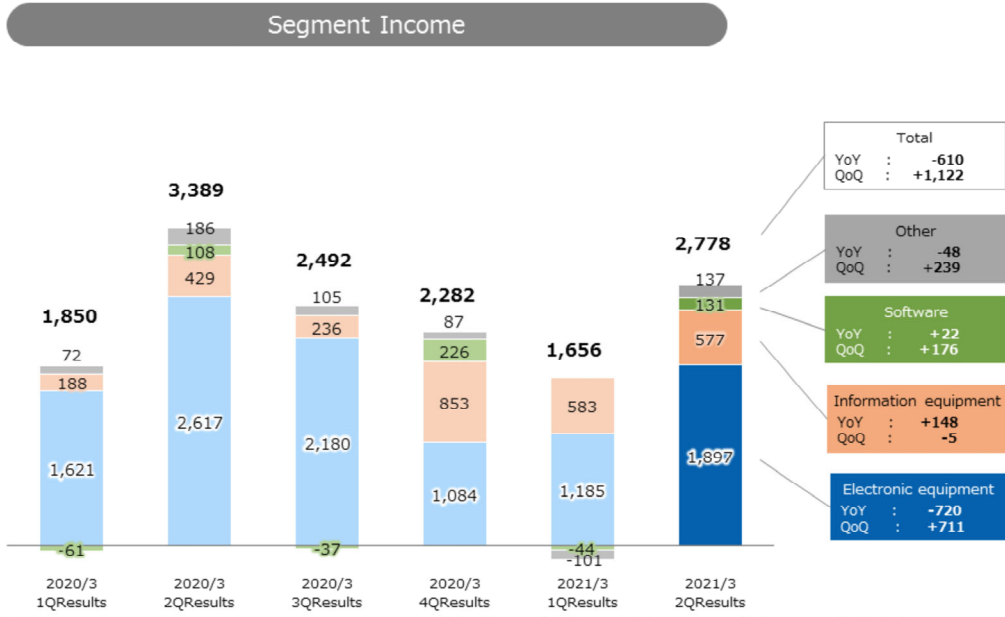
## Financial Highlights by Business Segment<sup>①</sup> (Net Sales)

(million yen)



## Financial Highlights by Business Segment② (Segment Income)

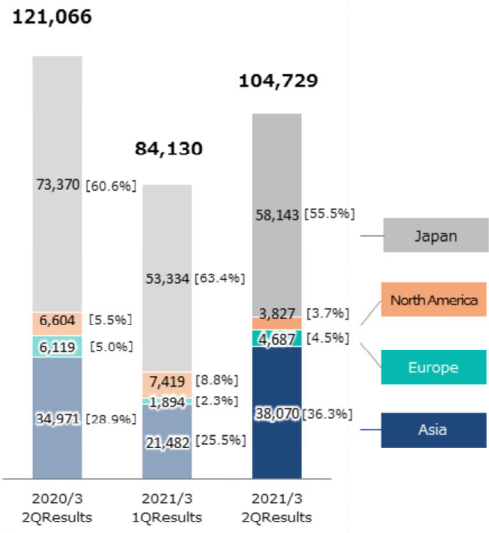
(million yen)



## Net Sales by Region

(million yen)

### Net Sales



### YoY

- Japan - **15,227** million yen **20.8%Down**
- North America - **2,777** million yen **42.1%Down**
- Europe - **1,431** million yen **23.4%Down**
- Asia **+3,099** million yen **8.9%Up**

### QoQ

- Japan **+4,809** million yen **9.0%Up**
- North America - **3,591** million yen **48.4%Down**
- Europe **+2,793** million yen **147.5%Up**
- Asia **+16,587** million yen **77.2%Up**

## Exchange Rate/FOREX Sensitivity

	FY2020/3 2Q Results (yen)	FY2021/3 2Q Results (yen)	(Reference) Effect of 1% change (million yen)		Forex assumption for FY2021/3 (yen)
			Net Sales	Ordinary income	
USD	108.63	106.92	649	19	105.50
THB	3.49	3.38	90	2	3.50
RMB	16.20	15.39	524	3	15.00
HKD	13.86	13.80	482	2	13.50

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



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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.