

Next Medium-Term Management Plan
**Medium-Term Management
Plan 2024 (FY2022-FY2024)**

KAGA ELECTRONICS CO., LTD.
November 25, 2021

TSE 1st section 8154

I am Kado of KAGA ELECTRONICS CO., LTD. Thank you very much for your continued support and cooperation in our IR activities. Next, I would like to explain the Kaga Electronics Group's next medium-term management plan, which was announced today.

Undertaking priority issues in line with basic policy, with overall achievement of initial targets forecasted

Enhancement of Revenue Base	<p>Focus on markets and areas in which high growth and profitability are expected</p> <ul style="list-style-type: none"> ▲ Revenue increase effect of about ¥200 bn through acquisition of companies including KAGA FEI and EXCEL ▲ Growth of EMS business: ¥89.4 bn (FY18 results) → ¥110 bn (FY21 forecast) (Contribution from growth in vehicular, medical care, and other priority markets)
Stabilization of Management Base	<p>Early improvement of efficiency and financial soundness following incorporation of KAGA FEI as a Group company</p> <ul style="list-style-type: none"> ▲ KAGA FEI: Gross profit margin 6.3% (FY18 results) → 9.3% (FY21 2Q results) ▲ Kaga Electronics: Consolidated SG&A ratio 9.5% (FY18 results) → 8.4% (FY21 2Q results) ▲ Kaga Electronics: Equity ratio 35.8% (end/Mar 2019 results) → 39.6% (end/Sep 2021 results)
Creation of New Businesses	<p>Active utilization of in-house resources and M&As to strengthen resistance to changes in the external environment</p> <ul style="list-style-type: none"> ▲ Social issues solutions-oriented business: Entry into disaster-readiness helicopter and EV bus mobility business, preparation for entry into medical device business ▲ Venture investments: 18 projects executed (investments in 41 companies from Apr 2017 to Nov 2021)



First of all, the progress and results of the mid-term management plan 2021, which will end in FY2021, are summarized in the 2 slides.

This page is a review of our management policies.

In the mid-term management plan 2021, we have set 3 basic policies and have been working on each of the priority issues. In this section, we would like to report on some typical cases.

The first is to strengthen our revenue base. Over the past 3 years, we have been actively engaged in corporate acquisitions, including Kaga FEI and Excel. As a result, we have gained approximately JPY200 billion in new sales and customers. From the perspective of profit-oriented management, we were also able to grow our high value-added EMS business by approximately JPY20 billion.

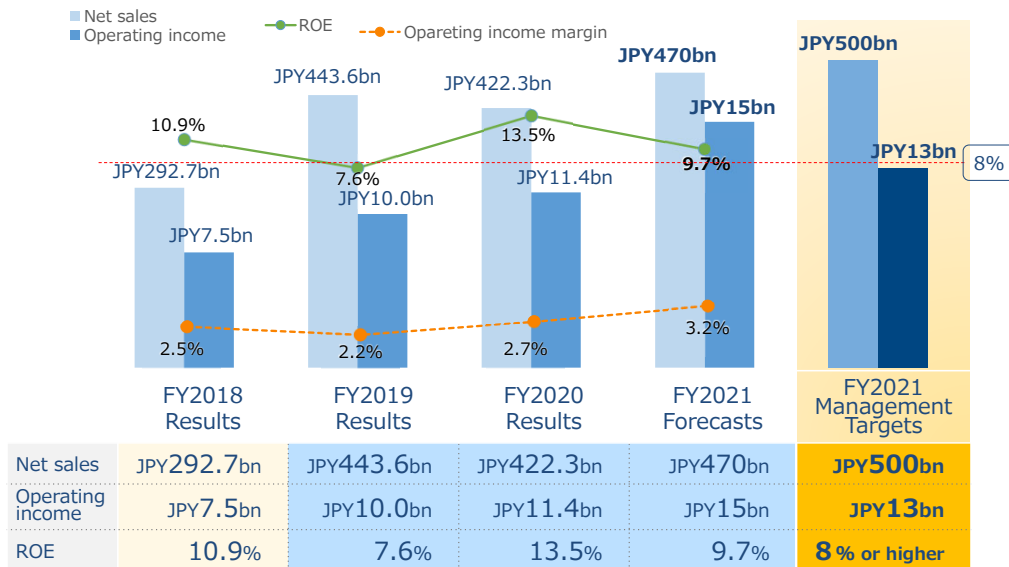
With regard to the second issue, stabilization of the management base, we have been able to improve the gross profit margin of Kaga FEI by 3 percentage points over the past 3 years, which was pointed out as low profitability at the IR presentation at the time of the acquisition. We are making progress as I explained to you at the time. SG&A ratio of KAGA ELECTRONICS has dropped by 1 percentage point over the past 3 years, and the equity ratio has returned to nearly 40%. In this way, efficiency and financial soundness have been steadily improving.

The third is the creation of new businesses. We are working on projects to solve social issues, such as disaster prevention helicopters and EV buses, but frankly speaking, the results here are insufficient.

The management measures are summarized in this way, with blue ▲ marks for items that have been achieved and red ▲ marks for items that are not so good.

Review of Medium-Term Management Plan 2021 : Management Targets

Predict for exceeding operating income and ROE targets by executing "profit-focused management", despite unmet net sales target due to losses of major commercial rights



Next, I would like to reflect on the management targets.

In this graph, the leftmost column shows the results for FY2018, the year before the current medium-term management plan began, the rightmost column shows the management targets for FY2021, the final year of the medium-term management plan, and the 3 columns in between show the results for FY2019 and FY2020, and the forecast for FY2021.

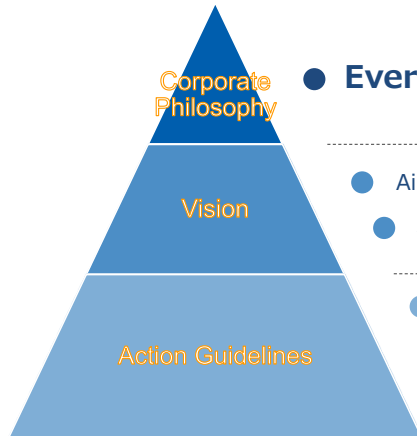
Although we will not be able to achieve our management targets of JPY500 billion in Net sales due to the loss of major commercial rights, we expect to exceed our operating income target of JPY13 billion, and we achieved ROE target of 8% or more from FY2020, which was 1 year ahead of schedule.

As such, we have just passed the halfway point of the final year of the current medium-term management plan, and we are on track to exceed our profit plan, so we have decided to announce the next medium-term management plan today, as we believe it is necessary to keep our shareholders and investors informed of our next growth path.

Systemization of Corporate Philosophy/Vision/Action Guidelines

Systematize the philosophy at the core of Kaga Electronics' thinking and conduct

The core of Kaga Electronics' thinking and conduct is reflected in our Corporate Philosophy that has remained unchanged since our founding in 1968, our Management Vision that indicates our medium- to long-term visions for the company 5 and 10 years into the future, and our Action Guidelines that set forth the behavior that forms norms by which Kaga Electronics employees can achieve these visions.



● Everything we do is for our customers

- Aim to be "Japan's No.1 corporate group in the industry"
 - Aim to become a competitive "World Class Company"
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- "F.Y.T." : Flexibility, Young at heart, Try
 - "3G" : General, Global, Group
 - "KAGA-ism" : Management mindset, Sales mindset, Readiness as a member of society

The next screen shows a systematization of our corporate philosophy.

It represents the fundamental activity policy of the Company, including basic ideas, values, and thoughts regarding our corporate management and activities.

It is also available on our website, but I wanted to share it with you again as I explain the next medium-term management plan.

Medium-Term Management Plan 2024 : Management Targets

Realize sustainable growth by organic growth and further M&A challenges

<u>FY2021 Forecasts</u>		<u>FY2024 Management Targets</u>	
		Organic growth	Including new M&As
Net Sales	JPY 470 bn	JPY 600 bn	JPY 750 bn
Operating Income	JPY 15 bn	JPY 20 bn	
With cost of shareholders' equity (7-8%) in mind,			
ROE	9.7 %	stable 8.5 % or higher	

This slide shows the next medium-term management plan 2024.

Net sales are JPY600 billion with autonomous growth. With the addition of new M&A, we have set a target of JPY750 billion. The reason for the 2-tiered approach is that in order to achieve the goal of JPY1 trillion in the future, we will have to produce about JPY750 billion in the next medium-term management plan, which will be far too late. Therefore, we thought that a realistic scenario would be to buy from outside the Company what is not enough to reach the JPY600 billion from autonomous growth.

For operating income, we have set a target of JPY20 billion. Unlike sales, here we have 1. In M&A, we can set some targets for the scale of sales, but not for profit, so we thought it would be unrealistic to expect profit from M&A and factor it into the plan. In other words, JPY20 billion is to be created through autonomous growth, and the management target is also equivalent to be JPY20 billion or more.

We have set our ROE at a stable 8.5% or higher, with an awareness of a shareholder's cost of capital of around 7% to 8%, with the goal of stably exceeding that level.

Medium-Term Management Plan 2024: Basic Policy

Basic policy and key issues/actions

Further Reinforcement of Profitability	Predicting the era to focus on markets with potential for high growth and profitability	<ul style="list-style-type: none"> • Selection and concentration in growth fields: Mobility, Communications, Environment, Industrial equipment, Medical/Health care • Reinforcement and expansion of EMS business and overseas business
Reinforcement of Management Base	Pursuit of further efficiency and soundness, and transformation to a Group management foundation worthy of "Japan's No. 1 corporate group in the industry"	<ul style="list-style-type: none"> • Reinforcement of corporate governance • Efficient Group management • Investments in human capital
Creation of New Businesses	Active use of venture investments and M&As to create new businesses and strengthen resistance to change in the external environment	<ul style="list-style-type: none"> • Initiatives in new fields • Promotion of open innovation through venture investments • M&A efforts aimed at discontinuous growth
Promotion of SDGs Management	Promotion of management that seeks to achieve solutions to social issues and sustainable growth as a company	(See "Medium-Term Sustainability Management Plan" for details)

Next, I would like to explain the 4 basic policies of the next medium-term management plan.

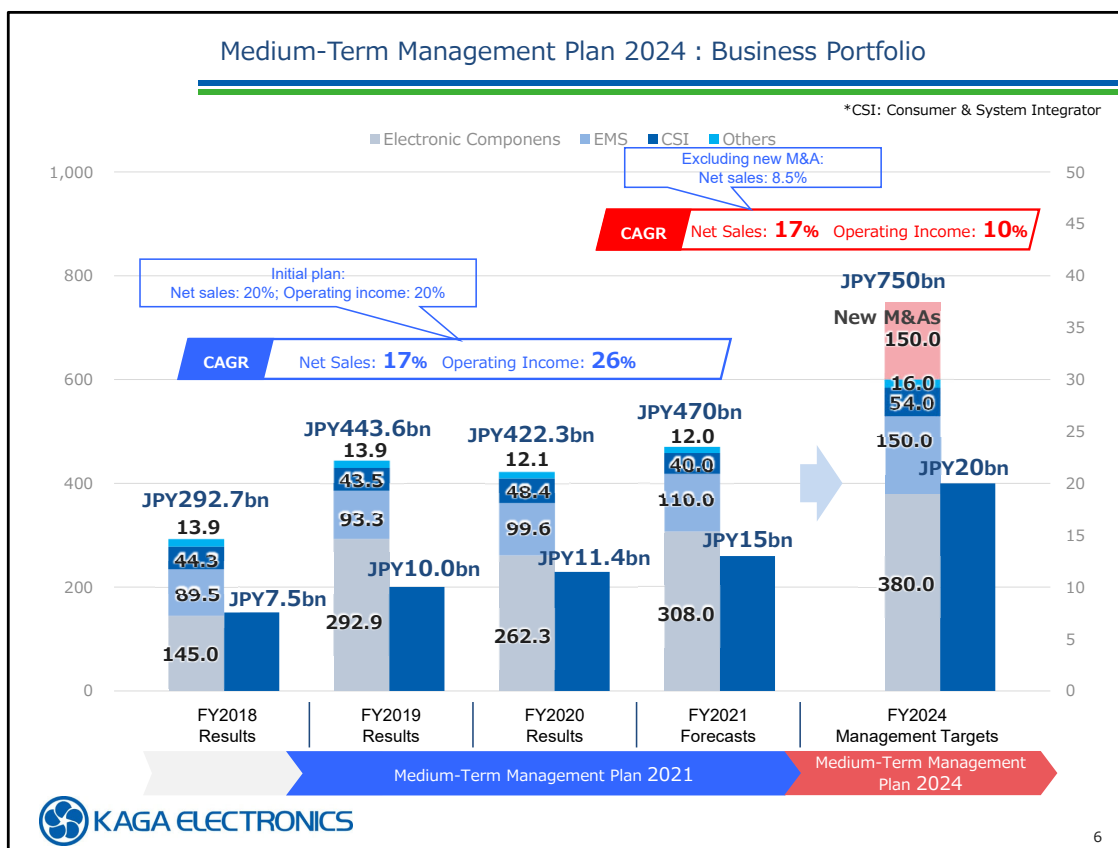
In order to further strengthen our profitability, our key issue is to focus on markets with high growth potential and profitability.

The fields we will work on are mobility, communication environment, industrial equipment, and medical/healthcare, and we will strengthen and expand our EMS business and overseas business of electronic components.

In order to strengthen our management base, we will work to transform ourselves into a management base that is appropriate for the number 1 company in our industry. I will explain more about strengthening corporate governance and investing in human capital later.

As for the creation of new businesses, continue to promote open innovation through venture investment. We will also aggressively pursue M&A opportunities to achieve discontinuous growth.

The promotion of SDGs management will be explained again later in the sustainability medium-term management plan.



This slide shows the segment structure with sales of JPY750 billion.

The bottom of the bar graph shows the Electronic Components business, the largest business of the Group. The second from the bottom is EMS business, followed by CSI business, Other businesses, and new M&A at the top.

Although not shown here, the CAGR for the 3 years from FY2021 to FY2024 is 7.2% for the Electronic Components. EMS and CSI are expected to account for 10.9% and 10.5%, respectively.

The Group's overall sales growth rate is set at 17%, the same as in the current medium-term management plan, or 8.5% excluding new M&A, but we intend to maintain a double-digit percentage growth rate in operating income.

Basic Strategy for Four Major Businesses

	FY2024 sales targets	Priority measures
Electronic Components Business	JPY 380 bn	<ul style="list-style-type: none"> Expansion of industrial equipment business Rollout of new products in vehicular markets Enhancement of products in communications field
EMS Business	JPY 150 bn	<ul style="list-style-type: none"> Reinforcement and expansion of customer base Shift in value chain to high value-added areas Reinforcement of business base
CSI Business	JPY 54 bn	<ul style="list-style-type: none"> Acquisition of new products/suppliers and new sales channels Promotion of collaboration within Group and integration of overlapping organizations
Other Business	JPY 16 bn	<ul style="list-style-type: none"> Review of unprofitable businesses Creation of new businesses through venture investments and M&As

Next, I will explain the basic strategies for each business segment in line with this business portfolio.

First, in the Electronic Components business, we will expand our business by expanding our product lineup for customers in the industrial equipment, in-vehicle market, and telecommunications fields, which are expected to grow steadily.

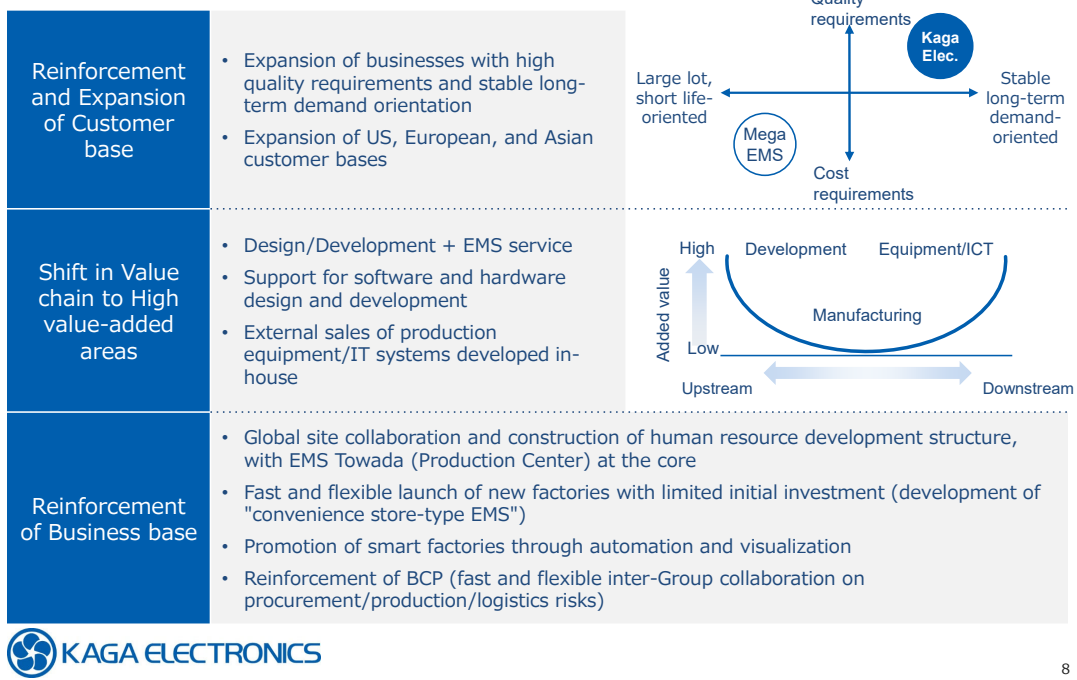
In the EMS business, we will work to strengthen and expand our customer base and shift our value chain to high value-added areas. This will be explained in more detail in the following slides.

Next is the CSI business, where we will work on developing new commercial products and suppliers, and acquiring new sales routes. In terms of improving efficiency, we are also planning to promote collaboration among group companies and integrate overlapping organizations.

Lastly, for the Others, we would like to give top priority to the review of unprofitable businesses rather than fine-sounding talk.

Priority Strategy for the EMS Business

Reinforce and expand our customer base in high quality markets, with shift to higher value-added areas

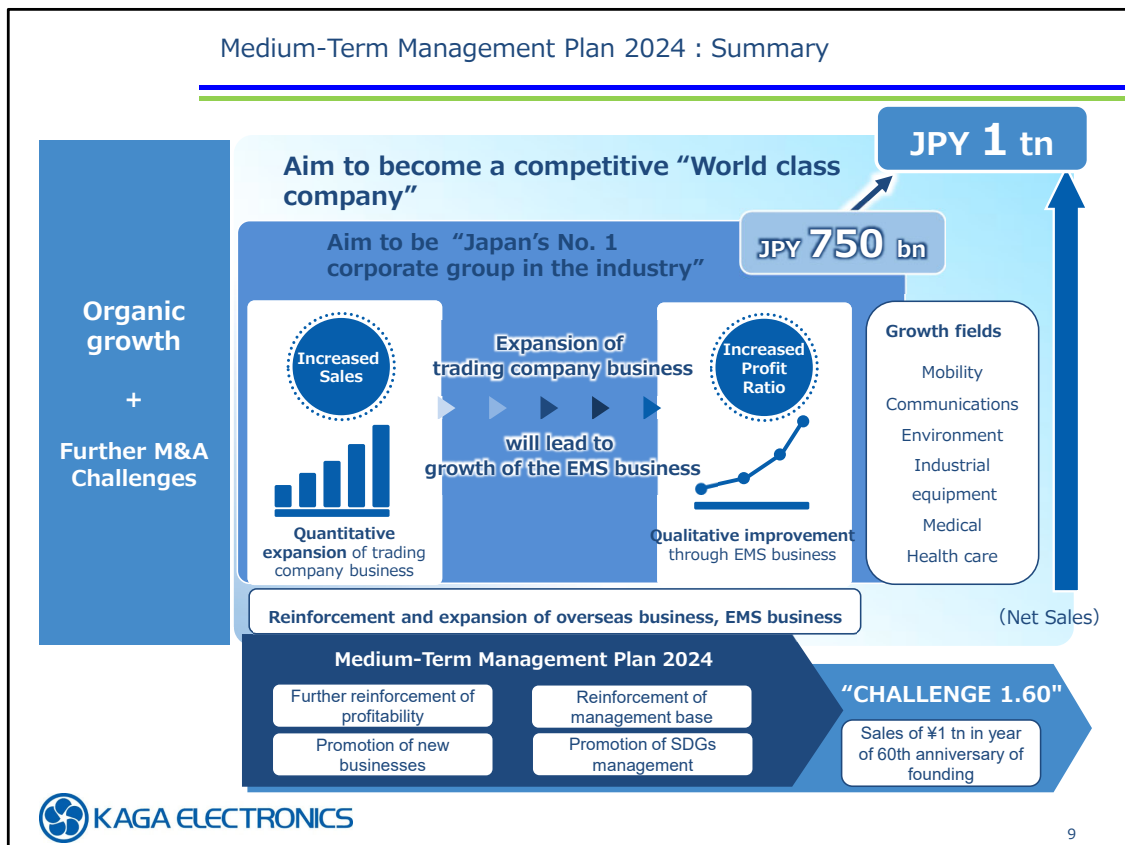


In this slide, I will explain the key strategies of the EMS business.

The first point of our strategy is to expand our customer base in the market that requires quality rather than cost, and to shift our focus to high value-added areas such as upstream development and downstream production facilities and IT systems in the value chain.

In order to promote such a strategy, it is important to strengthen the current business foundation, and for this purpose, it is important to develop a system of collaboration among global production bases and human resources development, with EMS Towada at the core. We refer to ourselves as a convenience store type EMS, and we try to respond to 100% of our customers' requests with light footwork, by starting up new factories quickly, flexibly, and with low initial investment.

We are also accelerating our response to the promotion of smart factories and the strengthening of BCP.



This slide is a summary of the outline of the next medium-term management plan, which I explained today.

The basic design is inherited from the current medium-term management plan.

The sources of our growth potential are autonomous growth plus new M&A. Our growth areas are overseas business and the EMS business, and the growth areas we will focus on are mobility, communications, environment, and industrial equipment. In this field, we will focus on the trading business of electronic components and the EMS business of Board mounting as growth drivers, with net sales of JPY750 billion. Our goal is to become 1 of the top companies in the industry in Japan.

We will also continue to work toward our vision of becoming a company that can achieve sales of JPY1 trillion and survive global competition. The next medium-term management plan after the next medium-term management plan will be the 60th anniversary of our founding, and we have set a challenge target of JPY1 trillion by that time.


Initiatives to aimed at becoming a "trillion-yen company"

1 Formulate M&A strategies to achieve the targets of the next Medium-Term Management Plan, and become a "trillion-yen company"

	Aim	Direction
Electronic Components Business EMS Business	<ul style="list-style-type: none"> • Expansion of business scale 	<ul style="list-style-type: none"> • Study large-scale projects on scale of tens of billions of yen
CSI Business Others Business	<ul style="list-style-type: none"> • Acquisition of new fields/products/sales channels 	<ul style="list-style-type: none"> • Study projects with high growth potential in collaboration with venture investments

2 Development of core human resources to support the "trillion-yen company" of the future, and restructuring of personnel management

	Specific measures
Key points in Restructuring of Personnel Management	<ul style="list-style-type: none"> • Development of management human resources: Cross-departmental strategic personnel rotation, human resource pooling, etc. • Reform of personnel systems and operation: Review of evaluation processes, shortening of length of service until determination of promotions, etc. • Utilization of diverse human resources: Utilization of female and elderly employees, development of specialists, etc.

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This slide explains the direction of M&A and human resource management as an initiative to realize a 1-Trillion-Yen company.

First of all, with regard to the M&A strategy to create a Trillion-Yen company, in the Electronic Components business and the EMS business, we will prioritize the consideration of large-scale projects of at least several tens of billions of Japanese yen in order to expand the scale of our business.

On the other hand, CSI and Others will consider projects with high growth potential in order to acquire commercial materials and sales channels or to create businesses in new fields.

From the perspective of human resource management and the development of core human resources that will support a Trillion-Yen company in the future, we will work on fundamental changes in our human resource system, including the development of management human resources through strategic personnel rotation across divisions, reform of the operation of the human resource system to enable the selection of young employees, and the utilization of diverse human resources, such as the utilization of female employees and the development of specialists.

A Sound Financial Foundation to Support Growth Strategies

Borrowing capacity

- ▲ Net D/E ratio: **0.04 times**
- ▲ Cash position: **JPY 40.1 bn**
- ▲ Commitment line: **JPY 15 bn**

*End of September 2021

Cash generation ability

- ▲ Total 3-year operating cash flow: **JPY 30.8 bn**
*FY2018–FY2020
- ▲ Use of cash: ① **Growth investments**
② **Shareholder returns**
③ **Repayment of borrowing**

Capital efficiency

- ▲ ROE: **13.5%** > Cost of shareholders' equity 7.6%
- Assumptions for calculations
- ① Risk-free interest rate : 0.02%/10-year Japanese government bond, five-year average
 - ② Market risk premium : 6.3%/TOPIX yield
 - ③ β (beta) : 1.2%/Five-year, weekly

*FY2020 results

Stability and credit rating

- ▲ Equity ratio: **39.6%**
*End of September 2021
- ▲ Bond rating: **A- (Stable)**
*Japan Credit Rating Agency, Ltd. (JCR)



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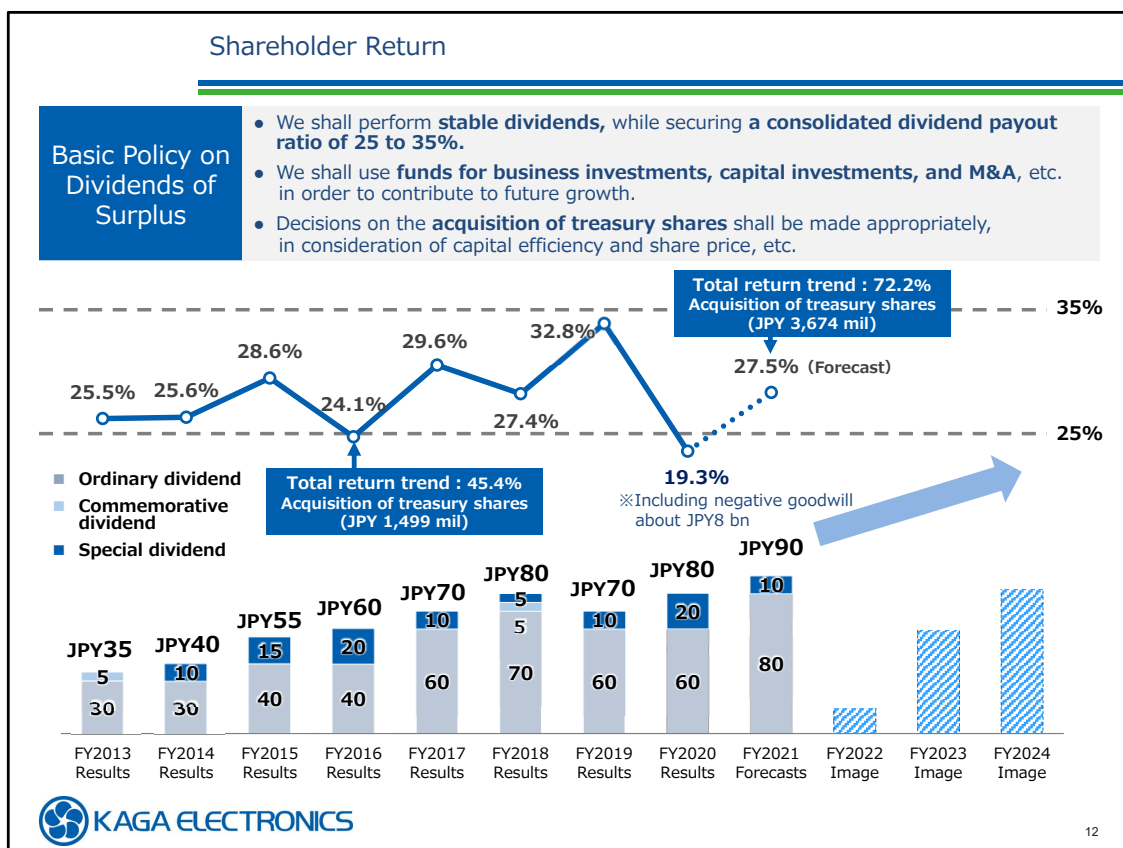
In this slide, I would like to explain the status of our financial base that will support our growth strategy to become a 1-Trillion-Yen company.

In the upper left corner, we titled it as borrowing capacity, and our net debt-to-equity ratio is zero. We have JPY40 billion in cash and deposits on hand, and we have secured JPY15 billion in commitment lines from banks.

Operating cash flow, shown in the upper right, has generated JPY30 billion over the past 3 years, and free cash flow has earned JPY18 billion.

In terms of capital efficiency on the lower left, the ROE of 13.5% in the previous year exceeded the cost of capital, and in terms of stability on the right, the capital adequacy ratio is 40% and the bond rating is A minus.

In short, we have a certain amount of cash on hand, and we have no concerns about bank borrowings, with a structure that can generate cash on a stable basis, and management that considers capital efficiency and stability, so I would like to confirm that we have a financial base that can handle any kind of financing in times of need.



Now, the last slide is about shareholder returns.

Returning profits to shareholders is 1 of the most important management issues for our company, and we strive to provide stable dividends in accordance with the basic policy described here.

The consolidated dividend payout ratio will be 25% to 35%, and the Company will aggressively invest in growth and make appropriate and flexible decisions on share buybacks.

The Company pays dividends in 2 forms: ordinary dividends and special dividends.

It is customary to pay a special dividend if the profit plan made at the beginning of the fiscal year is revised upward during the fiscal year, or if the final result exceeds the previous forecast, depending on the extent of the upward revision.

For the current fiscal year as well, the dividend forecast at the beginning of the fiscal year was JPY40 per share for both interim and year-end dividends.

But in the announcement of the second quarter financial results on the 4th of this month, we announced a revision to increase the dividend by JPY5 each as a special dividend.

We have paid a special dividend for 8 consecutive fiscal years.

This concludes the explanation of the next medium-term management plan announced today. Thank you very much for listening.

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



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- Forward-looking statements in these materials are based on information available to management at the time this report was prepared and assumptions that management believes are reasonable. Actual results may differ significantly from these statements for a number of reasons.

- 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.