KAGA ELECTRONICS

JPX-NIKKEI Mid Small
2021 - 2022

Financial Results Briefing Material
for the First Half of the
Fiscal Year ending March 2023

KAGA ELECTRONICS CO., LTD.
TSE Prime Market 8154

November 24, 2022

KAGA ELECTRONICS CO., LTD.

I am Kado of KAGA ELECTRONICS CO., LTD. Thank you for your continued support and cooperation in our IR activities.

Management Topics

Representative Director,
President & COO
Ryoichi Kado

I would now like to report on management topics for H1 of FY2022.

Review of the new medium-term management plan

IR schedule for revision announcement

- At the announcement of financial results for the fiscal year ending March 31, 2023, in May 2023, revised management targets for the final fiscal year (ending March 31, 2025) of the medium-term management plan will be disclosed together with earnings forecasts for the fiscal year ending March 31, 2024.
- In revising management targets, a comprehensive review of KPIs encompassing not only operating income but also net sales and ROE will be conducted.

Reasons for change of schedule

- To assess the final income level in the fiscal year ending March 31, 2023, as the upward momentum is expected to be maintained to exceed the targets.
- To improve the accuracy of income forecast for the fiscal year ending March 31, 2024, given concerns about downward pressure on earnings from the absence of spot sales, customers' inventory adjustment, and other factors.

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First, I would like to report on the revision of the operating income target of the medium-term management plan 2024, which was announced last November.

The financial results for this March exceeded the operating income announced in the mid-term business plan 2024. Therefore, we had said that we would announce the revised figures this November after assessing the figures for H1 of the current fiscal year. However, we have decided to disclose the management target figures together with the forecast for the fiscal year ending March 31, 2024, at the announcement of the fiscal year ending March 31, 2023, in May next year.

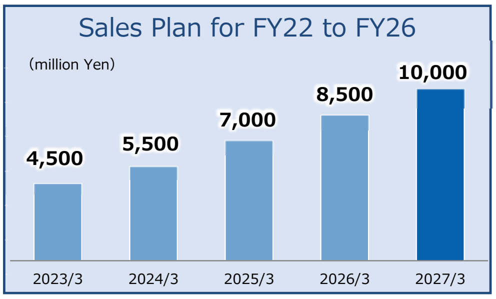
The primary reason for the change is to determine the profit level at the end of FY2023/03, as we expect earnings momentum to keep continuing in H2, which has been progressing above plan in Q1 and Q2. The second reason is to improve the accuracy of the profit forecast for FY2024/03, where there are concerns about downward pressure on earnings due to the elimination of spot sales, inventory adjustments by customers, and other factors.

In this way, we would like to report you our management targets with a high degree of certainty of realization based on a thorough assessment of both upside and downside risks.

EMS Business growth investment: new factory in Malaysia

【Outline of the new factory in Malaysia】

Site area	11,300㎡
Floor area	11,150㎡
Number of employee	900（max. 950)
Scheduled commencement of operations	October, 2022
Items produced	・Various power supply products ・Sanitary equipment, Industrial equipment, and electrical equipment substrates for consumer electronics



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From here, I would like to report on two growth investments in the EMS business.

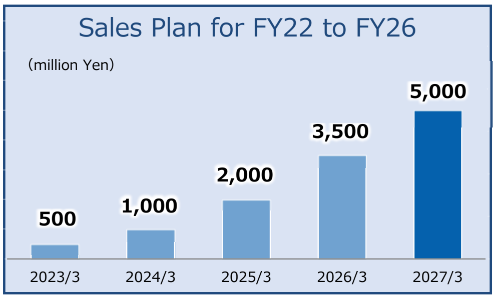
The first is a new plant in Malaysia. As we have already announced in a press release, we have been producing electrical circuit boards for power supply products, sanitary equipment, and consumer electronics in Malaysia since 2000. With the semiconductor shortage and supply chain disruptions beginning to dissipate, and with a rapid recovery in customer requests for increased production and new inquiries, we have decided to renew our existing aging factory buildings and facilities and establish a system that can respond to strong demand. Mass production began from the end of October.

The new plant is 1.3 times larger than the old plant, and cutting-edge equipment is installed to further improve production quality and efficiency. In addition to an increase in orders from existing customers, we aim to achieve sales of JPY10 billion within five years of the start of operations, with a view to meeting the needs for distributed production in the ASEAN region and receiving new orders from local companies.

EMS Business growth investment: new factory in Turkey

【Outline of the new factory in Turkey】

Site area	15,000㎡
Floor area	11,600㎡
Number of employee	330
Scheduled commencement of operations	June, 2023
Items produced	・Electrical units for air conditioners ・Substrates for electric tools ・Automotive equipment substrates



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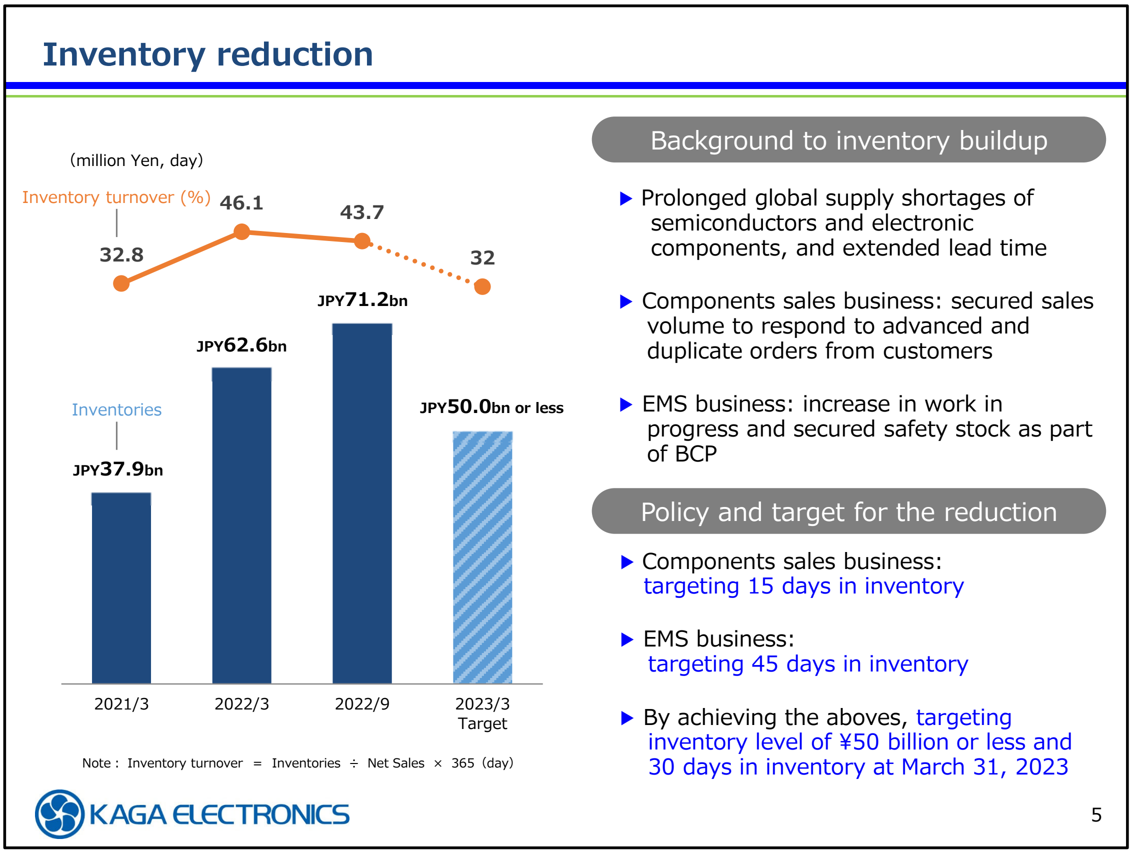
Another new plant is under construction in Turkey to start mass production in June next year.

In Turkey, we made a capital investment in 2018 as a branch plant of the Czech plant, and since then we have been developing production mainly for air conditioning equipment-related unit assembly. This time, we have decided to construct a new plant in order to expand its functions and establish a system that can handle the mounting of electrical circuit boards in Turkey as well. In addition to meeting the needs of customers who are strengthening local production and local procurement in Europe, we will use Turkey as a base to expand our European operations for board mounting.

We aim to expand our customer base from air-conditioning equipment to in-vehicle and industrial equipment, and to achieve sales of JPY5 billion within five years of the start of operations.



So far, I have explained offensive management, but in this slide, I will explain defensive management.

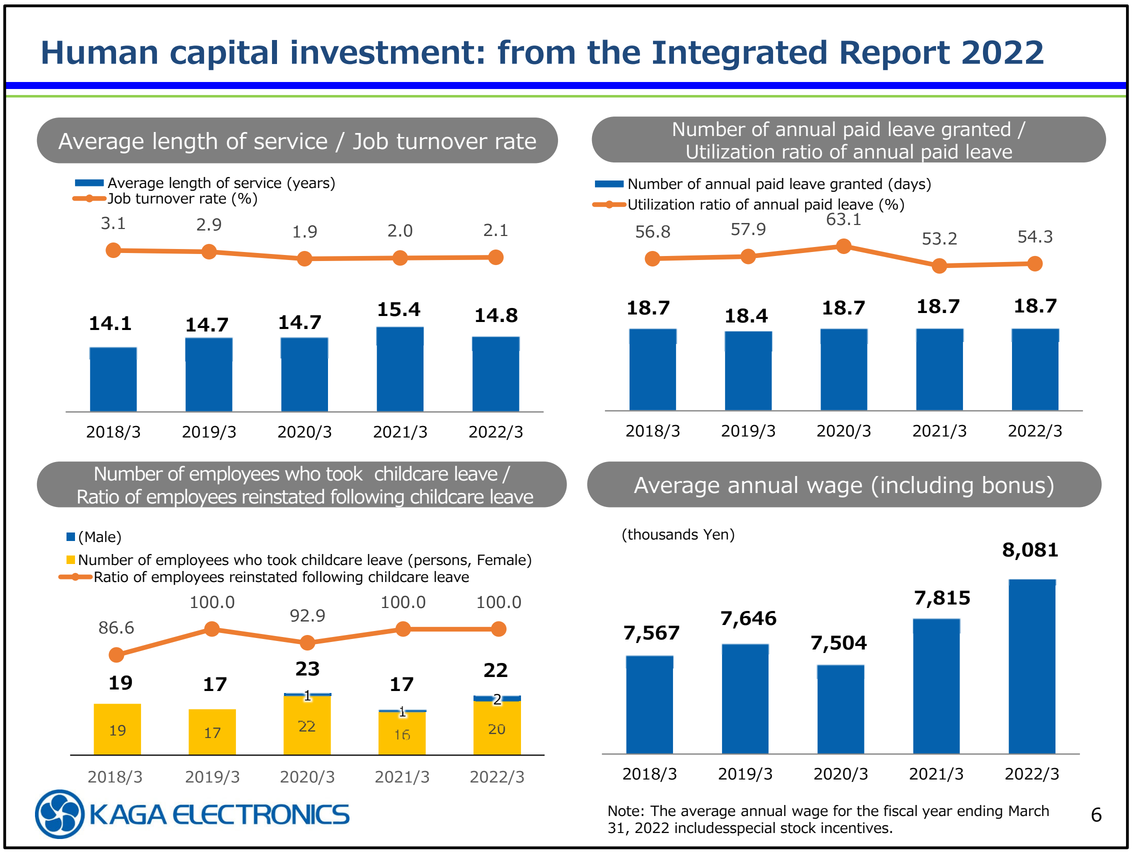
One of the most pressing management issues is inventory reduction. Many manufacturers have been reviewing their procurement policies and building up parts inventories over the past year or two against a backdrop of global shortages of semiconductors and electronic components, longer lead times, and disruptions in international logistics networks.

We are no exception. In our parts sales business, we need to secure the quantity of goods as customers place advance or duplicate orders. In the EMS business, there was an increase in work in process due to difficulties in procuring some components and securing safety stock as BCP.

As a result, inventories at the beginning of the current period were approximately JPY25 billion higher than a year ago, and the one in this September were approximately JPY8 billion higher than at the beginning of the period. Since these inventories are all on a firm order basis with customers, they will not remain stagnant, but in any case, we are working to convert them to cash as soon as possible.

We believe that the increase in turnover days peaked out in Q2, and we will continue to reduce turnover days toward the end of March to 15 days in the parts sales business and 45 days in the EMS business.

By achieving these goals, we expect to normalize inventory levels to less than JPY50 billion and turnover days to 30 days at the end of the current fiscal year. At the same time, needless to say, cash will be generated.



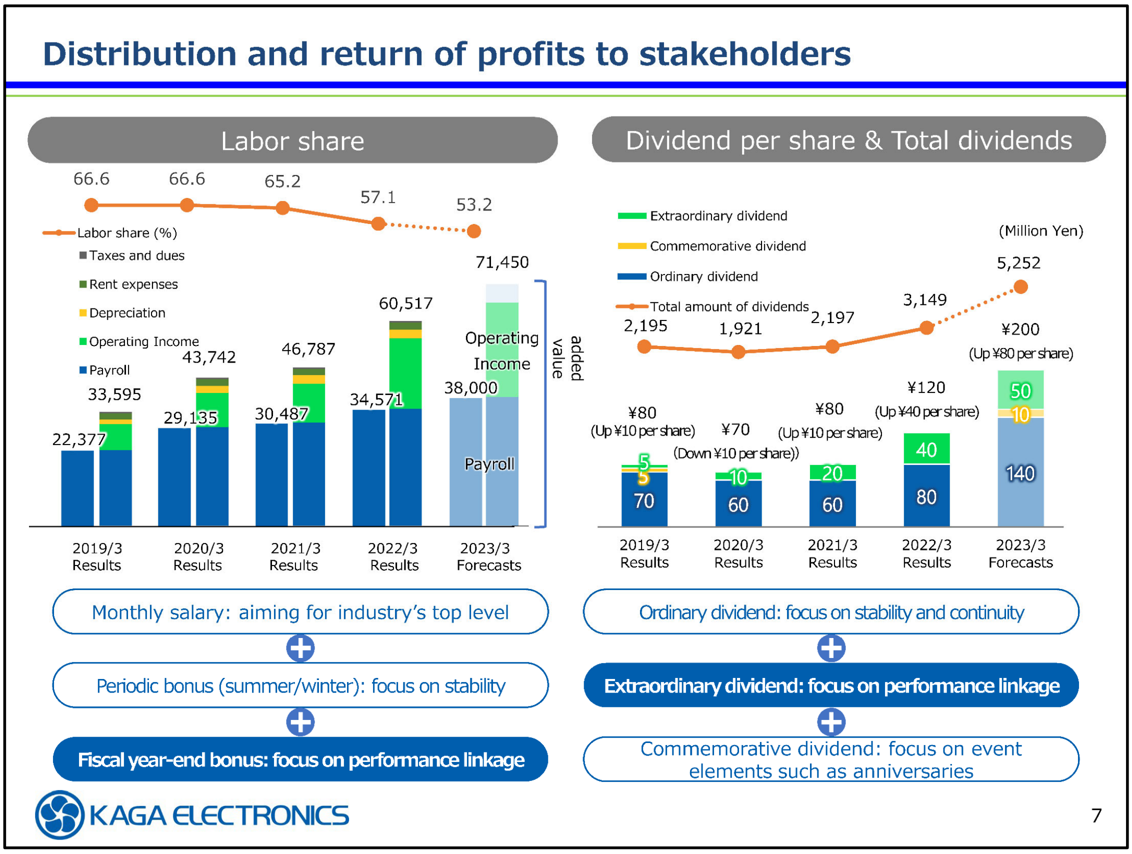
The last two slides were prepared from the perspective of sustainability management.

First, in terms of human investment, I have shown four graphs here. All of this information was disclosed in this year's integrated report. The average length of service is roughly 15 years, which is neither good nor bad, but the turnover rate is around 2%, which I believe is quite low.

The number of paid holidays granted is around 18 days, which is on par with the average, but we grant 6 days of refreshment leave in addition to this, which is not counted here. The paid leave utilization rate is around 55%, which is higher than the average of 48.6% for the wholesale and retail industries, according to data from the Ministry of Health, Labour and Welfare.

About 20 employees take parental leave every year, and almost 100% return to work. Recently, some male employees have finally taken parental leave. Since there are still so few, we are in the process of educating our employee through internal newsletters and other means.

The average annual salary has been increasing aggressively every year, driven by the recent expansion of business performance. We recognize that our salaries are among the highest in the industry.



Since we have talked about salaries, the last slide presents two data on the distribution and return of profits to stakeholders.

First, the labor share has remained around 60%. We are aware that the average for the wholesale industry is about 50%, so this level is higher than that. In addition to monthly salaries and regular bonuses, we have a unique system of performance-linked year-end bonuses. The payment will be made when the financial results exceed the profit forecast.

At the same time, the return of profits to shareholders is also an important management issue. As noted here, the dividends are divided into three categories: ordinary dividends, special dividends, and commemorative dividends.

We emphasize stable and sustainable dividends for ordinary dividends, and performance-linked dividends for special dividends. We usually pay an ordinary dividend at the beginning of the fiscal year, and then revise the profit forecast upward during the fiscal year, or pay a special dividend if the financial results ultimately exceed the profit forecast.

We have again revised our forecast to JPY200 per share by adding a special dividend of JPY50 to the initial forecast of JPY150 per share.

This is the KAGA ELECTRONICS way of distributing and returning profits to stakeholders that reward employees with year-end bonuses and shareholders with special dividends in return for their good performance. This is the policy of our founder, Isao Tsukamoto, since the establishment of the Company: profits are shared by all, and we will continue to cherish this policy as part of our company DNA to be passed on to the next generation. We hope that all the investors gathered here today will join us in the circle of sharing.

“Everything we do is for our customers

KAGA ELECTRONICS CO.,LTD.

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This concludes my explanation. Thank you very much for your time today.