

Financial Results Briefing Material
for the First Half of the
Fiscal Year Ending March 2024

KAGA ELECTRONICS CO., LTD.

TSE Prime Market 8154

November 24, 2023

KAGA ELECTRONICS CO., LTD.

I am Kado, President of KAGA ELECTRONICS.

Thank you for your continued support and cooperation in our IR activities.

I would now like to present our management topics for the first half of the fiscal year ending March 2024.


Management Topics

Representative Director,
President & COO
Ryoichi Kado

There are three main topics, which are financial results, the EMS business, and human capital-related initiatives.

FY2024/3 2Q Financial Results: Review of the First Half and Outlook for the Second Half

Initial forecast assumptions and progress up to 2Q	<p>Assumptions Incorporated “impact of inventory adjustments” and “disappearance of spot demand” in the electronic components business</p> <p>Progress in 2Q (1) Disappearance of spot demand: as anticipated (2) Impact of inventory adjustments: impact emerged partially but not as much as anticipated</p> <p>→ Net sales and operating income decreased year on year, but both exceeded the internal plan, by 15.0 billion yen and 3.8 billion yen, respectively</p>				
Increase/decrease factors in 2Q in electronic components business	<p>● Main factors behind 2Q net sales decrease in electronic components business</p> <table border="1" style="width: 100%; border-collapse: collapse;"> <thead> <tr style="background-color: #4F81BD; color: white;"> <th style="text-align: left;">FY2023/3</th> <th style="text-align: left;">FY2024/3</th> </tr> </thead> <tbody> <tr> <td style="text-align: right;">268.4 billion yen</td> <td style="text-align: right;">242.5 billion yen : (25.9) billion yen (15.5) billion yen: Spot sales (13.0) billion yen: Excel's sales to a major customer +2.5 billion yen</td> </tr> </tbody> </table> <p>● Sales status with the top 20 customers by sales</p> <p>Group in adjustment process: industrial equipment, medical, air-conditioning, etc. ... (13.0) billion yen Group with solid sales: in-vehicle, amusement, consumer-related, etc. ... +17.0 billion yen</p>	FY2023/3	FY2024/3	268.4 billion yen	242.5 billion yen : (25.9) billion yen (15.5) billion yen: Spot sales (13.0) billion yen: Excel's sales to a major customer +2.5 billion yen
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FY 2024/3 2H outlook	<ul style="list-style-type: none"> ● Upside: better-than-expected performance to be maintained as alternative sales and new transactions originating from spot sales continue ● Downside: possibility that impact of inventory adjustment would linger to the second half ● In addition, uncertainty is rising amid heightening geopolitical risks and other situations. In light of such management environment, upward revision to earnings forecast is held off at this time. 				


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First, I would like to give you a summary of our financial results for the first half of the fiscal year ending March 2024, and our forecast for the full year.

For this fiscal year, we forecast decreases in net sales and income because in the assumption, we have factored in the two aspects of “impact of inventory adjustments” in the electronic components business resulting from easing of the supply and demand situation for semiconductors and electronic components, and “disappearance of spot demand,” which contributed to earnings in the previous two fiscal years.

Looking at the progress made up to the second quarter, net sales in the electronic components business recorded a decrease of 25.9 billion yen year on year, but exceeded the internal plan by 17.0 billion yen. Overall, net sales exceeded the internal plan by 15.0 billion yen. Considering these results, we believe that disappearance of spot demand was as anticipated, while impact of inventory adjustments did not emerge as much as anticipated.

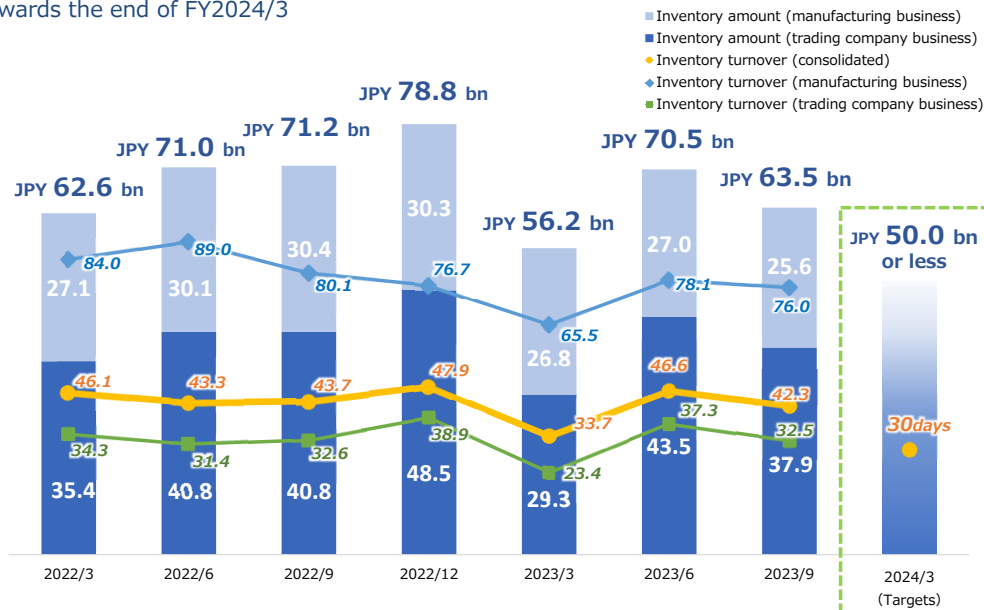
In addition, aside from disappearance of spot demand, another major factor behind lower net sales in the electronic components business was the decrease in sales to a major customer of Excel. Excluding these factors, net sales were almost flat year on year. Looking at year-on-year changes in sales to the top 20 companies (in terms of sales), which our major customers, a decrease of approximately 13.0 billion yen was recorded in sales to the industrial equipment, medical, and air-conditioning industries due to emergence of the impact of inventory adjustments, in contrast to the strength of the robust sales group including in-vehicle, amusement, and consumer-related industries with sales increasing by approximately 17.0 billion yen.

With this situation in mind, if we look ahead at the second half, we see both positive and negative factors. Upside potential includes anticipation that better-than-expected performance of the “group with robust sales” would continue, supported partly by new transactions originating from alternative sales and spot sales. As for the downside, there is risk that impact of inventory adjustments by the “group in adjustment process” would linger to the second half. We would need to carefully assess these trends. In addition, the management environment is becoming increasingly uncertain due to heightening geopolitical risks and other situations.

Taking all these circumstances into consideration, we have decided to hold off on revising the earnings forecast at this time.

FY2024/3 2Q Financial Results: Inventory Reduction

Aim for 50 billion yen or less in inventory amount and inventory turnover period of 30 days towards the end of FY2024/3



The next topic is “inventory reduction”, which is one of our most important management issues that we pay constant attention.

This graph shows our consolidated inventory, broken down into the manufacturing business, mainly EMS, and the trading company business, mainly component sales.

As we mentioned in the previous briefing, we were able to bring down the inventory level, which had been gradually building up throughout FY2022, to the 50.0 billion yen range at the end of the fiscal year.

In particular, in the trading company business which requires very little follow-up work, we were able to rapidly reduce our inventory position.

Although subsequently, we saw an increase to 70.5 billion yen as of the end of June, a downtrend phase then resumed, bringing inventory down to 63.5 billion yen at the end of September.

That said, we have yet to reach the level of the previous fiscal year-end, and recognize that further reduction is necessary.

We will try again to achieve our target of “50.0 billion yen or less” by the end of the current fiscal year, a target that we could not achieve in the previous fiscal year, and aim for inventory turnover of 30 days.

EMS Business: Construction of a New Factory in Mexico

<Purposes>

- To meet the growing production demand that is expected for North and Latin American markets
- To promote highly efficient and environmentally friendly manufacturing operation by introducing the latest energy-saving equipment
- In future, set up an integrated production base that includes component molding, sheet metal processing, and finished product assembly, in addition to unit assembly and circuit board assembly

TAXAN MEXICO S.A. DE C.V.



Outline of the New Factory

Location : Parque Industrial Millenium, Arroyos, San Luis Potosí

Number of Employees : 700 (at start)

Land area : 80,000m²

Floor area : 20,000m²

Expected Investment Amount : total around 5 billion yen over the next five years. (includes the land purchase and buildings)

Items produced

Assembly of automotive lighting units and circuit boards for air-conditioning equipment, etc.

Start of operation

Scheduled for April 2024



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Next, I would like to talk about our EMS business.

The first subject is construction of a new factory in Mexico.

As already announced in a news release, we are expanding our production system through our wholly owned subsidiary TAXAN MEXICO to meet the growing EMS demand in Mexico.

Since its establishment in 2017, TAXAN MEXICO has been engaged in the EMS business, focusing on assembly of lighting units for four-wheelers for the U.S. market. The ongoing construction of a new factory in Mexico is intended to meet the growing production demand that is expected for North and Latin American markets.

It is also an initiative to further promote highly efficient and environmentally friendly manufacturing operation by introducing the latest energy-saving equipment.

Additionally, in future, we are considering setting up an integrated production base that includes component molding, sheet metal processing, and finished product assembly, in addition to unit assembly and circuit board assembly.

We will use the new factory in Mexico as a base to promote local production and production close to the markets, thereby shortening shipping time and reducing logistics costs, and build a structure for the stable supply of products to the markets.

EMS Business: Strengthen Competitive Strength & Increase Production Capacity

- In addition to construction of new factories overseas (Malaysia and Turkey), enhance production facilities in domestic factories
- Enhance production capacity globally and in Japan to strengthen ability to respond to diversifying customer needs

Malaysia Factory (Relocation)



Business Content

Various power supply products and PCBA for sanitary equipment, industrial equipment, and Consumer product

Enhancement details

Addition of SMT and DIP lines, expansion of floor area

Turkey Factory (Relocation)



Business Content

Electrical units for air conditioners and PCBA for electric tools, Automotive equipment substrates

Enhancement details

Addition of assembly line 2024: Installation of new SMT line

KAGA EMS TOWADA (Facility enhancement)



Business Content

Automotive, Medical device, Consumer product and industrial equipment, food processing equipment related, etc.

Enhancement details

Addition of SMT line and automatic assembly line

Kyokuto Electric (Facility enhancement)



Business Content

Automotive related, PCBA for Consumer product and industrial equipment related

Enhancement details

Addition of 2 SMT lines



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Aside from Mexico, production capacity expansion is also pursued elsewhere, in Japan and overseas. The four factories on this slide are bases that underwent facility enhancement in the past two years.

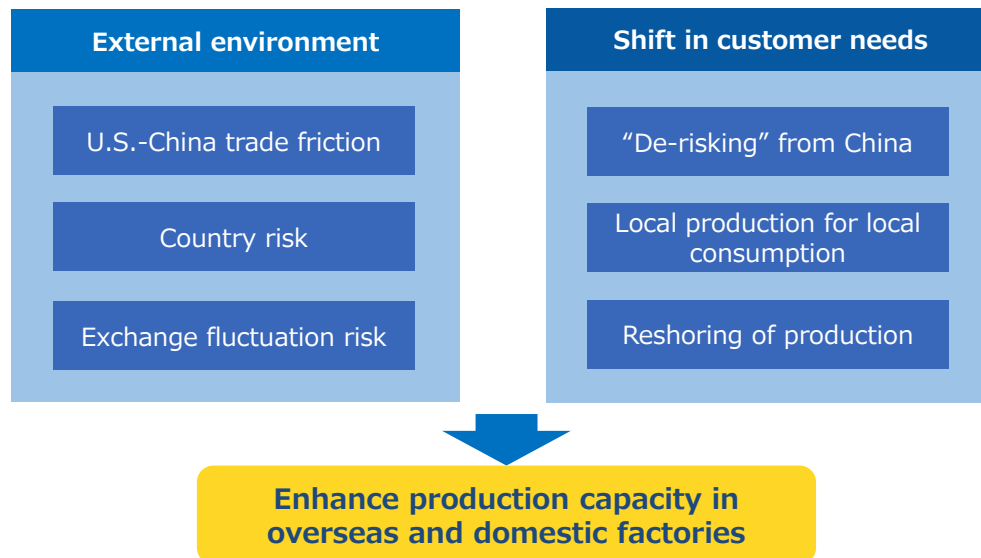
In order to respond to the growth of orders from existing customers, production lines were increased through factory relocation and expansion in Malaysia in October 2022, and in Turkey in June 2023. Our Turkish factory, which is currently conducting assembly of electrical units for air conditioners, will also be able to handle circuit board mounting once a new SMT line is installed.

In Japan, one assembly line and one SMT line have been added at Kaga EMS TOWADA, and two SMT lines have been added at Kyokuto Electric.

Through such measures, we are expanding our production capacity in accordance with the situation in each region, both in Japan and overseas, to respond to the diversifying needs of our customers.

EMS Business: Background of Production Capacity Enhancement, Changes in Business Environment

Capture the tailwinds provided by increasingly complex business environment and ensuing changes in customer needs, and flexibly enhance production capacity in overseas and domestic factories



In the background of production capacity enhancement is U.S.–China trade friction within the recent economic context and other factors that are making the external environment increasingly complex, including country risk and exchange fluctuation risk, bringing about significant changes in customer needs.

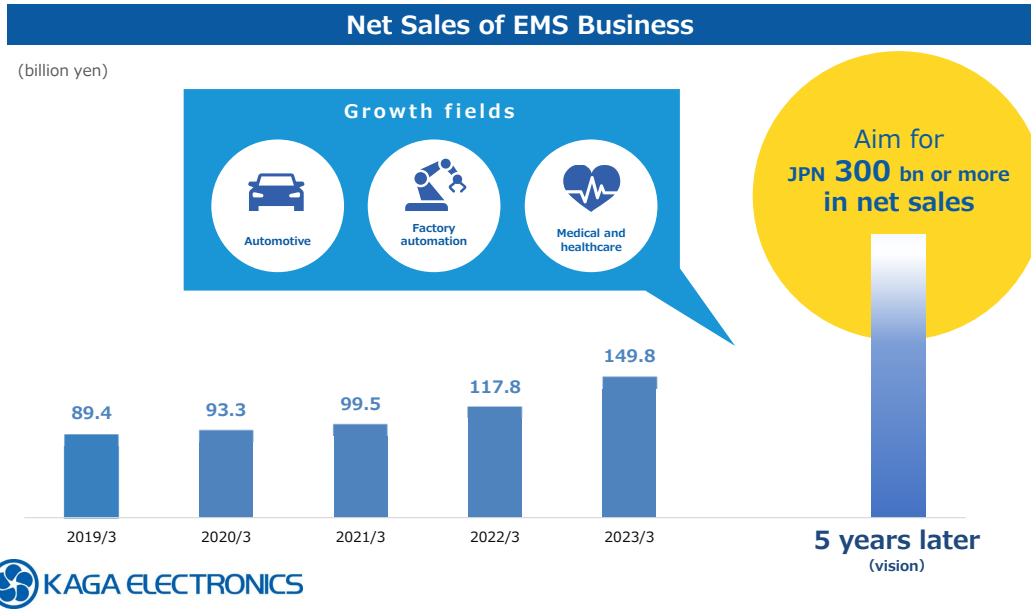
Specifically, we are seeing a shift to “local production for local consumption” by customers whose manufacturing of finished products was heavily concentrated in China, and who are now moving their production back to Japan or to ASEAN countries, the U.S., Europe and other areas close to where their products are consumed.

What we are seeking therefore is to capture the tailwinds provided by the increasingly complex business environment and ensuing changes in customer needs as I have just described, and flexibly enhance production capacity in overseas and domestic factories.

We believe that the three years starting from the current fiscal year will be a period of investment to achieve rapid expansion of our EMS business.

EMS Business: Vision of Growth

Aim for net sales of 300 billion yen or more in 5 years by focusing on “mobility,” “industrial equipment,” “medical,” and other growth fields as identified in Medium-Term Management Plan 2024



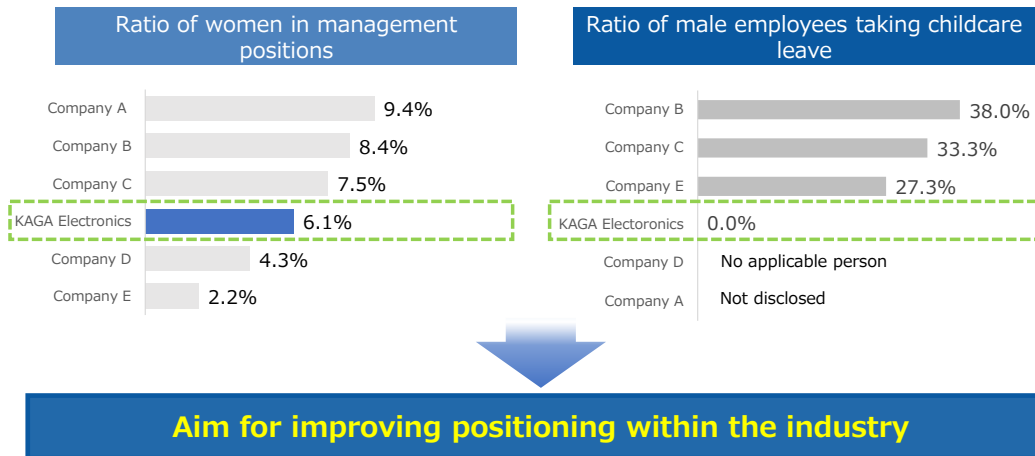
So far, I have explained the measures that will contribute to strengthening the EMS business. I would also like to share with you our vision of future growth.

In our Medium-Term Management Plan 2024, we have set forth a basic strategy of “connecting expansion of the trading company business to growth of the EMS business.” This is a mechanism that allows us to leverage our strengths by using our procurement capabilities in the component sales business to expand volume, and realizing higher value addition and maximizing profit generation while supporting customers in their manufacturing.

Specifically, through expansion of production capacity at the factories that I have just mentioned, we will focus particularly on the growth fields as identified in the Medium-Term Management Plan, such as “mobility,” “industrial equipment,” and “medical,” with the aim of achieving net sales of 300 billion yen or more in about 5 years (this is not a commitment but my personal vision of growth).

Human Capital-Related Initiatives

- Ratio of women in management positions, although on par with the industry average, remains at 6.1%
- No record of male employees who took childcare leave



(Notes) - FY2023/3
 - Kaga Electronics figures are non-consolidated
 (Source) According to research by Kaga Electronics based on the respective companies' annual securities reports

Lastly, I would like to talk about our human capital-related initiatives with a focus on diversity to facilitate diverse work styles.

These graphs show the percentage of women in management positions and the percentage of male employees who took childcare leave in the fiscal year ended March 2023, compared with our peer companies. All figures are based on disclosed data of the top five companies in terms of operating income, taken from their annual securities reports disclosed in June this year.

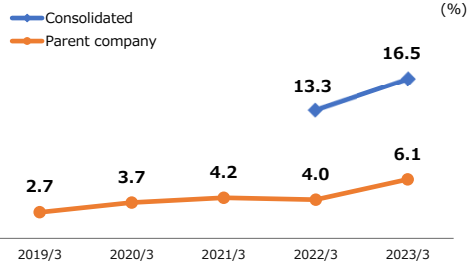
As you can see, the percentage of women in management positions at Kaga Electronics is 6.1%. While we recognize that this is on a par with the industry average, we believe it is by no means high.

As for childcare leave of male employees, the number of childcare leave takers last year was zero.

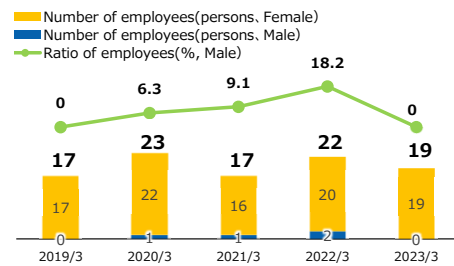
We will actively invest in and work on improving our position in the industry, which would also be conducive to maximizing the value of human resources and increasing the competitiveness of the company.

Human Capital-Related Initiatives

Ratio of women among managers



Number of male employees taking childcare leave



<Major initiatives>

- Enrich training programs for managers
- Switch from general office employee positions to career-track positions
- Focus on strengthening recruitment of female new graduates for career-track positions (Reference)

Ratio of Women among new graduates hired as career-track employees

Target	Year	Value	Results	Year	Value
Medium-term targets	2023	30%	Results	2021	5.8%
	2028	40%		2022	6.2%
Long-term targets	2023	18.0%	Results	2023	18.0%
	2024	21.7%		2024	21.7% (Plan)

<Major initiative>

- Revised "Special childcare leave" system as of April 1, 2023, from the point of view of encouraging male employees to take childcare leave

Key contents of the revision

When leave can be taken	At the time spouse gives birth → At the time spouse gives birth or for care of a child under the age of 2
Number of days that can be taken	2 days → 7 days (may be taken in installments)

Let me explain our achievements in a little more detail, in chronological order.

On a consolidated basis, the percentage of women in management positions was 16.5% as of the end of the previous fiscal year, which was driven by overseas subsidiaries. As set forth in the Medium- to Long-Term Sustainability Management Plan, the target for 2024 is 15%, which means that we were able to achieve our target ahead of schedule.

However, we believe that for Kaga Electronics on a non-consolidated basis, there is still room for upside, and thus we are working on rolling out various initiatives, such as enriching training programs for managers.

Regarding childcare leave for male employees, we implemented a system revision on April 1 this year to create an environment that facilitates men to take childcare leave.

Going forward, we will continue to promote diverse work styles to suit employees' individual circumstances and maximize the value of each employee, through which we will seek to maintain and improve our competitiveness and increase our corporate value.

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



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This concludes my explanation.

Thank you very much for your time.

- 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
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