

For Institutional Investors/Analysts



**KAGA ELECTRONICS  
CO., LTD.**

## **Financial Results Briefing Material**

for the Fiscal Year ended March 31, 2020

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**KAGA ELECTRONICS CO., LTD.**

TSE 1st section 8154

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**Consolidated Financial Results  
for the Fiscal Year ended March 31, 2020**

Managing Director  
KAGA ELECTRONICS CO., LTD.

**Eiji Kawamura**

My name is Eiji Kawamura. Thank you for your usual support. I am going to explain our financial results in the fiscal year ended in March 2020.

## Summary of Financial Results for FY2020/3

### FY2020/3 Results

- **Significant increase** in net sales **with contribution to full-year results from the consolidation of Fujitsu Electronics.**
- Operating income and ordinary income **both exceeded the previous forecast and reached record-high levels.**
- Net income decreased **due to the elimination of gain on negative goodwill** recorded in the previous fiscal year **and loss on valuation of shareholdings.**
- During the spread of the novel coronavirus in the January-March period, although production was suspended at some plants including China, performance ended up exceeding the plan as a result of the Group's concerted efforts to minimize the impact.
- The year-end dividend will be increased from the initial forecast of 30 yen per share **with a special dividend of 10 yen per share** for 40 yen per share.

\*Combined with an interim dividend, **the annual dividend will be 70 yen per share.**

### Overview of the main segments

- |                       |   |
|-----------------------|---|
| Electronic Components | <ul style="list-style-type: none"> <li>•In the EMS business, performance was strong throughout the year in the areas of medical equipment and automotive devices.</li> <li>•In the components sales business, the closing of Cypress business also made a significant contribution.</li> </ul>  |
| Information Equipment | <ul style="list-style-type: none"> <li>•The PC product sales business grew by capturing demand from the switchover to Windows 10.</li> <li>•Sales in the housing-related home electronic appliances business continue to be weak.</li> <li>•The commercial facilities-related LED installation business was also sluggish due to a lull in large-lot demand.</li> </ul> |

### Earnings forecast for FY2021/3

- Due to the spread of novel coronavirus infection, **it is difficult to make a reasonable calculation at this stage, so the forecast is undecided.**
- The dividend forecast is also undecided at this time.

Net sales increased significantly in the fiscal year ended in March 2020 due in part to earnings contributions from the consolidation of Fujitsu Electronics. Both operating income and ordinary income exceeded the previous forecasts and reached new highs. Net income decreased due to the elimination of gains on negative goodwill recorded in the previous fiscal year and the return of our tax obligations to normal levels, as well as losses on the valuation of shareholdings, among other factors. As the novel coronavirus outbreak spread in the January-March quarter, production was temporarily suspended at some plants, including in China, but the Group's concerted efforts to minimize the impact resulted in earnings that surpassed our plans. The year-end dividend will be increased from the initial forecast of 30 yen per share with a special dividend of 10 yen per share for 40 yen per share. When combined with the 30-yen interim dividend, the annual dividend will total 70 yen per share.

Moving on to an overview of the main segments, in the electronic components segment, the EMS business showed strong performance throughout the year in the areas of medical equipment and automotive devices. In the components sales business, the closing of the Cypress business also made a significant contribution. In the information equipment segment, the PC product sales business grew by capturing demand from the switchover to Windows 10. The housing-related home electronic appliances business remained weak, and the commercial facilities-related LED installation business was also sluggish due to a lull in large-lot demand. Due to the spread of novel coronavirus infection, it is difficult at this stage to make reasonable calculations for our earnings forecasts for the fiscal year ending in March 2021, so this forecast as well as that for the dividend are undecided at this time.

## Financial Highlights for FY2020/3

(million yen)

	FY2019/3 Results	FY2020/3 Previous forecast	FY2020/3 Results	YoY	vs Forecast
Net sales	292,779	442,000	<b>443,615</b>	51.5%	0.4%
Gross profit	35,546	47,000	<b>47,016</b>	32.3%	0.0%
Gross profit margin	12.1%	10.6%	<b>10.6%</b>		
SG&A	27,976	38,000	<b>37,001</b>	32.3%	-2.6%
Operating income	7,570	9,000	<b>10,014</b>	32.3%	11.3%
Ordinary income	7,859	9,000	<b>10,137</b>	29.0%	12.6%
Profit attributable to owners of parent	8,014	5,000	<b>5,852</b>	-27.0%	17.0%
EPS (Yen)	292.07	182.17	<b>213.21</b>	-	-
ROE	10.9	6.4	<b>7.6</b>	-3.3pt	+1.2pt

Note: Previous forecast was announced on February 6, 2020.

This slide shows the financial highlights for the fiscal year ended in March 2020. Net sales increased by 150,836 million yen over the previous fiscal year to 443,615 million yen, representing a 51.5% increase. Net sales came in at 1,615 million yen over the revised forecast we announced on February 6 of this year. Operating income totaled 10,014 million yen, up 2,444 million yen over the previous year, representing a 32.3% increase. Operating income was 1,014 million, or 11.3%, higher than the forecast. Ordinary income totaled 10,137 million yen, a 2,278 million yen, or 29%, increase over the previous year. This was 1,137 million yen, or 12.6% higher than the forecast. Profit attributable to owners of the parent amounted to 5,852 million yen, which was 2,162 million yen, or 27%, lower than the previous year. This was 852 million yen, or 17%, higher than we had forecast. As a result, net income per share was 213.21 yen, 31.04 yen higher than the forecast. ROE was 7.6%, 3.3 points down over the previous year, but 1.2 points above the forecast.

## Financial Results by Business Segment for FY2020/3

(million yen)

		FY2019/3 Results	FY2020/3 Results	YoY
Electronic Component	Net sales	225,598	<b>377,587</b>	67.4%
	Segment income	4,761	<b>7,503</b>	57.6%
Information Equipment	Net sales	44,344	<b>43,466</b>	-2.0%
	Segment income	1,906	<b>1,707</b>	-10.4%
Software	Net sales	2,876	<b>2,778</b>	-3.4%
	Segment income	247	<b>236</b>	-4.3%
Others	Net sales	19,959	<b>19,781</b>	-0.9%
	Segment income	490	<b>452</b>	-7.8%
Total	Net sales	292,779	<b>443,615</b>	51.5%
	Segment income	7,570	<b>10,014</b>	32.3%

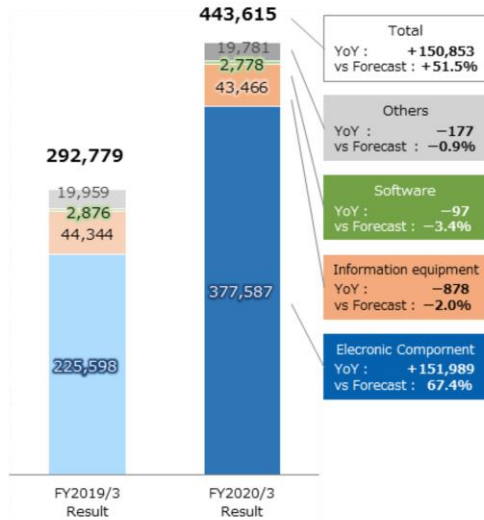
Note: Figures of each segment income are not inter-segment adjusted.  
Total amount is inter-segment adjusted (operating income).

I will continue with an overview of earnings by segment. Net sales in the electronic component business totaled 377,587 million yen, an increase of 151,989 million yen, or 67.4%, over the previous year. Segment income for electronic components was 7,503 million yen, up 2,741 million yen, or 57.6%. Net sales in the information equipment business amounted to 43,466 million yen, down 878 million yen, or 2%. Segment income was 1,707 million yen, down 198 million yen, or 10.4%. Net sales in the software business amounted to 2,778 million yen, a decrease of 97 million yen. Segment income totaled 236 million yen, down 10 million yen. In the Others business, net sales came in at 19,781 million yen, down 177 million yen, and segment income was 452 million yen, down 38 million yen.

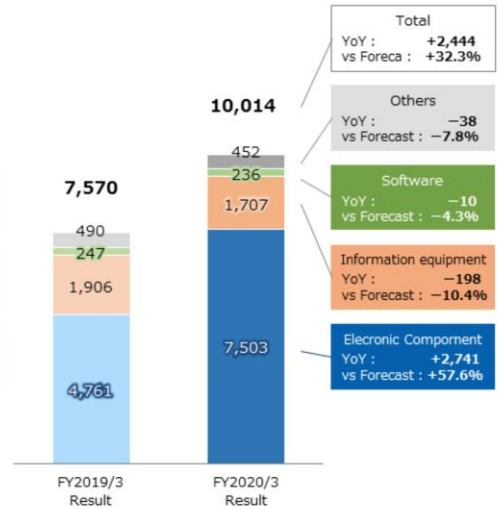
## Financial Highlights by Business Segment

(Million Yen)

### Net Sales



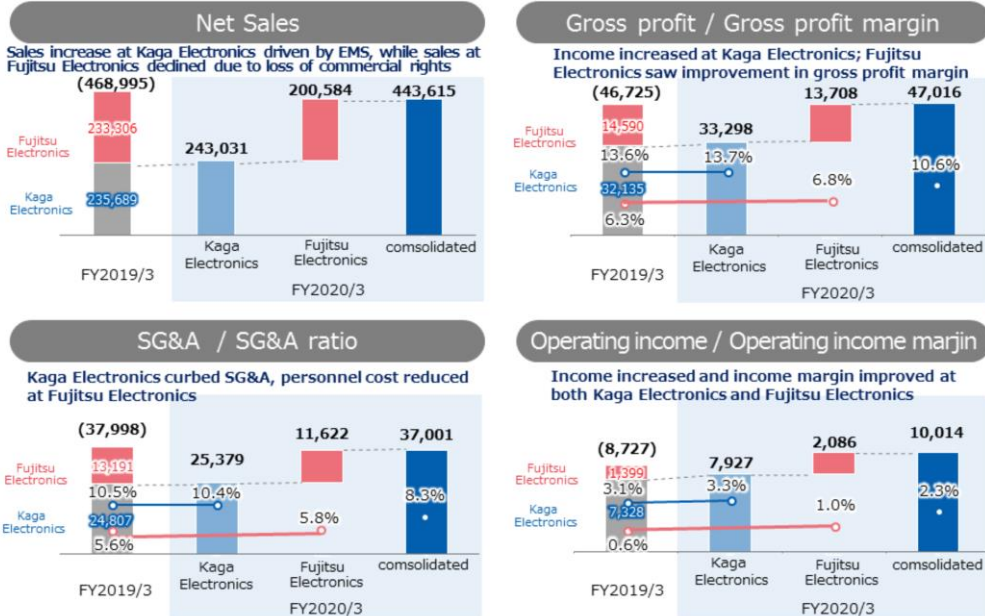
### Segment Income



Note: Figures of each segment income are not inter-segment adjusted.  
Total amount is inter-segment adjusted (operating income).

## Effect of Fujitsu Electronics conversion to subsidiary

※ In million yen, figures in ( ) are simple sums. Actual figures of Fujitsu Electronics for the previous period are for reference only.



(note) With respect to gross profit and operating income, figures presented above are before consolidation adjustments between the two companies. For reference, after consolidation adjustments, gross profit stood at 9million yen, and operating income came to 1 million yen.

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Next, Fujitsu Electronics became a Group company from January 2019, and its earnings contributed to our overall earnings throughout this fiscal year, which had a very significant impact. This slide explains the financial impact resulting from making Fujitsu Electronics a Group company. Of the 443,615 million yen in net sales mentioned earlier, Fujitsu Electronics sales totaled 200,584 million yen. Without Fujitsu Electronics' sales, net sales for the former Kaga Electronics Group would have been 243,031 million yen, an increase of 7,342 million yen over the previous year. Gross profit was 47,016 million yen for the Group overall, but Fujitsu Electronics accounted for 13,708 million yen of this, while gross profit for the former Kaga Electronics Group would have been 33,298 million yen, an increase of 1,163 million yen over the previous year. In addition, while the gross profit margin was 6.3% for Fujitsu Electronics in the fiscal year ended in March 2019, it improved by 0.5% to 6.8% in the current fiscal year. The former Kaga Electronics Group's gross profit margin was 13.7% in the fiscal year ended in March 2020, which is a 0.1-point improvement over a 13.6% margin in the previous year. SG&A expenses were 37,001 million yen overall, of which Fujitsu Electronics accounted for 11,622 million yen and the former Kaga Electronics Group accounted for 25,379 million yen, up 572 million yen over the previous year. Operating income, which is gross profit less SG&A expenses, totaled 10,014 million yen, of which Fujitsu Electronics accounted for 2,086 million yen and the former Kaga Electronics Group accounted for 7,927 million, representing a 599 million yen increase.

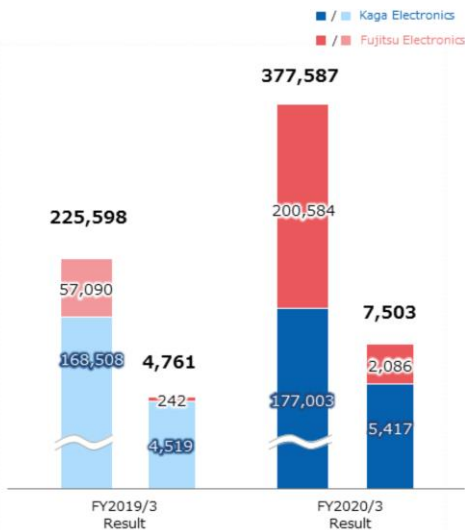


## Financial Highlights: Electronic Component

(million yen)

Net sales/Segment income

YoY



- Net sales ▶ **+151,989**million Yen **67.4%**up
- Segment Income ▶ **+2,741**million Yen **57.6%**up

- The EMS business made steady progress throughout the year in medical equipment and automotive devices.
- As a result of the spread of COVID-19, although operations were suspended at some overseas plants, the impact on the current fiscal year's results was limited.

- In the components sales business, sales of LEDs for in-vehicle and consumer use were strong.
- The consolidation of Fujitsu Electronics has added new revenue for mobile phones and automotive devices.
- There was also a one-time revenue contribution from the termination of the contract with Cypress.



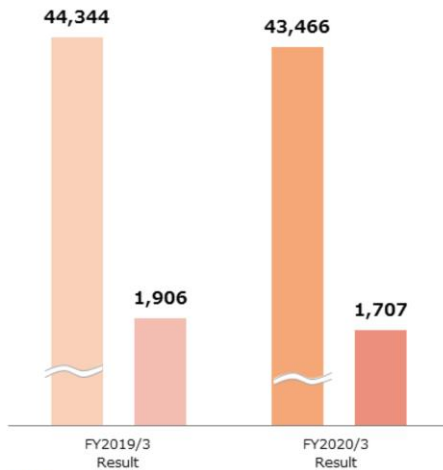
I will now explain the earnings of the electronic component business, our main business. Net sales in this business increased by 151,989 million yen over the previous fiscal year, when sales totaled 377,587 million yen. Income increased by 2,741 million yen, due to the EMS business making steady progress throughout the year in medical equipment and automotive devices. Operations were suspended at some overseas plants as a result of the spread of COVID-19, but the impact on the current fiscal year's results was limited. In the components sales business, sales of LEDs for in-vehicle and consumer use were strong. In addition, the consolidation of Fujitsu Electronics has added new revenue for mobile phones and automotive devices. There was also a one-time revenue contribution from the termination of the contract with Cypress. This completes my overview of the electronic component business.

## Financial Highlights: Information Equipment

(million yen)

Net sales/Segment income

YoY



- Net sales ▶ **-878**million Yen **2.0%**down
- Segment Income ▶ **-198**million Yen **10.4%**down

• Sales of PCs and PC peripherals were strong to consumer electronics stores, schools, and educational institutions, capturing the demand to switch to Windows 10.

• Performance in the housing-related home electronic appliances business was weak as a result of delivery date adjustments at customers.

• Replacement demand in the commercial facilities-related LED installation business has slowed down.



Turning next to the information equipment business, these sales account for 10% of overall sales. Sales in the information equipment business fell 878 million yen over the previous year to 43,466 million yen. Income also dropped 198 million yen to 1,707 million yen. Sales of PCs and PC peripherals were strong to consumer electronics stores, schools, and educational institutions, riding the demand to switch to Windows 10. However, performance in the housing-related home electronic appliances business was weak as a result of delivery date adjustments at customers, and the commercial facilities-related LED installation business was weak due as replacement demand wound down.

(million yen)

	FY2019/3 4Q Results	Fy2020/3 3Q Results	FY2020/3 4Q Results	YoY	QoQ
Net sales	118,997	108,170	<b>104,813</b>	-11.9%	-3.1%
Gross profit	11,522	11,474	<b>11,770</b>	2.2%	2.6%
Gross profit margin	9.7%	10.6%	11.2%		
SG&A	9,700	8,982	<b>9,488</b>	-2.2%	5.6%
Operating income	1,821	2,492	<b>2,282</b>	25.3%	-8.4%
Ordinary income	1,859	2,428	<b>2,161</b>	16.2%	-11.0%
Profit attributable to owners of parent	3,139	1,422	<b>927</b>	-70.5%	-34.8%
EPS	114.38	51.82	<b>33.78</b>	-	-

Now I will explain the highlights of our earnings in the fourth quarter of the fiscal year ended in March 2020. In the most recent three-month period, representing the fourth quarter, net sales totaled 104,813 million yen. Compared to the previous year, this was an 11.9% decrease, and a 3.1% decline compared to the third quarter. Operating income totaled 2,282 million yen, up 25.3% over the previous year, and down 8.4% compared to the third quarter. Ordinary income was 2,161 million yen, up 16.2% over the previous year and down 11.0% compared to the third quarter. Profit attributable to owners of the parent amounted to 927 million yen, down 70.5% compared to the previous year and 34.8% compared to the previous quarter.

(million yen)

		FY2019/3 4Q Results	FY2020/3 3Q Results	FY2020/3 4Q Results	YoY	QoQ
Electronic Components	Net sales	100,704	93,708	<b>84,060</b>	-16.5%	-10.3%
	Segment income	981	2,180	<b>1,084</b>	10.5%	-50.2%
Information Equipment	Net sales	11,970	9,820	<b>13,677</b>	14.3%	39.3%
	Segment income	567	236	<b>853</b>	50.4%	261.6%
Software	Net sales	933	455	<b>990</b>	6.1%	117.3%
	Segment income	125	-37	<b>226</b>	81.4%	-
Others	Net sales	5,388	4,185	<b>6,085</b>	12.9%	45.4%
	Segment income	75	105	<b>87</b>	17.0%	-16.4%
Total	Net sales	118,997	108,170	<b>104,813</b>	-11.9%	-3.1%
	Segment income	1,821	2,492	<b>2,282</b>	25.3%	-8.4%

Note: Figures of each segment income are not inter-segment adjusted.  
Total amount is inter-segment adjusted (operating income).

Financial results by segment show that net sales were 84,060 million yen in the electronic components segment, which is 16.5% lower than the previous year and 10.3% lower than the third quarter. Segment income was 1,084 million yen, up 10.5% compared to the previous year but down 50.2% compared to the third quarter. In the information equipment segment, net sales were 13,677 million yen, up 14.3% compared to the previous year and up 39.3% compared to the third quarter. Segment income was 853 million yen, up 50.4% compared to the previous year and up 261.6% compared to the third quarter. In the software segment, net sales were 990 million yen, up 6.1% compared to the previous year and up 117.3% over the third quarter. Segment income was 226 million yen, up 81.4% compared to the previous year. This segment had a 37 million yen loss in the third quarter, but returned to the black in the fourth quarter. In the Others segment, net sales were 6,085 million yen, up 12.9% compared to the previous year and up 45.4% compared to the third quarter. Segment income was 87 million yen, up 17% over the previous year and down 16.4% compared to the third quarter.

(Million Yen)

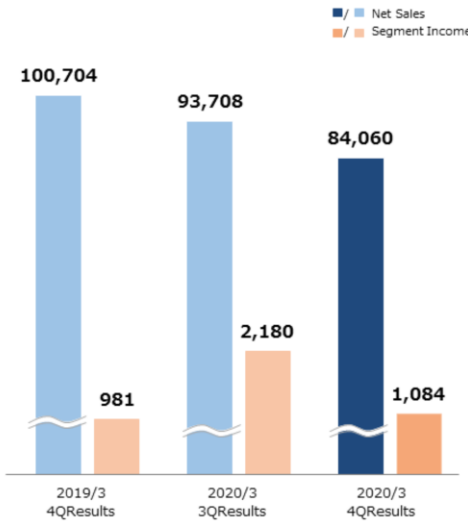
Net sales/Segment income

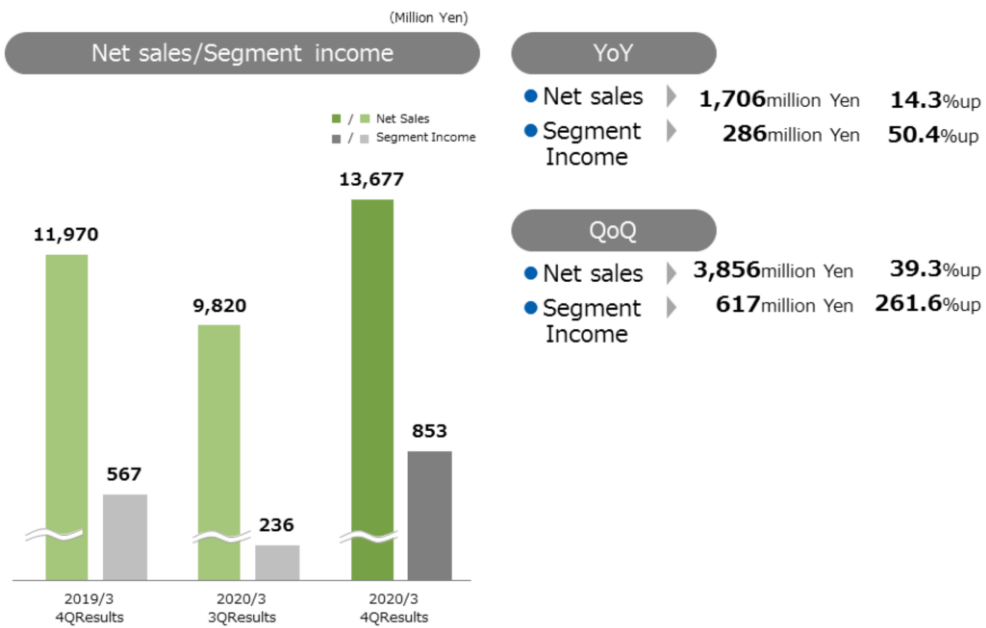
YoY

- Net sales ▶ -16,644million Yen 16.5%down
- Segment Income ▶ + 102million Yen 10.5%up

QoQ

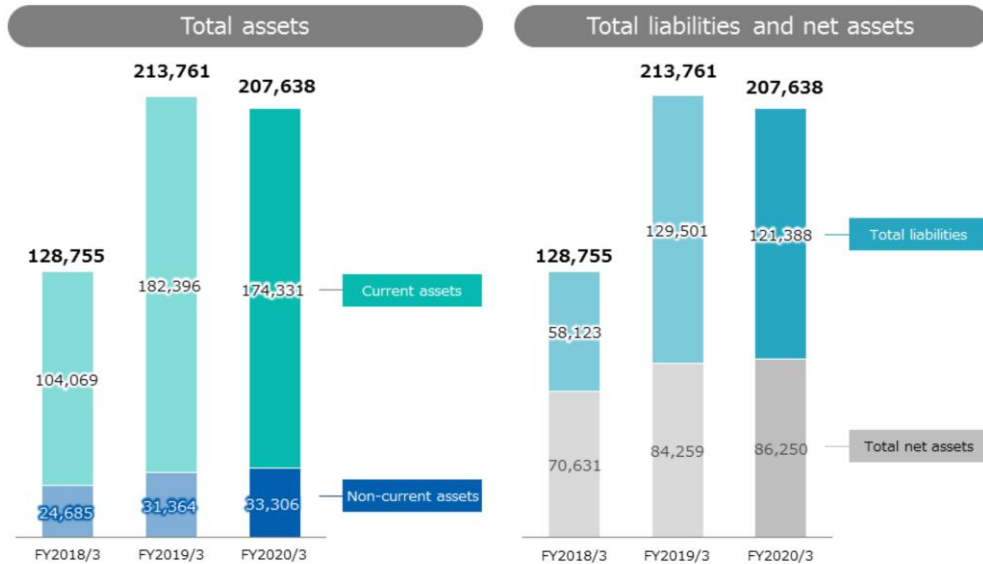
- Net sales ▶ -9,648million Yen 10.3%down
- Segment Income ▶ -1,095million Yen 50.3%down



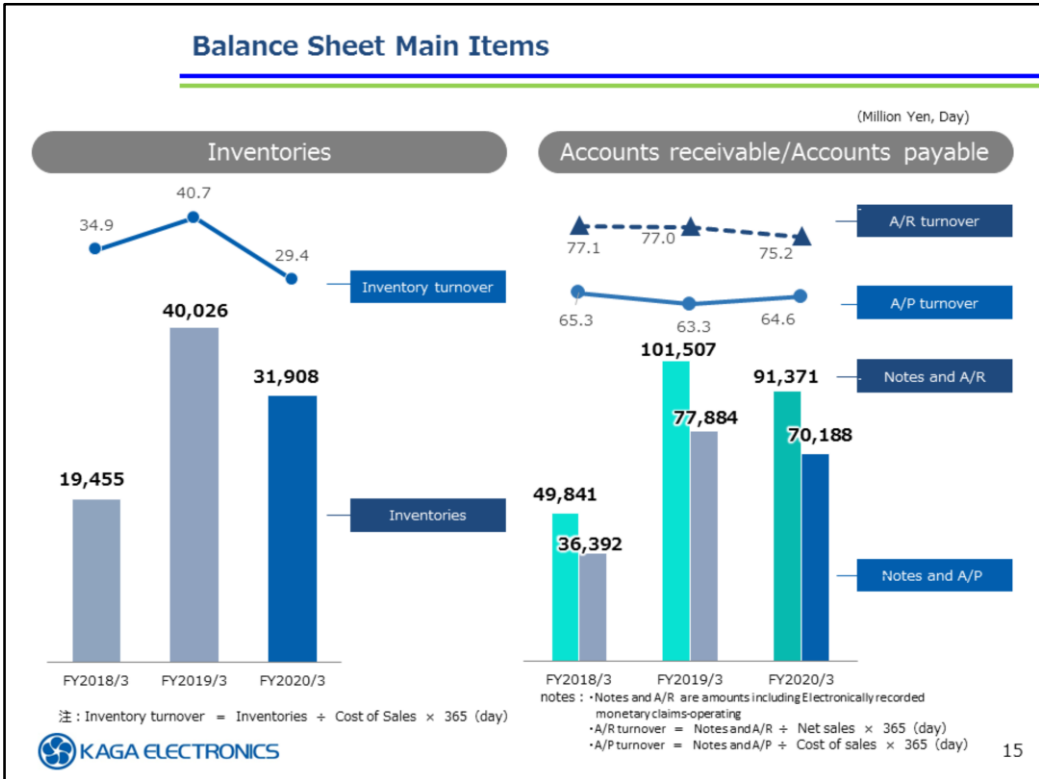


## Balance Sheet Main Items

(Million Yen)

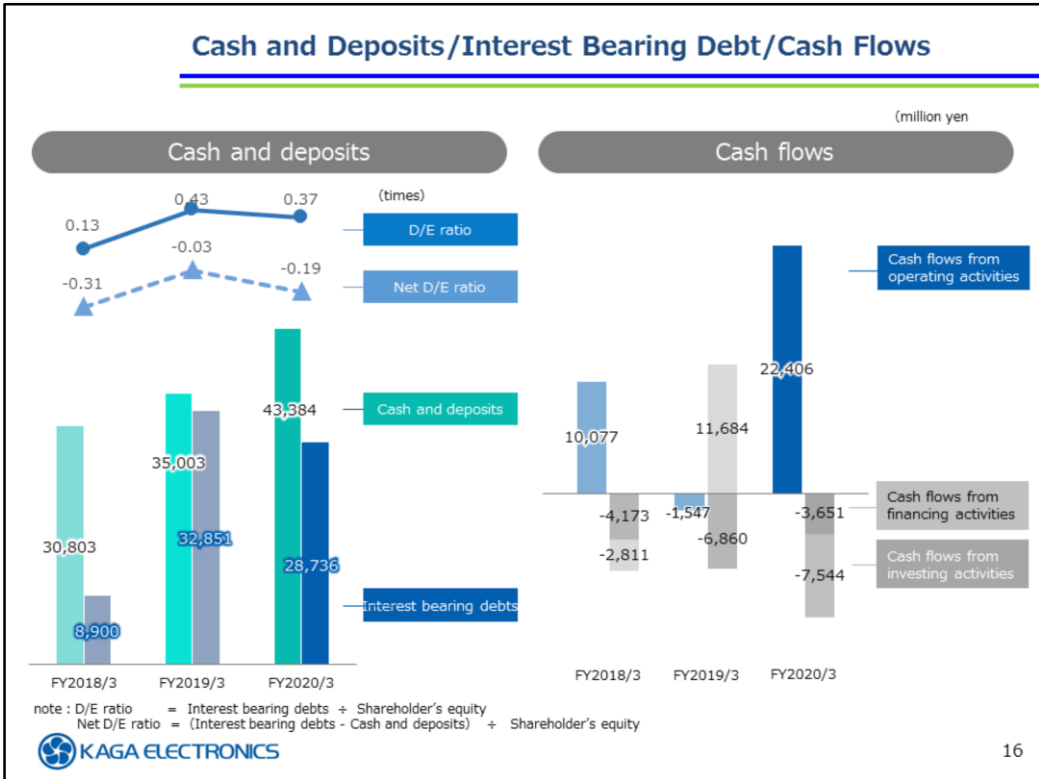


Continuing on, I will explain financial conditions. Total assets were 207,638 million yen, down 6,123 million yen. Of this, current assets accounted for 174,331 million yen, down 8,065 million yen; non-current assets totaled 33,306 million yen, up 1,942 million yen; liabilities totaled 121,388 million yen, down 8,113 million yen; and net assets were 86,250 million yen, up 1,991 million yen.



Of the main items on the balance sheet, inventories yielded a balance of 31,908 million yen, down 8,118 million yen. Inventory turnover was 29.4 days, demonstrating a slight improvement by a little over 11 days from the 40.7-day turnover in the previous year. In terms of accounts receivable, total notes and accounts receivable were 91,371 million yen, down 10,136 million yen over the previous year. Notes and accounts payable amounted to 70,188 million yen, down 7,696 million yen. Accounts receivable turnover was 75.2 days, and accounts payable turnover was 64.6 days, showing that accounts receivable improved somewhat and accounts payable lagged somewhat.

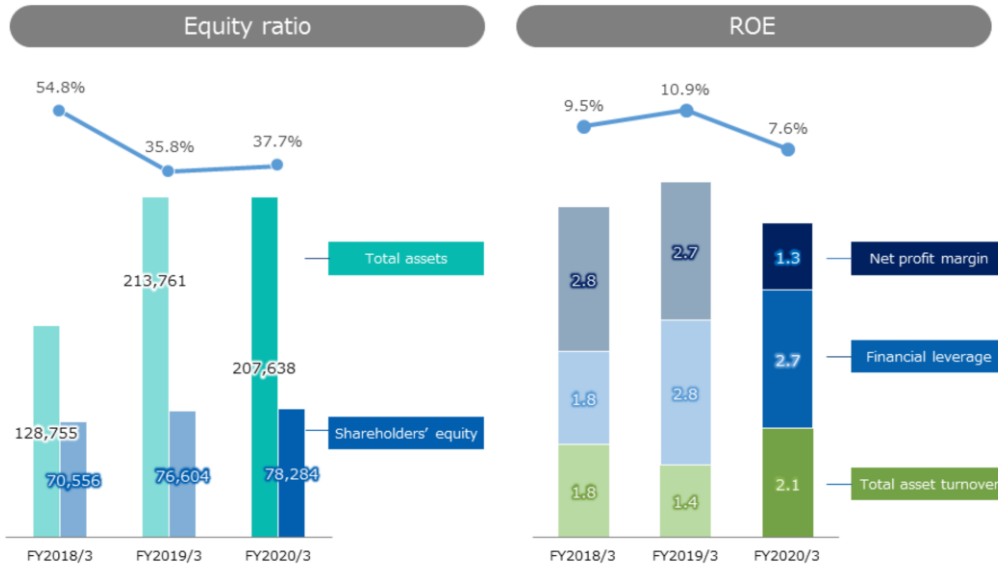




Next, we will look at cash and deposits, interest-bearing debt and cash flows. The balance of cash and deposits is 43,384 million yen, up 8,381 million yen. Interest-bearing debt was 28,736 million, down 4,115 million yen. The D/E ratio stood at 0.37, and the net D/E ratio was -0.19. Moving on to cash flow, cash flows from operating activities was an inflow of 22,406 million yen. Cash inflows were up significantly over the previous year. Cash flows from investing activities were an outflow of 3,651 million yen. In addition, cash flows from financing activities were an outflow of 7,544 million yen.

## Major Business Indicators

(million yen)

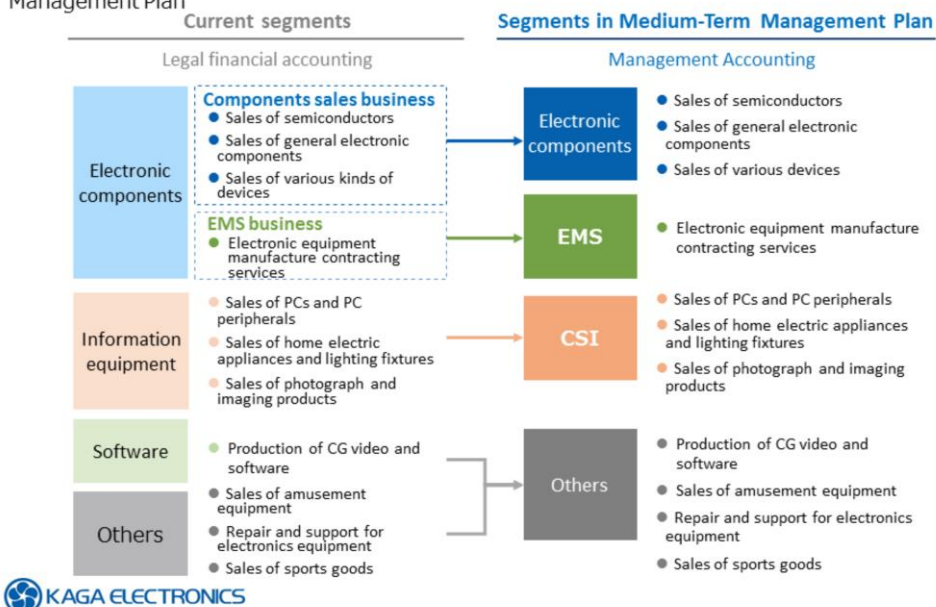


In terms of major business indicators, Shareholders' equity was 78,284 million yen, while total assets were 207,638 million yen, resulting in an equity ratio of 37.7%. ROE is 7.6%, down from 10.9% in the previous year, primarily because, while the net profit margin was 2.7% in the previous year, it fell to 1.3% in this fiscal year.

**Reference**

**Segment disclosure associated with the start of the Medium-Term Management Plan**

Continuous disclosure based on current segmentation according to legal financial accounting, along with voluntary disclosure based on segmentation in line with the new Medium-Term Management Plan



As the new medium-term management plan gets underway, we are voluntarily releasing new segment information. Previously, our segments comprised electronic components, information equipment, software and others, but under our medium-term plan, they are electronic components, EMS, CSI and others, with the electronic components business divided into the components sales business and the EMS business. The information equipment business was renamed the CSI business. The software business and others were merged and renamed the Others business.

## Reference

Financial Highlights by Business Segment of  
the Medium-Term Management Plan

(million yen)

		FY2019/3 Results	FY2020/3 Previous forecast	FY2020/3 Results	YoY	vs Forecast
Electronic Components	Net sales	145,042	290,000	<b>292,905</b>	101.9%	1.0%
	Segment income	2,278	4,000	<b>3,553</b>	56.0%	-11.2%
EMS	Net sales	89,481	100,000	<b>93,340</b>	4.3%	-6.7%
	Segment income	2,667	3,500	<b>4,015</b>	50.5%	14.7%
CSI	Net sales	44,344	39,000	<b>43,466</b>	-2.0%	11.5%
	Segment income	1,906	1,000	<b>1,707</b>	-10.4%	70.7%
Others	Net sales	13,912	13,000	<b>13,902</b>	-0.1%	6.9%
	Segment income	554	500	<b>623</b>	12.5%	24.6%
Total	Net sales	292,779	442,000	<b>443,615</b>	51.5%	0.4%
	Segment income	7,570	9,000	<b>10,014</b>	32.3%	11.3%

Note 1: Previous forecast was announced on February 6, 2020.

Note 2: Figures of each segment income are not inter-segment adjusted.  
Total amount is inter-segment adjusted (operating income).

This table shows earnings by segment in the medium-term management plan. These figures are the result of adjustments by hand between divisions. Net sales in the electronic components business were 292,905 million yen, up 101.9% over the previous fiscal year. Segment income rose 56% over the previous year to 3,553 million yen. Net sales in the EMS business totaled 93,340 million yen, up 4.3% over the previous year, and segment income rose 50.5% over the previous year to 4,015 million yen. In the CSI business, net sales fell 2% to 43,466 million yen, and segment income declined 10.4% to 1,707 million yen. In the Others business, net sales fell 0.1% to 13,902 million yen, and segment income rose 12.5% to 623 million yen.

This concludes my overview of our financial results for the fiscal year ended in March 2020. Thank you for your attention.

## Management Topics

President & Representative Director  
KAGA ELECTRONICS CO., LTD.

**Ryoichi Kado**

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Hello. My name is Ryoichi Kado, and I am President and COO of Kaga Electronics.

Thank you very much for supporting and cooperating with our IR activities.

Managing Director Eiji Kawamura has already reported the details of our financial results in the year ended in March 2020, and I will report to you on “Management Topics,” namely, the important management issues over the past year.

I would also like to share with all of you my thoughts on the fiscal year ending in March 2021—a year for which we have not yet formulated earnings forecasts.

## Response to the Spread of Novel Coronavirus Infection

Kaga Electronics Head Office	<ul style="list-style-type: none"> <li>The Novel Coronavirus Response Committee was established on February 27. With the safety and security of the lives of all Group employees as our top priority, we have evacuated employees stationed overseas and supported their families. We made a decision to provide material support and dispatch personnel from the head office as a BCP that we promptly implemented.</li> <li>From April 7 to the end of May, we have and will continue to implement telework and staggered commuting in response to the state of emergency declaration and the request to refrain from going out (office attendance rate: 22%, average for May). *There are plans to return to the normal work schedule from June 1.</li> </ul>	
Sales bases	Japan	<ul style="list-style-type: none"> <li>We are continuing sales activities while implementing telework and staggered commuting in accordance with the guidance of the central government and regional governments.</li> </ul>
	Overseas	<ul style="list-style-type: none"> <li>We are continuing sales activities while implementing safety measures in accordance with the guidance of national governments, states, and local government agencies.</li> </ul>
Production bases	Japan	<ul style="list-style-type: none"> <li>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.</li> </ul>
	Overseas	<ul style="list-style-type: none"> <li>We are continuing operations while implementing safety measures in accordance with the guidance of national governments, states, and local government agencies in China, Asia, Europe, excepting Mexico and India.</li> </ul>

First, I would like to address the coronavirus issue.

As Mr. Kawamura already reported, our EMS factories in China and Malaysia temporarily suspended operations, but fortunately, the impact on earnings for the fiscal year ended in March 2020 was extremely limited. This slide summarizes our response thus far to the coronavirus infections.

First, the head office set up a Coronavirus Response Committee on February 27. In addition to ensuring the safety of the lives of all Group employees, as well as the safety and evacuation of employees and their families stationed overseas, the head office promptly provided material support as part of its BCP. In particular, we sent large amounts of masks and disinfectant—without these, factories cannot reopen—as well as food to our factories in lockdown overseas, including China.

Subsequently, when the Japanese government issued a state of emergency declaration, we directed all Group companies in Japan to have employees telecommute, and endeavored to comply with the stay-at-home recommendation for about two months. As a result, the office attendance rate was 22% in May, and we met the government's request that social interaction be reduced by at least 70%, and ideally 80%, with room to spare.

Sales offices continued sales activities with safety as their top priority. In Japan, employees essentially telecommuted, and overseas they worked from home in line with instructions from local governments and administrative agencies.

In terms of manufacturing bases, at this point, operations remain suspended during May in Mexico and India, but manufacturing activities continue, with safety measures also implemented, in China, ASEAN, and Europe.

## Progress of PMI at Fujitsu Electronics

Improvements in profitability <b>Good news</b>	<ul style="list-style-type: none"><li>Gross profit margin improved by 0.5 points YoY 6.3% in FY 2019/3 → 6.8% in FY 2020/3</li></ul> <p>[Factors] While there was a one-time gain from the closing of Cypress, the sales mix has been improving</p>
Reduction in fixed expenses <b>Good news</b>	<ul style="list-style-type: none"><li>SG&amp;A expenses decreased by approximately 1.5 billion yen YoY 13.1 billion yen in FY 2019/3 → 11.6 billion yen in FY 2020/3</li></ul> <p>[Factors] Personnel costs have been reduced due to the natural attrition and the rationalization of sales companies following the termination of Cypress (U.S.) business.</p>
Loss of major commercial rights <b>Bad news</b>	<ul style="list-style-type: none"><li>Termination of Cypress (U.S.) (October 2019)</li><li>Change in distribution channel in products manufactured by Mie Fujitsu Semiconductor to UMC (Taiwan) following the transfer of its business to UMC (March 2020).</li></ul>

Next, I will report on Fujitsu Electronics' PMI.

The first slide divides this past year in terms of good news and bad news.

One piece of good news, as Mr. Kawamura explained, is that Fujitsu Electronics' profitability is improving. The gross profit margin improved 0.5 points, from 6.3 to 6.8%. In September 2018, we held an IR briefing on the acquisition of Fujitsu Electronics, and we were asked whether we could improve the company's low profit rate. I stated that this was possible by combining the company's products, gathered from around the world, as an independent trading company, an approach that we are taking now.

The second piece of good news is that we were able to reduce selling, general and administrative expenses by about 1.5 billion yen. This was primarily due to cuts to personnel costs by reducing the number of staff.

The bad news is that sales with Cypress have ended, and the distribution agreement was terminated in October 2019. In addition, Taiwan-based United Microelectronics Corporation (UMC) fully acquired Mie Fujitsu Semiconductor Limited, which means that the commercial rights for the products manufactured by Mie Fujitsu to date were dissolved from April.

## Progress of PMI at Fujitsu Electronics

EMS initiatives	<ul style="list-style-type: none"> <li>At present, we have received orders and tentative offers from four companies, including an automotive equipment manufacturer and an electronics manufacturer</li> </ul> <p>96 companies approached → Business negotiations ongoing with 37 companies</p> <p>[Focus point] Major business negotiations are underway, leveraging the strengths of Kaga Electronics and Fujitsu Electronics</p>				
Cross-selling initiatives	<ul style="list-style-type: none"> <li>Strengthening sales of the leading products of Kaga Electronics to major automotive equipment customers</li> </ul> <p>[Focus point] Major business negotiations are underway in preparation for full-fledged earnings in FY 2022/3 to FY 2024/3</p>				
Consolidation of sales bases	<p>*Abbreviations: Kaga Electronics → KG, Fujitsu Electronics → FEI</p> <table border="0"> <tr> <td style="vertical-align: top;">Japan</td> <td> <ul style="list-style-type: none"> <li>Relocation of FEI Nagoya Office to KG Nagoya Sales Office [September/2019]</li> <li>Closing of FEI Hiroshima Sales Office, consolidation with KG Kansai Sales Office [December/2019]</li> <li>Closing of FEI Nagaoka Sales Office, consolidation with KG Niigata Sales Office [February/2020]</li> </ul> </td> </tr> <tr> <td style="vertical-align: top;">Overseas</td> <td> <ul style="list-style-type: none"> <li>Liquidation of KG US sales company, transfer of business to FEI US sales company [planned for Spring/2021]</li> <li>*Integration of the sales bases of the two companies in Midwest prior to this [planned for Summer/2020]</li> <li>Sales companies in Korea of both company are also under consideration [planned for Spring/2021]</li> </ul> </td> </tr> </table>	Japan	<ul style="list-style-type: none"> <li>Relocation of FEI Nagoya Office to KG Nagoya Sales Office [September/2019]</li> <li>Closing of FEI Hiroshima Sales Office, consolidation with KG Kansai Sales Office [December/2019]</li> <li>Closing of FEI Nagaoka Sales Office, consolidation with KG Niigata Sales Office [February/2020]</li> </ul>	Overseas	<ul style="list-style-type: none"> <li>Liquidation of KG US sales company, transfer of business to FEI US sales company [planned for Spring/2021]</li> <li>*Integration of the sales bases of the two companies in Midwest prior to this [planned for Summer/2020]</li> <li>Sales companies in Korea of both company are also under consideration [planned for Spring/2021]</li> </ul>
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Next, I will explain synergies resulting from the acquisition of Fujitsu Electronics.

Starting with the EMS business, last April we launched the EMS/EDMS Sales Division, a sales organization dedicated to EMS, at Fujitsu Electronics. This division combines with Kaga Electronics' EMS Business Division to implement sales activities aimed at the company's prime customers. Until now, we have approached 90 companies and secured orders from four companies, and expect to generate sales in this fiscal year as well. Sales negotiations are ongoing with 37 companies, and we anticipate some of these negotiations resulting in multiple projects that will lead to orders.

The second synergy is cross-selling. We are working our hardest to sell Kaga Electronics products to Fujitsu Electronics' prime customers. While we have not seen major results in this fiscal year yet, there has been progress with several projects with annual sales projected at several billion yen in two to three years. We are not able to provide details today, but this is a very hopeful development.

Third, we are consolidating the two companies' sales offices and organizations. These efforts got underway first in Japan, and we have already consolidated the two companies' office locations in Nagoya. We have also closed Fujitsu Electronics' sales offices in Hiroshima and Nagaoka, and moved these trading zones to Kaga Electronics' Kansai and Niigata sales offices.

We are making major efforts overseas and are currently working on the consolidation of the US sales company by spring 2021. Ahead of this, we plan to consolidate the offices in Chicago and Detroit in the Midwest around summer 2020. We are currently reviewing plans for the two companies' sales companies in South Korea as well.



## Initiatives to strengthen EMS Business

Increasing of Production Capacity	Strengthening of Manufacturing Capabilities	Strengthening of Engineering Capabilities
Acquisition of Towada Pioneer		Amata Nakhon 2 <sup>nd</sup> Factory
 <p>Name: KAGA EMS TOWADA CO., LTD.            Add: Towada City, Aomori Prefecture            Business Content: Automotive electronic equipment, installation of substrates in medical equipment, assembly of finished Products            operation to commence: October 2019</p>		 <p>Name: KAGA ELECTRONICS (THAILAND) CO., LTD. Amata Nakhon 2<sup>nd</sup> Plant            Add: Amata Nakhon Industrial Estate, Chon Buri, Thailand            Business Content: Installation of substrates for multifunction devices, printers and automotive related units            operation to commence: December 2019</p>
Fukushima Factory		China JV project
 <p>Name: KAGA MICRO SOLUTION CO., LTD. Fukushima Factory            Add: Sukagawa City, Fukushima Prefecture            Business Content: Manufacture, repair, reuse, and recycling of communications equipment, PCs, and PC peripherals            operation to commence: October 2019</p>		 <p>Name: 蘇州路達加賀美裝技術開發有限公司            Add: Suzhou City, Jiangsu Province, China            Business Content: Development, manufacture, and external sale of substrate installation equipment sets            operation to commence: December 2019</p>

This slide summarizes the work done over this past year to reinforce the competitiveness of the EMS business, the Group’s core business. These three themes are crucial to strengthening the competitiveness of the EMS business.

“Increasing production capacity” will allow us to flexibly move production away from China as a result of the prolonged US-China trade dispute, as well as to return production in Japan, which has earned another look due to the coronavirus outbreak.

“Strengthening manufacturing capabilities” refers to our efforts to further raise our level of quality with the acquisition of the tangible and intangible assets acquired when Towada Pioneer became a Group company in October 2019, including the manufacturing know-how accumulated over many years as a manufacturer specializing in electronics, its exceptional production personnel and production equipment, and its quality guarantee system.

“Strengthening engineering capabilities” comprises our efforts to elevate our cost competitiveness by utilizing in-house engineering capabilities and self-developing production equipment that is ideal for “wide-ranging, low-volume convenience store EMS,” which is our strength.

We carried out these specific initiatives in line with these three themes. As with Towada Pioneer, we began operations at a new factory in Fukushima in October 2019 and a second factory in Thailand in December. In addition, we launched two companies in Suzhou as development companies for production equipment in a joint venture with a Chinese company.

I believe that these initiatives have provided advantages that propelled us several levels above our rivals in the EMS business.

## Acquisition of EXCEL

Acquisition scheme	<ul style="list-style-type: none"> <li>• April 1, 2020: Assets split following the conversion of EXCEL into a wholly owned subsidiary by CI11.</li> <li>• On the same day, a business transfer was conducted and EXCEL was converted into wholly owned subsidiary of Kaga Electronics, along with a partial transfer of assets.</li> </ul>						
Acquisition price (estimate)	<table border="0"> <tr> <td>• Shares of common stock in EXCEL</td> <td>100 million yen</td> </tr> <tr> <td>• Advisory and other fees</td> <td>176 million yen</td> </tr> <tr> <td>• Total</td> <td>276 million yen</td> </tr> </table>	• Shares of common stock in EXCEL	100 million yen	• Advisory and other fees	176 million yen	• Total	276 million yen
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Impact on finances	<ul style="list-style-type: none"> <li>• Gain on negative goodwill of 8.2 billion yen will be recorded as extraordinary income in FY 2021/3</li> <li>• *8 billion yen raised through a short-term loan as working capital for EXCEL</li> </ul>						
Purpose of acquisition	<ul style="list-style-type: none"> <li>• Increase market share in the electronic parts and semiconductor business: Sharing LCD device products and the customer base in China</li> <li>• Expansion in the scale of the EMS business: Switching from EXCEL's external factories to our own factories</li> <li>• Acquisition of new businesses: Support early commercialization of promising themes including EV-related business</li> <li>• Improvement in management efficiency: Optimization of sales-related organizations and indirect management departments</li> </ul>						

Now I would like to explain several points about the current fiscal year (the year ending in March 2021).

First, as we announced in December 2019, we acquired shares in EXCEL, a company in our industry, from CITY INDEX ELEVENTH CO., LTD. (CI11) following various developments. And as a result EXCEL became a Group subsidiary in April 2020.

The decision to make EXCEL a subsidiary was based on four objectives: to expand the electronic parts business, to expand the scale of the EMS business, to acquire new businesses, and to further improve management efficiency.

EXCEL has excellent products, as well as a customer base, in the area of liquid crystal devices—an area in which we have not been very strong thus far. EXCEL is also in charge of products for Chinese manufacturers such as BOE, and has made inroads among key smartphone manufacturers in China as customers. For these reasons, we think sharing these strengths offers us significant merit.

EXCEL is also involved in the EMS business but outsources production. By using our EMS infrastructure instead, EXCEL will allow us to generate significant synergies.

We are not yet sure about the outlook for EXCEL's earnings in the current fiscal year, but it became a consolidated member of our Group from this fiscal year. The acquisition price was 100 million yen, so we are certain to post 8.2 billion yen in gains on negative goodwill. As a result, we cannot yet determine the full impact of the coronavirus on sales and operating income for the Group's main business, but we are confident that we will post bottom-line income gains unless conditions become quite serious.

## New Initiatives: 5G mobile communication system



### Electronic components

- Power supplies, heat exchangers, etc. for 5G base stations
- ASICs for millimeter-wave antennas
- Sales of low-noise amplifiers for automotive communication chips (C-V2X modules), etc.

### Completed products

- Optical transceivers for 5G cellular networks
- Sales of mobile routers, communication modules, Wi-Fi access points for local 5G, etc.
- Development of game IP (content) for 5G service providers, etc.

Next, I will explain the Group's initiatives related to the fifth-generation mobile communications system (5G).

As we know, 5G is expected to cause major changes in people's lives. For example, it makes it possible for conversations to be translated in real time between devices, smoothing communication in multiple languages. It also enables completely automated operations based on massive amounts of data, among many other possibilities.

Other countries may have taken the lead with 5G, but services on a full scale began in Japan this spring. As communications systems are converted from the existing 4G and LTE to 5G, demand for additional and replacement communications devices and industrial equipment will increase, offering major opportunities for the supply chain related to communications equipment and electronic parts.

Business has already started for the Group, as described here.

In the parts and module business, power-supply devices and heat exchangers, etc. for 5G base stations

In the finished product business, optical transceivers and routers for businesses, and access points for local 5G use

Our Group company that develops CG has experienced a stream of orders for the creation of content for 5G-compatible smartphone games.

As such, the Group overall is meeting a variety of needs for parts, finished products, software creation and other. As this has only just begun, we cannot expect major sales in this fiscal year but think this will be a growth field going forward.

## New initiatives: Bell (U.S.) Helicopter business



### Background and overview

- Articles of Incorporation amended at 2019 General Meeting of Shareholders to add aircraft and uninhabited airborne vehicles as an objective.
- Partnered with eurotec Japan, Inc. to establish an integrated system for procurement, sales, and maintenance of helicopters.
- In addition to synergies expected from sales of on-board communications equipment, the business will contribute to solving social issues, including preparations for disaster by local governments in response to the recent spate of large-scale disasters.

### Delivery record and outlook

- FY 2020/3: Four units sold as helicopters for prefectural disaster prevention.
- FY 2021/3: Received orders for two units as disaster prevention helicopters for prefectural police.
- In addition to revenue from the sale of equipment, expect to generate stable revenue from maintenance fees.



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Next, I will explain the Group's initiatives in the helicopter business.

At last year's General Meeting of Shareholders, we altered the Articles of Incorporation to enable the company to buy, sell, import and export "aircraft and unmanned aircraft" and added "aircraft use business, unmanned aircraft use business, aircraft maintenance business, and heliport installation business" to the businesses that the company operates.

This allows the company to engage in the sale of such aircraft as helicopters and drones, and in all related business so that it can prepare for future business development.

In response to those who may wonder why Kaga Electronics is involved with helicopters, the photograph on the right of this slide shows the cockpit of a helicopter, and as you can see, it is crammed with measuring and communications equipment. We have a Communications Business Division, and trade with many communications equipment manufacturers. So this move allows us to use this route and not only sell the helicopter itself, but offer it packaged together with communications equipment.

In addition to this incentive, I was also approached by an acquaintance with this idea, and the company decided to begin selling helicopters made by US-based Bell Textron Inc. Since we had decided to go ahead with it, we set up an integrated system encompassing procurement, sales and maintenance.

Our target is disaster-management helicopters. As you know, large-scale disasters such as torrential rains and earthquakes have occurred frequently in Japan in recent years, and local governments and prefectural police departments have an increased need for disaster-management helicopters to prepare for and respond to such events.

I feel that Kaga Electronics can play a significant role in resolving social issues.

In the fiscal year ended in March 2020, we sold four helicopters, and we currently have orders for two helicopters for this fiscal year.

## Business environment and outlooks for FY2021/3

### Status of BCP at the Kaga Electronics Group

- EMS production bases: Operations are being continued at almost all global production bases
- Japanese sales bases: Telecommuting will be the main focus until May, with plans to return to a normal work schedule from June.
- Overseas sales bases: We are continuing business activities while implementing safety measures in accordance with the guidance of the government agencies of each country.

### Status of the supply chain

- Although production by parts and materials manufacturers in China has largely recovered, there is a sense of a tight demand-and-supply situation for some parts and materials.
- Uncertainties continue over the containment of the novel coronavirus and the global economy continues to slow. There is no outlook for timing of the recovery in ultimate demand.
- In particular, production of automobile-related products is continuing to decline substantially both in Japan and overseas. Time will also be needed for general consumer goods such as electrical appliances.

### Earnings forecast for FY2021/3

- In light of the circumstances above, it is difficult to make a reasonable forecast, **so the earnings forecast is undecided at this time.**
- The general outlook is that **net sales and operating income will decrease due to the impact of the coronavirus and the terminations of large-scale business such as Cypress, and net income will increase due to the recording of a gain on negative goodwill.**
- Because the earnings forecast for the next fiscal year is undecided, **the dividend forecast is also undecided at this time.**

### management stance in response to the coronavirus

- **It is expected to take at least one year and as long as three years for the coronavirus to be contained.**
- **Secure as much working capital as possible** to be prepared for unforeseen circumstances.  
\*Cash-on-hand of 43 billion yen + commitment line of 15 billion yen
- While we will begin formulating a structural improvement plan for the post-corona era, **we will give priority to ensuring employment for the time being.**

In this, the final slide, I would like to explain the business environment and outlook for the fiscal year ending in March 2021.

As we are currently unable to predict when the coronavirus outbreak will subside, under the Group's BCP all EMS factories other than those in Mexico and India and our sales offices in Japan and overseas are functioning without any obstacles.

While the supply chain seems tight for some products on the procurement side, it is generally recovering; however, end-demand is a serious issue. Production of automobiles is down sharply in Japan and overseas, and operations continue to be suspended at some factories. Electronic equipment manufacturers face the same difficult conditions. Companies have already begun to release their earnings statements, and according to newspaper reports, 60% of these companies state that their earnings forecasts are undecided.

Accordingly, we have also left our earnings forecasts for the fiscal year ending in March 2021 undecided at this point.

We cannot release earnings forecasts to which we can commit. However, no company can operate without business plans, so we have developed internal plans even though we do not have a firm grasp on the impact of the coronavirus outbreak. In general, we expect sales and operating income to decline as a result of the loss of major commercial rights from Cypress and others and the impact of the pandemic, but we expect higher net income due to the posting of 8.2 billion yen in gains on negative goodwill.

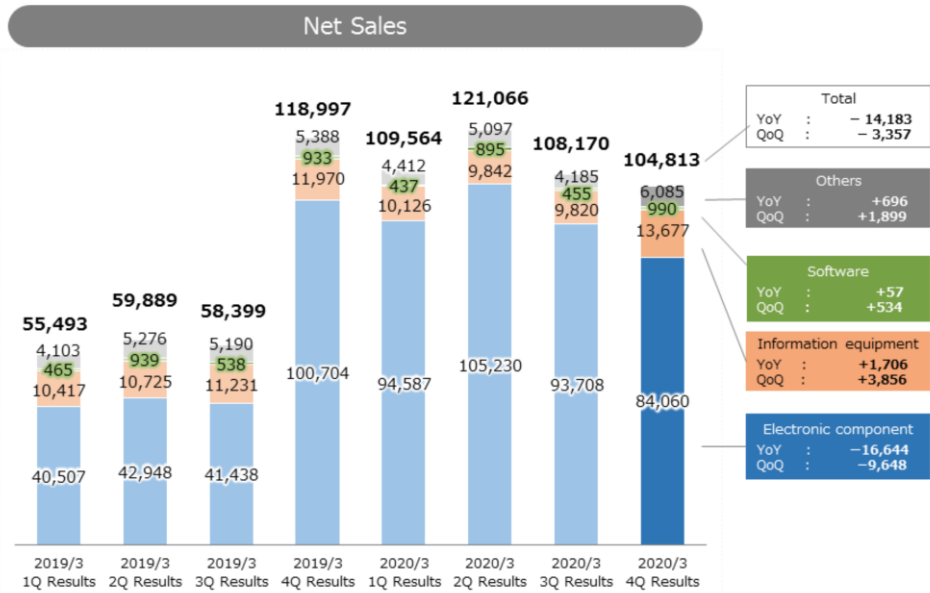
I believe that it will take at least one year, and possibly as long as three years, for the coronavirus outbreak to subside, and so I am fully aware of the need to manage the company with a strong hand. First, I would like to make sure we retain sufficient cash on hand to prepare us for unforeseen circumstances. I also want to begin the Group's structural reforms in anticipation of a post-coronavirus world, and for precisely this reason we must prioritize our employees' safety and their jobs in the near term.

Sincerely embracing this approach, I will manage the company in the fiscal year ending in March 2021, and I ask for your continued support this year.

## Reference

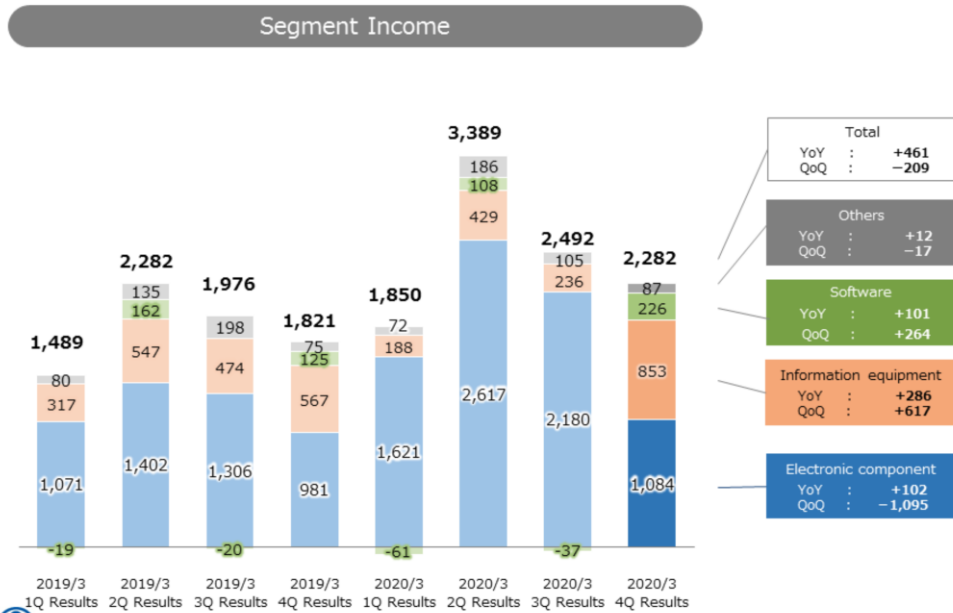
## Financial Highlights by Business Segment① (Net Sales)

(Million Yen)



## Financial Highlights by Business Segment② (Segment Income)

(Million Yen)



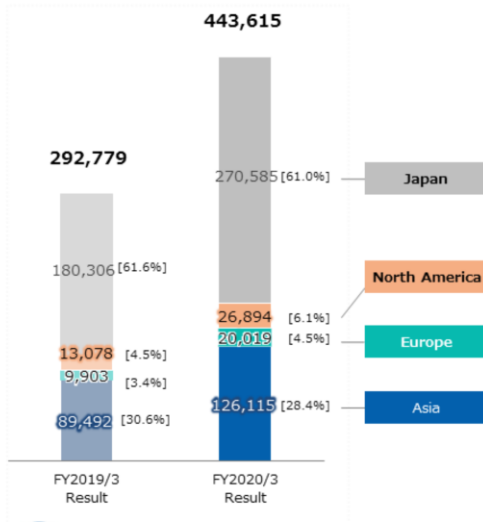


## Net Sales by Region

(million yen)

Net sales

YoY



- Japan ▶ **+90,279**million yen **50.1%**up
- North America ▶ **+13,815**million yen **105.6%**up
- Europe ▶ **+10,115**million yen **102.1%**up
- Asia ▶ **+36,623**million yen **40.9%**up

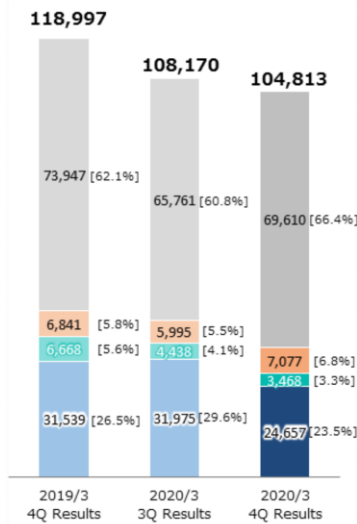


## Net Sales by Region (3 months)

(Million Yen)

Net sales

YoY



- Japan ▶ **-4,336**million Yen **5.9%**Down
- North America ▶ **+236**million Yen **3.4%**UP
- Europe ▶ **-3,200**million Yen **48.0%**Down
- Asia ▶ **-6,881**million Yen **21.8%**Down

QoQ

- Japan ▶ **+3,849**million Yen **5.9%**UP
- North America ▶ **+1,081**million Yen **18.0%**UP
- Europe ▶ **-970**million Yen **21.9%**Down
- Asia ▶ **-7,317**million Yen **22.9%**Down

### Exchange Rate/FOREX Sensitivity

	FY2019/3 Results (Yen)	FY2020/3 Results (Yen)	(Reference) Effect of 1% change (Million Yen)		Forex Assumption for 2021/3(yen)
			Net sales	Ordinary income	
USD	110.91	108.74	1,680	38	—
THB	3.43	3.52	235	14	—
RMB	16.72	15.78	194	8	—
HKD	14.14	13.91	210	4	—

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**“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.