

For Institutional Investors/Analysts



**KAGA ELECTRONICS
CO., LTD.**

Financial Results Briefing Material

for the Fiscal Year ended March 2021

KAGA ELECTRONICS CO., LTD.

TSE 1st section 8154

May 27, 2021

Management Topics

President & Representative Director
Ryoichi Kado

My name is Ryoichi Kado, and I am the President and COO of Kaga Electronics. Thank you for your ongoing support and cooperation with our IR activities.

I would like to report on Kaga Electronics' important management issues in the fiscal year ended in March 2021, entitled "Management Topics."

Today's Key Message

Overview of FY2021/3

- **Operating income at highest level for second fiscal year in a row.**
- **Operating income exceeding 10 billion yen was steadily generated** due to progress with our profit-generating capability.

Progress with Medium-Term Management Plan

- **Progress was generally in line with the plan.** Although net sales are still far from the target, we expect **operating income to reach the target.**
- **Within FY2022/3, we plan to release the next medium-term management plan.** We aim to continue setting new records for income.

PMI of acquired companies

- **Progress was generally in line with plans,** including the consolidation of sales bases.
- In FY2021/3, operating income was in the black, and the companies will begin to **contribute to income from FY2022/3.**

Coronavirus countermeasures

- We are managing the Group with **employee safety and peace of mind as our top priority** both in Japan and overseas.

Strengthening governance and SDGs

- We have decided to increase the number of outside directors so that **they account for one-third or more of the board members,** and set up a **Nomination and Compensation Committee.**
- **The SDGs Committee** was established under the President and will address ESG issues throughout the Group.

This slide provides a summary of today's briefing. There are five themes.

The first is an overview of financial results in the fiscal year ended in March 2021. Operating income reached a record high for the second year in a row. I am particularly impressed with the progress the Company has made with its ability to generate income. I think we have reached the point at which we can consistently generate over 10 billion yen in operating income.

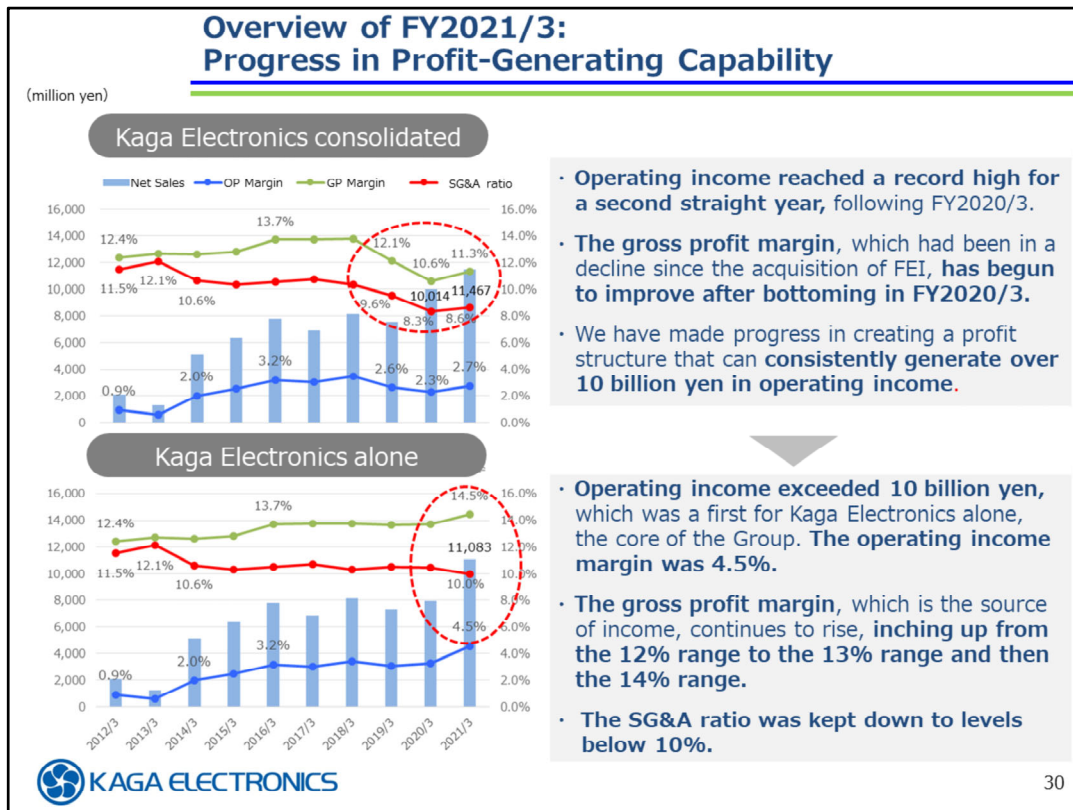
The second theme is our progress with the Medium-Term Management Plan, which is in line with our income targets. The fiscal year ending in March 2022 is the final year of the plan, and the year in which we will not only wrap up the current plan, but also prepare for the next medium-term plan. As a result, we plan to announce our next medium-term plan during this fiscal year.

Our third theme concerns the post-merger integration (PMI) of the companies we have acquired recently. Progress is generally in line with plans for Kaga FEI and EXCEL. Both companies managed to post operating income in the black, and will begin to contribute to income from the fiscal year ending in March 2022.

The fourth theme is COVID-19 countermeasures, and we are operating with the safety and security of our employees as our main priority.

Our final theme is strengthening governance and SDGs. We increase the number of outside directors so that they comprise one-third or more of the directors, and also set up a Nomination and Compensation Committee. We also started the SDGs Committee to pursue sustainability management.

I will now explain each of these themes more fully.



As a means of summarizing the fiscal year ended in March 2021, I will explain the progress we made in building up our ability to generate income. This ability is the capacity to create operating income, and we posted record-high operating income for two straight years, following the previous fiscal year, as I will now explain.

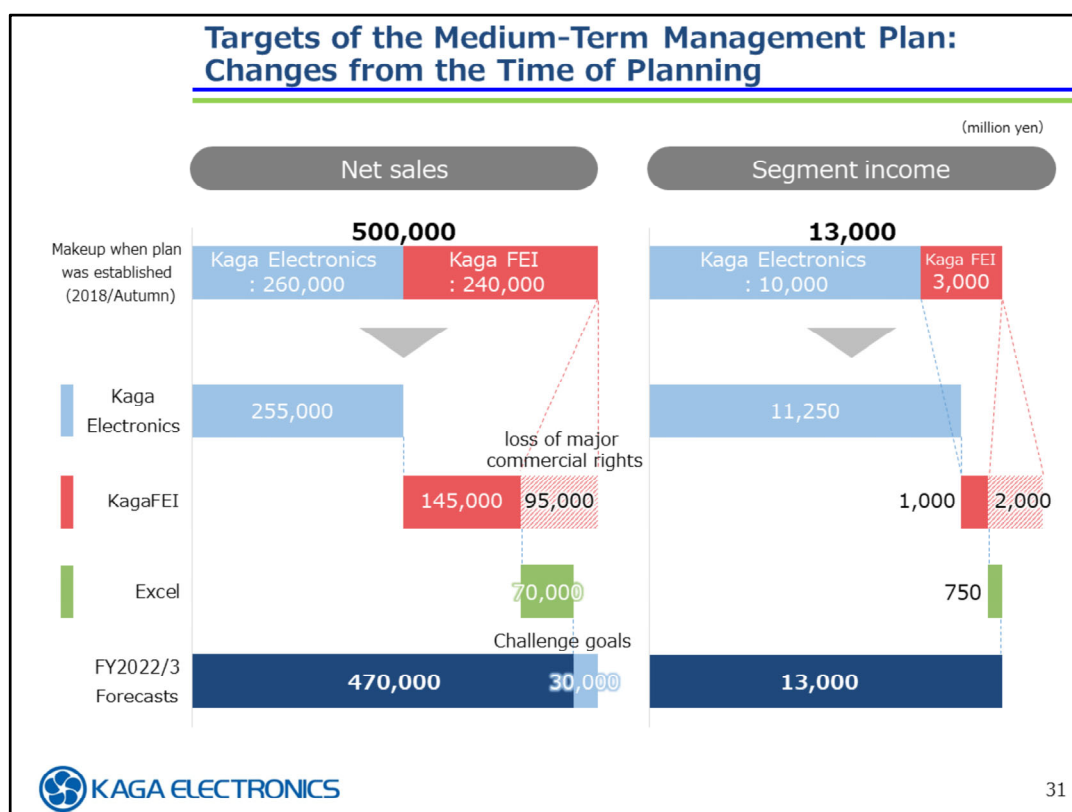
If you look at the two graphs on the left, you will see that the upper one shows the Group's consolidated operating income over 10 years as a bar graph, and the line graph shows the gross profit margin, SG&A ratio, and operating income margin for the same period.

Kaga FEI became a Group company in the fiscal year ended in March 2019, which is represented by the third line from the right. Bringing a company with a lower margin than Kaga Electronics into the Group brought the gross profit margin down for two straight years, to 12.1% and then 10.6%, but it began to improve after bottoming out in the fiscal year ended in March 2020.

As a result, we have achieved a revenue structure capable of consistently generating operating income over 10 billion yen in the fiscal years ended in March 2020 and 2021.

The lower graph, which shows the same 10-year period for Kaga Electronics on a parent basis, allows us to delve into this a little deeper. The gross profit margin rose from the 12% range 10 years ago to the 13% range and then gradually but steadily rose, reaching the 14.5% range in the fiscal year ended in March 2021. The SG&A ratio rose from the 11% range to the 12% range 10 years ago, but since I took current position, it was consistently kept down in the 10% range, and we were finally able to bring this ratio below 10% in the fiscal year ended in March 2021. This may sound picky, but while the graph shows 10%, in reality the ratio was 9.99%.

As a result, Kaga Electronics' operating income margin was 4.5% on a parent basis. We have gone through several M&As, including the acquisition of Kaga FEI and EXCEL, but we have not relaxed our grip on Kaga Electronics' approach to management with an emphasis on income. We will continue our M&As to become a company worth 1 trillion yen net sales, but as long as Kaga Electronics' own revenue base does not change, the Group's income growth will be sustainable.



Next, I will discuss the new fiscal year, which ends in March 2022.

The fiscal year ending in March 2022 is the last year of the three-year Medium-Term Management Plan 2021. The management targets for this plan were 500 billion yen in net sales and 13 billion yen in operating income. Respective earnings forecasts, which were released on May 13, are 470 billion yen and 13 billion yen. While we expect to achieve the plan's target for operating income, net sales are still some ways from the target.

The plan was established three years ago, in summer to autumn 2018. During this period, there were no major changes for Kaga Electronics itself, but in the Group, Kaga FEI's major sales agency agreements were terminated, resulting in the loss of nearly 100 billion yen in sales. This was offset to some extent with the acquisition of EXCEL, but about 30 billion yen could not be covered. At this point, however, we have no plans to lower our management targets in the medium-term plan, and will work hard to cover this 30 billion yen over the next year as my own "challenge" goal.

Operating income has changed in substance from three years ago, but as Kaga Electronics' own ability to generate income has improved, we think this target can be achieved.

Progress of PMI at KAGA FEI (formerly Fujitsu Electronics)

EMS initiatives	<ul style="list-style-type: none"> Obtained orders for development, experimental production and mass production from five companies, including automotive equipment manufacturers and electronics manufacturers 124 companies/new visits ➔ 74 companies/currently in sales talks <p><Focus point> The EMS/E2MS Business Division was established, and the number of new orders exceeded levels in the previous year despite COVID-19. Affiliations were formed with EMS factories within the Group for mass-production orders.</p>	
Cross-selling initiatives	<ul style="list-style-type: none"> Continue to expand sales of Kaga Electronics' influential products to large and important clients <p><Focus point> Large-scale sales talks are underway in several fields, including auto solutions, network solutions, system equipment, infrastructure equipment, home appliances and other.</p>	
New product initiatives	<ul style="list-style-type: none"> Expanded products and services in a wide range of fields, such as semiconductors, electronic parts and unit modules <p><Focus point> New products handled: 90 companies, sales are expected to total about 20 billion yen in FY2022/3 (Sales were 12.6 billion yen in the previous fiscal year.)</p>	
Consolidation of sales bases	Japan	<ul style="list-style-type: none"> Relocation of FEI Osaka Office to KG Kansai Sales Office [December/2020] * Nagoya, Hiroshima and Niigata have already completed integration
	Overseas	<ul style="list-style-type: none"> KG US sales company to integrate with FEI US sales company [January 2021] Kaga Electronics' sales company in South Korea and KFEI's sales company in South Korea are under consideration (target date of H1 FY2021)



*Abbreviations : KAGA FEI → KFEI

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I would like to explain our progress with the post-merger integration (PMI) of Kaga FEI, which we acquired in January 2019.

Starting with our EMS initiatives, as I explained previously, in April 2019 we established the EMS/E2MS Business Division within Kaga FEI as a sales team dedicated to EMS, and this division has worked with Kaga Electronics' EMS Division on sales activities targeting our major customers. In the fiscal year ended in March 2021, the division approached 124 companies and brought in 11 orders from eight companies for development, experimental production and mass production, and we expect them to begin posting sales from this fiscal year. Last year we approached 90 companies and received orders from four, showing that EMS marketing has really picked up over the past year.

The next key point is initiatives with new products. We have already explained the loss of major sales agency agreements with Cypress and others, and new business is essential to fill this hole. Kaga FEI has aggressively worked to develop new products for five years now, and has initiated new business with a total of 90 companies to date. Net sales generated by these new products totaled 12 billion yen in the fiscal year ended in March 2021, and we expect about 20 billion yen in sales in this fiscal year.

We worked hard to consolidate and close the sales bases and organizations that these two companies have in Japan and overseas. Our work on this is generally finished in Japan, and overseas, we are working on consolidation in South Korea.

Progress of PMI at EXCEL

New business Initiatives	<ul style="list-style-type: none"> Expanded sales of photocatalytic sanitizer/deodorizer* manufactured by Kaltech Co., Ltd. Expanded sales of EV buses manufactured by China's Alfabus Co., Ltd. <p><Focus point> Utilization and full-scale deployment of networks owned by Kaga Electronics and EXL is currently underway ※ EV bus sales: 2 buses introduced in FY2021, finalized orders for 2 buses for FY2022</p>	
Cross-selling initiatives	<ul style="list-style-type: none"> Strengthen sale of products held by Kaga Electronics to major customers <p><Focus point> The Group Synergy Promotion Office was set up to strengthen ties with Kaga Electronics. In addition, the Special Sales Marketing Division was set up, and the range of products other than electronic components that are handled is being expanded.</p>	
Consolidation of sales bases	Japan	<ul style="list-style-type: none"> EXL merged with ADS (on October 1, 2020) EXL's headquarters will be moved to Kaga Electronics' headquarters (Akihabara) [March 2021] EXL's Nagoya branch will be moved to KG's Nagoya sales office [April 2021] Changes for other sites in Japan are currently being considered
	Overseas	<ul style="list-style-type: none"> EXL Singapore will be liquidated and business moved to Kaga Singapore [December 2020] ADS Hong Kong's business was transferred to EXL Hong Kong [20年12月] Changes for other overseas sites are being considered

*Abbreviations: EXCEL→EXL Advanced Display Solutions (EXL's subsidiary) →ADS



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Next, I will explain the status of our progress with PMI for EXCEL, which we acquired in April 2020. As I explained before, I will discuss new business and the consolidation and closure of bases.

In the first new business, we expanded sales of photocatalytic sanitizer/deodorizers manufactured by Kaltech Co., Ltd. Sales were expanded by making full use of not only EXCEL's sales channels, but also those of Kaga Electronics Group. The product line-up expanded from personal products worn around the neck to wall-mounted products suitable for a 16-mat room and a stationary type for a 60-mat room. These products meet companies' needs for coronavirus countermeasures.

Now let's move on to EV buses. As the sales agent for Alfabus Co., Ltd., an EV bus manufacturer in China, EXCEL established Alfabus Japan in 2019, where the company is working to expand sales of eco-friendly EV buses. Alfabus China was established in 1999 and collaborated with a Swedish bus manufacturer on vehicle manufacturing and with a Japanese battery manufacturer on the battery to produce a large, 12-meter class EV bus. As the top runner in China, which is particularly advanced in EV bus manufacturing, Alfabus EV buses operate in Shanghai, Chengdu, Wuxi and other cities, and are also running through major cities in Spain and Italy. In Japan, the company received orders from local governments and delivered two buses in the fiscal year ended in March 2021, with two additional confirmed orders for the fiscal year ending in March 2022. EV buses use clean energy with no exhaust gas emissions, making this a business that gives back to society in line with SDGs.

In regards to the consolidation and closure of sales bases, we are steadily implementing structural reforms, such as liquidating subsidiaries, consolidating offices in Japan and overseas with Kaga Electronics' offices, and moving the headquarters to Kaga Electronics' headquarters building.

Response to the Spread of Novel Coronavirus Infection

Sales bases				
<ul style="list-style-type: none"> We continued operating with an emphasis on safety measures, such as telework and staggered commuting times, in line with directions from the national and local governments. We curbed the flow of people with a target of 20% of employees coming into work when the government declared a state of emergency. 				
		H1	H2	Number of COVID-19 cases
Office attendance rate	Kaga Electronics	39.1%	46.5%	2
	Group companies	46.2%	52.7%	14
Production bases				
<ul style="list-style-type: none"> In Japan, we continued operations with an emphasis on safety measures, in line with guidance from the national and local governments. Overseas, some bases suspended operations due to lockdowns in H1 of FY2021/3. Operations have continued since then. 				
Status of suspended operations following increase in COVID-19 cases				
		H1	H2	Number of COVID-19 cases
Thai·Indonesia·Turkey	No suspension of operations			(region)
Hubei, China	Feb.1~Mar.15 *			(China)
Suzhou, China	Feb.1~9 *			0
Shenzhen, China	Feb.1~13 *			(Asia)
Malaysia	Mar.18~Apr.20			0名
Vietnam	Apr.1~15			(Europe)
India	Mar.25~May31			30
Czech	Apr.7~9			(American)
Mexico	Apr.1~May30			25

* H2 of FY2020/3 ■■■ Operation suspension period

We reported on COVID-19 at the previous briefing in November, and will now provide an update on conditions since then.

Our sales bases continue with marketing activities with safety as our top priority, primarily achieved with telework and staggered working times in line with guidance from the central and local governments in Japan and overseas.

This table summarizes the office attendance rate in Japan, showing that the rate was 39% for Kaga Electronics on a parent basis and 46% for Group companies in H1; in H2, the respective rates were 46% and 52%. Until now, we have tried to operate with an office attendance rate below 30% when the government has declared states of emergency and 40-50% when they've been lifted. We have further endeavored to restrict the flow of people even more with an office attendance rate of 20% in response to the most recent third state of emergency declaration.

In Japan, two employees contracted COVID-19 at Kaga Electronics' headquarters and 14 at Group companies. Luckily, none of the cases were severe, and all have returned to work in good health.

None of our production bases in Japan, Thailand and Indonesia suspended operations even once, and have continued manufacturing activity, however our bases in China, Malaysia, Vietnam and other countries temporarily suspended operations in H1 in line with the lockdowns ordered by their governments, as shown here.

Overseas, 30 employees developed COVID-19 in Europe and 25 in the Americas. All of these cases were due to the rise in cases caused by variants from the second half of 2020. There were no cases in China or other parts of Asia.

Response to the Spread of Novel Coronavirus Infection

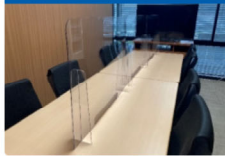
Sales bases in Japan

Do not bring the virus to work or spread it

Thermometers were set up



Partitions within offices



Thorough antiviral and antibacterial measures were taken

Antiviral coating was applied



Photocatalytic sterilizing deodorizers were set up



Overseas production bases

Do not bring the virus to work or spread it

Temperature taken when arriving at work



Goggles and masks worn



Social distancing was strictly enforced

Production lines



Commuting to work on company-owned bus



This slide shows measures to prevent the spread of COVID-19 at our offices in Japan and overseas. The top four photos show offices in Japan, including our headquarters, and the bottom four show EMS plants overseas.

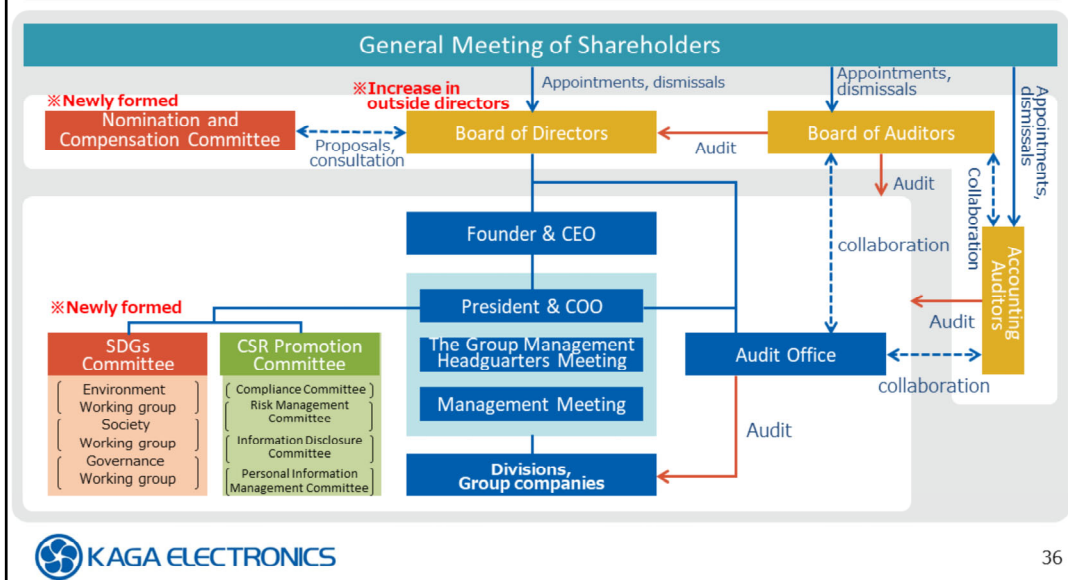
With the goal of not bringing the virus into work and not passing it on, we have set up thermography machines at office entrances, and all employees and visitors have their temperature taken when they arrive and also disinfect their hands. We have also set up partitions in the rooms to prevent airborne droplets, and antiviral coatings are applied within rooms, with Kaltech's photocatalytic sanitizer/deodorizer demonstrating our exhaustive antiviral and antibacterial measures.

At EMS plants overseas, temperatures are taken when entering the building, masks and goggles are worn within, and social distancing measures are enforced on production lines and in the buses used for commuting to work.

We are also taking measures to prevent the spread of COVID-19, including hand-washing, gargling, and disinfecting with alcohol, as well as partitions set up in the disinfecting showers and employee cafeteria to prevent contact between employees at plants. To date, infections have been singular events, with most occurring within the home; there have been zero clusters of outbreaks in the workplace.

Strengthening the Governance System

- We have decided to increase the number of independent outside directors by one, so that they account for one-third or more (June 29, 2021).
- We are setting up a **Nomination and Compensation Committee** as a voluntary advisory body (June 29, 2021).
- The **SDGs Committee** was established to promote sustainability management across the Group (April 1, 2021).



I will now explain efforts to strengthen our governance system.


We decided to rebuild our governance system so that it can adequately meet the demands made upon it, in line of the revisions to the Corporate Governance Code this year and the changes that the Tokyo Stock Exchange is making to its market segments next year.

The first change is to increase our number of outside independent directors by one, from three to four. We have seven internal directors, so outside directors will make up more than one-third of the Board of Directors.

We also set up a Nomination and Compensation Committee as a voluntary advisory council. Needless to say, this is intended to raise the transparency of the decision-making process for officers' nominations and compensation. An outside director will serve as chairperson.

These two changes will be implemented following the general meeting of shareholders to be held in June, but before this, we established the SDGs Committee with the aim of deepening our initiatives on ESG issues from April. The decision to make outside directors comprise one-third of the board and the formation of a Nomination and Compensation Committee are both part of this effort.

SDGs Committee	
Basic stance on SDGs	<ul style="list-style-type: none"> We established the SDGs Committee with the aim of deepening our response to CSR and ESGs, which we have been working on, and pursuing sustainability management across the Group. We will contribute to the creation of a sustainable society in line with our corporate philosophy of “everything we do is for our customers” by resolving social issues and achieving sustainable growth as a company.
System for promoting SDGs internally	<ul style="list-style-type: none"> The SDGs Committee is chaired by the President, and consists of each division’s chief officers, among others. Working groups on the environment, society and governance are set up under this committee to establish guidelines, measures and objectives for the ESG issues, as well as to monitor progress and perform other functions. This committee is under the direct control of the President, and with the commitment of top management, the committee will work closely with the business divisions and Group companies to expand SDG initiatives on an ongoing basis.
ESG issues to address	Environment <ul style="list-style-type: none"> We will address the aggressive use of reusable energy at the Group’s offices in Japan and factories overseas to help achieve a decarbonized society, among others.
	Society <ul style="list-style-type: none"> We will promote diversity, as well as work-style reforms and health management adapted to COVID-19 conditions, to contribute to a sustainable society in which the company and employees cooperate and the quality of life is improved.
	Governance <ul style="list-style-type: none"> We will build a governance system aimed at strengthening our competitiveness in line with our corporate philosophy and commitment to legal compliance so that we continue to be a valuable company for all stakeholders.

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In closing, I will explain the SDGs Committee that we launched in April.

Our basic stance on SDGs is that it is important to intensify our response to CSR and ESG that we have developed thus far and implement sustainability management. We established the SDGs Committee as a means of promoting these efforts throughout the Group in hopes of balancing solutions to social issues with ongoing growth as a company while contributing to the creation of a sustainable society.

The SDGs Committee is chaired by myself, with each division’s chief officers and others serving as members. Working groups on the environment, society and governance are set up under this committee to establish and implement guidelines, measures and objectives for these ESG issues. Since this committee is under the direct supervision of the president, all business divisions and Group companies will be involved with the commitment of top management as we expand SDGs initiatives.

Finally, we will explain the ESG issues that each working group needs to address.

- The Environment Working Group will consider ways to aggressively utilize renewable energy at offices in Japan and overseas to contribute to the realization of a decarbonized society. If possible, we would like to aim for RE100.
- The Society Working Group will work on promoting diversity, including the active participation and utilization of women, and workstyle reforms and health management, among other issues.
- The Governance Working Group will consistently address the Corporate Governance Code, which will be revised regularly from this point, helping to ensure that Kaga Electronics can continue to be a valuable company for all stakeholders, beginning with our shareholders.

We will organize the output of these activities in a Medium-term Sustainability Plan this fiscal year as a roadmap and report back to all of you, together with a new medium-term business plan.

This concludes my briefing.
Thank you for your attention.

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



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