

Financial Results Briefing Material
for the Fiscal Year ended March 2023

KAGA ELECTRONICS CO., LTD.

TSE Prime Market 8154

May 25, 2023

KAGA ELECTRONICS CO., LTD.

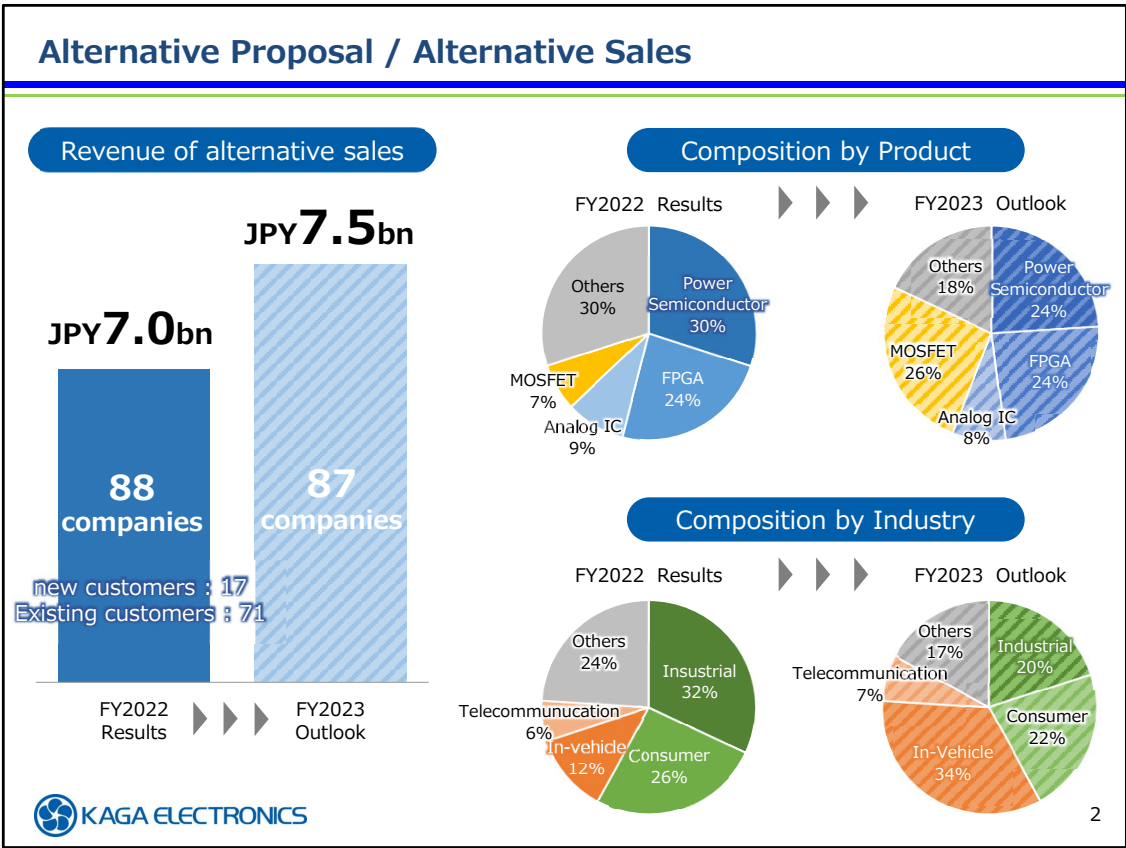
I am Kado, the President of KAGA ELECTRONICS. Thank you for your continued support and cooperation in our IR activities.

Management Topics

Representative Director,
President & COO

Ryoichi Kado

I will now present our management topics for FY2022. The three main topics are: financial results, the medium-term management plan, and the sustainability medium-term management plan.

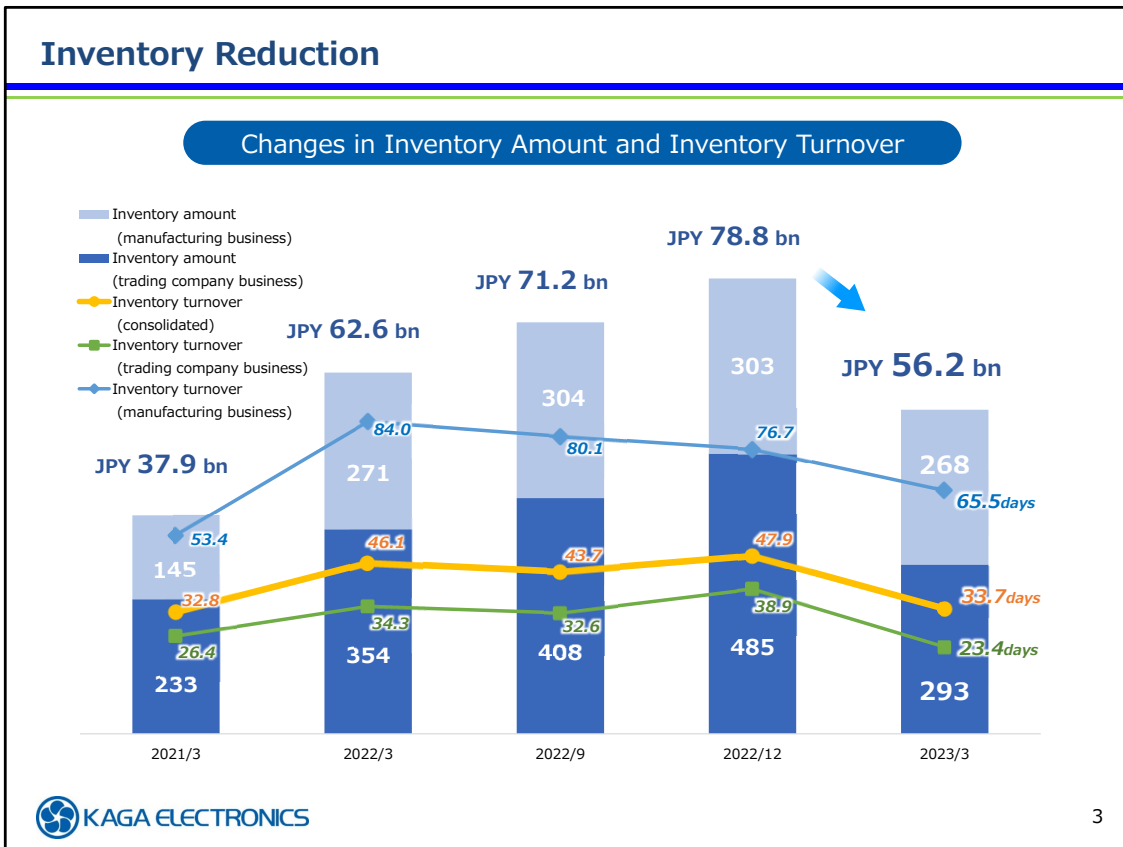


First, I would like to discuss two points regarding FY2022 financial results.

The first is regarding alternative proposals and alternative sales. In previous financial results briefings, we have said that spot sales are a one-time revenue stream and in parallel, we would propose and sell alternative products that lead to sustainable earnings. This page summarizes how many alternative sales there have been.

In FY2022, we made alternative sales to 88 customers. Of these, 71 were existing customers and 17 were new. Total sales amounted to approximately JPY7 billion. In FY2023, we expect to sell approximately JPY7.5 billion to approximately the same number of customers.

The graph on the right shows what products were sold and to what industries. By product, power semiconductors, FPGAs, and analog ICs accounted for the majority of the total. By industry, industrial equipment, consumer electronics, and automotive, in that order, are expected to grow significantly in FY2023.



The second is inventory reduction.

In my presentation at the previous financial briefing, I mentioned that inventory reduction is an urgent management issue. Global shortages of semiconductors and electronic components and longer lead times. In addition, many manufacturers have been reviewing their procurement policies against the backdrop of disruptions in international logistics networks, and have been building up parts inventories over the past year or two.

We are no exception, and in our component sales business, we have had to secure the number of goods as a result of prior and overlapping orders from our customers. In addition, the EMS business experienced an increase in work in the process due to difficulties in procuring some parts and materials, as well as the securing of safety stock as a BCP.

As a result, inventories, which were JPY62.6 billion at the beginning of FY2022, built up to JPY71.2 billion at the end of September and JPY78.8 billion at the end of December. Unfortunately, the inventory at the end of this fiscal year did not reach reduction target, which I said we would normalize to below JPY50 billion, but we were still able to reduce it by over JPY20 billion, bringing it back to JPY50 billion range.

In this graph, our consolidated inventory is broken down into our manufacturing business, mainly EMS, and our trading company business, mainly component sales. As you can see, the trading company business is not hard to hand off, so we were able to drop our position quickly since the end of December. However, the manufacturing business is still somewhat heavy with some work-in-process inventory. We hope to achieve our overall goal of 30 days of turnover by the end of this quarter.

Medium-Term Management Plan 2024 : Targets		
Initial plan (Announced on November 25, 2021)	▶▶▶	Latest outlook (Announced on May 11, 2023)
FY2022~FY2024	Planned year	[No change]
JPY 750 bn Organic growth : JPY 600 bn Including new M&As: JPY 150 bn	Net Sales	[No change]
JPY 20 bn	Operating Income	JPY 30 bn or higher
stable 8.5% or higher	ROE	stable 10% or higher

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Next, I will discuss three points in the medium-term management plan.

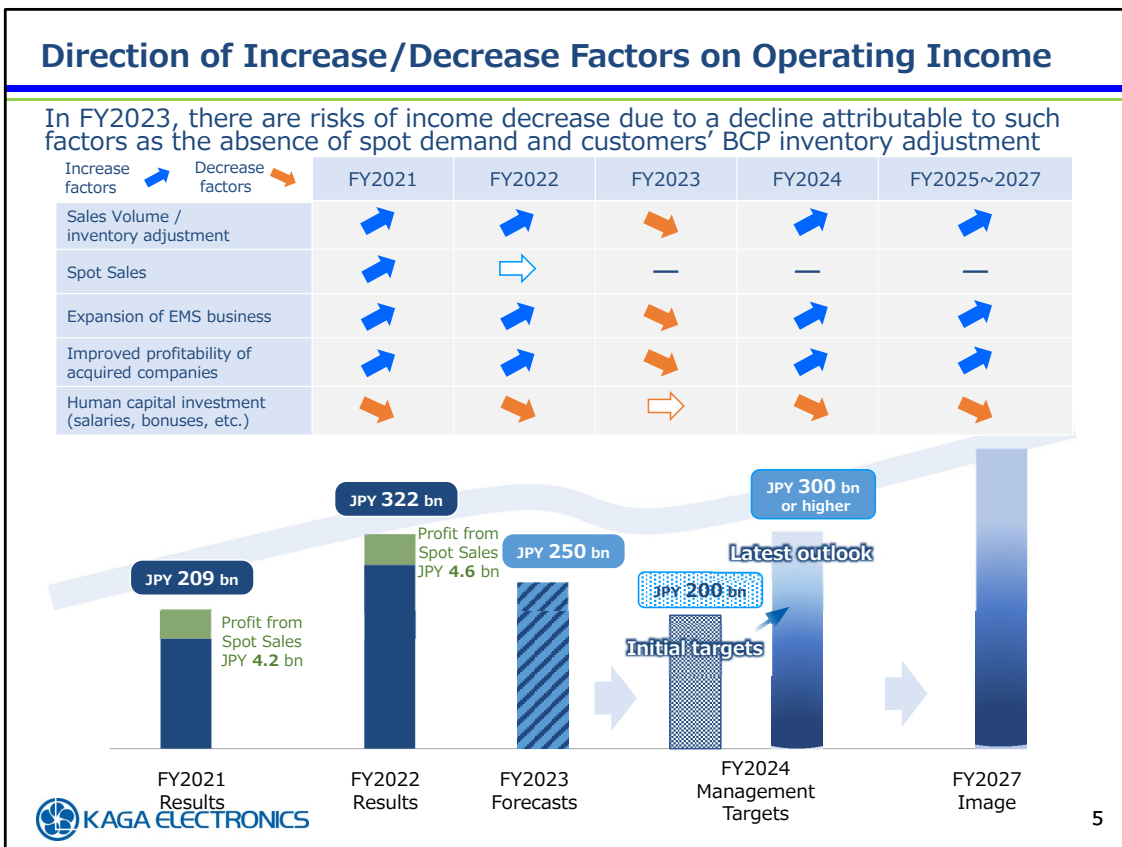
The first is the latest forecast of the medium-term management plan, which was announced on May 11, at the same time as the financial results.

At the previous meeting, I stated that the revision of the operating income target for the medium-term management plan would be disclosed in the announcement of financial results in May. The reasons cited were to determine the final landing of FY2022 earnings, which are expected to be higher, and to improve the accuracy of the FY2023 forecast, which is concerned about downward pressure on earnings due to the elimination of spot sales, inventory adjustments, and other factors.

Based on these upside and downside factors, we have announced this latest outlook for our management targets for FY2024, the final year of the plan. The plan period remains unchanged from FY2022 to FY2024, a three-year plan. There is no change to the original forecast of achieving JPY600 billion in sales through autonomous growth, and JPY750 billion in reflecting new M&A challenges.

Operating income was revised to exceed JPY30 billion or higher. ROE was set at a stable 10% or higher, in line with the revision of operating income.

On the next page, we will discuss the concepts of operating income and ROE in more detail.

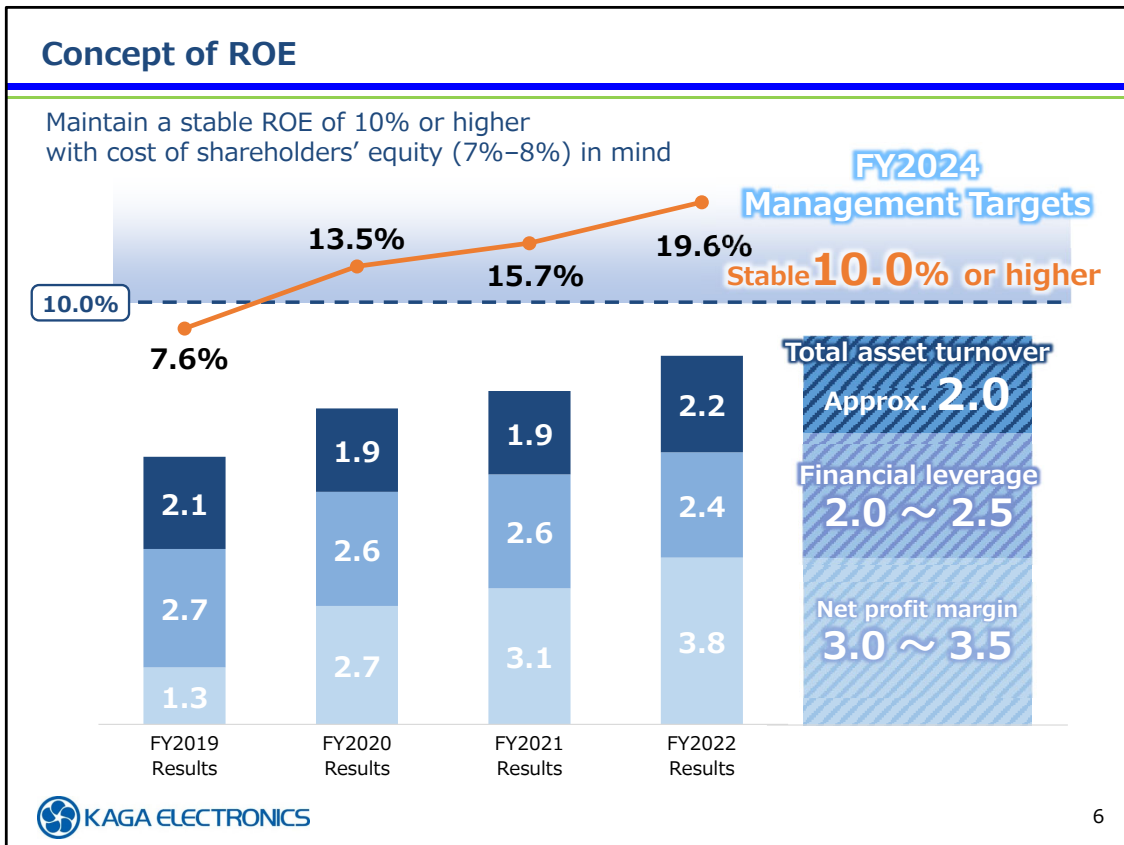


Operating income was set at more than JPY30 billion, based on the expectation that operating income will decline once from the highest income level in FY2022 to FY2023, and then return to the growth phase in FY2024.

As the main indicators on which these assumptions are based, we have indicated the direction of each fiscal year for each of the following factors -- sales volume, spot sales, EMS business expansion, PMI, and human investment -- with blue arrows indicating factors for increased incomes and red arrows indicating factors for decreased incomes.

Operating income forecast for the components sales business and the EMS business, which had led the Company to four consecutive years of record incomes through FY2022, is lower in FY2023 due to recession risk, the impact of temporary inventory adjustments, and a drop-off in spot sales. After FY2024, there is no change in the medium-term business expansion scenario, such as EVs, 5G, IoT, and AI.

On the other hand, we expect the improvement in profitability of acquired companies to continue. In addition, we will continue to invest in human resources, including salaries and bonuses.



This page is a graphical representation of ROE trends broken down into its three components.

The bottom line is a net income margin of 3% to 3.5%, based on an operating income margin of about 5%.

We believe that the key factor in improving ROE is to maintain a high income margin.

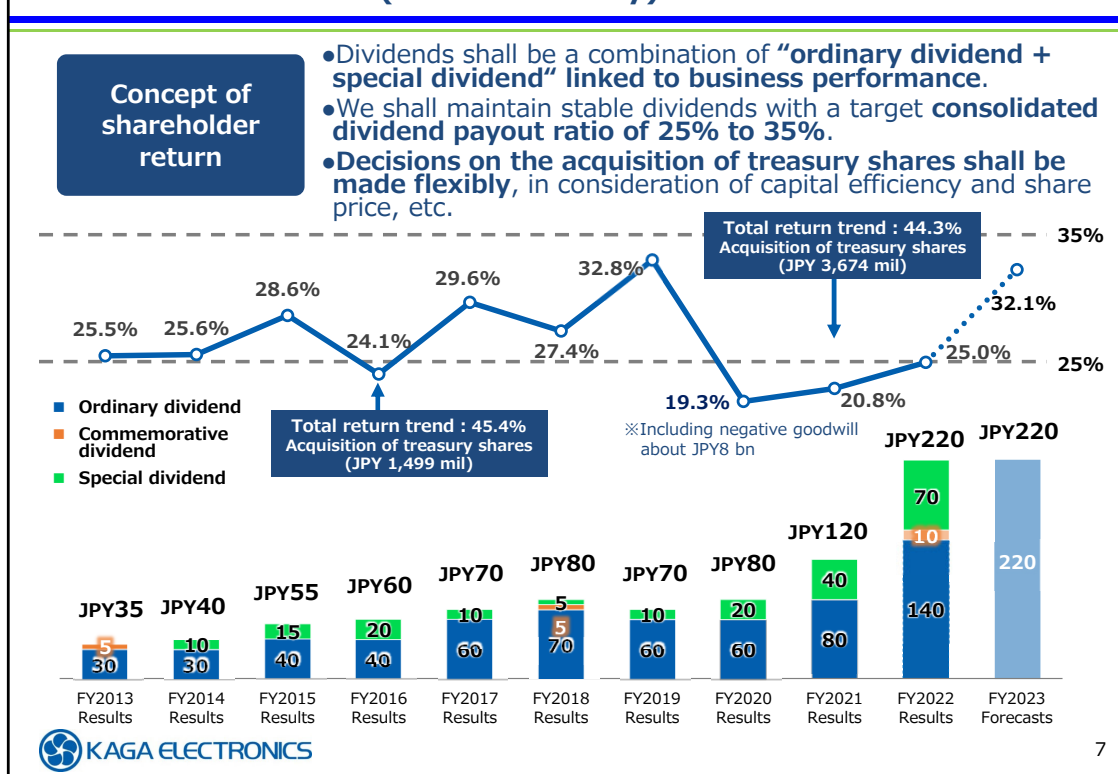
Second, financial leverage is 2 to 2.5 times, based on an equity ratio in the range between 40% and 50%.

If we assume the third factor, total asset turnover, to be around the current two times, we believe that ROE will be stable around 12% to 15%.

Based on these estimates, we have now revised our ROE target to a stable 10% or higher.

We recognize that our cost of equity is roughly 7% or 8%, so our message here is to maintain ROE at 10% or higher to consistently exceed that level.

Shareholder Return (Dividend Policy)



In connection with the medium-term management plan, I would like to mention a few things about shareholder returns.

The dividend for FY2022 was JPY220 per share, which, like our business performance, is a record high. Despite the forecasted decrease in income for FY2023, the dividend forecast remains unchanged at JPY220 per share.











As discussed earlier, although single-year operating results will fluctuate from FY2022 to FY2024, with both increases and decreases, due to the rapidly changing business environment, we have decided that it is desirable to maintain the dividend level for shareholders who will hold our shares for the long term.

In February of this year, we resumed our overseas IR activities for the first time in three years, and met with investors and 11 companies in the UK. In the discussion with them, we were asked what we think of the dividends. There were also discussions among shareholders and new investors alike that dividend cuts are fatal to long-term investors. This real feedback was helpful.

We hope the investors will hold our stocks for the long term with peace of mind, and that is the message we embed here.

Materiality

The Kaga Electronics Group is committed to seriously addressing a variety of issues relevant not only to itself but also communities around the world and thereby living up to the expectations of society. In line with this commitment, the Group has employed four perspectives— Environmental (E), Social (S), Governance (G) and Business (B)—to identify priority issues that are deemed to exert significant impact on its business operations, as listed below. Through its efforts to tackle the materiality of these issues, the Group will practice corporate activities aimed at contributing to the realization of a sustainable society, with the aim of further improving its corporate value.

	Materiality	Related SDGs	Changes in the socio-economic environment	Our initiatives
E	Create a clean global environment	 	<ul style="list-style-type: none"> Growing seriousness of global warming and other environmental problems Urgent call for carbon neutrality 	<ul style="list-style-type: none"> Provide products and services designed to help resolve environmental and energy issues Continue initiatives to reduce the environmental burden
S	Create an inclusive company as well as an affluent society	  	<ul style="list-style-type: none"> Changes in social structure as we move toward the popularization of the new normal Human resource shortages attributable to a low birthrate and an aging population 	<ul style="list-style-type: none"> Promote workforce diversity and innovative work styles to better adapt to the new normal Develop human resources by passing down and updating KAGA-ism
G	Create a sustainable management base	 	<ul style="list-style-type: none"> Public calls for more robust corporate governance Growing need for business resilience against changes in the operating environment 	<ul style="list-style-type: none"> Further strengthen corporate governance and compliance Thoroughly practice a profit-focused management approach
B	Realize sustainable business growth	  	<ul style="list-style-type: none"> Progress in digital transformation Coming of a “super-smart” society due to the popularization of ICT, such as IoT and AI Intensification of global competition 	<ul style="list-style-type: none"> Provide products and services that contribute to the transition to a digital-driven society Create new businesses aimed at helping

Next, I will discuss the progress made in the first year of the sustainability medium-term management plan.

This page is related to prominent issues of our group, but I have already discussed them previously, so I will omit them here.

Medium- to long-term sustainability targets

	Key themes	Issues to address and issues to examine	Medium-term targets	Long-term targets
E	Achievement of shift to 100% renewable energy	<ul style="list-style-type: none"> Adoption of renewable energy at domestic sales offices Adoption of renewable energy at domestic manufacturing sites Adoption of renewable energy at overseas manufacturing sites 	2024: 40% (1%) By 2024: Information gathering/analysis and determination of policy In-house power generation/external procurement Solar panel/biomass power generation/renewable energy businesses	2030: 100% 2030: 50% 2050: 100% 2030: 30% 2050: 100%
	Shift to electricity for company-owned vehicles	<ul style="list-style-type: none"> Switch to electric vehicles for domestic sales vehicles (EV, HV, PHV, FCV) 	2024: 85% (78.5%)	2030: 100%
S	Diversity and human resource management	<ul style="list-style-type: none"> Ensuring diversity in core human resources (Women, foreign nationals, mid-career hires) Initiatives to employ elderly workers and persons with disabilities 	Percentage of female new graduates in general positions 2023: 30% (5.8%) Percentage of women in management positions 2024: 15% (13.3%)	Percentage of female new graduates in general positions 2028: 40% Percentage of women in management positions 2029: 17%
	Work-life management and enhancement of productivity	<ul style="list-style-type: none"> Enhancement of programs such as childcare/family-care and telework Acquisition of certification as a Health and Productivity Management Organization 	2022: Implementation of review 2023: Certification	2025: Certification by outside party 2024 onward: Continuation of certification
G	Restructuring the governance structure in response to the revision of the Corporate Governance Code and the reorganization of Tokyo Stock Exchange	<ul style="list-style-type: none"> Independent Outside Directors: at least 1/3 Establishment of Nomination and Compensation Committee 	Performed in June 2021	Setting of targets in line with next Corporate Governance Code revision
	Further strengthening the supervisory and oversight functions of top management over business execution	<ul style="list-style-type: none"> Diversification of the Board of Directors Full compliance with Corporate Governance Code for Prime Market Adoption of delegation-based executive officer structure Transition to structure of company with committees 	By June 2022: Determination of policy Performed in November 2021 April 2022: Enactment By March 2023: Determination of policy	



*Numbers in parentheses represent values when the plan was formulated in November 2021. 9

This page shows the medium-term and long-term targets for each theme established in the sustainability medium-to long-term management plan.

From the following pages, I will report on the progress in ESGs per category.

Progress of medium- to long-term sustainability targets : Environmental

Key themes	Issues to address and issues to examine	Main activities and progress in FY2022
E Achievement of shift to 100% renewable energy	• Adoption of renewable energy at domestic sales offices	■ Introduced 1.2% of total electricity from renewable energy sources. Continue study to achieve 40% in FY2024.
	• Adoption of renewable energy at domestic manufacturing sites	■ Calculated power generation to install solar panels at sites in Aomori, Fukushima, and Tottori. Started the detailed design.
Shift to electricity for company-owned vehicles	• Adoption of renewable energy at overseas manufacturing sites	■ Started to introduce renewable energy-derived electricity using solar panels at sites in China (Hubei) and Vietnam. Expected to cover 30%-50% of annual electricity usage at each site.
	• Switch to electric vehicles for domestic sales vehicles (EV, HV, PHV, FCV)	■ The ratio of electric vehicles increased by 1.2% year on year to 82.0% (as of March 31, 2023).

Solar panels installed on the roof of Head Office



Solar panels installed at Vietnam factory



First, the “E” of Environment.

In this category, we are working to achieve 100% renewable energy.

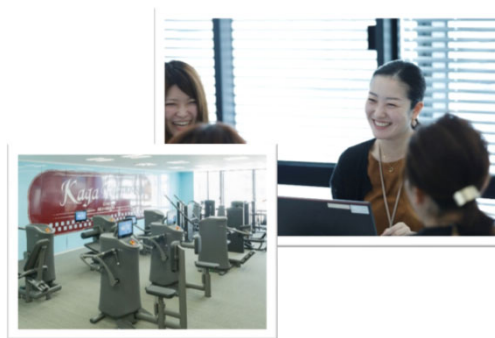
As for major progress in FY2022, we have started designing for the installation of solar panels at our manufacturing sites in Japan.

In addition, at our overseas manufacturing bases, the Hubei Plant in China and the Vietnam Plant have begun to install renewable electricity from solar panels.

These sites are expected to cover 30% to 50% of their annual electricity use.

Progress of medium- to long-term sustainability targets : Social

	Key themes	Issues to address and issues to examine	Main activities and progress in FY2022
S	Diversity and human resource management	<ul style="list-style-type: none"> Ensuring diversity in core human resources (Women, foreign nationals, mid-career hires) 	<ul style="list-style-type: none"> Percentage of female new graduates in general positions increased by 12.3pt year on year to 18.1% as a result of hiring activities based on the Action Plan. Discussions held within the group to improve percentage of women in management positions and set targets for the number of women in management positions at each group company. As of April 2023, the percentage of women in management positions has increased by 3.2pt year on year to 16.5%.
	Work-life management and enhancement of productivity	<ul style="list-style-type: none"> Initiatives to employ elderly workers and persons with disabilities Enhancement of programs such as childcare/family-care and telework Acquisition of certification as a Health and Productivity Management Organization 	<ul style="list-style-type: none"> Employment of persons with disabilities is 100% of the legally mandated rate (as of March 31, 2023) Revised regulations and rules to make telework a permanent system Certified in March 2023



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Next is the “S” of Society.

The key theme here is diversity.

Our ultimate goal is to develop and promote women to officers and boards, and as a start, we started working to increase the ratio of female managers and the ratio of female career-track employees.

Progress in FY2022 was as follows: the ratio of female career-track positions increased by 12.3pt from the previous year to 18.1%, and the ratio of female managerial positions increased by 3.2pt from the previous year to 16.5%.

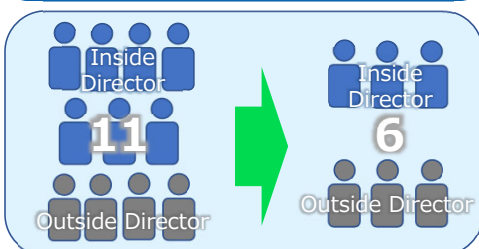
One of our achievements in FY2022 as work-life balance management was the certification of Health & Productivity Management Outstanding Organizations we received in March of this year.

In addition, remote work, which took root during the pandemic, did not go away even in the post-COVID-19 period; instead, it was institutionalized as one of the normal work styles. We estimate the rate of remote workers to be 40% to 60%.

Progress of medium- to long-term sustainability targets : Governance

Key themes	Issues to address and issues to examine	Main activities and progress in FY2022
G Restructuring the governance structure in response to the revision of the Corporate Governance Code and the reorganization of Tokyo Stock Exchange Further strengthening the supervisory and oversight functions of top management over business execution	<ul style="list-style-type: none"> Independent Outside Directors: at least 1/3 Establishment of Nomination and Compensation Committee 	<ul style="list-style-type: none"> Effective June 2023, 6 directors (including three outside directors), with a majority of directors being outside directors. Established the Nomination and Compensation Committee.
	<ul style="list-style-type: none"> Diversification of the Board of Directors Full compliance with Corporate Governance Code for Prime Market Adoption of delegation-based executive officer structure Transition to structure of company with committees 	<ul style="list-style-type: none"> Decided to nominate a female candidate as a new outside auditor. Continued to work to appoint a female director. TCFD-compliant information to be disclosed from June 2022. Implemented from April 2022. Continue the company-with-auditors system, but shorten the term of directors from the current 2 years to 1 year (planned in June 2023).

Enhancement of the Board of Directors' functions



Adoption of Delegation-based Executive Officer Structure

Outline: Management (conventionally, directors) with roles (e.g., Founder & CEO, President & COO, senior managing executive officer, managing executive officer, and senior executive officer)
 Inside directors concurrently serve as delegated executive officers.
 Term of office: 1 year
 Nomination: Deliberated by the Nomination Committee and resolved at the Board of Directors meeting.

Finally, the “G” of Governance.

An important theme here is the restructuring of the governance structure.

As for the results for FY2022, we will review the number of directors, and from June of this year, the number of directors will be reduced from seven internal and four external, for a total of 11; to three internal and three external, for a total of six. The purpose is to clarify the supervisory and executive functions of management to enhance management transparency and speedy execution of business operations.

On the other hand, with respect to the diversification of the Board of Directors, unfortunately, we were unable to submit a female candidate for the Board of Directors at this year’s General Meeting of Shareholders, but we have decided to introduce a female outside corporate auditor with the future transition to a company with an Audit Committee System in mind.

That is all for my explanation. Thank you very much for your attention.

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



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