

January 25, 2024

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Action to Implement Management that is Conscious of Cost of Capital and Stock Price

KAGA ELECTRONICS CO., LTD. (the "Company") hereby announces that the Board of Directors adopted a resolution on January 25, 2024, regarding its policy on action to implement management that is conscious of the cost of capital and stock price, as described below, with the aim of sustainable growth and medium- and long-term corporate value enhancement.

1. Current Situation

The Company has established its Medium-Term Management Plan 2024 for the three-year period from the fiscal year ended March 2023 to the fiscal year ending March 2025. Under its basic policies – "further reinforcement of profitability," "reinforcement of management base," "creation of new businesses," and "promotion of SDGs management" – the plan sets management targets for the fiscal year ending March 2025, the final fiscal year of the plan, for KPIs comprising net sales, operating income, and ROE, as follows.

	Management Targets for FY2025/3
Net Sales	750 billion yen (Organic growth: 600 billion yen Including new M&As: 150 billion yen)
Operating Income	30 billion yen or higher
ROE	stable 10% or higher

In the fiscal year ended March 2023, the first fiscal year of the plan, the Company continued to set new record highs for net sales and each level of profit while also recording its highest-ever ROE, which indicates capital efficiency. This was partly due to the tailwind provided by global supply shortages of semiconductors and electronic components. Against the backdrop of this strong performance, the announcement of the financial results for the fiscal year ended March 2022 sparked a clear upward trend in the Company's stock price, which had previously stagnated at discount levels. Since February 2023, the Company's PBR has maintained a stable level of over 1.0.

(billion yen)	FY2020/3 (Results)	FY2021/3 (Results)	FY2022/3 (Results)	FY2023/3 (Results)	FY2024/3 (Forecasts)
Net Sales	443.6	422.3	495.8	608.0	550.0
Operating Income	10.0	11.4	20.9	32.2	25.0
Profit attributable to owners of parent	5.8	11.3	15.4	23.0	18.0
ROE (%)	7.6	13.5	15.7	19.6	13.3
Stock prices (yen)	1,702	2,480	3,255	5,010	-
PBR (times)	0.58	0.75	0.87	1.05	-

Note: Stock price and PBR are calculated based on the closing value on the final day of each fiscal year.

2. Views on ROE

ROE can be divided into three components: net income margin, financial leverage, and total asset turnover. As shown below, the Company has set a “stable 10% or more,” with a consciousness of the cost of shareholders’ equity, as its management target ROE under the Medium-Term Management Plan. This is premised on the Company’s view that it will be able to achieve an ROE of between 12% and 15%, estimated from its most recent performance and future outlook.

The most recent results for ROE have easily exceeded the Company’s estimated cost of shareholders’ equity, which is approximately 7% to 8%.

	FY2020/3 (Results)	FY2021/3 (Results)	FY2022/3 (Results)	FY2023/3 (Results)	FY2025/3 (Outlook)
Net profit margin (%)	1.3	2.7	3.1	3.8	3.0~3.5
Financial leverage (times)	2.7	2.6	2.6	2.4	2.0~2.5
Total asset turnover (turns)	2.1	1.9	1.9	2.2	Around 2.0
ROE (%)	7.6	13.5	15.7	19.6	12.0~15.0
<Reference> Cost of equity(%)	6.6	8.1	7.5	8.1	10.0

3. Future Initiatives

The Company will steadily implement the measures formulated under Medium-Term Management Plan 2024, further strengthening and accelerating these measures to continue to achieve robust results. This will enable it to receive a proper valuation of its business growth potential and earnings potential from the stock market and continue to improve its PBR. Its main measures are the following four points.

Measure (1): Steadily implement Medium-Term Management Plan 2024

The Company will engage in maintaining and improving business growth and profitability through the steady implementation of the various measures established in the Medium-Term Management Plan, aiming to achieve the management targets in the final fiscal year of the plan.

Measure (2): Enhance shareholder satisfaction

The Company will engage in enhancing shareholder satisfaction through the steady implementation of the shareholder return policy established under the Medium-Term Management Plan (1. consolidated dividend payout ratio of 25–35% as a measure of stable dividends, 2. pay special dividends as performance-linked dividends, and 3. flexibly and strategically implement share repurchases).

Under the next medium-term management plan, the Company will further deepen discussions aimed at further advancing and enhancing shareholder return measures.

Measure (3): Promote sustainability management

The Company has engaged in CSR and ESG activities for some time. The SDGs Committee, chaired by the President & COO, will play a central part in deepening these activities and promoting sustainability management Group-wide.

In the fiscal year ending March 2025, specifically, the Company will engage in quantifying greenhouse gas emissions and formulating reduction targets, and aim to enhance ESG evaluation through external institutions such as the TCFD and CDP.

Measure (4): Maintain and further strengthen proactive IR activities

The Company will further deepen the regular communication of management information that it has implemented for some time, centered on the Investor Relations & Public Relations Department, which is a section specializing IR. These activities include company briefing sessions, financial results briefings, and other IR events for investors, as well as communication through the Company's IR site, Integrated Report, and media (economics journals and specialist magazines). In addition, the President & COO will play a central role in energetically undertaking constructive dialogue with shareholders and investors, including those overseas.

The opinions and other comments received through these IR activities will be shared in meetings of the Board of Directors and utilized, including in the review of management strategy.