April 25, 2024
Fuji Electric Co., Ltd.

Condensed Transcript of Q&A Session Regarding Financial Results Presentation for the Fiscal Year Ended March 31, 2024, and Management Plan for the Fiscal Year Ending March 31, 2025

Date: April 25, 2024 (Thursday) 15:30–17:00

General

Q. What factors may result in performance surpassing the forecasts detailed in the management plan for the fiscal year ending March 31, 2025?

A.

・Our outlook for foreign exchange influences is a bit conservative in comparison to recent foreign exchange rates. If the current foreign exchange rates continue, it is possible that net sales may be over ¥20.0 billion higher than forecast while operating income has the chance to surpass the forecast by between ¥4.0 billion and ¥5.0 billion. We also see the potential for a reduction of up to ¥5.0 billion in expenses.
The targets contained in the management plan for the fiscal year ending March 31, 2025, represent the minimum level of performance that we look to secure. We hope to achieve performance that surpasses forecasts in all segments, though our ability to do so will depend on market conditions.

Q. When is demand for industrial components expected to recover?

A.

・Given the trends in the supply–demand balance and distributor inventories, we expect that demand for ED&C components will begin to recover in the second quarter of the fiscal year ending March 31, 2025, while the recovery of demand for automation components will not start until the second half of the fiscal year.

Q. It has been stated that Fuji Electric plans to conduct capital investments in excess of ¥100.0 billion in the fiscal year ending March 31, 2025? What type of capital investment levels are anticipated in subsequent fiscal years?

A.

・The new medium-term management plan, which covers the three-year period spanning the fiscal years ending March 31, 2025 to 2027, prescribes levels of capital investment that will surpass the levels seen in the prior three-year period encompassing the fiscal years ended March 31, 2022 to 2024.

Q. What was the thinking behind Fuji Electric's target for return on capital investment?

A.

・We look to maintain a level of return on capital investment that sufficiently

exceeds our weighted average cost of capital. Specially, we are thinking of a figure of 10%. At the same time, investments will be conducted in growth fields in order to heighten capital efficiency. At the medium-term management plan briefing scheduled for May 2024, we intend to provide more details on matters like our cash allocation strategies.

Energy

Q. Why did performance in the Energy segment surpass forecasts in the fiscal year ended March 31, 2024? Also, is the forecast for orders in this segment in the fiscal year ending March 31, 2025, the minimum level you expect to accomplish?

A.

- Factors that led performance in the Energy segment to surpass forecasts in the fiscal year ended March 31, 2024, included reductions in expenses and costs as well as success in price negotiations with customers in the energy management business, which enabled us to raise our prices. Sales and income showed year-on-year improvements in all four of the Energy segment's subsegments.
- As for our forecast for orders in the Energy segment in the fiscal year ending March 31, 2025, this figure does indeed represent the minimum level we hope to accomplish. Although we are witnessing relatively strong growth in domestic orders, we expect the impacts of the absence of overseas power plant orders received in the fiscal year ended March 31, 2024, to be relatively large. This outlook shaped our forecast.

Q. Around the world, we are seeing tight supply–demand balances for uninterruptible power systems (UPSs) and transformers for data center and semiconductor applications. I suspect that Fuji Electric's operations in these areas are centered on Japan and other parts of Asia, but what are your plans for operations in North America? Other companies have been ramping up production and raising prices. Is there any possibility that Fuji Electric will be able to improve profit margins by raising prices?

A.

- In North America, we have been receiving orders for items like UPSs as along with orders related to upgrades for large-scale rectifiers.
- As for the possibility of improving profit margins by raising prices, it is our policy to present prices that reflect the higher material prices when we receive an inquiry from a customer, and negotiations take place before an order is finalized.

Q. What is your forecast for data center product orders in the power supply and facility systems business in the fiscal year ending March 31, 2025? Hyper scalers have announced their domestic investment and other plans amid incredibly brisk demand from U.S. data centers. What is the situation at Fuji Electric with this regard?

A.

- In the fiscal year ending March 31, 2025, orders for UPSs and other products for

data centers are expected to show an increase of between 10% and 20% year on year when taking into account the orders that would have normally been recorded in the fourth quarter of the fiscal year ended March 31, 2024, but were delayed due to customers' circumstances. The lead time for such orders is one or two years, and the impact on sales from these orders is thus expected to be low in the fiscal year ending March 31, 2025. As for orders for semiconductor applications, customers are anticipated to resume investments in UPSs late into the fiscal year ending March 31, 2025. We have heard discussion of investments related to generative AI for hyper scaler data centers in the United States and other areas, but we have not incorporated such investments into our forecasts.

Q. If orders for UPSs were to grow by, say, 10% to 20%, would Fuji Electric's current production capacity be sufficient?

A.

・In the fiscal year ended March 31, 2024, our Kobe Factory produced a relatively high number of large-capacity UPSs. However, the levels of production at this factory in the fiscal year ending March 31, 2025, have not yet reached the levels seen in the previous year. Accordingly, we have the capacity to up production if necessary. It is also possible for us to disburse production by taking advantage of our factories in Tsukuba and in Thailand.

Q. Electricity storage facilities for renewable energy applications have been defined as a prior area of the fiscal year ending March 31, 2025? When are operations in this area anticipated to begin contributing to performance?

A.

・In the fiscal year ended March 31, 2024, inquiries related to grid electricity storage systems tripled while a fourfold increase was seen in inquiries pertaining to storage systems for renewable energy and in-house power generation applications. These products are expected to begin contributing to performance late into the fiscal year ending March 31, 2025.

Q. What renewable energy and environmental products will be undergoing research and development during the fiscal year ending March 31, 2025?

A.

・We will be advancing research and development of items including circuit breakers that do not use SF6 gas, power supply equipment for hydrogen production applications, and fuel cell-use converters.

<u>Industry</u>

Q. What type of order backlog has been secured in the fiscal year ending March 31, 2025, given the deteriorating conditions in the automation market? Also, what factors might contribute to increases in operating income in this fiscal year?

A.

・We do not expect to see a recovery in China's component market in the fiscal year

ending March 31, 2025. Nevertheless, our order backlog remains at a higher-than-normal level. This is because customers are placing orders further in advance than they would have prior to the COVID-19 pandemic.

・There are three factors that are anticipated to contribute to increases in operating income in the fiscal year ending March 31, 2025. The first factor is the ongoing improvements in the gross profit margin in the plant field that began in the fiscal year ended March 31, 2024. The second factor is our efforts to enhance our profitability through improvements to factory production efficiency. The third factor is the fact that we will be launching global products in the fiscal year ending March 31, 2025. These products are anticipated to help us boost profit by exploring the markets of India and Southeast Asia.

<u>Semiconductor</u>

Q. There have been reports of slowdown in sales of battery electric vehicles. How will this affect Fuji Electric's semiconductor business?

A.

・Fuji Electric is targeting the battery electric, hybrid electric, and plug-in hybrid electric vehicle segments of the electrified vehicle market. These market segments are expected to continue growing in the future. As the growth of battery electric vehicles slows, there has been a shift toward hybrid electric and plug-in hybrid electric vehicles. Fortunately, a large portion of Fuji Electric's sales of electrified vehicle products are attributable to hybrid electric vehicles, which means that this trend is not currently having a significant impact on the Company.

Q. What factors affected the procurement of semiconductor materials in the fourth quarter of the fiscal year ended March 31, 2024? Will these factors continue to impact Fuji Electric's operations in the fiscal year ending March 31, 2025?

A.

・In the fourth quarter of the fiscal year ended March 31, 2024, issues on the part of manufacturers delayed supplies of materials used in front-end chip production processes. However, these were only temporary issues, and their impacts will not be felt in the fiscal year ending March 31, 2025.

Q. How were semiconductor orders in the fourth quarter of the fiscal year ended March 31, 2024, and what is the outlook for these orders in the fiscal year ending March 31, 2025?

A.

・In the fourth quarter of the fiscal year ended March 31, 2024, orders for automotive semiconductors declined 14% in comparison to the third quarter due to difficulties in procuring materials. Orders for industrial semiconductors, meanwhile, were not significantly impacted by this factor and thus rose 27% in comparison to the third quarter, though this figure is only 5% when excluding the impacts of foreign exchange influences.

・In the six-month period ending September 30, 2024, we anticipate that overall orders for semiconductors will increase 12% year on year, with automotive semiconductor orders growing 19% while industrial semiconductor orders rise 3%. As for the full year that is the fiscal year ending March 31, 2025, we forecast increases of 12% for overall semiconductor orders, 15% for automotive semiconductor orders, and 8% for industrial semiconductor orders.
・Orders for industrial semiconductors are expected to recover in the second half of the fiscal year ending March 31, 2025.

Q. Why is the operating margin for the Semiconductor segment projected to decline year on year in the fiscal year ending March 31, 2025?

A.
・Our forecasts incorporate the impacts of foreign exchange influences as well as the rise in expenses for bolstering production of SiC devices. We anticipate that SiC devices will start contributing to sales in the fiscal year ending March 31, 2025, and we plan to continue upping our capacity for producing SiC devices at our Tsugaru Factory and Matsumoto Factory going forward.

<u>Food and Beverage Distribution</u>

Q. The deployment of new products for new fields has been defined as priority measure for the fiscal year ending March 31, 2025. What are your plans with this regard?

A.
・We intend to deploy self- service coffee machines for family restaurants, fast food restaurants, and other restaurants to address needs related to operating with lower staff numbers. In addition, we are planning the launch of locker-type vending machines in the second half of the fiscal year ending March 31, 2025, in order to cater to needs pertaining to self-service stores.