July 25, 2024
Fuji Electric Co., Ltd.

Condensed Transcript of Q&A Session Regarding Financial Results Presentation for the Three-Month Period Ended June 30, 2024

Date: July 25, 2024 (Thursday) 15:30–16:30

General

Q. How did performance in the three-month period ended June 30, 2024, compare to internal forecasts?

A.

・Net sales in the three-month period ended June 30, 2024, surpassed internal forecasts by more than ¥5.0 billion while operating profit was ¥3.0 billion higher than forecast. By segment, net sales exceeded forecasts in the Industry, Semiconductors, and Food and Beverage Distribution segments while net sales fell below the forecast level in the Energy segment.

Q. Is there any chance that performance in the six-month period ending September 30, 2024, might surpass the forecast level when excluding foreign exchange influences and other external factors?

A.

・We believe there is potential for performance to exceed forecasts in the energy management business and the power supply and facility systems business of the Energy segment as well as in the Food and Beverage Distribution segment .

Q. There was a net increase in non-operating income in the three-month period ended June 30, 2024, while net non-operating expenses of ¥2.5 billion is projected in the six-month period ended September 30, 2024. What are the reasons behind this outlook?

A.

・The reason behind the forecast of net non-operating expenses of ¥2.5 billion in the six-month period ending September 30, 2024, is the foreign exchange rate assumptions on which the forecast was based. If the current foreign exchange rates continue until September 30, 2024, we should see an upturn in comparison to this forecast due to the benefits of said foreign exchange rates.

Energy

Q. In regard to overseas net sales, what were the reasons for the year-on-year increases in power generation-related sales seen in Asia and other markets. Will these increases in sales be ongoing?

A.

・Power generation-related sales increased in the three-month period ended June

30, 2024, as a result of the recording of sales associated with orders received in Southeast Asia during the fiscal ended March 31, 2024. We are currently seeing strong trends in power generation-related orders within the scope of initial anticipations. Orders have been received for projects to be undertaken during the fiscal year ending March 31, 2025, and we intend to continue order acquisition activities going forward.

Q. What sort of order trends are being seen in the energy management business and in relation to power supply equipment for data centers in the power supply and facility systems business?

A.

・Orders from data centers in the power supply and facility systems business grown throughout the first quarter and beyond. As for orders in the energy management business, increases in orders have been achieved by capitalizing on demand for upgrades to industrial substation equipment.

Q. It was mentioned that the FY2026 Medium-Term Management Plan does not reflect increases in demand associated with investment by foreign hyper scaler data center operators. How have trends been in relation to this demand?

A.

・We continue to receive a large number of inquiries from foreign hyper scaler data center operators, and we anticipate that the associated demand might be significantly higher than the projected in the FY2026 Medium-Term Management Plan. Going forward, Fuji Electric will continue to make proactive proposals in pursuit of ongoing order growth.

・We are also partnering with existing domestic customers to develop new products for use in overseas data centers, through means such as making Fuji Electric's systems more compact.

Q. How did operating profit in the energy management business and the power supply and facility systems business in the three-month period ended June 30, 2024, compare with the three-month period ended June 30, 2023?

A.

・The energy management business achieved a substantial year-on-year increase in operating profit, while operating profit in the power supply and facility systems business was down in comparison to the previous equivalent period due to a decline in large-scale overseas switchgear and control gear orders.

Q. What is the likelihood that the Energy segment will achieve its forecast for higher sales and profit in the second quarter of the fiscal year ending March 31, 2025?

A.

・Performance in the ED&C component business is now expected to fall below prior forecasts. Conversely, we anticipate year-on-year growth in orders and subsequently sales in the energy management business and the power supply and facility systems business, which is expected to result in higher overall sales and profit.

Industry

Q. Why did low-voltage inverter orders in the first quarter of the fiscal year ending March 31, 2025, decrease in comparison to the fourth quarter of the fiscal year ended March 31, 2024?

A.

・The decrease in first-quarter orders for low-voltage inverters in comparison to the fourth quarter of the previous fiscal year was largely caused by overseas customers limiting their inventories. This situation itself is a result of the timing of deliveries by Fuji Electric returning to normal and of customers limiting advanced orders in comparison to prior periods.

Q. What were the reasons behind the strong performance seen for process automation components in the first quarter of the fiscal year ending March 31, 2025, and what is the outlook for performance in the second quarter and beyond? Also, has the operating margin been more favorable than in prior periods?

A.

・First-quarter performance in relation to plant systems was supported by the steady fulfillment of orders received during the fiscal year ended March 31, 2024. Moreover, orders and sales associated with small and medium-sized projects surpassed expectations in the three-month period ended June 30, 2024, and we also saw an increase in after-sales service orders. These factors contributed to growth in both sales and profit. These trends are expected to continue for the entirety of the fiscal year ending March 31, 2025, and we will therefore be looking to amass orders throughout the fiscal year. The first-quarter operating margin was not particularly different from that seen in prior periods.

Semiconductors

Q. How did orders in the Semiconductors segment in the first quarter of the fiscal year ending March 31, 2025, compare with those in the fourth quarter of the fiscal year ended March 31, 2024? Also, what is the projection for second-quarter orders in comparison to first-quarter orders? Was the decrease in overseas demand for semiconductors for battery-electric vehicles (BEVs) the reason behind the downward revision to forecasts? Has there been any change in the domestic operating environment for automotive and industrial semiconductors?

A.

・Overall, first-quarter orders in the Semiconductors segment declined in comparison to the fourth quarter of the fiscal year ended March 31, 2024. However, orders of industrial semiconductors were up when excluding the impacts of foreign exchange influences. As for automotive semiconductors, first-quarter orders were down 5% in comparison to the prior quarter due to sluggish growth in relation to BEVs as well as inventory adjustments undertaken as Japanese, European, and North American automobile manufacturers struggled in the Chinese market.

・Second-quarter orders are expected to increase 5% overall in comparison to the first quarter. The inventory adjustment issues seen in relation to automotive semiconductors in the first quarter are expected to dissipate, causing second-quarter orders for these semiconductors to rise 20% over the first quarter. Meanwhile, second-quarter orders for industrial semiconductors will increase by 5% from the first quarter when excluding the impacts of foreign exchange influences.

・The reason behind the downward revision of ¥4.0 billion to the forecasts for net sales in the six-month period ending September 30, 2024, and the fiscal year ending March 31, 2025, was slowdown in BEV-related demand and struggling performance in the Chinese market among European and North American manufacturers.

・As for the operating environment, there has been a slight decline in BEV-related demand among Japanese manufacturers, but demand associated with hybrid-electric vehicles remains strong. There has been no significant change in the operating environment for industrial semiconductors, but there is a need to carefully monitor trends in demand for products for the Chinese market leading up to the second half of the fiscal year.

Q. What are the reasons behind the second-quarter Semiconductors segment forecast for higher sales but lower profit in comparison to the first quarter of the fiscal year ending March 31, 2025? Also, am I correct in the understanding that the reason behind the downward revision to the forecast for the six-month period ending September 30, 2024, was to reflect this outlook for second-quarter performance?

A.
・Second-quarter profit is expected to decline in comparison to the first quarter as a result of a ¥1.0 billion reduction attributable to less favorable foreign exchange rates. In the first quarter, sales of automotive semiconductors were slightly lower than internal forecasts, prompting us to institute a downward revision of ¥4.0 billion to the forecast for sales for the six-month period ending September 30, 2024. Moreover, relatively large adjustments are anticipated in the second quarter due to reductions in production, which will lead to profit in the second quarter falling below that posted in the first quarter.

Q. Will Fuji Electric be impacted by the reduction in production by a certain Japanese automobile manufacturer due to quality issues. Also, it was mentioned that inventory adjustment ended in first quarter and that demand for automotive semiconductors is expected to begin recovering in the second quarter. Is the situation a result of recovery in production by customers?

A.

・Fuji Electric is feeling the impacts of the reduction in production by a certain Japanese automobile manufacturer, but the impacts have not been particularly large. Our outlook incorporates the recovery in production set to begin in the second quarter.

・As for inventories, it is not as though customers were facing an inventory glut. The inventory adjustment phase concluded in the first quarter, and production is thus expected to return to normal beginning in the second quarter.

<u>Food and Beverage Distribution</u>

Q. Why did profit increase in the vending machine business and the store distribution business? Is this trend expected to continue in the second quarter and beyond? What is your outlook going forward? Also, did performance in the store distribution business surpass forecasts purely due to strong performance, or was advance orders a factor?

A.

・First-quarter performance in the vending machine business was slightly higher than forecast. However, sales volumes in the second quarter and forward are anticipated to be more or less in line with forecasts. We look to maintain our current earnings structures by cutting costs and enhancing our value proposition.

・Performance in the store distribution business was higher than expected due to the special demand trend that stemmed from the issuance of newly designed paper currency in Japan. This trend first emerged in the fourth quarter of the fiscal year ended March 31, 2024, and associated sales peaked in the first quarter of the fiscal year ending March 31, 2025. We had anticipated that this trend would generate net sales of more than ¥2.0 billion, but the actual figure was higher than expected at over ¥4.0 billion. Demand also exceeded expectations in relation to services and hardware replacement.

・ Although we anticipate that the special demand trend related to the newly designed paper currency will generate nearly ¥2.0 billion in sales throughout the remainder of the fiscal year, full-year sales should be more or less in line with forecasts. However, the strong performance achieved in the first quarter might translate to a slight increase in full-year performance as the residual benefits contribute to a net increase in performance.