October 31, 2024
Fuji Electric Co., Ltd.

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

Date: October 31, 2024 (Thursday) 16:00–17:10

General

Q. Increased demand for plant systems was cited as a reason for the upward revision to the full-year forecast for operating profit. In what business areas specifically is this increase in demand being seen?

A.

・In the Energy segment, order trends are proving more favorable than anticipated by internal forecasts for the power generation business, the energy management business, and the power supply and facility systems business. More specifically, strong order trends for data center-related equipment in the power supply and facility systems business have prompted upward revisions to forecasts for profit and other factors.

・In the Industry segment, operating profit is surpassing forecasts in the automation systems business, the social solutions business, and the equipment construction business. The upturns in profit have been centered on drive control systems.

Q. What steps will be taken to improve earnings in the third quarter of the fiscal year ending March 31, 2025?

A.

・We will seek to improve earnings by taking advantage of the robust plant system orders to implement measures planned for the fourth quarter of the fiscal year ending March 31, 2025, ahead of schedule in the third quarter of the fiscal year. This will be a challenging undertaking, but if we can reap the benefits of these measures during the third quarter, we can look forward to greater improvements in the fourth quarter. We will thus be focusing on advancing these measures during the remaining two months of the third quarter.

Q. What benefits and synergies can be anticipated from the conversion of the Fuji Furukawa Engineering & Construction Co. Ltd., into a wholly owned subsidiary? Also, why was this decision made at this point in time?

A.

・We are witnessing a lot of changes in social trends, including the promotion of decarbonization, digital transformation, and globalization as well as changes to populations and workforces. Fuji Electric's management policies are centered on the notion of contributing to society through its energy and environment businesses. We chose to convert Fuji Furukawa Engineering & Construction Co. Ltd., into a wholly owned subsidiary at this timing in order to facilitate these contributions and drive sales growth through greater unity and synergies.

・The overseas operations of Fuji Furukawa Engineering & Construction have been struggling, and we therefore seek to help grow its equipment work -related businesses by utilizing Fuji Electric's bases and human and other resources.

・Many companies are currently facing difficulties in recruiting human resources for equipment work-related businesses. We therefore look to address this task by capitalizing on the collective strength of the Company.

・We also aim to strengthen corporate governance by eliminating a situation in which both the parent company and its subsidiary are listed on the stock market.

Energy

Q. What are the reasons behind the improvement seen in the second-quarter operating profit ratio for the Energy segment?

A.

・The second-quarter operating profit ratio improved due to the recording of sales for plant-related projects based on their degree of progress as well as the benefits of measures for improving sales margin.

Q. What are your policies for the Energy segment in the second half of the fiscal year ending March 31, 2025?

A.

・In the ED&C components business, our current forecast accounts for the market recovery anticipated in the fourth quarter of the fiscal year ending March 31, 2025, as well as the belief that we will be unable to compensate for the rises in material prices through increases to product selling prices.

・Meanwhile, we anticipate the continuation of the favorable order trends for plant systems, and we expect contributions from sales recorded based on the degree of project progress and from profits.

Q. What are the forecasts for orders in the energy management business and in the power supply and facility systems business?

A.

・The order backlog fulfillment ratios for the energy management business and the power supply and facility systems business have already reached a high level in the fiscal year ending March 31, 2025.

・Growth in orders for semiconductor factories are a little slow. Conversely, we anticipate year-on-year growth of between 15% and 20% in full-year orders for data center.

Q. What are the current conditions and outlook with regard to production capacity in the energy management business and the power supply and facility systems business?

A.
・Production of substation equipment in the energy management business is currently advancing at practically full capacity. Meanwhile, we are responding to the increase in orders in the power supply and facility systems business through improvements to productivity and reductions in lead times.
・Given the current growth rates, we plan to examine the necessary measures for boosting production capacity over the long term in the second half of the fiscal year ending March 31, 2025, and on into the fiscal year ending March 31, 2026.

Industry

Q. What were the reasons behind the massive recovery in second-quarter orders for low-voltage inverters in comparison to the first quarter of the fiscal year ending March 31, 2025? Does this represent a full-fledged recovery in demand for low-voltage inverters?

A.
・The recovery in second-quarter orders for low-voltage inverters is largely the result of demand in China. Regardless, market uncertainty is continuing, and we do not believe this to represent a full-fledged recovery in demand.

Q. What is the forecast for the timing of a full-fledged recovery in demand for low-voltage inverters?

A.
・Our initial forecast had projected that a full-fledged recovery in demand for low-voltage inverters would occur in the second quarter of the fiscal year ending March 31, 2025. However, looking at current levels of inventories at customers, we now anticipate that this recovery will not be seen until the fourth quarter.

Q. What are the current levels of low-voltage inverter inventories at customers and what issues and risks exist in relation to the depletion of said inventories?

A.
・When including the stock at the Company, the amount of outstanding low-voltage inverter inventories surpasses three months' worth. We anticipate improvements with this regard in the third quarter of the fiscal year ending March 31, 2025, and will move forward with measures to prepare our production systems to accommodate the full-fledged recovery in demand projected in the fourth quarter.

・Demand is rising for industrial motors, which are often sold together with low-voltage inverters, and we anticipate such demand to continue in the fourth quarter of the fiscal year ending March 31, 2025, and beyond.

・The outlook is opaque for overseas markets, particularly in China and the United States, and we will thus need to carefully monitor trends in demand going forward.

<u>**Semiconductor**</u>

Q. It was announced at the financial results briefing for the three-month period ended June 30, 2024, that second-quarter orders for automotive semiconductors were anticipated to rise by 20% in comparison to the first quarter. Regardless, an increase of only 5% was seen. What were the reasons behind this outcome?

A.

・The reason behind the smaller-than-projected increase in second-quarter orders for automotive semiconductors was the fact that the recovery of demand in Europe and United States was slower than anticipated.

・When foreign exchange influences are excluded, a 10% increase was seen in second-quarter orders for automotive semiconductors.

Q. Why did second-quarter orders for industrial semiconductors decrease 7% in comparison to the first quarter of the fiscal year ending March 31, 2025?

A:

・When foreign exchange influences are excluded, a 6% increase was seen in second-quarter orders for industrial semiconductors.

・Demand from China was higher in the second quarter than in the first.

Q. What is the forecast for orders in the second half of the fiscal year ending March 31, 2025? Also, why did you choose not to revise the forecasts for net sales in the second half of the fiscal year?

A.

・We anticipate that overall orders for semiconductors in the second half of the fiscal year ending March 31, 2025, will be 12% higher than in the six-month period ended September 30, 2024. Orders for industrial semiconductors are projected to decline a bit from the first half of the fiscal year, but show flat growth when excluding foreign exchange influences. Conversely, orders for automotive semiconductors will show an increase of 30% in comparison to the six-month period ended September 30, 2024.

・Sales of automotive semiconductors are expected to increase in the second half of the fiscal year due to growing demand among customers in Japan as well as the delay in the start of mass production of SiC devices from the first half of the fiscal year to the second half. Another contributor to the increased sales of automotive semiconductors will be the benefits of efforts to compensate for declines in sales volumes for which contracts have been concluded with customers through selling price increases. Despite the projected increase in automotive semiconductor sales, we have chosen not to revise the previously announced sales forecasts out of consideration for the risk of further delays in the recovery of demand for industrial semiconductors for factory automation applications.

Q. Is it possible that the start of mass production of SiC devices in the second half of the fiscal year ending March 31, 2025, might create downward pressures that could impact the accomplishment of the Semiconductor segment's operating profit target?

A.

・The increase in costs to accompany the start of mass production of SiC devices has been incorporated into our revised performance forecasts.

Q. How feasible is it that you will be able to effectively implement the selling price increases planned for automotive semiconductors in the second half of the fiscal year ending March 31, 2025?

A.

・We are still in the process of negotiating with certain customers, but the selling price increases are proceeding as planned.

Q. How are the levels of automotive semiconductor inventories at customers and at Fuji Electric?

A.

・In terms of customer inventories, customers in Europe and the United States are thought to be holding a small amount of inventories considering the declines in demand.

・As for inventories at Fuji Electric, inventories are slightly higher than planned, but given that inventory shortages had been ongoing since the previous fiscal year, we do not feel that this level indicates an inventory glut.

・Inventory adjustments are currently moving forward at customers. Accordingly, we anticipate a reduction in inventories at Fuji Electric in conjunction with increases to sales in the second half of the fiscal year ending March 31, 2025.

Q. What is the operating profit ratio with regard to front-end processes?

A.

・We are currently maintaining operating ratios of between 85% and 90%. Although sales in the second half of the fiscal year ending March 31, 2025, are expected to increase in comparison to the six-month period ended September 30, 2024, we project that operating profit ratios will remain around the same level as we proceed to augment production capacity at our Malaysia Factory.

Q. Demand for products for battery electric vehicles is lower than projected. Looking at the automotive industry, production of battery electric vehicles is declining while production of hybrid electric vehicles rises. Is there any possibility that Fuji Electric will revise its plans for augmenting production capacity in light of this situation?

A.

・We have been investing in augmenting production of IGBTs at the Malaysia Factory since the previous fiscal year, and we will consider the possibility of conducting additional investments as necessary based on demand going forward.

・In regard to SiC devices, demand for products for battery electric vehicles is lower than projected, but we anticipate that demand will grow in the fiscal years ending March 31, 2026 and 2027. Accordingly, there have been no major changes to our plan of investing in bolstering production capacity leading up to the fiscal year ending March 31, 2027.

<u>Food and Beverage Distribution</u>

Q. The Food and Beverage Distribution segment is expected to post year-on-year growth in profit in the second half of the fiscal year ending March 31, 2025, despite the dissipation of the special demand trend stemming from the issuance of newly designed paper currency in Japan. Why is this? Also, what was the degree of sales generated by the special demand trend?

A.

・In the second half of the fiscal year ending March 31, 2025, the Food and Beverage Distribution segment is projected to see sales decline while profit increases in comparison to the second half of the previous fiscal year. By subsegment, the vending machine business is forecast to post increases in both sales and profit while sales and profit decrease in the store distribution business due to the absence of the previously recognized benefits of the aforementioned special demand trend. The increase in overall profit for the segment will be a result of the absence of the provision for one-time expenses recorded in the second half of the fiscal year ended March 31, 2024.

・Sales generated by the special demand trend amounted to around ¥3.0 billion in the fourth quarter of the fiscal year ended March 31, 2024. While we had initially projected that this trend would produce sales of about ¥3.0 billion in the six-month period ended September 30, 2024, the actual amount was double this figure. Conversely, the special demand trend is expected to contribute almost nothing to sales in the second half of the fiscal year ending March 31, 2025.