

Condensed Transcript of Q&A Session Regarding Presentation on  
Financial Results for the Fiscal Year Ended March 31, 2019, and  
Management Plan for the Fiscal Year Ending March 31, 2020

Date: April 26, 2019 (Friday) 10:00–11:45

**General**

Q. What factors contributed to the accomplishment of the targets of the FY2018 Medium-Term Management Plan?

A.

- In the power electronic systems business, we proceeded to purpose improved productivity at domestic and overseas manufacturing sites over the period from April 1, 2016, to March 31, 2019. The resulting standardization, in-house production, and automation generated profits of a few billion yen. We were thereby able to achieve our targets for year-on-year profit improvements at all 23 of our manufacturing sites.

Q. What is your outlook for fixed costs in the fiscal year ending March 31, 2020?

A.

- Total fixed costs in the fiscal year ending March 31, 2020, are projected to increase by approximately ¥10.0 billion year on year centered on personnel expenses, R&D expenditures, depreciation, and leases paid.

A large component behind the rise in personnel expenses will be the growth of our staff accompanying the expansion of operations, which will primarily take place overseas. Depreciation and leases paid will increase largely as a result of proactive investment in power semiconductors.

Q. What are the reasons behind the projected the ¥2.2 billion deterioration in the balance of items under elimination and corporate contained in the forecasts for the fiscal year ending March 31, 2020?

A.

- Factors behind this outlook include projected increases in hiring and education expenses as well as in IT investment related to workstyle reforms.

**Power Electronics Systems**

Q. Why is the Power Electronics Systems Energy segment forecast to experience a year-on-year decrease in sales in the fiscal year ending March 31, 2020?

A.

- Factors behind this decrease will include the rebound from large-scale orders recorded in the fiscal year ended March 31, 2019, as well as reduced sales of smart meters. Nonetheless, we will strive to grow sales in Asia and in Japan with a focus on comprehensive system orders for Internet data centers and other facilities.

Q. Why is the Power Electronics Systems Industry segment forecast to witness a year-on-year increase in sales in the fiscal year ending March 31, 2020?

A.

- This forecast takes into account a projected increase in sales centered on the automation systems business. In addition, we expect to record sales of SOx scrubbers for ships along with strong performance in domestic factory automation system and inverter operations. The benefits of introducing new servo systems will also be felt.

Q. How were sales of SOx scrubbers in comparison to the target of 40 sets in the fiscal year ended March 31, 2019? Also, what are your targets for SOx scrubber orders and sales in the fiscal year ending March 31, 2020?

A.

- In the fiscal year ended March 31, 2019, we received orders for more than 40 SOx scrubber sets, and the current order backlog exceeds 50 sets.
- In the fiscal year ending March 31, 2020, we will target a year-on-year increase in orders. At the same time, we are developing new products compatible with large-scale vessels with engine output of between 17 MW and 24 MW. These products are to be released going forward. We aim to grow to the level at which we are able to secure annual orders of 100 sets in the future.
- Sales of scrubbers are actually recorded one year after units are shipped. Accordingly, sales of units delivered in September 2018 should be recorded during the second half of the fiscal year ending March 31, 2020, resulting in the recording of sales equivalent to more than one-third of outstanding orders.

### **Power Generation**

Q. In regard to the increased costs associated with a large-scale power generation project incurred in the third quarter of the fiscal year, will any additional costs be incurred in association with this project? Also, how is the progress of this project? Is this project a factor behind the projected decline in profit in the Power Generation segment in the fiscal year ending March 31, 2020?

A.

- We do not anticipate any additional cost increases in relation to said project. Construction for this project is currently progressing on schedule.

- The projected decline in profit in the Power Generation segment in the fiscal year ending March 31, 2020, is expected to be a result of differences in profitability between projects, not of the aforementioned project.

Q. Is there any possibility that a partner strategy will be adopted in the Power Generation segment going forward? Also, what are your policies regarding resources in this segment?

A.

- At the moment, we have no plans to adopt a partner strategy.
- In addition, we do not intend to withdraw from the thermal power business. However, there is a need to reassess and improve the profitability of our factories.
- The Power Generation segment currently faces a challenging market in Japan. In this market, we expect that upgrade and other services will become the focus going forward. At the same time, we anticipate growth in new projects overseas, most notable in Asia. Addressing these projects will likely lead us to establish overseas engineering bases, in Thailand, for example.

### **Electronic Devices**

Q. How were orders by power semiconductor field in the fourth quarter? Also, what is your forecast for the six-month period ending September 30, 2019?

A.

- Orders in the fourth quarter were up 2% from the third quarter, or relatively unchanged if the impacts of foreign exchange influences are excluded. On a year-on-year basis, fourth quarter orders were up 4%, or down slightly when excluding the impacts of foreign exchange influences.
- By field, orders for automotive power semiconductors were up by around 25% year on year during the fourth quarter while orders for industrial power semiconductors declined by almost 5%.
- We forecast year-on-year order growth of 5% in the six-month period ending September 30, 2019. Orders for automotive power semiconductors will represent a greater portion of total orders in this period than previously.

Q. Why did fourth-quarter sales of power semiconductors exceed third-quarter sales?

A.

- Fourth-quarter sales, although slightly impacted by foreign exchange influences, increased by around ¥2.4 billion in comparison to the third quarter. This increase was driven by growth in demand for automotive power semiconductors.

Q. Is it safe to assume that the strong trends in power semiconductor orders and sales seen in the fourth quarter were a result of the expectation-exceeding performance of automotive power semiconductors? Also, could you please provide some information on the trends seen in the fourth quarter in relation to industrial power semiconductors by application?

A.

- Sales and orders of automotive power semiconductors grew in line with our forecasts.
- Demand for industrial power semiconductors was sluggish centered on domestic machine tools. However, demand in certain sectors is said to have begun recovering, and we intend to monitor these trends carefully going forward. Sales of power semiconductors for air-conditioning applications in China were influenced by seasonal factors, striking bottom in the third quarter and increasing in the fourth quarter. We intend to step up production of these power semiconductors going forward in order to prepare for the summer. Sales of power semiconductors for renewable energy applications were up centered on wind power applications.

Q. What was the status of operations at power semiconductor factories? Also, how were power semiconductor inventories?

A.

- Front-end production facilities were operated at full capacity, primarily for the purpose of manufacturing eight-inch wafers.
- Inventories are more or less at the appropriate level.

Q. What are your forecasts for power semiconductor sales in the six-month period ending September 30, 2019, and the fiscal year ending March 31, 2020?

A.

- Sales of automotive power semiconductors are expected to increase in the six-month period ending September 30, 2019, while sales of industrial power semiconductors will decline slightly due to the rebound from the strong sales achieved in the three-month period ended June 30, 2018.
- On a full-year basis, sales of power semiconductors for discrete devices and other industrial applications are forecast to be relatively unchanged year on year. Sales of automotive power semiconductors, meanwhile, are anticipated to increase on the back of higher demand.

Q. Up until now, automotive power semiconductors have been projected to account for 40% of total power semiconductor sales in the fiscal year ending March 31, 2021. Do you now expect an increase in this figure? Also, has there been any increase in the number of automobile models employing Fuji Electric's automotive power semiconductors?

A.

- We anticipate strong growth in the sales of automotive power semiconductors, but the ratio of sales of these products to total sales will depend on the conditions seen in the industrial field in the fiscal year ending March 31, 2021. It is difficult to project the actual ratio, but we expect that the target ratio of 40% will be achieved.
- Efforts to have our proposed specifications for automotive power semiconductors accepted by customers are progressing smoothly, and we look forward to several orders coming to fruition going forward. Orders for automotive power semiconductors will be centered on hybrid-electric vehicles in Japan and on electric vehicles overseas. The number of automobile models employing Fuji Electric's automotive power semiconductors is on the rise, and orders for the fiscal years ending March 31, 2024 and 2025, are currently emerging.

Q. Fuji Electric is proactively investing in automotive power semiconductors and working to increase the ratio of total power semiconductor sales accounted for by automotive power semiconductors. Is there any risk that these activities might result in declines in profitability?

A.

- In the Electronic Devices segment, we will target a post-capital expenditure operating margin of 11%–12%. We have finished performing the depreciation of certain facilities, and we have not been witnessing a rapid increase in capital expenditures. In addition, our current customer base brings with it the possibility of us generating profits from automotive power semiconductors that are on the same level as those from industrial semiconductors, even if automotive power semiconductors come to represent a larger portion of total power semiconductor sales.

Q. Capital expenditures in the Electronic Devices segment are increasing with each coming year. Could you please provide an overview of your capital expenditure plans, including future expenditures, and of the progress of these plans?

A.

- We intend to offer a detailed look at our capital expenditure plans in the new medium-term management plan. What I can say at the moment is that investments in production capacity increases for growing power semiconductor sales in the fiscal year ending March 31, 2021, will likely be around the same level as those in the fiscal year ending March 31, 2020.

Q. If capital expenditures in power semiconductors continue to increase, it is possible that the Electronic Devices segment will come to account for more than half of earnings before interest, tax, depreciation, and amortization within the next several years. What are your thoughts regarding this disproportionate presence of the Electronic Devices segment in the Company's earnings structure? Also, competitors are currently conducting massive capital expenditures. What steps will be taken should Fuji Electric be forced to engage in price competition?

A.

- We are aware of the risks attached to capital expenditures in the Electronic Devices segment that you speak of. If possible, we would like to halt capital expenditures related to power semiconductors. However, demand for automotive power semiconductors is strong at the moment, and the supply capabilities of Fuji Electric and other major manufacturers are currently insufficient for meeting this demand. We thus plan to continue capital expenditures while making investment decisions after having taken the necessary steps in relation to sales volume guarantees and prices.

Fuji Electric is highly associated with energy and environment businesses. We therefore hope to always be a company that contributes to society through the automotive and other fields.

Q. What portions of magnetic disk sales were attributable to aluminum substrate disks and to glass substrate disks? Also, why were sales of magnetic disks so strong in the fiscal year ended March 31, 2019, and what is your outlook for the magnetic disk market in the fiscal year ending March 31, 2020?

A.

- In the fiscal year ended March 31, 2019, aluminum substrate disks accounted for 55% of total magnetic disk sales while glass substrate disks accounted for 45% of sales. Sales of magnetic disks for data center applications were up, primarily in the six-month period ended September 30, 2018, and we achieved slight growth in our market share over the period spanning the fiscal years ended March 31, 2018 and 2019.
- We expect market conditions in the fiscal year ending March 31, 2020, to be relatively unchanged from the fiscal year ended March 31, 2019. At the same time, increases in the surface density of hard disk drives for nearline models will likely result in the sales ratios of aluminum substrate disks and glass substrate disks being inverted in comparison to the fiscal year ended March 31, 2019.

Q. What is your full-year sales target for magnetic disks in the fiscal year ending March 31, 2020?

A.

- We project magnetic disk sales that are relatively unchanged year on year in the fiscal year ending March 31, 2020.

### **Food and Beverage Distribution**

Q. What is your outlook for the market for products for convenience stores and what measures will be implemented in this market going forward?

A.

- It is unlikely that the total number of convenience stores will increase going forward. Rather, we anticipate that convenience stores will be investing in labor-saving measures to address labor shortages. We therefore plan to promote sales through proposals tailored to this trend.

One example of such proposals would be a new product that can be used as a showcase during the day and as a vending machine at night.