April 27, 2021
Fuji Electric Co., Ltd.

Condensed Transcript of Q&A Session Regarding Management Plan for the Fiscal Year Ending March 31, 2022 and Financial Results Presentation for the Fiscal Year Ended March 31, 2021

Date: April 27, 2021 (Tuesday) 15:30–17:18

General

Q. Fuji Electric's current medium-term management targets net sales of ¥1 trillion in the fiscal year ending March 31, 2024. Accomplishing this goal will require the Company to increase net sales by ¥100.0 billion over the next two years. How will Fuji Electric achieve this lofty goal?

A.

・Accomplishing the medium-term management plan's net sales target will be no easy task, but we are committed to achieving this target, and we have no intention of changing this target. In this undertaking, we will be motivated by our corporate slogan of "To be enthusiastic and ambitious."

・The possibility of revising segment sales targets to better facilitate the accomplishment of the ¥1 trillion net sales target is being examined. Specifically, we will look to compensate for the reduction of sales volumes in the Food and Beverage Distribution segment with strong performance in the Power Electronics Systems Industry and Power Electronics Systems Energy segments as well as in power semiconductor operations. The target of net sales of ¥80.0 billion for the Power Generation segment will remain unchanged.

・Market growth cannot be expected in the Food and Beverage Distribution segment. Conversely, we do anticipate business opportunities in the IT solutions business and equipment construction business of the Power Electronics Systems Industry segment as well as in the ED&C components business of the Power Electronics Systems Energy.

・We anticipate growth in markets related to automation as well as to artificial intelligence and Internet of Things technologies. Incorporating this market growth will require us to develop new products and technologies. We are therefore in the process of examining the possibility of creating new markets by taking stock of Fuji Electric's current products and technologies and utilizing these to develop new products and technologies.

Power Electronics Systems Energy

Q. Why did fourth-quarter performance in the Power Electronics Systems Energy segment exceed the forecast announced on January 28, 2021?

A.

・Performance was higher than forecast due to the significant demand recovery seen centered on the ED&C components business.

Q. What is the outlook for the ED&C components business going forward? Is there any possibility that performance in this business will exceed the high level achieved in the fiscal year ended March 31, 2019?

A.

・ED&C component demand began to recover centered on the Chinese market in the third quarter of the fiscal year ended March 31, 2021. We anticipate that this trend will contribute to a year-on-year increase of 5% in net sales in the ED&C components business in the fiscal year ending March 31, 2022, but this will not exceed the level of the fiscal year ended March 31, 2019. Going forward, we will continue to improve profit structures and explore new markets with the aim of accomplishing the targets put forth for the fiscal year ending March 31, 2024, in the medium-term management plan.

<u>Power Electronics Systems Industry</u>

Q. Why did fourth quarter performance in the Power Electronics Systems Industry segment exceed the forecast announced on January 28, 2021?

A.

・Performance exceeded the forecast primarily as a result of demand growth in the IT solutions business.

・Overseas, performance benefited from foreign exchange influences while growth was seen centered on inverters and servo in China. Meanwhile, we were able to secure higher sales volumes in the challenging Indian market by generating synergies with a newly acquired Indian subsidiary.

Q. Net sales in the automation systems business showed a year-on-year increase marked in the billions in the fourth quarter of the fiscal year ended March 31, 2021. What were the reasons behind this strong increase?

A.

・Component sales were strong in China centered on low-voltage inverters and servos.

・As for plant systems, we were able to generate results, particularly in the process automation field, by working to address upgrade demand for existing facilities and to enhance after-sales services in response to the low numbers of new projects. At the moment, we are not seeing any changes in investment trends in the ferrous and non-ferrous metal fields. We will therefore focus our efforts on catering to energy saving demand.

Q. What is the outlook for factory automation systems in the fiscal year ending March 31, 2022, and beyond?

A.

・Previously, our focus has been on the automotive field. However, many projects in this field were postponed by customers in the fiscal year ended March 31, 2021, as a result of the global COVID-19 pandemic. We expect sales to increase in the fiscal year ending March 31, 2022, due in part to the presence of these postponed projects.

Semiconductors

Q. Why was operating income growth from semiconductor (Formerly Electronic Devices) operations low in comparison to net sales growth in the fourth quarter of the fiscal year ended March 31, 2021?

A.

・Over ¥7.0 billion of the ¥8.5 billion increase in fourth-quarter net sales was a product of foreign exchange influences. When these influences are excluded, net sales rose by more than ¥1.0 billion, a level that matches the increase in operating income.

Q. Does the operating income target for the fiscal year ending March 31, 2022, incorporate the projected foreign exchange influences and rises in capital costs?

A.

・Yes, the operating income target for the fiscal year ending March 31, 2022, does incorporate these factors.

Q. How were orders for power semiconductors for electrified vehicles (xEVs) in the fourth quarter of the fiscal year ended March 31, 2021, and what is the forecast for these orders by quarter in the fiscal year ending March 31, 2022?

A.

・Orders for xEV semiconductors in the fourth quarter of the fiscal year ended March 31, 2021, were around the same level as in the third quarter. This outcome was a result of certain orders being placed in advance during the third quarter as well as production adjustment trends seen among customers primarily in Europe and the United States in response to component shortages.

・As for the fiscal year ending March 31, 2022, first-quarter orders are expected to be in line with orders in the fourth quarter of the fiscal year ended March 31, 2021, whereas orders in the second, third, and fourth quarters, will increase from the previous quarter. On a year-on-year basis, we anticipate double-digit growth in all quarters.

Q. Order forecasts for the fiscal year ending March 31, 2022, project double-digit growth in orders for automotive power semiconductors, but only 5% overall growth for all power semiconductor orders. What is the reason behind this outlook?

A.

・In the fiscal year ended March 31, 2021, advance orders were received for factory automation-related power semiconductors, particularly those pertaining to machine tools. This factor will affect orders in the fiscal year ending March 31, 2022.

Q. What is the outlook for the xEV power semiconductor market?

A.

・China unveiled targets for raising rates of xEVs by 2025 and by 2030, indicating a trend toward accelerating the popularization of such vehicles that is also being witnessed in other countries. Trends among customers in Europe, the United States,

and Japan are incredible favorable, and we are currently conducting capital investments ahead of schedule based on the assumption that performance in the fiscal year ending March 31, 2024, will exceed the targets put forth in the medium-term management plan.

・At the moment, we do not plan on targeting the low-price electric vehicles available in the Chinese market, but it will be important to examine the trends surrounding these vehicles going forward.

Q. What are the Company's plans for conducting capital investments in the fiscal year ending March 31, 2022?

A. Capital investments in the fiscal year ending March 31, 2022, will be focused on front-end processes in light of the demand growth projected to be seen among automotive field customers in Europe, the United States, and Japan.

Q. To what degree will production capacity be augmented through capital investments in the fiscal year ending March 31, 2022?

A.

・Front-end production facilities for 8-inch wafers are operating at nearly full capacity, and we therefore intend to implement gradual increases in production capacity leading up to the fourth quarter of the fiscal year ending March 31, 2022. As a result, fourth-quarter production capacity will be around 30% higher than in the fourth quarter of the fiscal year ended March 31, 2021.

Q. What are the Company's plans for capital investments in 8-inch and 12-inch wafers over the medium term?

A.

・Investments in 2022 and 2023 will be focused on 8-inch wafers to accommodate customer demand.

・Research and development on 12-inch wafer technologies continues to move forward. We are thus in the process of determining the proper timing for investments.

Q. Fuji Electric has approved capital investments totaling ¥41.0 billion in the fiscal year ending March 31, 2022. What is the Company's operating margin target for this year?

A.

・The operating margin was around 11% in the fiscal year ended March 31, 2021, and we will target a margin of more than 12% in the fiscal year ending March 31, 2022 and beyond.

Q. When the Company decides to invest in 12-inch wafers in the future, what investment amounts are projected and what levels of profitability will be expected?

A.

・We are currently in the process of calculating specific figures, but we will look to secure an operating margin of around 12%. Investments amounts will likely be two-to-three times higher than those conducted in 8-inch wafers. The ideal level of production capacity will be determined based on market trends going forward.

Q. Has there been any changes in the competitive climate surrounding RC-IGBTs? How is progress in the development of next-generation RC-IGBT products?

A.

・Certain competitors are developing RC-IGBTs, but Fuji Electric began working to have automobile manufacturers utilize its specifications before its rivals, and we have had success with this regard. Development of next-generation RC-IGBT products is progressing with an eye toward launching these products two years from now.

Q. Have there been any changes in customer expectations pertaining to the pricing and other conditions included in semiconductor contracts?

A.

・There has been no fundamental change in semiconductor contracts. As for orders, a trend toward placing orders early emerged during the fourth quarter of the fiscal year ended March 31, 2021. This trend was particularly notable in the industrial field. Looking ahead, Fuji Electric plans to raise prices while taking into account such trends.

<u>Power Generation</u>

Q. Are there any business opportunities for Fuji Electric to capitalize on with regard to the trend toward introducing ammonia and other substances into the thermal power fuel mix? Also, what will be the scale of Fuji Electric's renewable energy operations going forward?

A.

・Fuji Electric will continue to be able to capitalize on business opportunities associated with steam turbines for thermal power generation even if ammonia or other fuel sources are used for the purpose eliminating carbon emissions.

・Sales associated with renewable energy are expected to account for more than half of the Power Generation segment's sales in the fiscal year ending March 31, 2022. Concrete demand amounts vary by year, but we are seeing steady growth in demand for hydro, geothermal, solar, and wind power systems.

<u>Food and Beverage Distribution</u>

Q. What are the factors behind the projected improvement in performance in the fiscal year ending March 31, 2022?

A.

・Performance in the fiscal year ending March 31, 2022, is expected to benefit from the structural reforms implemented in the fiscal year ended March 31, 2021, higher

shares in the domestic markets for vending machines and showcases, the roll out of counter fixtures for which orders have already been received, and price revisions affecting previously unprofitable projects. The structural reforms we speak of were aimed at development systems. Specifically, we began operating with a 20% reduction in development staff in the fiscal year ending March 31, 2022. This reduction was achieved through headcount optimization measures that entailed cutting fixed costs via means such as relocating staff members throughout the Company. The aforementioned factors are expected to account for roughly 70% of earning growth. The remaining 30% will be attributable to efforts to approach new customers and cut costs.

Q. What measures will be implemented to grow operations in the Food and Beverage Distribution segment going forward?

A.

・In the vending machine business, we will seek to have customers in Japan accept Fuji Electric's specifications for high-value-added vending machine products while working to popularize vending machine convenience stores in Asia. At the same time, we will actively propose new counter fixtures in the store distribution business.