

Condensed Transcript of Q&A Session Regarding Business Strategy
Meeting for the Fiscal Year Ending March 31, 2022

Date: May 31, 2021 (Monday) 9:30–11:55

Power Electronics Systems Energy

Q. What business opportunities exist with regard to the trend toward decarbonization?

A.

- The popularization of renewable energy and rising energy saving needs among customers are expected to create business opportunities in relation to power distribution stabilization, high-efficiency transformers, molded transformers, and large-capacity uninterruptible power systems (UPSs).

Q. What is the scale of sales related to internet data centers and why are operations in this area growing?

A.

- Internet data center-related sales account for between 20% and 30% of the sales in the power supply and facility systems business.
- Reasons for the growth of operations in this area include brisk investment among overseas companies active in Japan with which we have formed relations dating back to their entry into the country. Another contributing factor is Fuji Electric's newly developed large-capacity UPSs, which are incredibly compact and thereby help ensure that sufficient space can be secured for servers in the facilities in which they are installed. The high evaluation of these articles is driving growth in orders.

Q. Am I correct in assuming that the overseas internet data center vendors you speak of refer to Google Inc., Apple Inc., Facebook, Inc., and Amazon.com, Inc.?

A.

- Google Inc., Apple Inc., Facebook, Inc., and Amazon.com, Inc., are among the companies considered, but we also expect to grow businesses catering Southeast Asian and Indian internet data center vendors.

Q. I understand that the main target of the comprehensive electrical equipment business is facilities that consume large quantities of electricity. Are there any opportunities in this business with regard to battery manufacturers or other industries?

A.

- Currently, orders from battery manufacturers are minimal. However, we expect this market to grow going forward, and we will look to capitalize on this growth through proposals matched to customers' capital investment trends.

- Certain general industry customers are curtailing capital investments. Regardless, Fuji Electric intends to continue proposals targeting upgrade demand pertaining to aged facilities. We will also keep dedicating effort to developing the products necessary for these proposals.

Q. Machine tool statistics give the impression that the target for sales in Fuji Electric's ED&C component business in the fiscal year ending March 31, 2022, is a bit low. What are the reasons behind this target?

A.

- Orders from machinery manufacturers in Japan began recovering in the second half of the last fiscal year. Conversely, orders from power distribution board manufacturers are low in Japan as the special demand trend attributable to projects related to the Olympic and Paralympic Games Tokyo 2020 has dissipated.
- Trends in China are currently favorable. Meanwhile, a degree of opaqueness remains with regard to Southeast Asia due to the impacts of lockdowns.
- It is possible that customers are placing orders earlier than they previously would in response to the global resin shortage.
- These risks have been incorporated into our targets. The sales target for the fiscal year ending March 31, 2022, will be viewed as the minimum level we aim to achieve, and we will look to surpass this target if possible.

Power Electronics Systems Industry

Q. What challenges must be overcome to improve profitability in each subsegment of the Power Electronics Systems Industry segment, and what measures are being implemented to tackle these challenges?

A.

- Looking at the Power Electronics Systems Industry segment as a whole, the biggest challenge toward accomplishing the medium-term management plan's operating margin target of 8% will be the automation systems business. In this subsegment, the degree to which we are able to recover overseas profitability and domestic sales volumes will be key to the accomplishment of our objectives.
- Overseas component sales in the automation systems business are coming to account for a larger portion of total sales as the ratio of domestic component sales decreases. Improving the profitability of overseas operations will therefore be of the utmost importance. Efforts for accomplishing the operating margin target of 8% will thus include developing platforms and promoting local production and consumption to increasing profitability in these operations.
- In the social solutions business, we have been able to secure a double-digit margin, and higher levels of profitability will be pursued going forward.
- Profitability is rising in the equipment construction business as a result of cost reduction activities, but further improvements to profitability will be difficult due to the significant labor requirements of this business.
- Steady annual improvements in profitability have been achieved in the IT solutions business. We look to further boost profitability by moving forward with the development of software bundles and supplying these bundles to as many customers as possible.

Q. Why are Fuji Electric's low-voltage inverters, servo systems, and other factory automation components less profitable than those of its rivals?

A.

- The profitability of Fuji Electric's low-voltage inverters is on par with rival offerings. At the same time, we recognize that our servo systems are less profitable than those of competitors. We look to address this situation and improve profitability through initiatives such as producing components in-house leading up to the fiscal year ending March 31, 2024.

Q. What trends have been seen in inquiries related to low-voltage inverters?

A.

- In April and May 2021, double-digit growth was seen in orders in comparison to the same months of the previous fiscal year. Equipment manufacturers are currently facing difficulties securing component supplies, and we therefore believe that they are placing orders a little bit ahead of schedule. Overall, orders are exceeding sales, hinting at a recovery trend affecting the entire market.

Q. In what overseas markets do you expect the automation systems business to grow?

A.

- The medium-term management plan targets growth in China and India. Growth in Southeast Asia, meanwhile, will be primarily driven by plant operations.
- In the fiscal year ended March 31, 2021, significant contributions to overall growth came from India, where we promoted sales of Fuji Electric products through the sales channels of Fuji Electric Consul Neowatt Private Limited.
- In the fiscal year ending March 31, 2022, we plan to grow plant operations in Southeast Asia. Component sales, meanwhile, are expected to only experience slight growth as a result of the COVID-19 pandemic.

Q. What is the distribution of sales between components and other products in the automation systems business? Also, could you please provide a breakdown of sales by industry?

A.

- Components account for around 60% of sales in the automation systems business while systems account for the remaining 40%.
- By industry, around 40% of sales of low-inverters, a core component product, are to the air-conditioning and pump industries and about 30% of sales are to the transportation industry.

Q. What is the ratio of sales to the steel industry in the automation systems business, and what percent of sales come with after sales service contracts?

A.

- In the fiscal year ended March 31, 2021, 40% of sales in the automation systems business were to the steel industry.

- Around 40% of system sales in this business include contracts for upgrades, maintenance, and other after sales services.

Q. Does Fuji Electric make after sales service proposals to customers using products from other companies?

A.

- We do make after sales service proposals to customers using other companies' products, but the actual number of such cases is small. Fuji Electric looks to develop offerings for increasing operational monitoring and Internet of Things capabilities so that it can make maintenance service proposals that entail linking products from other companies up to networks.

Q. When do you expect that sales in the IT solutions business will recover to the level of ¥100.0 billion?

A.

- We are examining possible measures with the goal of recovering sales to this level in the fiscal year ending March 31, 2024, the final year of the medium-term management plan.

Semiconductor

Q. Why was the operating margin target achieved earlier than scheduled in the medium-term management plan? Also, do you think the plan's net sales target can be feasibly achieved?

A.

- The main reason behind this accomplishment is a level of power semiconductor sales for automotive applications that exceeds the level projected in the medium-term management plan. We are responding to these higher-than-anticipated sales by conducting investments ahead of schedule and operating manufacturing equipment at full capacity. Another contributing factor was improved productivity.
- Automobile manufacturers are deploying new models earlier than scheduled. Looking at products for electrified vehicles alone, we expect sales that are 10% to 20% higher than projected by the medium-term management plan.

Q. Is it correct to assume that net sales during the period of the medium-term management plan will grow to the extent that sales of automotive power semiconductors increase?

A.

- Sales of industrial power semiconductors are projected to be more or less in line with the medium-term management plan target, so it is correct to assume that any increases will be attributable to automotive semiconductors.

Q. What are the Company's market outlook and sales targets for the automotive field in the fiscal year ending March 31, 2022, and beyond?

A.

- As we approach the fiscal year ending March 31, 2024, we expect automotive industry customers to increasingly deploy new models, driving the growth of the market. Fuji Electric will target a growth rate in its automotive field operations that at least matches, and hopefully exceeds, the market growth rate.

Q. What is the outlook for growth in Fuji Electric's share in the market for automotive products?

A.

- We expect our share to grow slightly as we approach the fiscal ending March 31, 2024.

Q. Why is a year-on-year decrease projected in sales of industrial products?

A.

- Industrial field sales are anticipated to decrease as a result of the heavy impacts of foreign exchange influences. In addition, we have continued to supply Renesas Electronics Corporation with chips from the Tsuruga Factory, but this order will be almost completely filled in the fiscal year ending March 31, 2022, and the conclusion of this order will have an impact on sales going forward. Another factor will be the discontinuation of certain models centered on discrete devices. If these factors are excluded, sales of industrial products will increase year on year.

Q. How will overall front-end power semiconductor production capacity be increased over the period of the medium-term management plan?

A.

- We are in the process of revising the medium-term management plan. While the projected scale of sales will be different than initially expected, we plan to at least raise production capacity to match the growth of sales of automotive products.
- In principle, we will only increase front-end power semiconductor production capacity for 8-inch wafers; no increases will be implemented for 6-inch and smaller wafers.

Q. What is the Company's policy for increasing front-end power semiconductor production capacity? Could you please offer details with regard to 8-inch wafers, 12-inch wafers, and SiC devices?

A.

- Our basic policy will be to increase production capacity for 8-inch wafers leading up to the fiscal year ending March 31, 2024. Sale contributions from SiC devices are expected to start in the fiscal year ending March 31, 2026, or beyond, and we will begin the capital investments needed to facilitate these contributions around 2024. Fuji Electric is also moving forward with the development of 12-inch wafers, but production of these articles will not commence until at least 2024.

Q. How will the range of applications for which SiC devices are used expand going forward?

A.

- At the moment, applications for SiC devices are primarily centered on the domestic railway field. We also anticipate that SiC devices stand to make significant contributions to increasing the drivable distances of electric vehicles in the automotive field.

Q. Are there any production-related or other obstacles that need to be addressed with regard to industrial power semiconductors?

A.

- As 7th-generation IGBTs come to represent a larger portion of sales, there will be a need to boost production capacity for 8-inch wafers. By increasing 8-inch wafer and back-end production capacity, we aim to secure sales.

Q. Fuji Electric's semiconductor business is outperforming those of competitors. How are you maintaining this strong performance?

A.

- Trusting relationships with customers are of the utmost importance. In the automotive field, it can take four to five years to have automotive manufacturers adopt our specifications. Accordingly, we will be looking to secure orders by building trusting relationships with customers. Large contributions to the strong performance of our semiconductor business come from the industrial field, where we employ long-term contracts for new energy companies while flexibly accommodating customer requests.

Q. Could you please provide details about Fuji Electric's new automotive IGBTs? Will these products serve as a factor differentiating Fuji Electric from its competitors?

A.

- We are currently deploying RC-IGBTs while developing next-generation products with even lower levels of losses. By rolling out these products within the next few years, we aim to create a clear point of differentiation from competitors.

Q. How will the profitability of 7th-generation IGBTs be increased?

A.

- The size of the chips in 7th-generation IGBTs is smaller than in 6th-generation IGBTs, and this smaller size contributes to higher production efficiency. Increases to the sales of 7th-generation IGBTs will help drive up overall profitability.

Q. Toyota Motor Corporation has put forth electric vehicle targets for 2030. How do these targets affect Fuji Electric?

A.

- We cannot comment on the production plans of other companies. However, we can say that increases in electrified vehicles will create business opportunities for Fuji Electric, and we hope to capitalize on any such opportunities to grow sales.

Q. Have automobile manufacturers been looking to secure IGBT supplies in preparation for 2030?

A.

- We have not received plans for 2030 from any manufacturer. However, we have received plans indicating a desire to secure IGBT supplies for 2022 and 2023.

Power Generation

Q. Could you please provide a breakdown of renewable energy sales by power source?

A.

- Renewable energy sales are expected to account for 50% of total net sales in the Power Generation segment in the fiscal year ending March 31, 2022. Of these sales, one-third will be attributable to geothermal power, one-third will be for hydropower, and the remaining one-third will come from solar and wind power. We intend to secure year-on-year sales growth centered on geothermal power and hydropower in the fiscal year ending March 31, 2022.

Q. Why is operating income in the Power Generation segment projected to increase year on year in the fiscal year ending March 31, 2022?

A.

- In the fiscal year ended March 31, 2021, we experienced a decline in after sales service earnings and delays in project progress stemming from the COVID-19 pandemic. These factors led to a downturn in operating results. In the fiscal year ending March 31, 2022, we anticipate higher operating income due to increases in after sales service earnings and a more beneficial project mix.

Q. What is the sales and income potential of remote services? Is Fuji Electric generating synergies by utilizing IT technologies?

A.

- Generally, after sales services are highly profitable, and we view remote services as an option for growing earnings from after sales services. However, we cannot offer details on the scale of sales from these services. IT technologies are being utilized to provide services without the risk of missing out on business opportunities due to movement restrictions, and these technologies are thus contributing to sales growth.

Q. Thermal power generation demand is decreasing. How will the technical capabilities and human resources of the Kawasaki Factory be utilized amid this trend?

A.

- The Kawasaki Factory specializes in turbines, generators, and other large-scale rotating machinery, with a particular focus on thermal power generation equipment. Even if thermal power generation demand declines, we will continue to seek out business opportunities that can be captured by utilizing these technologies in various fields.

Food and Beverage Distribution

Q. It seems as though accomplishing the medium-term management plan's targets for the Food and Beverage Distribution segment will be difficult. What level of earnings will be targeted in this segment and what measures will be implemented to accomplish this target?

A.

- The medium-term management plan initially projected significant growth in sales of vending machines in China. However, the market changes resulted from the COVID-19 pandemic have prompted us to revise this plan with a focus on the provisions related to China. We cannot depend on sales volume growth overseas. Based on this recognition, we intend to pursue profitability by reinforcing our business constitution in Japan. By transforming our products and sales approaches based on customer needs, we aim to secure profitability on a Companywide scale.

Q. Given the current soaring raw material prices, what steps will Fuji Electric take to reduce costs?

A.

- Prices of materials, such as iron and copper, are soaring. We will therefore be looking to reduce costs from three angles: factories, technical divisions (construction subcontracting) and services.

Q. What type of competitive edge does Fuji Electric boasts with regard to its capacity to develop high-value-added vending machines?

A.

- Key to our competitive edge will be the vending machines with two-way communication functions we are currently in the process of developing, an area where we are a step ahead of the competition. We hope to utilize these vending machines to develop a service business that contributes to increased efficiency in vending machine operation. Fuji Electric has a large share among the vending machines installed in Japan, and this strong position will be leveraged to raise profit margins.

Q. What trends have been seen in business negotiations pertaining to new vending machine services (services that help streamline customers' vending machine operations or effectively grow sales)?

Also, do you anticipate that sales will be generated in the form of service fees?

A.

- We are in the process of conducting verification tests at three domestic companies, and we expect to begin developing one or two business ventures during the fiscal year ending March 31, 2022.
- In offering services, we aim to develop subscription-scheme businesses, either on a standalone basis or in collaboration with telecommunications carriers.

Q. What is Fuji Electric's share in the domestic vending machine market?

A.

- Vending machine shares are dependent upon annual bids, and the shares of companies are thus decided on a fiscal year basis. Looking at the period from 2019 to 2021, our share was nearly 60% in the fiscal year ended March 31, 2020 and slightly higher in the fiscal year ended March 31, 2021. However, this increase in share only appeared in numbers due to a sharp downturn in vending machine investment. In 2020 and 2021, our share was 70%, an increase of 5 percentage points year on year. This share growth contributed to higher sales.
- In Japan, Fuji Electric had to compete with two other companies in 2020. This number declined to one company in 2021.

Q. What trends have been seen in inquiries in relation to specific strategies for growing store distribution sales?

A.

- We are currently engaged in concrete business negotiations for comprehensive convenience store solutions, and some of these negotiations are slated to contribute to sales in the fiscal year ended March 31, 2022.
- In addition, we have begun taking part in business negotiations related to cold chain boxes and other distribution offerings.
- Fuji Electric is also in the process of proposing unmanned stores, but it is unlikely that contributions to performance will come from these proposals in the fiscal year ending March 31, 2022. However, we expect that future trends will see a movement toward unmanned stores, and we intend to continue to make related proposals based on this outlook.