

April 27, 2022
Fuji Electric Co., Ltd.

Condensed Transcript of Q&A Session
Regarding Management Plan for the Fiscal Year Ending March 31, 2023 and
Financial Results Presentation for the Fiscal Year Ended March 31, 2022

Date: April 27, 2022 (Wednesday) 15:30–17:06

General

Q. What impacts have the difficulties in procuring parts and the rising prices of materials and distribution had on performance?

A.

- The difficulties in procuring parts and the rising prices of materials have had an impact all segments. However, we were able to minimize the impact on performance through measures including forming relationships with multiple suppliers, concluding long-term procurement contracts, altering designs to use alternative components, and transferring cost increases to selling prices.
- The rise in distribution costs is primarily impacting the Power Electronics Energy segment, the Power Electronics Industry segment, and the Semiconductor segment. Regardless, the negative impact on performance has been minimal due to our ongoing efforts to promote local production and consumption.
- Uncertainty will likely be a consistent fixture in the operating environment going forward. For this reason, we will be endeavoring to quickly identify signs of change and respond accordingly.

Q. What types of negative impacts will factors such as the lockdowns in China have on performance in the fiscal year ending March 31, 2023?

A.

- The rising material prices are expected to place downward pressure on performance of around ¥7.2 billion in the fiscal year ending March 31, 2023. Our forecasts for the six-month period ending September 30, 2022, incorporate the impacts of the lockdowns in China, which will amount to a loss of around ¥10.0 billion when combined with the impacts of rising material prices.

Q. How will Russia's invasion of Ukraine impact Fuji Electric's business?

A.

- The scale of our sales in Russia and Ukraine is relatively small. Accordingly, we will feel almost no direct impacts from Russia's invasion of Ukraine.

Q. There is currently a lot of concern regarding natural disaster risks and energy shortages. Is there any chance that Fuji Electric will see an increased range of business opportunities associated with such activities as energy generation and power distribution network reinforcement?

A.

- The Power Generation segment is anticipated to benefit from increased demand for renewable energy and other non-fossil fuel offerings. We will thus be ramping up initiatives for catering to new demand with a focus on renewable energy and after sales services.
- Meanwhile, the increased frequency of natural disasters is prompting municipal governments to look into matters such as continuity planning and energy supply and demand management systems. At the same time, we have received around 20 inquiries for electricity storage systems and other offerings in the Power Electronics Energy segment. These inquiries are anticipated to contribute to improvements in performance over the medium to long term.

Q. What medium- to long-term growth initiatives is Fuji Electric advancing with regard to such matters as carbon neutrality and digital transformation?

A.

- We expect that carbon neutrality initiatives will accelerate leading up to 2030 and then 2050. The resulting demand related to the generation of clean energy, the stable supply of energy, and user-side energy saving and electrification will create substantial business opportunities. Fuji Electric is equipped with the businesses, products, and customer base necessary for responding to this change. Accordingly, we will seek to grow our semiconductor operations by capitalizing on electrification demand while also combining various products and business to generate new value and thereby cultivate future business pillars.
- For Fuji Electric, the utilization of digital technologies entails a focus on frontline worksites. Based on this focus, we combine the physical realm energy transformation and control technologies and data analysis technologies we have fostered over the years with artificial intelligence and Internet of Things technologies to further develop our business. Through this approach, we aim to grow our business via the creation of new solutions. Examples of potential solutions include utility energy cost optimization solutions that employ energy demand prediction, preventative maintenance, and other digital technologies.

Power Electronics Energy

Q. What has been the impact of the advance orders for ED&C components received in the fiscal year ended March 31, 2022, and what is the Company's outlook for orders and net sales in the fiscal year ending March 31, 2023?

A.

- Advance orders received from customers in the fiscal year ended March 31, 2022, resulted in a massive increase in incoming orders and subsequently order backlog.
- We project that the receipt of these advance orders will result in a decrease in orders in the fiscal year ending March 31, 2023. Net sales, however, will be in line with the previous fiscal year as we proceed to fill backlog orders received in the fiscal year ended March 31, 2022, by carrying out production and deliveries in accordance with customer requests.

Q. What are the factors behind the anticipated improvement in profit margins in the fiscal year ending March 31, 2023?

A.

- Profit growth is expected to be driven by improvement in profitability stemming from a favorable turn in performance in the power supply and facility systems business, which will be a product of rapid rises in demand from data centers and semiconductor manufacturers, as well as selling price increases in the energy management business.
- Performance in the ED&C components business will be relatively unchanged year on year when excluding the impacts of the lockdowns in China.

Power Electronics Industry

Q. What are the factors behind the anticipated improvement in profit margins in the fiscal year ending March 31, 2023?

A.

- Despite the decrease in sales volumes attributable to the lockdowns in China, we anticipate higher sales of low-voltage inverters and other products in the automation systems business as we fill the backlog orders received in the fiscal year ended March 31, 2022, by steadily implementing measures for addressing difficulties in procuring parts. These higher sales, together with the full-fledged benefits of the selling price increases implemented in the previous fiscal year, will contribute to improved profit margins in the fiscal year ending March 31, 2023.

Semiconductor

Q. How were orders for industrial semiconductors in the fourth quarter of the fiscal year ended March 31, 2022, and what is the outlook for orders in the fiscal year ending March 31, 2023?

A.

- Orders for industrial semiconductors in the fourth quarter of the fiscal year ended March 31, 2022, were down year on year as a result of previously received advance orders. If this factor is excluded, fourth-quarter orders were up 5% year on year.
- We expect a year-on-year increase of a few percent for industrial semiconductor orders in the fiscal year ending March 31, 2023, when excluding the impacts of the lockdowns in China and of foreign exchange influences.

Q. How were orders for automobile semiconductors for electrified vehicles and gasoline vehicles in the fourth quarter of the fiscal year ended March 31, 2022, and what is the outlook for orders in the fiscal year ending March 31, 2023?

A.

- In the fourth quarter of the fiscal year ended March 31, 2022, overall orders for automotive semiconductors were up 30% year on year. This rise was the result of an increase of more than 50% in orders for automotive semiconductors for electrified vehicles and a decline of 10% in orders for automotive semiconductors for gasoline

vehicles, which itself stemmed from production adjustments.

- As for the fiscal year ending March 31, 2023, we anticipate growth in overall semiconductor orders of nearly 40% to result from a 50% increase in orders for automotive semiconductors for electrified vehicles coupled with orders for automotive semiconductors for gasoline vehicles that are in line with the fiscal year ended March 31, 2022.

Q. Could you provide a breakdown by type of the semiconductor sales forecast for the fiscal year ending March 31, 2023? Also, what are the reasons behind the anticipated increase in sales during the second half of the fiscal year?

A.

- We expect sales of semiconductors in the fiscal year ending March 31, 2023, to be split evenly between industrial semiconductors and automotive semiconductors.
- Sales in the first half of the fiscal year will be impacted by the lockdowns in China while second-half sales are anticipated to increase over the first half following boosts to our production capacity for 8-inch wafers.

Q. Will Fuji Electric's automotive semiconductors be employed in any new automobile models during the fiscal year ending March 31, 2023?

A.

- We are always looking to expand the range of automobile models using our products, and this approach will be continued in the fiscal year ending March 31, 2023.

Q. Which bases will be subject to capital investments targeting front-end and back-end production in the semiconductor business during the fiscal year ending March 31, 2023?

A.

- Investments in front-end production of 8-inch wafers in Japan will be directed primarily toward the Tsugaru Factory and the Matsumoto Factory while we will target Malaysia in our investments overseas. As for back-end production, we will mainly be investing in domestic subsidiary Fuji Electric Power Semiconductor Co., Ltd.

Q. What is your outlook for front-end production capacity of 8-inch wafers?

A.

- Front-end production capacity of 8-inch wafers on March 31, 2023, is expected to be 50% higher than a year earlier.

Q. What impact will the collaborative venture pertaining to 300-mm wafers of certain customer have on Fuji Electric? Will there be any changes to Fuji Electric's customer base over the medium to long term? Also, what is the reason for prioritizing investments in SiC devices over 300-mm wafers?

A.

- There has been no change to our projections for the volumes of sales to said customer, and we therefore do not anticipate any significant impacts on performance at this point in time.
- We began approaching overseas manufacturers a year and a half ago, and the number of such customers is rising, reducing our dependence on specific customers.
- The decision to invest in SiC devices was based on the outlook that sales volumes of these devices will increase in 2024 and 2025. As for investments in 300-mm wafers, we intend to advance preparations for development in the research and development phase.

Q. Is the pace of demand growth for SiC devices accelerating in comparison to the third quarter of the fiscal year ended March 31, 2022?

A.

- There is no change to our outlook that sales of SiC devices will begin to pick up in 2024 or 2025, but we do anticipate that sales volumes in 2027 and 2028 will be higher than initially expected.