

Condensed Transcript of Q&A Session Regarding Business Strategy
Meeting for the Fiscal Year Ending March 31, 2023

Date: May 30, 2022 (Monday) 14:00–17:04

FY2022 Management Challenges

Q. What is the ratio of sales from new products at the moment and what is your forecast for this ratio going forward? Also, what level of profitability is being seen?

A.

- The ratio of sales from new products is expected to remain at a level between 20% and 30% leading up to 2023. This is a noteworthy improvement from a couple of years ago, when this ratio was below 20%.
- As for profitability, we expect improvements to profit margins once production volumes of next-generation component models reach a sufficient level, but we also recognize that there are cases in which a certain amount of time is needed before the profitability of products based on new concepts improves.

Q. The list of new power electronics products only displays products for the railcar and vessel systems fields. However, I believe that there are also other business opportunities to be taken advantage of with regard to the mobility field, such as those for aircrafts and for electrified vehicles. Why is this list limited as such?

A.

- The list to which you refer only includes those new products expected to contribute to sales in the fiscal year ending March 31, 2024. Fuji Electric is currently involved in feasibility studies in relation to the aircraft field while also assessing the electrified vehicle field based on the assumption that it will present opportunities on which to capitalize. Both of these fields are anticipated to contribute to sales in the fiscal year ending March 31, 2025, or beyond.

Q. What steps are being taken to improve profitability in the Power Generation and Food and Beverage Distribution segments?

A.

- In the Power Generation segment, we are pursuing improvements in profitability through business portfolio reforms, increasing the ratio of projects contracted for after sales services, for example.
- As for the Food and Beverage Distribution segment, we continue to ramp up efforts for reducing fixed and other costs through means such as consolidating production bases. We are also utilizing the segment's heating and cooling and mechatronics technologies to explore fields like logistics and healthcare in pursuit of increased sales and subsequently improved profitability.

Q. Fuji Electric achieved its operating margin target of 8% two years ahead of

schedule. What type of operating margin target are you envisioning for the next medium-term management plan and what key performance indicators will be emphasized? Also, what measures are being implemented to improve capital efficiency?

A.

- Decisions related to the operating margin and other key performance indicators under the next medium-term management plan will be decided based on our vision for Fuji Electric in the fiscal year ending March 31, 2031. We will be formulating this vision over the next two years.
- We are in the midst of a global movement to achieve carbon neutrality by 2030 or 2050. Fuji Electric therefore recognizes that there may be a need to incorporate non-financial indicators, such as the ratio of sales from carbon-neutral products, into the next medium-term management plan.
- In the past, Fuji Electric has disclosed information on indicators such as return on equity, return on assets, and the equity ratio. At the same time, however, we have been emphasizing by-segment return on invested capital on an internal basis, with the goal of improving investment efficiency. Accordingly, we intend to target even higher levels of investment efficiency going forward through our Pro-7 activities, which entail a Companywide approach toward boosting earnings.

Q. What type of upside risks are you expecting in the core semiconductor business?

A.

- We do not have a defined numeric figure for the expected upside risk level at this point in time. However, we can say that Chinese companies have begun producing power semiconductors in response to the growth in global demand, and the current leading semiconductor manufacturers will likely be unable to respond to this growing demand in the future. Fuji Electric will assess such market trends as well as its target areas and position therein as it determines its goals for semiconductor sales over the medium to long term.

Q. Will Fuji Electric be shifting its focus from hardware to software in order to improve profitability in the fiscal year ending March 31, 2025, and beyond?

A.

- There are many power electronics products for which it is difficult to pursue differentiation by looking at hardware alone. We will therefore be expanding our focus in order to create new value. For example, Fuji Electric could combine inverters with other products or maintenance services, or boost the value of these products with artificial intelligence (AI) technologies, as opposed to simply selling inverters on a standalone basis.
- Elsewhere, some businesses are transitioning certain services to subscription models. Going forward, we will be looking to flesh out these initiatives through means such as setting sales targets for software and service businesses.

Q. Slide 18 indicates an increase in cross-business initiatives for helping reduce greenhouse gas emissions. I believe that there are issues faced with this regard. How will Fuji Electric address these issues?

A.

- Slide 19, Generation of Technology-Based Competitive Edge, shows a matrix detailing the relationships between products, platform technologies, and advanced technologies. This technology matrix was shaped through ongoing effort over a period of several years guided by established road maps.
- Accordingly, we cannot start from zero when thinking about cross-business initiatives. We can, however, extend the current road map to 2030 in order to shape measures for addressing such issues.

Q. Given the trend toward the development of systems and platforms for energy infrastructure, are there any capabilities not listed on slide 18 that Fuji Electric will need to acquire going forward? Also, does Fuji Electric have sufficient resources in relation to AI technologies?

A.

- The Company's own AI resources are insufficient for accomplishing our goals. However, we have begun forming relationships with universities and research institutions, and we look to compensate for this lack of internal resources with a focus on partnerships going forward.
- It is impossible for Fuji Electric to keep up with the constant evolution of AI algorithms. Luckily, basic AI algorithms are increasingly becoming open source, meaning that an important focus going forward will be how to best make use of such open-source algorithms. We intend to approach this issue through open innovation with universities and other partners in the future.

Q. Uncertainty has become a constant in the operating environment. What specific policies will Fuji Electric be implementing to boost its responsiveness to change?

A.

- Our basic approach will be to ensure that all employees are mindful and receptive in order to detect the precursors of change.
- We are also looking to develop response measures through discussions that are blind to differences in rank and unbound by our current business approaches. At the same time, steps will be taken to foster an open corporate culture in order to heighten our responsiveness. We believe that such a culture will allow for concerted, Companywide efforts once a course of action has been decided and swift correction should that course be deemed inappropriate.

Power Electronics Energy

Q. Is the growth in sales of uninterruptible power systems (UPSs) a result of market growth? Also, is Fuji Electric seeing any growth in its share of the UPS market?

A.

- The data center business operators we work with are stepping up their investments, and Fuji Electric is growing its UPS sales and market share by effectively responding to the needs of customers in this area.

Q. How have UPS and ED&C component operations been impacted by parts shortages?

A.

- UPS operations have been impacted by parts shortages, but we have been successful in responding to these shortages by adjusting delivery timings together with customers.
- The impact of parts shortages on ED&C components has been rather large. Nonetheless, we have been able to adapt through a shift to in-house production, an approach that has allowed us to deliver products faster than our rivals.

Q. How does Fuji Electric position the ED&C components business?

A.

- The ED&C components business has an important position, generating around 40% of the net sales of the Power Electronics Energy segment. Fuji Electric has previously been focused on reducing development costs and improving productivity with regard to ED&C components, and this focus has, unfortunately, resulted in delays in the development of new products and a subsequent decline in competitiveness. To rectify this situation, we will be moving ahead with product development efforts that use our rivals as benchmarks while also ramping up efforts to solicit our products to customers.

Q. What ratio of ED&C component sales comes from overseas and what is the current situation with regard to overseas sales of ED&C components?

A.

- Around 30% of ED&C component sales are generated overseas, with half of these sales being to China and the other half being to other parts of Asia.
- Overseas orders and sales rose by about 40% year on year in the fiscal year ended March 31, 2022, but we expect overseas orders and net sales to decrease by roughly 20% in the fiscal year ending March 31, 2023.
- ED&C component orders from China rose in April 2022, while sales decreased as a result of lockdowns. We continued to feel the impacts of the lockdowns in May, but we anticipate that the market will recover after the lockdowns are lifted in June.

Q. What overseas strategies will be implemented in the ED&C components business?

A.

- In our overseas operations, we have been coordinating with ED&C component subsidiary Fuji Electric FA Components & Systems Co., Ltd., to consolidate overseas sales bases, develop distribution centers, and bolster earnings power. We are currently in the process of developing low-cost products for the Chinese market, with consideration paid to such matters as the components we procure. New products will be developed in Japan over a process leading up to 2023 with the goal of deploying these products in overseas markets in late 2023 or in 2024.

Q. What portion of capital investments in the Power Electronics Energy segment is accounted for by ED&C components? Will Fuji Electric continue to invest in ED&C component production capacity augmentations going forward? Also, do you anticipate growth in the ED&C component market in conjunction with the expansion of the markets related to electric vehicles and 5G technologies?

A.

- Around two-thirds of capital investments in the Power Electronics Energy segment are directed toward ED&C components, and roughly 25% of these investments are for production capacity augmentations.
- We continue to see large increases in orders for ED&C components, due to advance orders as well as orders from customers switching over from other companies. These increases have been addressed with consistently high levels of production. Beginning in the fiscal year ending March 31, 2024, we will be looking to shorten production lead times, improve productivity, and strengthen manufacturing capabilities.
- For the foreseeable future, we anticipate demand in conjunction with investments by power distribution board manufacturers serving data centers. Demand related to the pursuit of carbon neutrality is also expected to increase, but this increase will probably not be seen for some time.

Power Electronics Industry

Q. Fuji Electric established the Power Electronics Sales Group to bolster sales activities. What type of benefits have been produced by this move?

A.

- New orders for components are on the rise due to integrated efforts between the Power Electronics Sales Group and ED&C component subsidiary Fuji Electric FA Components & Systems. Looking at sales promotions targeting domestic machine tool manufacturers, for example, our ED&C component sales team excels in this area, where the Power Electronics Sales Group lacks expertise. We were thus able to win over customers using rival offerings by stepping up coordination between these two entities. Conversely, the Power Electronics Sales Group is highly proficient at sales promotions targeting the Chinese market and has thus been able to boost orders by introducing customers to Fuji Electric's ED&C components.
- Such an integrated approach between the Power Electronics Sales Group and business divisions has also helped us grow comprehensive equipment orders.

Q. Orders are increasing in the Power Electronics Industry segment. Is this increase due in part to new measures?

A.

- The rise in component orders that was a result of advance distribution measures undertaken in the fiscal year ended March 31, 2022, was among the larger contributors to the increase in orders in the Power Electronics Industry segment. However, new measures have also been contributing through growth in plant system orders.

Semiconductor

Q. What are the reasons that sales growth in the Semiconductor segment is outpacing the growth of the electrified vehicle market?

A.

- Sales growth in the Semiconductor segment is being driven by increased production of electrified vehicles by existing customers as well as by the acquisition of new customers.

Q. In what areas will Fuji Electric approach new customers to encourage use of its specifications for electrified vehicle products in the fiscal year ending March 31, 2025, and beyond? Also, for what automobile models have these specifications been adopted?

A.

- We are approaching new customers in Japan to encourage use of Fuji Electric's specifications, and we are targeting both hybrid-electric and electric vehicles in this undertaking.

Q. What factors are contributing to Fuji Electric's ability to acquire new customers in the electrified vehicle market?

A.

- Major factors contributing to our ability to acquire new customers in the electrified vehicle market include how our products help make equipment smaller and more reliable through application of RC-IGBTs and packaging technologies.

Q. Are Fuji Electric's packaging technologies helping differentiate the Company in the market for SiC devices for electrified vehicles?

A.

- Our packaging technologies contribute to improved heat dissipation for power semiconductors, which is a significant factor differentiating Fuji Electric in the market for SiC devices for electrified vehicles.

Q. What trends are being seen in the adoption of Fuji Electric's new SiC device products for electrified vehicles? Also, what factors have inspired customers to use Fuji Electric's products?

A.

- The 6-inch SiC device production line at the Matsumoto Factory is scheduled to be used for production of small lots of articles for a single company starting in the fiscal year ending March 31, 2023. We also plan to commence production targeting two companies in the year ending March 31, 2025, or beyond.
- The customers that have adopted our new SiC device products include those with which we have forged strong relationships through ongoing, long-term use of our SiC devices and those that have praised the low levels of loss of our SiC devices.

Q. What noteworthy business advantages do SiC modules have in comparison to Si IGBT modules?

A.

- We have seen strong trends in inquiries regarding SiC devices from customers that are actively engaged in electric vehicle production. Accordingly, we expect that the Si power semiconductors currently used for electric vehicles will eventually be replaced by SiC devices.

Q. What ratio of semiconductor sales do you expect to be represented by SiC devices in the fiscal year ending March 31, 2026, and beyond?

A.

- We anticipate the SiC devices will produce around 10% of semiconductor sales in the fiscal year ending March 31, 2026, and beyond.

Q. What is Fuji Electric's share target for the SiC module market?

A.

- We aim to gradually increase our share of the SiC module market beginning in 2024 with the goal of acquiring a market share of nearly 20% in around 2025 or 2026.

Q. How is the profitability of SiC devices? Can we expect profit margins for SiC devices that are on par with the operating margin of 15% posted on an overall basis for the Semiconductor segment?

A.

- The wafers used in SiC devices are quite expensive. Nevertheless, we are working to have customers recognize the value of our new SiC device products while responding to consultations by emphasizing the potential of future reductions in costs, among other factors, to promote the adoption of these devices. If we can secure sufficient sales volumes for SiC devices, we should be able to generate significant profits.

Q. For applications are 1st- and 2nd-generation SiC MOSFETs used? Also, what trends are being seen in the adoption of 3rd-generation SiC MOSFETs for electrified vehicle applications?

A.

- We see 1st- and 2nd-generation SiC MOSFETs used for both industrial and automotive applications.
- We plan to begin mass production of 3rd-generation SiC MOSFETs in the fiscal year ending March 31, 2025, but we will be moving ahead with efforts to encourage use of our specifications prior to that.

Q. What sort of technological edge does Fuji Electric boast when it comes to SiC MOSFETs?

A.

- Our technological edge can be seen in the ability of our SiC MOSFETs to maintain high threshold voltage while reducing loss.

Q. For what applications do you expect 8th-generation IGBTs to see use?

A. In general, the applications for 8th-generation IGBTs will be used are the same as those for which 7th-generation IGBTs are currently used. Accordingly, we anticipate that 8th-generation IGBTs will largely replace 7th-generation IGBTs.

Q. What are your capital investment plans for the Semiconductor segment in the fiscal year ending March 31, 2025, and beyond?

A.

- The details of our capital investment plans are currently being formulated as part of the next medium-term management plan. What I can say for now is that we intend to continue investing in production capacity increases for 8-inch Si devices while capital investments in the fiscal year ending March 31, 2025, and beyond will largely be focused on addressing the need to transition to 8-inch SiC devices. We will also examine the possibility of coordinating with outside partners as necessary.

Q. What type of business scale do you envision for the Semiconductor segment in the fiscal year ending March 31, 2031? Can we look forward to sales of between ¥300.0 billion and ¥400.0 billion?

A.

- As an individual in charge of the Semiconductor segment, I look to develop a business that responds to both customer expectations and market growth.

Power Generation

Q. It was stated that the Power Generation segment will develop its business with a focus on bolstering earning power, as opposed to scale. What measures will be implemented to heighten profit margins?

A.

- We intend to bolster the earnings power of the Power Generation segment by growing sales of after sales services. Our focus will go beyond upgrades of existing power plants to include enhancing our proposal-based services for boosting value through upgrades to power generation equipment.
- Another central pillar of our efforts to bolster earnings power will be renewable energy. In this area, we will seek to increase earnings power by taking advantage of our differentiated technologies and products.

Q. What sort of growth potential do you see for geothermal power operations?

A.

- Of Fuji Electric's renewable energy businesses, geothermal power is the area in which we are most poised to leverage our presence, which is backed by our track record of delivering facilities with generation capacities of more than 2.8 GW around the world. Developing geothermal power supplies is a process that requires an exceptional amount of time. It is therefore difficult to formulate short-term forecasts. Nevertheless, we are committed to growing geothermal power-related sales under the next medium-term management plan, especially given that Japan's sixth basic energy plan calls for doubling the country's geothermal power supplies by 2030.

Q. It was mentioned that Fuji Electric plans to record large-scale thermal power-related orders in the fiscal year ending March 31, 2023. Is there any concern for the possibility of unexpected increases in costs?

A.

- We are committed to robust project management for the purpose of preventing unexpected increases in costs, and we will do so while ensuring that the necessary quality, cost, and delivery conditions are met. Moreover, we are working to minimize risks of construction delays in geothermal and other overseas projects by mobilizing locally hired employees.

Food and Beverage Distribution

Q. What is the reason behind the increase to vending machine selling prices implemented in the fiscal year ended March 31, 2022? Also, will these higher prices be maintained going forward?

A.

- To address the massive losses recorded in the vending machine business as a result of the COVID-19 pandemic, we increased selling prices as part of structural reforms and also as a means of matching selling prices to the actual value of products as we proceed to deploy high-value-added products.
- Whether or not these higher selling prices will be maintained is a matter that will need to be decided through negotiations with customers. Nonetheless, Fuji Electric will continue to deploy and propose high-value-added products going forward.