July 28, 2022
Fuji Electric Co., Ltd.

Condensed Transcript of Q&A Session Regarding Financial Results Presentation for the Three-Month Period Ended June 30, 2022

Date: July 28, 2022 (Thursday) 15:30–16:30

General

Q. In the three-month period ended June 30, 2022, the rise in raw material prices surpassed the increase in selling prices. Is there any chance that selling prices will be increased further going forward?

A.

・The possibility of future increases to selling prices will be examined based on consideration of the rise in raw material prices going forward. On a full-year basis, the impacts of rising raw material prices are expected to amount to ¥7.0 billion, and we are planning to increase selling prices as needed to counteract these impacts.

Q. What impacts have the lockdowns in China had on Fuji Electric and what is your outlook with this regard?

A.

・Our operations were impacted in April and May 2022, but a recovery trend emerged in June. We expect this recovery to continue going forward, and it is anticipated that our exposure to these risks will remain within the scope incorporated into performance forecasts. However, the potential for lockdowns will exist as long as China's zero COVID-19 policy remains in effect. Accordingly, it will be important to carefully monitor trends with this regard in the future.

Q. Fuji Electric has chosen not to revise its full-year performance forecasts. Is there any chance that actual performance will surpass forecasts?

A.

・If the current foreign exchange rates continue, we can expect that net sales and operating income will, respectively, be ¥20.0 billion and ¥3.0 billion higher than forecast. Moreover, there is potential for us to reduce costs by an amount in the area of billions of yen. Significant contributions to this upturn will come from the strong performance of ED&C components and industrial semiconductors, which are benefitting from a special demand surge. We are planning to announce revised forecasts together with our financial results for the six-month period ending September 30, 2022. This revision will be based on consideration of market conditions and risks.

Power Electronics Energy

Q. Were the increases in orders in the power supply and facility systems business

and the energy management business a result of one-time factors? Also, what progress has been seen in the process of transferring cost increases to the selling prices of plant-related products?

A.

・Customers in the power supply and facility systems business and the energy management business have been placing orders ahead of schedule in light of the timings of parts deliveries. This trend is one of the main factors behind the increase in orders you speak of. Conversely, orders from foreign data center business operators for projects in Japan are higher than anticipated.

・As for the process of transferring cost increases to the selling prices of plant-related products, we are proposing selling price increases in response to the rising prices of raw materials when submitting estimates, but it will likely be difficult to transfer all of the higher costs to selling prices. Accordingly, we will need to address the remainder of the increase through cost reductions and other corporate measures.

Q. What trends were seen in carbon neutrality-related orders?

A.

・Inquiries for carbon neutrality-related orders are on the rise, but this rise in inquiries has not translated to a significant increase in orders.

Q. How are trends in orders for ED&C components and what is your outlook going forward?

A.

・Orders are higher than projected. Fuji Electric's ability to fill orders with a shorter turnaround than its competitors is thought to be one of the factors behind this increase. In addition, orders continued to be placed ahead of schedule throughout the first quarter of the fiscal year, but orders are expected to return to normal levels in the second quarter or later. We look to achieve a significant level of sales in the fiscal year ending March 31, 2023, by maintaining high operating rates to fill our outstanding order backlog.

<u>Power Electronics Industry</u>

Q. What is the reason behind the operating loss recorded in the Power Electronics Industry segment in the three-month period ended June 30, 2022?

A.

・Component operations were impacted by the lockdowns in China, and factors such as the resulting halts to operations at customer factories caused a decline in demand. The operations at Fuji Electric's own factories were also impacted. The decreased earnings of plant system operations, meanwhile, were a result of customers delaying orders until the second quarter or later.

Q. What is your outlook for the Power Electronics Industry segment for the remainder of the fiscal year?

A.

・Performance of components is expected to recover beginning in the second quarter due to the cancelation of the lockdowns in China. At the same time, we are approaching new customers in an attempt to bolster our market share. Moreover, we hope to boost earnings, regardless of market conditions, through means such as improving operating ratios by procuring parts from multiple sources.

Q. Were the increases in orders in the equipment construction business and the IT solutions business a result of one-time factors?

A.

・The increase in orders in the equipment construction business was a result of orders placed ahead of schedule, and not of changes in market conditions. As for the IT solutions business, trends were strong in orders from academic institutions. We were able to receive ahead-of-schedule orders from such institutions while also increasing our market share. We therefore look forward to the trends to be seen in the remainder of the fiscal year. Meanwhile, orders to the private sector are on the rise due to sales promotion measures by Fuji Electric and by its subsidiary Fuji Electric IT Solutions Co., Ltd.

<u>Semiconductor</u>

Q. Could you provide a breakdown of trends in orders for automotive power semiconductors in the three-month period ended June 30, 2022, and how they compare with orders in the fourth quarter of the fiscal year ended March 31, 2022, and in the three-month period ended June 30, 2021?

A.

・In the three-month period ended June 30, 2022, orders of semiconductors for electrified vehicles were up roughly 40% from the three-month period ended June 30, 2021, while those for engine vehicles were down 15%. In comparison to the fourth quarter of the fiscal year ended March 31, 2022, orders for semiconductors for electrified vehicles were up while those for engine vehicles were down, when excluding the impacts of foreign exchange influences.

Q. What are the reasons behind the differences in orders and sales of semiconductors in the first quarter?

A.

・Some orders that would normally be placed in the second quarter were received in the first quarter while sales were impacted by reduced production of automobiles.

Q. What is your outlook for semiconductors, by field, over the remainder of the fiscal year?

A.

・Semiconductor orders are expected to grow throughout the remainder of the fiscal year, and this growth will largely be driven by orders for automotive semiconductors. For these semiconductors, we anticipate an increase of 20% over the first quarter to be seen in the second quarter, followed by further growth in the third quarter. As for industrial semiconductors, first-quarter orders were heavily impacted by foreign exchange influences. If these impacts are excluded, second-quarter orders are expected to rise slightly in comparison to first-quarter orders, while growth will remain flat thereafter.

Q. Is the projected global-scale deterioration of macroeconomic conditions expected to impact semiconductor market or order trends?

A.

・We do not predict any particular impacts in the semiconductor markets served by Fuji Electric. We continue to see strong trends in inquiries for industrial semiconductors in relation to inverters, servos, machine tools, and other factory automation equipment. Automotive semiconductors, meanwhile, are currently suffering due to reduced production of automobiles, but we anticipate future growth in demand nonetheless.

Q. Will Fuji Electric be accelerating its timetable for 8-inch wafer production capacity increases in light of the outlook for the semiconductor market?

A.

・We are moving ahead with production capacity increases in accordance with our initial plans. Front-end production capacity on March 31, 2023, is expected to be 50% higher than a year earlier. Production capacity will be gradually increased beginning in the third quarter.

Q. How are trends in semiconductor inventories?

A.

・We are maintaining low levels of inventories across the board. There was a slight increase in inventories in the first quarter due to reductions in automobile production, but this does not represent a significant issue as we will be shipping these inventories later in the fiscal year.

Q. How are conditions related to the procurement of SiC power semiconductors?

A.

・Use of SiC devices is expected to begin a full-fledged increase in 2024. Fuji Electric has already secured almost all of the supplies it will need to meet demand in 2024 and 2025. Beyond that, we are in the process of discussing this matter, with long-term supply contracts being examined as one possible option.

Power Generation

Q. The benefits of large-scale renewable energy projects were cited as a reason for the increases in sales and income in the Power Generation segment. To what exactly do you refer?

A.

・The benefits of large-scale renewable energy projects we speak of are associated with a geothermal power generation plant project in New Zealand.