

January 26, 2023
Fuji Electric Co., Ltd.

**Condensed Transcript of Q&A Session Regarding Financial Results Presentation
for the Nine-Month Period Ended December 31, 2022**

Date: January 26, 2023 (Thursday) 15:30–16:37

General

Q. How did operating income in the third quarter of the fiscal year ending March 31, 2023, compare to internal forecasts?

A.

- Overall operating income was slightly higher than projected. The operating income of the Power Electronics Industry segment fell below forecasts, but we were able to compensate for this deficiency through the performance of the Power Electronics Energy and Food and Beverage Distribution segments.

Q. Could you please offer some details on the factors that affected operating income, particularly the ¥9.1 billion in other expenses? Were the allowance for doubtful accounts and other extraordinary expenses one-time occurrences? Also, were these expenses accounted for by the Company's forecasts?

A.

- We saw increases in outsourcing and manageable expenses following higher sales volumes and the resumption of economic activity. In addition, we recorded an allowance for doubtful accounts of ¥2.0 billion along with an increase of ¥1.0 billion in expenses associated with factors such as depreciation on inventories. These were one-time expenses and were accounted for in the forecast announced on October 27, 2022, though there were some disparities with our initial expectations.

Q. It was mentioned that plant- and system-related orders were strong. Will these orders contribute to higher performance in the fiscal year ending March 31, 2024?

A.

- In the fiscal year ended March 31, 2022, we recorded orders for just above ¥1 trillion, and orders in the fiscal year ending March 31, 2023, are expected to surpass this amount by around ¥80.0 billion. Particularly large increases in orders are projected to be seen in the Power Electronics Energy, Power Electronics Industry, and Semiconductor segments.

Q. What is Fuji Electric's forecast for performance in the fiscal year ending March 31, 2024?

A.

- We are currently in the process of formulating our performance forecast for the

fiscal year ending March 31, 2024. However, this forecast will likely project performance surpassing that of the fiscal year ending March 31, 2023. The factors on which we will base this forecast, such as market conditions, foreign exchange rates, and the projected impacts of high resource prices, are constantly changing. Accordingly, we will plan to formulate our forecast after accessing the conditions seen in February and March 2023.

Power Electronics Energy

Q. Have there been any changes in order trends in the power supply and facility systems business as a result of the production adjustment seen among major IT companies?

A.

- We continue to see favorable order trends in the power supply and facility systems business, and orders are more or less as expected.

Q. When will the favorable order trends being seen in the power supply and facility systems business be translated to sales? Will these orders contribute to increased sales in the fiscal year ending March 31, 2024?

A.

- Orders to data center operators are usually delivered after a year to a year and a half, while orders to semiconductor manufacturers generally take around two years to be delivered. Accordingly, orders recorded in the fiscal year ended March 31, 2022, and the fiscal year ending March 31, 2023, will translate to sales in the fiscal year ending March 31, 2024. The strong trend seen in orders in the fiscal year ending March 31, 2023, is expected to result in us starting the fiscal year ending March 31, 2024, with an order backlog that is larger than normal.

Power Electronics Industry

Q. Why was operating income for the Power Electronics Industry segment down in nine-month period ended December 31, 2022?

A.

- Around ¥1.5 billion of the ¥2.5 billion decrease in operating income in the Power Electronics Industry segment can be attributed to extraordinary factors, such as the recording of an allowance for doubtful accounts and depreciation on inventories. The remainder of this decrease was a result of our inability to compensate for the higher costs, associated with factors such as the first-half increase in raw material prices, with hikes to selling prices.

Q. The factory automation market seems to be slowing down on a global scale. What types of trends are being seen in orders and order backlog for power electronics factory automation products? Also, what is your outlook for sales of these products going forward?

A.

- Third quarter sales were around the same level as orders both in Japan and

overseas. As we did not receive advanced orders in the third quarters, orders were at the normal level. As for the fourth quarter, we will need to raise our production capacity above normal levels as order backlog is significantly higher than our sales forecast. We began upping the capacity of our factories in November 2022, bringing production capacity to the level seen in the fiscal year ended March 31, 2019, when sales of components peaked. Nevertheless, we will continue to bolster capacity in the fourth quarter with the goal of achieving further increases in sales. Conversely, sales and orders from China were down in the third quarter, and the outlook is uncertain with this regard.

Q. Is there any risk that performance might fall below fourth-quarter forecasts in the Power Electronics Industry segment?

A.

- In the fourth quarter, we will be pressed to raise production capacity on schedule and to convert this capacity to sales. We will thus be focused on ensuring that operating and other processes at factories are carried out effectively. However, there is a risk that performance might fall below forecasts if there are any delays in on-site construction for projects scheduled for completion in March 2023.

Semiconductor

Q. Could you please offer information on trends in automotive semiconductor orders in the third quarter and the outlook for orders in the fourth quarter?

A.

- Third-quarter orders for automotive semiconductors rose 9% from the second quarter. A growth rate of 14% was seen in orders for semiconductors for electric vehicles (EVs), or 26% when excluding advanced orders, while orders for semiconductors for engine vehicles were down 5% from the second quarter.
- In the fourth quarter, orders for semiconductors for EVs are expected to grow, contributing to an increase in overall automotive semiconductor orders of approximately 20% above the third quarter.

Q. Automobile manufacturers continue to lower production levels. Is there any risk that this situation could result in a failure to meet the target for sales of automotive semiconductors set for the fourth quarter?

A.

- Although manufacturers continue to lower production levels, they had originally planned to increase production of EVs. Accordingly, we see no risk of performance falling significantly below forecasts. Moreover, both customers and Fuji Electric are facing insufficient levels of inventories, prompting efforts to secure inventories.

Q. How were trends in orders and sales of industrial semiconductors in the third quarter and what is the outlook for the fourth quarter?

A.

- Third-quarter orders for industrial semiconductors were down 24% from the second quarter. Part of this decrease was due to appreciation of the Japanese yen in comparison to the second quarter. For this reason, the decrease in third-quarter orders was only 10% when excluding foreign exchange influences. Orders in the fourth quarter are expected to be on par with those from the third quarter. By application, orders for semiconductors for televisions and air-conditioners have been sluggish while orders for semiconductors for industrial machinery from China and other countries are not strong as in the first half of the fiscal year. Conversely, orders for semiconductors for renewable energy applications have been favorable.
- Third-quarter sales of industrial semiconductors were down in comparison to the second quarter due to the massive fluctuations in foreign exchange rates seen at the end of the period. However, this decrease was only in the area of a few percent when excluding the impacts of foreign exchange influences. Fourth-quarter sales are projected to be around the same level as third-quarter sales.

Q. What is the outlook for the operating margin for the Semiconductor segment in the fiscal year ending March 31, 2024?

A.

- Energy prices are on the rise, but we are working to boost profit margins by ramping up production. We thereby aim to secure an operating margin that is in line with the fiscal year ending March 31, 2023.

Q. Will Fuji Electric be able to compensate for the higher energy prices by raising selling prices in the fiscal year ending March 31, 2024?

A.

- We have taken steps to transfer the rises in energy and material prices to selling prices. However, should this trend continue, we may need to look at instituting further selling price increases.

Q. Could you please provide some information on demand, orders, and production bases for SiC devices for EVs?

A.

- Currently, IGBTs are the most common form of automotive semiconductor. However, we have recently been witnessing a trend toward EVs. SiC devices contribute to smaller batteries and longer driving distances for EVs, and we therefore anticipate that these devices will see increased use centered on EVs going forward.
- We are moving ahead with preparations to commence mass production at the Tsugaru Factory starting in the fiscal year ending March 31, 2025, and we anticipate a substantial increase in orders thereafter.

Power Generation

Q. What were the large-scale renewable energy projects that contributed to the increases in net sales and operating income in the Power Generation segment in the nine-month period ended December 31, 2022.

A.

- The large-scale renewable energy projects that contributed to the increases in net sales and operating income in the nine-month period ended December 31, 2022, were overseas geothermal power plant projects.

Q. What are the reasons behind the stated increase in costs associated with plant projects in the nine-month period ended December 31, 2022?

A.

- The increase in costs was a result of delivery delays that stemmed from the impacts of the COVID-19 pandemic.