

April 27, 2023
Fuji Electric Co., Ltd.

Condensed Transcript of Q&A Session
Regarding Financial Results Presentation for the Fiscal Year Ended March 31, 2023,
and Regarding Management Plan for the Fiscal Year Ending March 31, 2024

Date: April 27, 2023 (Thursday) 15:45–17:04

General

Q. The macroeconomic outlook for the fiscal year ending March 31, 2024, has led Fuji Electric to put forth a forecast of net sales growth of 4% on a full-year basis and 4% for the six-month period ending September 30, 2023. This forecast shows no particular change in the pace of sales growth between the first and second halves of the fiscal year. Does the Company project recovery in economic conditions in China and other areas in the second half of the fiscal year?

A.

- Real demand is expected to recover beginning in the second half the fiscal year ending March 31, 2024. Moreover, we anticipate growth in net sales in the six-month period ending September 30, 2023, as a result of the robust order backlog.

Power Electronics Energy

Q. What trends are being seen in orders for carbon neutrality-related products?

A.

- A dedicated division for carbon neutrality-related projects was established in the fiscal year ended March 31, 2023, for the purpose of strengthening our ability to accommodate carbon neutrality-related demand. The number of inquiries pertaining to grid storage batteries and other offerings has risen to the hundreds, but we project full-fledged growth in carbon neutrality-related orders will not begin until at least the fiscal year ending March 31, 2025.

Q. Trends in data center-related orders have been strong. What is the outlook for these orders in the fiscal year ending March 31, 2024, and beyond? Have there been any cancellations or delays in recording sales with regard to data center-related orders?

A.

- We posted a massive increase in data center-related orders in the fiscal year ended March 31, 2023, due in part to orders recorded ahead of schedule. Accordingly, the absence of the orders that were recorded ahead of schedule will be felt in the fiscal year ending March 31, 2024, meaning that orders will likely not reach the level seen in the fiscal year ended March 31, 2023. Nevertheless, we expect to continue seeing strong demand for data centers, especially given the rise in data center investment in Japan by foreign companies.
- There are some risks of delays in recording sales associated with data center-

related orders due to construction delays stemming from factors such as labor shortages at construction sites. However, we have not experienced any cancellations as of this moment.

Q. Is there any risk that the profitability of already-concluded contracts might decrease as a result of material price increases seen post conclusion?

A.

- Factors such as material price increases can cause reductions in profitability. Accordingly, Fuji Electric takes steps to minimize the impacts of such factors by pursuing cost reductions and transferring price increases to customers.

Q. Sales of ED&C components are expected to decrease. What is the outlook for demand for ED&C components going forward?

A.

- The decline in ED&C components is expected to continue throughout the six-month period ending September 30, 2023, but we anticipate that a recovery trend will emerge in the third quarter of the fiscal year ending March 31, 2024. As for the six-month period ending September 30, 2023, we intend to generate sales of ED&C components by depleting order backlog.

Q. What is the reason behind the planned year-on-year increase of ¥5.0 billion in capital investment in the Power Electronics Energy segment?

A.

- In the Power Electronics Energy segment, we plan to introduce new development-use testing equipment and to launch new ED&C component products, which will require the installation of new production equipment. We will offer more details on this matter at the business strategy meeting scheduled for May 2023.

Power Electronics Industry

Q. We are currently seeing a decline in orders for items such as low-voltage inverters. Why, in the midst of this decline, is operating income in the Power Electronics Industry segment expected to increase in the fiscal year ending March 31, 2024?

A.

- One reason behind the projected increase in operating income is higher production to fill the robust order backlog. There are also three additional reasons why we anticipate that the Power Electronics Industry segment will see an increase operating income in the fiscal year ending March 31, 2024. The first reason is that a one-time increase in expenses to the tune of billions of yen recorded in the fiscal year ended March 31, 2023, will not recur. The second reason is that the negative impacts from difficulties in procuring parts felt throughout the fiscal year ended March 31, 2023, began to dissipate in fourth quarter. As a result, factory operations are anticipated to return to normal

beginning in the first quarter of the year ending March 31, 2024. The third reason is that we have been accelerating our promotion of local production and consumption. One example of these efforts would be the expansion of range of the items produced in India and Europe. These efforts are projected to lead to reductions in costs and increases in sales. It is for these three reasons, that we anticipate improvements in profitability.

Semiconductor

Q. Could you please offer information on trends in semiconductor orders, by type, in the fourth quarter of the fiscal year ended March 31, 2023, as well as the outlook for the fiscal year ending March 31, 2024?

A.

- Fourth-quarter orders for both industrial and automotive semiconductors were up in comparison to third-quarter orders. In particular, we saw a massive increase in orders for IGBTs for electrified vehicles and industrial IGBT modules.
- The value of the Japanese yen is expected to appreciate in comparison to current levels in the fiscal year ending March 31, 2024. Regardless of this trend, we anticipate that overall semiconductor orders will increase by around 10% year on year, when excluding the impacts of foreign exchange influences. By type, industrial semiconductor orders are expected to decline by a few percent year on year following lower demand for televisions and office automation equipment. Meanwhile, we project a 25% year-on-year increase in orders for automotive semiconductors, due in part to a large 30% increase in orders for semiconductors for electrified vehicles.

Q. Why did sales of industrial IGBT modules increase in the fourth quarter of the year ended March 31, 2023, despite the sluggish demand for numerical control machine tools and other items? Also, what is your outlook for sales of these products in the fiscal year ending March 31, 2024?

A.

- In the fourth quarter of the fiscal year ended March 31, 2023, sales of industrial IGBT modules were up due to the benefits of a strong order backlog and favorable foreign exchange influences as well as increases in sales of modules for renewable energy applications.
- In the fiscal year ending March 31, 2024, we expect that sales of industrial IGBT modules for numerical control machine tools will be relatively unchanged year on year, or perhaps even decline a little. However, sales of modules for renewable energy applications are anticipated to show massive growth, resulting in a year-on-year increase in sales of industrial IGBT modules, when excluding the impacts of foreign exchange influences.

Q. In the fourth quarter of the fiscal year ended March 31, 2023, the operating margin for the Semiconductor segment was quite strong, showing a significant improvement from the third quarter. Was this improvement temporary? What is

the outlook going forward?

A.

- One of the factors behind the strong operating margin seen in the fourth quarter of the fiscal year ended March 31, 2023, was favorable sales trends. On a full-year basis, the operating margin for the Semiconductor segment in fiscal year ended March 31, 2023, was 15.6%. As for the fiscal year ending March 31, 2024, we are forecasting an operating margin of 14.8% when taking into account the projected appreciation of the yen. However, this margin will be around 16% when excluding the impacts of foreign exchange influences. There will also be increases in capital costs and other expenses, but we are committed to pursuing ongoing improvements in profitability nonetheless.

Q. What type of growth was seen in orders for automotive semiconductors for electrified and engine vehicles?

A.

- Overall, orders for automotive semiconductors were up by more than 30% year on year. By type, orders for semiconductors for electrified vehicles rose roughly 50% year on year, while orders for semiconductors for engine vehicles were down by about 10%.

Q. Could you please provide a breakdown of the sales forecast for semiconductors in the fiscal year ending March 31, 2024, by type?

A.

In the fiscal year ending March 31, 2024, automotive semiconductors are expected to account for 55% of total semiconductor sales, while the remaining 45% will be attributable to industrial semiconductors.

Q. Why is capital investment in the Semiconductor segment expected to be down year on year in the fiscal year ending March 31, 2024? Also, what is the outlook for capital investment in this segment going forward?

A.

- Capital investment in the Semiconductor segment in the fiscal year ending March 31, 2024, is expected to be lower than in the previous fiscal year. However, this is not an indication of us ramping down investments going forward. As for specific investments, we intend to commence production of 8-inch wafers at our Malaysia Factory in second half of the fiscal year. We are also seeing smooth progress in the commencement of SiC device production at the Tsugaru Factory.
- Capital investment amounts for future fiscal years is something that we will need to determine going forward, but we expect investments amounts in later fiscal years to be higher than in the fiscal year ending March 31, 2024.

Q. What level is projected for front-end 8-inch wafer production capacity on March 31, 2024?

A.

- Front-end 8-inch wafer production capacity on March 31, 2024, is expected to be 20% higher than on March 31, 2023.

Q. At the moment, the price of wafer materials for SiC devices is high, and competitors are thus turning to in-house options for these devices. How will Fuji Electric respond to this trend? Also, will it be possible to maintain the current level of profitability for SiC devices?

A.

- The price of wafer materials may be high, but Fuji Electric is committed to responding flexibly to this situation through enhanced coordination with suppliers.
- Production of SiC devices requires a large upfront investment, but once a certain level of sales volume is achieved, SiC devices can be every bit as profitable as silicon devices.

Q. What are Fuji Electric's thoughts with regard to the reorganization of the semiconductor industry?

A.

- We have no comments with this regard at this point in time, nor do we feel the need to comment.