Financial Performance

(1) Qualitative Information regarding Consolidated Results of Operations

1. Results of Operations in the Fiscal Year Ended March 31, 2020

In the fiscal year ended March 31, 2020, Fuji Electric launched Reiwa Prosperity 2023, a new five-year medium-term management plan slated to conclude with the fiscal year ending March 31, 2024, the year in which we celebrate the centennial anniversary of Fuji Electric's founding. Under this plan, the Company is implementing growth strategies prescribing the concentration of resources on growth fields, namely the power electronics systems and power semiconductor businesses, and the expansion of overseas businesses.

Overseas, the operating environment for the fiscal year ended March 31, 2020, saw the ongoing curtailment of investments centered on China as a result of the prolongation of the trade friction between the United States and China that continued on from the previously fiscal year, and the slowdown in the overseas market resulted in bearish exports of machine tools from Japan. Against this backdrop, the global COVID-19 pandemic that struck during the fourth quarter of the fiscal year greatly restricted economic activities, due to factors such as the factory closures and movement limitations seen in countries around the world, and thus resulted in a challenging operating environment characterized by a growing sense of opaqueness.

As part of its efforts to prevent the global COVID-19 pandemic, the Company requested that employees working at the head office, divisions, branches, and other business sites in Japan engage in teleworking whenever possible. Employees that cannot telework, such as those working in production sites, were asked to take steps to prevent the spread of the virus through measures like staggered work hours and efforts to avoid confined spaces, crowds, and close interactions. Overseas, operations at certain factories were halted based on the instructions of local governments.

Consolidated net sales in the fiscal year ended March 31, 2020, decreased ¥14.3 billion year on year, to ¥900.6 billion. The Company did benefit from strong upgrade demand for replacing aged equipment in Japan. However, these benefits were outweighed by the absence of large-scale orders recorded in the previous fiscal year and the impacts of the trade friction between the United States and China as well as delivery delays and capital investment curtailments stemming from the restrictions placed on business activities for the purpose of combating the global COVID-19 pandemic.

As a result of the lower sales and production volumes, the impacts of foreign exchange influences, and upfront investments in the power semiconductor business, which offset the benefits of cost reduction efforts, consolidated operating income decreased ¥17.5 billion year on year, to ¥42.5 billion; ordinary income was down ¥19.0 billion, to ¥44.5 billion; and net income attributable to owners of parent declined ¥11.5 billion, to ¥28.8 billion.

Consolidated results of operations for the fiscal year ended March 31, 2020, were as follows.

(¥ billion)

	Fiscal year ended March 31, 2019	Fiscal year ended March 31, 2020	Change
Net sales	914.9	900.6	(14.3)
Operating income	60.0	42.5	(17.5)
Ordinary income	63.5	44.5	(19.0)
Net income attributable to owners of parent	40.3	28.8	(11.5)

2. Results by Segment

Power Electronics Systems Energy
Net sales: ¥218.0 billion (down 3% year on year)
Operating income: ¥12.3 billion (down ¥4.5 billion year on year)

In the Power Electronics Systems Energy segment, net sales and operating income were down year on year as lower demand in the ED&C components business counteracted the strong demand in the power supply and facility systems business.

- In the energy management business, net sales and operating results worsened year on year, due to lower demand for smart meters and the rebound from large-scale projects undertaken overseas during the previous fiscal year, the impacts of which offset the benefits of strong demand for power supply equipment for industrial and railcar applications.

- In the power supply and facility systems business, net sales and operating results improved year on year, despite the absence of large-scale orders recorded in the previous fiscal year in Japan, as a result of a rise in large-scale overseas orders in switchgear and controlgear operations.

- In the ED&C components business, net sales decreased year on year due to reduced demand from machine manufacturers, including those of machine tools, and operating results worsened year on year following lower demand and higher expenses incurred as a result of product defects.

Power Electronics Systems Industry
Net sales: ¥317.5 billion (down 2% year on year)
Operating income: ¥16.5 billion (down ¥2.9 billion year on year)

In the Power Electronics Systems Industry segment, net sales and operating income decreased year on year. Factors behind this outcome included lower demand in the automation systems business, a result of the trade friction between the United States and China and the impacts of the global COVID-19 pandemic, and the absence of large-scale orders recorded in the previous fiscal year in the equipment construction business. These factors outweighed the benefits of firm demand in the IT solutions business.

- In the automation systems business, net sales and operating results worsened year on year. Factors behind this outcome included the reduced demand for low-voltage inverters and factory automation components centered on the domestic and Chinese markets that stemmed from the trade friction between the United States and China as well as the ceased operations at bases in China and lower demand seen by bases in Asia, Europe, and the United States that was a result of the global COVID-19 pandemic.

- In the social solutions business, net sales were down year on year due to the absence of large-scale orders for electrical equipment for railcars recorded in the previous fiscal year, but operating results improved year on year as a result of the benefits of cost reductions.

- In the equipment construction business, net sales decreased year on year due to the absence of large-scale orders recorded in the previous fiscal year. However, operating results improved year on year because of the benefits of cost reduction efforts.

- In the IT solutions business, net sales and operating results improved year on year because of a rise in large-scale orders in the private sector and the academic sector.

Electronic Devices
Net sales: ¥137.4 billion (relatively unchanged year on year)
Operating income: ¥9.7 billion (down ¥5.9 billion year on year)

・In the electronic devices business, net sales were relatively unchanged year on year as the benefits of higher demand for automotive power semiconductors for electrified vehicles (xEVs) were outweighed by the impacts of negative foreign exchange influences and lower demand in the industrial field centered on the Chinese market attributable to the trade friction between the United States and China and the global COVID-19 pandemic. Operating income was down year on year as a result higher expenses associated with upfront investments for bolstering capacity for producing power semiconductors for use in xEVs as well as negative foreign exchange influences and increased product repair costs.

Food and Beverage Distribution
Net sales: ¥104.4 billion (down 8% year on year)
Operating income: ¥3.8 billion (down ¥1.9 billion year on year)

・In the vending machine business, net sales and operating results worsened year on year due to reduced demand in the Japanese and Chinese markets and delays in customers' vending machine installation plans in Japan and China as a result of the global COVID-19 pandemic.

・In the store distribution business, net sales were down year on year following lower demand for store equipment for convenience stores as a result of the global COVID-19 pandemic, but operating results improved year on year thanks to the benefits of cost reduction activities.

Power Generation
Net sales: ¥109.9 billion (up 3% year on year)
Operating income: ¥2.3 billion (down ¥2.5 billion year on year)

・In the power generation business, net sales were up year on year, due to an increase in large-scale thermal power generation system projects, which offset the decline in large-scale solar power generation system projects. Conversely, operating results worsened year on year because of disparities in profitability between projects and increased expenses associated with a large-scale overseas project.

Others
Net sales: ¥60.8 billion (down 2% year on year)
Operating income: ¥2.7 billion (down ¥0.1 billion year on year)

Note: Effective April 1, 2019, the Power Electronics Systems—Energy Solutions and Power Electronics Systems—Industry Solutions reporting segments were changed to form the Power Electronics Systems Energy and Power Electronics Systems Industry segments. In addition, the Power and New Energy segment was renamed the Power Generation segment. Year-on-year comparisons have been calculated using figures for the fiscal year ended March 31, 2020, that have been restated to reflect these changes.

3. Measures for Preventing Reoccurrence of Fictitious Transactions

The Company has included clear stipulations in Group regulations prohibiting participation in transactions for which actual existence cannot be confirmed in order to prevent reoccurrence of fictitious transactions such as those described in the news release entitled "Statement Regarding Allegations of Fictitious Transactions Against Subsidiary" that was issued on January 30, 2020. In addition, the risk management frameworks pertaining to the order receipt and receiving inspection processes of the involved a subsidiary have been revised (confirmation and verification of sales channels, Company roles, existence of transaction, etc.), education programs aimed at entrenching risk awareness in sales divisions have been conducted, and other measures have been implemented to prevent reoccurrence.

4. Forecasts for the Fiscal Year Ending March 31, 2021

The Company has chosen not to release forecasts for consolidated business results in the fiscal year ending March 31, 2021, as it is currently difficult to project future trends in capital investment and production by customers amid the limited economic activity in Japan and other countries stemming from the global COVID-19 pandemic. Forecasts will be disclosed promptly when the Company is able to estimate the impacts of this situation on economic activities with a sufficient degree of accuracy.

The Company has secured sufficient on-hand liquidity to safeguard against the impacts of further economic decline. As of March 31, 2020, consolidated cash and cash equivalents amounted to ¥63.7 billion, and an additional ¥116.5 billion in funds was procured prior to May 2020.

(2) Quantitative Information regarding Consolidated Financial Position

(¥ billion)

	March 31, 2019	Breakdown (%)	March 31, 2020	Breakdown (%)	Change
Total assets	952.7	100.0	996.8	100.0	+44.2
Interest-bearing debt	154.0	16.2	217.4	21.8	+63.4
Shareholder's equity*1	352.9	37.0	365.6	36.7	+12.7
Debt-to-equity ratio*2 (times)	0.4		0.6		+0.2

*1 Shareholders' equity = Total net assets − Non-controlling interests

*2 Debt-to-equity ratio = Interest-bearing debt/ Shareholders' equity

Total assets on March 31, 2020, stood at ¥996.8 billion, an increase of ¥44.2 billion from the end of the previous fiscal year. Total current assets increased ¥22.6 billion primarily as a result of rises in cash and deposits and inventories, which offset a decline in notes and accounts receivable-trade. Total noncurrent assets were up ¥21.6 billion due to higher property, plant and equipment.

Interest-bearing debt as of March 31, 2020, amounted to ¥217.4 billion, up ¥63.4 billion from the previous fiscal year-end following a rise in commercial paper. Further, net interest-bearing debt—interest-bearing debt net of cash and cash equivalents—increased ¥28.8 billion from the previous fiscal year-end, amounting to ¥153.6 billion on March 31, 2020.

Net assets on March 31, 2020, was ¥406.0 billion, up ¥13.9 billion from the previous fiscal year-end. This outcome was because of an increase in retained earnings. In addition, shareholders' equity—total net assets net of non-controlling interests—was up ¥12.7 billion from the previous fiscal year-end, standing at ¥365.6 billion on March 31, 2020. The debt-to-equity ratio (interest-bearing debt ÷ shareholders' equity) was 0.6 times, up 0.2 times from the previous fiscal year. Also, the net debt-to-equity ratio (net interest-bearing debt ÷ shareholders' equity) was 0.4 times, relatively unchanged from the previous fiscal year-end.

(¥ billion)

	Fiscal year ended March 31, 2019	Fiscal year ended March 31, 2020	Change
Net cash provided by (used in) operating activities	54.9	46.1	(8.9)
Net cash provided by (used in) investing activities	(21.4)	(27.6)	(6.2)
Free cash flow	33.5	18.5	(15.0)
Net cash provided by (used in) financing activities	(38.2)	16.9	55.1
Cash and cash equivalents at the end of period	29.1	63.7	34.6

In the fiscal year ended March 31, 2020, consolidated free cash flow (net cash from operating activities + net cash from investing activities) was a positive ¥18.5 billion, a decrease of ¥15.0 billion compared with positive free cash flow of ¥33.5 billion in the previous fiscal year.

Cash flows from operating activities

Net cash provided by operating activities was ¥46.1 billion, compared with ¥54.9 billion in the previous fiscal year. Major factors increasing cash included income before income taxes and a decrease in notes and accounts receivable-trade. Major factors decreasing cash included an increase in inventories and a decrease in notes and accounts payable-trade.

This was a decrease of ¥8.9 billion year on year.

Cash flows from investing activities
Net cash used in investing activities was ¥27.6 billion, compared with ¥21.4 billion in the previous fiscal year. This was primarily related to the purchase of property, plant and equipment.

This was an increase of ¥6.2 billion year on year.

Cash flows from financing activities
Net cash used in financing activities was ¥16.9 billion, compared with ¥38.2 billion in the previous fiscal year. This was principally due to an increase in commercial paper.

As a result, consolidated cash and cash equivalents on March 31, 2020, amounted to ¥63.7 billion, down ¥34.6 billion from the previous fiscal year-end.

(3) Basic Policy Regarding Distribution of Earnings and Dividends for the Fiscal Year Ended March 31, 2020, and the Fiscal Year Ending March 31, 2021

We intend to return profit gained through business activities to shareholders. At the same time—while strengthening our management foundation—we intend to appropriate profit for consolidated shareholders' equity in order to secure internal reserves for research and development, capital investment, development of human resources, and other uses reflecting a medium- to long-term viewpoint.

We will determine the amount of dividends to be paid from retained earnings in light of the above medium-to-long term business cycle; our policy of paying stable and continuous dividends; and a comprehensive evaluation of the business results from the relevant fiscal year, research and development and capital investment plans for future growth, and the operating environment.

We regard the acquisition of treasury stock as a flexible mechanism to supplement dividends from retained earnings when warranted by the cash flow position.

Based on a rigorous evaluation of performance during the fiscal year ended March 31, 2020, forecasted performance for the fiscal year ending March 31, 2021, and our financial position, we plan to pay a year-end dividend of ¥40 per share for the fiscal year ended March 31, 2020, which will make for an annual dividend of ¥80 per share when including the interim dividend.

We have not yet decided the dividend to be paid for the fiscal year ending March 31, 2021.

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