January 31, 2024
Fuji Electric Co., Ltd.

Condensed Transcript of Q&A Session Regarding Financial Results Presentation for the Nine-Month Period Ended December 31, 2023

Date: January 31, 2024 (Wednesday) 15:30–16:20

General

Q. Is there any possibility that full-year performance will surpass the forecasts announced on January 31, 2024?

A.

・We believe there is the potential for cost reductions to buoy operating profit by an additional ¥1.0 billion above forecasts and for a boost of between ¥1.0 billion and ¥2.0 billion to be seen if the current foreign exchange rates continue.

Q. What trends are expected with regard to orders for industrial components like ED&C components, low-voltage inverters, and industrial semiconductors?

A.

・Orders for ED&C bottomed out over the second and third quarters, and we expect the current trends to continue in the fourth quarter. A gradual recovery in ED&C orders is anticipated in the fiscal year ending March 31, 2025, but a full-fledged recovery trend will not emerge until the second half of the fiscal year. Conversely, we project that the strong trends viewed at the moment with regard to products for power distribution boards will continue going forward.

・In regard to low-voltage inverters, orders in Japan bottomed out in the second quarter and began recovering in the third quarter. Meanwhile, overseas orders decreased in the third quarter in comparison to the second quarter. As a result, flat growth in overall orders for low-voltage inverters has continued since the second quarter. Similar to ED&C components, a full-fledged recovery in orders for low-voltage inverters is not expected until the second half of the fiscal year ending March 31, 2025.

・Demand for industrial semiconductor is projected to continue to decline until the first half of the fiscal year ending March 31, 2025. Actual recovery timings will depend on the application for the given semiconductors, but we anticipate that a recovery in overall industrial semiconductor demand will begin in the second half of the fiscal year ending March 31, 2025.

Q. What is your outlook for performance in the fiscal year ending March 31, 2025?

A.

・Demand trends are opaque in cyclical fields that are heavily impacted by economic trends, like ED&C components and industrial semiconductors. However, these fields only account for around 25% of Fuji Electric's total net sales. Conversely, automotive power semiconductors, renewable energy, and

other growth fields account for 60% of total net sales. We anticipate that increases to performance in growth fields will compensate for downturns in cyclical fields, which should result in higher sales and profit in the fiscal year ending March 31, 2025.

Energy

Q. It was stated that the higher sales in the energy management business were a result of increases in large-scale orders for substation equipment. Are these trends temporary, or will they continue?

A.

・Favorable trends in plant equipment upgrade demand are contributing to strong performance in products for power, general industry, and railroad applications. There have also been large shifts in investment in North America and the Middle East, though there is some fluidity with regard to the timing. We aim achieve ongoing growth in orders by acquiring orders in relation to the overseas projects these investment trends are anticipated to create.

Q. There was mention of increases in orders from overseas data centers and semiconductor manufacturers in the power supply and facility systems business. In what regions were these increases seen?

A.

・The increases you speak of were seen in Southeast Asia. Favorable trends in orders from semiconductor manufacturers in this region were witnessed in the fiscal year ended March 31, 2023, and these orders are contributing to sales growth in the fiscal year ending March 31, 2024.

Q. I understand that Fuji Electric is involved in multiple semiconductor factory construction projects in Japan. Can we anticipate further increases in orders? Also, will orders feel the benefits of investments in large-scale data centers in Japan?

A.

・In Japan, semiconductor factories are being constructed in Kumamoto and Hokkaido prefectures as well as in the Chugoku region. Fuji Electric has proposed transformers for these factories, thereby succeeding in acquiring orders. We also aim to achieve further order growth by working together with customers planning future investments from the design phase.

・The increases in data center investment in Japan are contributing to higher demand for the power supply and facility systems business and the ED&C components business.

Industry

Q. What trends are being seen with regard to plant systems in the automation systems business?

A.

・Order trends are favorable for plant systems, and we therefore expect to be able to start the fiscal year ending March 31, 2025, with a larger initial order backlog than we had at the beginning of the fiscal year ending March 31, 2024.

Q. What sort of backlog does Fuji Electric have for low-voltage inverters and what is the scale of this backlog?

A.

・We have nearly completely depleted the backlog of orders for which were previously unable to meet the customer's requested delivery date. Prior to the outbreak of the COVID-19 pandemic, the backlog of orders for low-voltage inverters was generally such that it would take around a month to a month and half to fill. Today, however, we have a backlog that will need two and a half months to fill. This increase is a result of customers placing their orders ahead of schedule out of concern for potential delivery delays.

Semiconductor

Q. How are trends in demand for industrial power semiconductors?

A.

・Demand for industrial power semiconductors for machine tools and servo systems is down, particularly in China, while demand for semiconductors for renewable energy applications remains strong.

Q. Could you please provide a breakdown of the trends in orders for automotive semiconductors in the third quarter of the fiscal year ending March 31, 2024, by electrified vehicles and gasoline vehicles? Also, what is the outlook for orders in the fourth quarter and for the fiscal year ending March 31, 2025?

A.

・In the third quarter of the fiscal year ending March 31, 2024, orders for automotive semiconductors were up 39% year on year overall, with orders for semiconductors for electrified vehicles growing 48% while semiconductors for gasoline vehicles showed a slight decline. Moreover, third-quarter orders for automotive semiconductors rose 13% in comparison to the second quarter, which orders for semiconductors for electrified vehicles growing by 16%.
・As for the nine-month period ended December 31, 2023, orders for semiconductors for electrified vehicles increased 44% year on year.
・In the fourth quarter, overall orders for automotive semiconductors are projected to increase by about 10% on a year-on-year basis. In comparison to the third quarter, overall fourth-quarter orders for automotive semiconductors are expected to show flat growth in the fourth quarter. However, fourth-quarter

orders for semiconductors for electrified vehicles should increase 5% to 6% above the third quarter when excluding the impacts of the ahead-of-schedule orders received in the third quarter and the Lunar New Year in China.
- Electrified vehicles should become even more commonplace in the fiscal year ending March 31, 2025, which will likely drive increases in demand for automotive semiconductors.

Q. There has been a trend toward manufacturers moving away from electric vehicles to once again place more emphasis on hybrid-electric vehicles. How will this impact the distribution of sales and performance?

A.
- We do not have a clear picture of the amounts of our semiconductors that go to specific types of electrified vehicles. However, as we have not received any specific proposals form customers, we are not expecting any significant impacts on the distribution of sales. If hybrid-electric vehicles increase, it should result in an increase in sales of IGBTs.
- Fuji Electric is strengthening its production systems for both IGBTs and SiC devices, which means that there should no significant change to our profitability whether the larger increase in seen in electric vehicles or in hybrid-electric vehicles.

Q. Third-quarter operating profit in the Semiconductor segment was around the same level as in second-quarter operating profit, despite the decline in sales of industrial semiconductors. What were the reasons behind this outcome and will those factors be ongoing?

A.
- Although sales of industrial semiconductors were down, we once again requested that customers accept price increases in the third quarter, as was also done in the second quarter. These price increases helped us maintain profitability.
- However, it is unrealistic to raise prices every year. We therefore plan to negotiate such price increases with customers only when necessary.

Q. Are there any concerns for downturns in operating ratios for industrial semiconductor production facilities?

A.
- The same clean rooms are used to produce both automotive and industrial semiconductors. Accordingly, if production of industrial semiconductors declines, we will be able to use the freed-up capacity to produce automotive semiconductors. Currently, front-end processing facilities for eight-inch wafers are being operated at full capacity.

Q. What is the forecast for power semiconductor production capacity in the fiscal year ending March 31, 2025?

A.

- We continue to up our production capacity for eight-inch IGBTs in Malaysia, and additional production capacity increases are scheduled in the fiscal year ending March 31, 2025.
- As for SiC devices, production capacity is in line with our expectations, and we anticipate sales contributions from SiC devices to begin in the second quarter of the fiscal year ending March 31, 2025.