

SWCC (5805) : Small Meetings (FY2025 1Q) Q&A

Date and time of implementation: August 27, 2024 (Tuesday)

Implementation site: Nihonbashi Kabuto-cho, Chuo-ku, Tokyo

■Energy & Infrastructure Business (Overall)

Q Are there any room for further upside in the energy & infrastructure business from 2Q onward ?

A The project for this fiscal year has been determined to some extent, but if there is room for upside, it will be due to projects for private-sector demand.

Q Does it currently anticipate special demand projects after 2Q ?

A Although it is difficult to forecast special demand projects after 2Q, we believe that they will emerge somewhat.

Q Regarding the background to the improvement in profits in the Energy & Infrastructure Business, are marginal profit improving due to increased demand or product mix improving due to increased construction projects?

A It is due to both. Last year, 1Q was sluggish for highly profitable power construction projects, but in 1Q of FY2024, the number of power construction projects increased significantly, improving marginal income and improving the product-mix.

■ Energy & Infrastructure Business (Construction-related)

Q Profit margins on construction wire have improved significantly, but the sustained profitability of this business has been improved and will continue ?

A In the long term, there will be a slight decline against the backdrop of population decline, but we believe that there will be no significant decline and that a stable market will continue. In the 2H of FY2023, the tightening of the demand for wire led to the feeling that the value of the wire, which had been said to be "something available anytime and anywhere," was finally revised. In terms of profitability, in addition to efforts to integrate production and sales, the Company believes it can maintain its current level by passing on cost increases and correcting them to appropriate prices.

■ Energy Infrastructure Business (Power Infrastructure)

Q Breakdown of Power Infrastructure Business: What the ratio of Private Sector Demand, Electric Power Companies and Growth Potential ?

A Currently, the ratio is about 1:1. Private-sector projects are often more profitable, and growth is also expected.

Q In the Power Infrastructure business, based on 1Q for the current fiscal year, what is the outlook for the next fiscal year and beyond?

A Even considering that there was an increase of 1.2 billion yen in operating profit due to special demand, the business environment is extremely robust, and the outlook is for continued robustness going forward.

Q Please provide details on the breakdown of special demand.

A Although it is difficult to determine what specific demand will be, items include (1) additional orders for construction projects, (2) large-scale projects for plants, (3) power cable for disaster countermeasures, and (4) renewable energy projects, as well as the projects that led to orders as a evaluation of the new construction method developed by the subsidiary STEC.

Q What is the status of securing construction personnel and the outlook for labor market conditions in the future?

A Construction education is provided for the personnel of partner companies, and approximately 50 people such education has been completed so far and will be expanded in the future. In addition, we are also reaching out to several local construction companies and hope to strengthen our efforts to secure construction personnel.

Q What is the impact of the government's energy policy on your company in the future?

A In March of this year, Organization for Promotion of Cross-regional Coordination of Electric Power Organization (OCCTO) has set a forecast that the demand for electricity in the next 10 years will grow at an average annual rate of +0.4%. We do not think it is a small number, and we see an increase in substations, our area of expertise.

Q In terms of replacement demand for power substation equipment such as transformers, how much replacement demand will be generated at what timing?

A There are 5700 substations managed by electric power companies in Japan. Of these, about 260 transformers are required to be renewed annually.

Q The data center market is expected to expand in the future, but specifically, which segments will benefit.

A This business mainly receives orders for power cable between data centers and substations. The extent of the company-wide benefits will be examined closely.

■ **Energy & Infrastructure (SICONEX®)**

Q Regarding the de facto standardization of SICONEX®, it is said that there are shades of color by power companies. How far can it be expanded in the future?

A In the extra-high-voltage class of 66kV~77kV, the conversion to the almost de facto standard has been completed, but in the extra-high-voltage class of 154kV or higher, further expansion is considered possible.

Q While Hitachi acquired ABB, is there any possibility that SWCC could apply SICONEX® to ABB's power equipment?

A There is a possibility.

Q In addition to investing in increased production, which was completed at the end of 2023 fiscal year, it was stated that SICONEX® manufacturing capacity could be doubled in FY2026 by improving productivity and increasing the number of employees. Will the increase in the number of employees not be advanced ?

A By increasing the number of employees and making additional investments in plants, the company hopes to double its manufacturing capacity during the current fiscal year. In FY2026, the company plans to make further capital investments and increase its workforce.

Q Regarding SICONEX®, the company plans to invest in further production increases, but when will it contribute to incomes? How will the share fluctuate?

A Further capital expenditures and personnel expansion will be completed during 2026 fiscal year, and contribution to incomes is expected to begin in FY2027. Production capacity is under scrutiny, but it is expected to be 1.2-1.5 times the current level.

Q Can SICONEX® production capacity be upgraded to 200% or more during this period?

A We do not expect to further invest in production increases and increase manufacturing capacity within the current fiscal year. It is considered possible to raise production capacity to 200% of the level at the end of FY2023 through such measures as personnel allocation.

Q SICONEX® already has a large share of 93% of the private-sector demand and 51% of the electric power company demand. Is there any problem with further increases in production? Is there any investment to increase production after considering the rationale and certainty of the expansion of the market?

A We anticipate earnings more than depreciation and amortization and believe we can maintain at least our current profitability.

■ Businesses and Components

Q Currently, the trend of EV penetration is slowing down, and the growth of MiDIP® and square windings is slow, but what is the future prospect?

A For MiDIP®, rather than selling them as materials, the Company will increase profitability by pursuing a downstream strategy of selling them after processing them into square windings within the Company. Although EV penetration is currently slowing, the company expects it to expand in 2025 - 2026 and is investing in manufacturing equipment for flat-angle windings to match this.

■ Communications and industrial devices business

Q Measures to Improve Wire Harness Incomes

A Previously, the company focused on wire harnesses for consumer electronics, but it is shifting to wire harnesses related to ADAS, where demand is expected to expand in the future, and is working to improve profitability.