

SWCC Corporation

Summary of Q&A about Financial Results Briefing for the Second Quarter of the Fiscal Year Ending March 2026

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Energy and Infrastructure Business

[Q]: In the power infrastructure business of the Energy and Infrastructure Business segment, which areas have seen a particular acceleration in growth from the start of the fiscal year and which areas hold even greater promise in the coming fiscal years? What is your current outlook for this business?

[A]: Regarding our outlook for the power infrastructure business, if net sales of SICONEX® in FY2023 equaled 100, then at the beginning of FY2025 we had expected net sales to grow to 180. However, the effect of capacity expansion investment was greater than anticipated and we recently raised this sales forecast to 186. We had also previously targeted net sales of 200 in FY2026. However, based on the judgment that capacity is likely to be tight, we have approved investment for second phase capacity expansion targeting net sales of 220 in 2026. We have now made a start on the investment for second phase capacity expansion, with completion scheduled for the second half of FY2026. The second phase capacity expansion investment is being made at Sagamihara Plant. We will endeavor to build a production structure with increased capacity, taking advantage of resources in the seismic isolation field where we have now stop accepting orders with a view to withdrawal.

In terms of promising areas, there are two markets for SICONEX® products: the private demand and electric power markets. Since our share of the private demand market is already over 90%, moving forward we aim to expand our share of the electric power market where there is much room for growth. The operating margin of the Energy and Infrastructure Business in 2Q alone was 15.4%, a strong performance largely attributable to improvement of profitability in the power infrastructure business. In SICONEX® products and in SICOPLUS® solutions, which bring together SICONEX® connectors and connecting work, ultra-high voltage projects with high profit margins are increasing. This trend is expected to continue in the second half. We also expect that the effects of investment in capacity expansion completed at the end of FY2023 will also continue making a steady contribution. With the investment in second-phase capacity expansion due to contribute to sales from the second half of FY2026, our plan is on schedule.

[Q]: You said with respect to the power infrastructure business that you will continue steadily winning construction projects in the second half. Are these projects already factored into this year's performance forecast? Could results still be even better than forecast?

[A]: Due to the tight supply of construction workers, we have continuously sought early confirmation of orders and already have reasonable expectations for certain construction projects in the second half; however, by strengthening personnel through cooperation with partner companies, we have also secured the capacity to receive orders for additional projects, putting us in a situation where we can aim to outperform the forecast.

[Q]: Is there any room for further improvement in the operating margin of the Energy and Infrastructure Business? Is your current success in receiving orders for ultra-high-voltage projects attributable to your increased share of the electric power market? Do you expect to be able to maintain the same level of orders in coming years?

[A]: Regarding room for improvement in the operating margin, increasing our share of the electric power market and winning more orders in the ultra-high-voltage field are important factors. Given the few number of companies capable of manufacturing ultra-high-voltage products in Japan, our strengths such as our ability to meet delivery dates help us win orders. Increasing orders for power cables, SICONEX® products and connecting work in the ultra-high-power business will definitely play an important part in improving the operating margin. We plan to strengthen the ultra-high-power business over the coming years to continuously expand our share of the electric power market. However, the driver of SICONEX® demand to date has not been the ultra-high-power business but rather the special high-voltage business. In this business area, we have expanded production capacity for SICONEX® products and strengthened the personnel structure by having partner companies master SICONEX® construction technologies rather than our own construction personnel. By fully tapping into demand in this special high-voltage business, which is the volume zone, we will continue expanding the power infrastructure business over the coming years.

[Q]: Construction labor shortages are a widespread problem generally. Can continued sales and profit growth in the Energy and Infrastructure Business be expected in the future?

[A]: In the power infrastructure business, we are addressing labor shortages by hiring and developing our own construction personnel and by increasing collaboration with partner companies. However, in the construction cables business, it is difficult to resolve labor shortages directly because we do not undertake the construction work ourselves.

Although efforts to secure labor are being made across the construction industry as a whole, we expect demand to continue being stifled by labor market conditions in the years to come. That said, demand itself is still firm in areas such as data centers and new plant construction projects. Demand for construction cables has seasonality, usually peaking from Q1 through Q3 and entering a slight adjustment phase in Q4. To maintain profitability amid continued labor shortages, it is important to monitor the extent to which these demand surges are smoothed.

We would miss deadlines if we adopted a make-to-order business model. We therefore adopt the approach of making timely shipments through maintenance of a certain level of inventories. By using DX to increase the precision of inventory management, we are now able to generate stable profit and cashflow. We also envisage the risk of falling prices in demand slowdown phases. However, we are passing higher costs through to selling prices in an appropriate manner, thoroughly implementing a sales policy of not accepting unprofitable orders, and putting in place a structure for maintaining profitability based on an assessment of the upper limit for orders.

Our policy in face of falling demand is to seek to maintain and improve profit through the use of DX to make labor savings. Specific initiatives being implemented include switching from analog customer services to a system that allows customers to check inventories and delivery dates online in real time.

[Q]: Are you saying that labor shortages will not put constraints on sales expansion of SICOPLUS® products in the Power Infrastructure business because partner companies are also increasing?

[A]: That is correct. We are doing what we can to resolve the labor shortage issue.

[Q]: You have worked to rationalize inventories in the construction cables business in the past. Are you saying there is still room for improvement?

[A]: We have warehouses in five locations across Japan. Previously, information about inventories at these locations was not centrally managed. However, we have already made some progress in terms of incorporating DX, centrally managing this data and increasing the accuracy of monitoring and forecasting market changes.

Meanwhile, in our delivery services, cutting power cables to the lengths specified by customers at our warehouses and delivering these to construction sites on time constitutes important added value. However, in the transportation industry as elsewhere, labor shortages are becoming more serious, and further improvement of efficiency is essential. To address this issue, we used DX to build a system for the temporary storage of all cables manufactured at Mie Plant within a “mother warehouse” and for optimizing allocation from this mother warehouse to warehouses at five locations across Japan. We are currently using the Kawasaki Warehouse as the mother warehouse but plan to increase efficiency further in the future by switching to the Sagami-hara Warehouse and introducing IoT and automated equipment.

Communication and Components Business

[Q]: You announced in a September news release that you are investing around 1.0 billion yen to triple production capacity for e-Ribbon® in the first half of next fiscal year. Is your forecast that FY2026 net sales will be 28 times the FY2024 level based on the assumption that production lines will be operating almost at full capacity? Currently around when do you plan to make additional capital investment?

[A]: We forecast that FY2025 sales will be 14 times the FY2024 level. Our existing production lines have been operating at full capacity since the first half. As a result, our current sales are growing at a slightly faster rate than anticipated, and we are working to exceed our target of a 14-fold increase in sales. We forecast that FY2026 sales will be 28 times the FY2024 level, and will use our production lines after capacity expansion to achieve this target. We initially assumed that if we tripled our production capacity, we could achieve a 28-fold increase while maintaining some leeway in our capacity utilization; however, we have received high levels of inquiries, leading to a situation where we no longer have any leeway. We have therefore made a start on our next capacity expansion investment plan.

In response to rapidly increasing inquiries, we are planning capacity expansion at our existing Sendai Plant. However, we cannot currently disclose the timing of further investment plans; nonetheless, taking costs, the speed of startup and production volume into consideration, we are at the stage of also considering an overseas base as one option.

[Q]: Looking ahead to the new Medium-term Management Plan due to be announced in February next year, what is your current feeling about synergy with TOTOKU, and the growth of e-Ribbon® and SICONEX®? Also, please give details of any areas you feel are risks or issues.

[A]: As we look towards the new Medium-term Management Plan due to be announced next February, we keep making upward revisions to our projections for e-Ribbon®.

In terms of synergy with TOTOKU, as stated in our release on November 12, the transfer of the manufacture and sale of heater wires and contact probes to the TOTOKU side will result in more efficient utilization of existing production lines without the need to build a new plant, and we will build

an integrated manufacturing structure and sales structure with TOTOKU and seek to improve management efficiency. SWCC will continue focusing on the development and supply of copper alloy materials at Sendai. We expect the effect of this streamlining to amount to 200 million yen, and we are now at the stage of expanding synergy further.

Regarding risks, the semiconductor and mobility fields are seeing dramatic market fluctuation, with high levels of volatility. It is, therefore, essential that we develop a structure which allows us to act instantaneously without letting business opportunities get away. By integrating the marketing that the two companies have previously done separately and increasing marketing accuracy, we will further strengthen our agility in face of change.

[Q]: Am I correct in understanding that even though the optical fiber market is currently experiencing a tight supply and demand balance, SWCC is not going to face an optical fiber shortage even if it expands capacity because it will combine its own purchasing capacity with that of its partners?

[A]: That is correct. We can manufacture e-Ribbon® not only from optical fibers sourced ourselves but from all kinds of optical fibers. Since in most cases optical fibers are supplied by customers, we believe we will not be affected by supply shortages. In our business model, we concentrate on making optical fibers into e-Ribbon® and our customers are responsible for sourcing the optical fibers. Furthermore, as a cable manufacturer, we are, of course, also in possession of the technology for turning e-Ribbon® into cables. In the future, we plan to expand into this business area as well.

[Q]: Is 16-core e-Ribbon® also more profitable than 12-core e-Ribbon®?

[A]: That is correct. More cores means more processing, which in turn means higher profitability.

[Q]: You said that the 16-core e-Ribbon® will go on sale from Q3. What advantages does it have and how is it different from existing products?

[A]: Previously, our lineup went up as far as 12-core. Our 12-core e-Ribbon® was also most popular in terms of market demand. The launch of the 16-core type will allow the 16 fibers in the housing of the connector to be connected all at once, significantly improving connection efficiency. We developed this product to meet growing needs for multi-core products. Through commercialization at a speed rivalling that of our competitors, we succeeded in commencing shipments from the first half of this fiscal year. As we head into the second half, we expect demand for the 16-core product to grow at a pace exceeding that for the 12-core product.

[Q]: What are the factors behind your forecast of profit growth from this year through to next at TOTOKU? What are the visible signs that promise improvement?

[A]: One factor is the effect of integration of manufacturing bases for heater wires and contact probes mentioned earlier. As a result, these two products will no longer be manufactured at Sendai Plant, which means that human resources at this plant can be reassigned to the manufacture of e-Ribbon®. This is also expected to help improve profit across the Group as a whole.

One area we want to increase profit is the contact probes business. TOTOKU has established a structure for mass production and has a large share of the semiconductor post-process inspection equipment market. Meanwhile, SWCC is currently developing contact probes for the pre-process stages such as wafer inspection and mass production is a real prospect. If SWCC can transfer this new product to TOTOKU, which already has a mass production structure in place, this is expected to accelerate the establishment of a mass production structure despite the highly volatile semiconductor

market.

Synergy will also increase on the customer base front. TOTOKU has sales bases in Tokyo and Osaka, while SWCC has sales bases in Kyushu and Tohoku. Exchanges between these bases are also increasing. Additionally, Group sales company SDS, Inc. has also started handling TOTOKU's products in addition to those of SWCC, expanding its proposal capabilities and sales channels. SWCC has traditionally focused on research and development. Going forward, we will also incorporate TOTOKU's core technologies and tackle research themes that look even further into the future, with a view to further widening the scope of synergy and giving shape to research results.

[Q]: Is there any change in your forecast for TOTOKU for this fiscal year? Also, what is your assessment of the highly volatile semiconductor market, especially the competition environment in China, as you eye continuous share expansion?

[A]: In terms of TOTOKU sales, we expect to be able to achieve the total sales target of 24 billion yen as initially forecast. China's quest for semiconductor self-sufficiency as part of government policy is giving rise to new business opportunities for us. Armed with the manufacturing knowhow we have accumulated in Japan through the production of mini contact probes a few tens of microns in size, we are steadily penetrating the Chinese market while maintaining high competitiveness.