SWCC Corporation

Q2 Financial Results Briefing for the Fiscal Year Ending March 2024

Summary of Q&A session

Nov 8, 2023

Performance.

[Q]：The increase in profit in the first half of FY2023 was attributed to a steady increase in construction, which was originally expected to be "on a par with previous years", but is this increase transitory?

[A]：The construction-related business, which was the main driver of profit growth in the first half of 2023, has been very stable in previous years, but profit margins were low. However, this business is currently able to increase its profitability through measures such as the integration of production and sales, sales at fair prices and the promotion of DX. In addition, the power infrastructure business is also expected to benefit from increased production of SICONEX® from the next financial year onwards. Therefore, the factors contributing to the increase in profits in the current year are not transitory but continuous.

Energy and infrastructure business

[Q]：Why is the increase in operating profit larger than sales in comparison with 1Q and 2Q FY2023?

[A]：The most important factor was the improvement in construction-related profitability due to measures such as the integration of production and sales, sales at fair prices and the promotion of DX.

Electrical equipment and components business

[Q]：Is the significant drop in sales of less profitable general-purpose products compared to the same period last year seen as a sign of an ongoing product portfolio shift?

[A]：For general-purpose products, manufacturing facilities have been removed and production capacity gradually reduced. Instead, we are preparing to install manufacturing facilities for high-performance products and promote a product portfolio shift. We have already received many enquiries for high-performance products, and we expect our revenues to increase as equipment is installed.

[Q]：What are the prospects for recovery in related demand for EVs?

[A]：We expect this to have a positive impact on our company as demand picks up in earnest.

[Q]：What is the reason for the operating profit plan of 900 million for the second half of the year (compared to 900 million in the first half), given the outlook for a recovery in demand related to EVs in the second half of the year and beyond?

[A]：Our high-performance products for EVs are on a recovery trend. However, we see the current situation as an investment phase, with focused capital expenditure, and profit growth appears to be slow in the second half of the year due to the increased burden of depreciation for this.

Telecommunications and industrial devices business

［Q］：What is the competitive strategy for wire harnesses in new markets?

[A]：By partnering with companies located inland rather than in coastal areas where labor costs are high, we are building a production system that adapts to local business in China. In addition, although business in China is subject to various concerns, the consumer electronics and EV markets are not in extreme decline about the economy. Therefore, in addition to the current consumer electronics sector, we are also developing the industrial equipment and automotive sectors.

The product portfolio shift

[Q]：What are the current effects of the product portfolio shift and the expected future contribution to profits?

[A]：Based on the idea that we should withdraw from the market with regard to products with low profitability, we are continuing the disconnection process in FY2023, which is expected to have the effect of improving profitability by JPY 1 billion in the current financial year. We will continue to review our product portfolio and focus on high value-added products.

Share price and Price Book-value Ratio

[Q]：What is your assessment of the fact that the share price has risen since the disclosure on 2 November and the P/B ratio has exceeded 1x?

[A]：We are very grateful for the positive feedback we have received from the market on our capital policy of share buybacks, which has been the subject of much discussion by the Board of Directors. As for the future, we see our next responsibility as firstly maintaining the current P/B ratio level and secondly, how to formulate and communicate the rolling medium-term plan, which is due to be announced in May.

Group restructuring effects

[Q]：What is the progress on the effects of the Group's restructuring?

[A]：The group was restructured in April 2023 by merging two subsidiaries. As this is only the first year of integration, visible effects will only become apparent in the future, but the aim is to achieve a restructuring effect of approximately JPY 1 billion at an early stage by 2026 by streamlining duplicated functions and departments.

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