

SWCC Corporation

Institutional Investors Meeting

(SWCC Value Creation Story: Future Business Growth and Capital Strategies)

Summary of Q&A Sessions

Date and time: Monday, December 18, 2023

Part I: 2:30-3:30PM / Part II: 4:00-5:00PM

Location: Nihonbashi Kabuto-cho, Chuo-ku, Tokyo

■Energy and Infrastructure Business

Q: What is the outlook for profit growth of SICONEX[®] and construction-related customer trends?

A: We are currently considering whether additional investment in SICONEX[®] is necessary in response to the increasing demand for the renewal, strengthening, and offshore wind power-related projects within the substation, as well as the improvement of the transmission and distribution network. In addition, the rolling medium-term plan will take into account factors not incorporated in the current plan, such as the new revenue cap system introduced by electric power companies. In the construction sector, supply has not been able to keep up with the rapid increase in demand. As for the outlook for future demand, in the near term, firm demand is expected for the Osaka Expo, semiconductor plants, and metropolitan area redevelopment, but demand is expected to decline over the medium to long term, and with this in mind, capital investment should be considered cautiously.

Q: Regarding SICONEX[®], please tell us whether the demand for renewal of aging substation facilities will steadily increase or stabilize at a high level.

A: Normally, electric power companies would proceed with renewal of older, high-utilization facilities under the revenue cap system, but since there is a shortage of construction personnel due to the 2024 problem, the peak demand for renewal is likely to level off and remain stable at a high level.

In terms of human resource shortages, we are building a system to resolve them by increasing the number of subcontractors to secure personnel and by redirecting our highly skilled construction personnel to fields with high voltage ranks.

■Electrical Equipment and Components Business

Q: I've noticed from other companies' financial reports that there is intense price competition in the market for BEV (Battery Electric Vehicle) E-Axle-related products. I would like to confirm whether your company's products can generate revenue in the medium to long term despite this competition.

A : Although the competitive environment is tough, we believe that once the production innovation line currently under development using AI and other simulation technologies is completed, we will be able to improve productivity, quality, and profitability and take advantage of our competitive edge.

■Communication and Industrial Devices Business

Q: Regarding the wiring harness business in China, can you tell us whether you expect to expand profits in the future as you invest in growth, or do you think a change in strategy is necessary?

A: Currently, wiring harnesses are products for home appliances, which are suffering very badly due to the declining demand reflecting COVID-19 and the slowdown of the Chinese and Vietnamese economies. As a recovery measure, our company is steadily shifting from consumer electronics to automotive applications. We are tying up with Chinese companies to enter new harness fields, such as around cameras and sensors, as automated driving, etc., become more prevalent, rather than the main harnesses that our competitors specialize in, and we believe this is a strategy that can contribute to achieving our mid-term business plan targets.

■ Growth Strategies

Q: Regarding the growth investments that will expand from 2025 to 2026, when will the investments contribute to profits? Also, please tell us if you expect to achieve the operating income target of 15 billion yen for FY2026 solely from existing businesses without M&A.

A: Growth investments will be used for M&A and new businesses related to the BD (Business Development) strategy, and are expected to contribute significantly to profits from 2026 to SWCC VISION 2030.

On the other hand, capital investment in existing growth-driving businesses began in FY2022 and is expected to contribute significantly to the FY2026 operating income target of 15 billion yen.

Q: On the occasion of the rolling mid-term budget, it appears that capital investment in SICONEX and other products will peak out from the year after next.

A: The current business environment has changed significantly from the time when the current mid-term plan was formulated, and there is a great possibility of making changes to the investment plan.

Q: Could you be more specific about your BD strategy? Also, if there is a need for investment in existing businesses, I would like to hear your opinion on the idea of allocating the investment to those businesses.

A: We agree with the concept of allocating funds to existing businesses that can recover their investments, but considering the time horizon to 2030, we believe that it is necessary to reform the portfolio by removing the stain from existing businesses through M&A and other means.

Q: Regarding the balance between profitability improvement and sales growth rate, is it your policy to enter the growth phase in stages while maintaining a balance between the two, or will there be a time lag between prior investment and profit contribution?

A: In order to improve the sales growth rate, investment in increased production will be necessary. In such cases, the timing of profit contribution is naturally taken into consideration, but since equipment is introduced upfront, there will be a period of time when the investment temporarily wins out. We will work on rolling out the medium-term management plan with an eye to reducing costs as much as possible and minimizing the time lag between capital investment and the timing of profit contribution by improving productivity at the same time.

In addition, the BD strategy plans to invest 20 billion yen to further improve profitability and achieve discontinuous growth by using M&A and other means to expand into new markets and new areas based on core technologies.

■ Capital Strategy

Q: You sold your cross-shareholdings in August of this year. Will you be reviewing your holdings further? I would also like to know what the cash obtained from the sale will be used for.

A: We have a policy of not having cross-shareholdings in principle. Although there are still some policy shares remaining, we plan to proceed with the sale of shares while negotiating with the counterparty. Regarding the use of the funds, there are options such as investment for growth and shareholder returns, but we will be flexible in our approach through discussions.

Q: Regarding shareholder returns, could you please inform us whether you plan to flexibly respond in the future?

A: Until now, we have had a large amount of interest-bearing debt and have not provided sufficient shareholder returns, but as we enter a phase in which we will be overcapitalized, we will consider shareholder return measures such as dividends and share buybacks.

Q: You mentioned that you will generate cash by reducing working capital, but could you tell us what KPIs you have set for the operational field and how you will proceed?

A: We are requesting the operational field to reduce working capital by 10 billion yen. The focus is on how to control trade receivables and inventories as trade payables are difficult to control. As for trade receivables, the number of negotiation partners is small but the payment site is long, and sales will try to improve the situation by negotiating for a shorter payment period. With regard to inventories, the accounting department will provide detailed figures for improvement.

Q: Which will take priority in your efforts, obtaining a credit rating or reducing the DE ratio? Also, please tell us to what level you plan to reduce the DE ratio.

A: We have been carrying a lot of interest-bearing debt, but we are approaching a phase where we will become overcapitalized and our WACC will rise. In the current medium-term plan, the amount of growth investment is set at 20 billion yen, but the optimal capital structure will change significantly depending on how much will be needed for growth investment and BD strategy when rolling the medium-term plan.

■Others

Q: What changes have you experienced in transitioning from a holding company structure to an operating company structure? Also, please let me know what you expect in the future.

A: The transition to a business company structure has fostered a sense of unity in management meetings, leading to improved communication. As growth strategies have become a common challenge, I expect that discussions will deepen even further.

Q: Please tell us what you think about the succession plan to continue the transformation over the long term.

A: Since 2019, President Hasegawa has been leading a strong transformation of the Company, and her contributions to the traditional and conservative wire industry have been widely recognized, including receiving the special award from Nikkei WOMAN "Woman of the Year 2024." While it is not necessarily required for the president to change within 5 or 6 years, the timing for a succession will eventually come. We are constantly discussing a succession plan to achieve the mid-term plan first, and then to ensure that the company can continue its transformation under strong leadership in 2030 and 2040.