

SWCC Corporation

Meetings with institutional investors

Q&A Sessions (3Q FY3/24)

Date and time of implementation: Wednesday, February 7, 2024

Part I 14:30-15:30/Part II 16:00-17:00

Implementation site: Nihonbashi Kabutocho, Chuo-ku, Tokyo

■Energy & Infrastructure Business

Q Tell us about the future outlook for SICONEX®.

A Due to high customer demand and the plant continuing to operate at full capacity, we decided to expand the plant 2 years ago. The expansion was completed at the end of this fiscal year, and it is expected to start operation from April this year. Capacity needs to be increased by 1.5 times, but production capacity is expected to double the 2023 facility. Demand for us is increasing further as competing insulator component manufacturers have announced that they will withdraw some of their products. Against this backdrop, it is already apparent that it is not possible to respond to strong demand simply by doubling production capacity, and we are considering the possibility and necessity of further production increases in the future and intends to show it in the rolling plan of the medium-term plan.

Q Regarding the Energy and Infrastructure Business, 3Q performed well, but I would like to ask you whether there are any factors that will cause braking for 4Q and what you should consider as risks in the next fiscal year.

A The main factor behind the strong 3Q performance was that in respect of electric power infrastructure, the increase in construction projects in the 2H raised the operating rate of the plants and improved profitability. It is not a 2Q backward or a 4Q forward. In the construction sector, the media also reported a shortage of wire, resulting in an overhang of demand for new orders. The factory was operating at full capacity to return the New Year holidays, and we continued to produce at a high capacity utilization rate, resulting in improved profitability. Concerns regarding next fiscal year are that there are no major fluctuations in electric power infrastructure, as revenue caps are thoroughly implemented by electric power companies. However, there is a risk that inventories for construction will slow down. Observation of demand conditions and appropriate control of production are important. In any case, since the collaboration with FURUKAWA ELECTRIC, the level of awareness among staff has improved, and the profit margin has also risen. If the utilization rate improves, the profitability naturally improves. This structure will remain unchanged in the next fiscal year. For construction, we expect to further improve profitability by streamlining the copper wire drawing process from the Sendai Plant to the Ibaraki Plant next fiscal year.

Q Regarding construction-related issues, are there any impacts of project delays due to labor shortages?

A The shortage of workers will continue. In terms of demand, although there is a possibility of a temporary rebound, we expect demand to remain at a high level in the future, and we do not believe that the impact on us of a labor shortage will be significant.

Q What were the projects that were highly profitable, and will we be able to receive orders continuously in the future?

A Projects that were not initially planned have come in. Those added as additional construction at completion and special wire for plants are highly profitable. Such projects were sporadic in 3Q. However, we believe that improving profitability through improved plant utilization rates is a more significant factor behind the upside in 3Q.

Q Will SICONEX not revise its prices in accordance with the supply-demand balance?

A In the substation sector, SICONEX has a high market-share, and we have recently received orders to the extent that it has insufficient capacity. Even if prices are revised according to the balance of supply and demand, I think that the advantages to customers will be greater. This is 1 reason why the profitability of the Energy and Infrastructure Business is rising, partly because the profitability of the individual businesses is rising.

Q Please tell us about the situation of the increase in the number of construction personnel.

A It is feasible to produce goods by adding factories, but increasing the number of construction personnel is not easy. Accordingly, in 2021 we established the Construction Personnel Development Center, which dispatches human resources from partner companies nationwide to develop them. We have worked to resolve the shortage of installation personnel by having our partner companies take charge of construction work with a low level of the volatility class, and by allocating highly skilled installation personnel from our abundant experience to construction work with a high level of the volatility class. This initiative is getting on track, and the number of construction staff has increased by about 10% since 2021, and now it has increased by 1.5 times 3 years ago.

■Electrical Equipment and Components

Q Do you see the current market environment as a tailwind or a headwind than originally planned?

A The development of high value-added products is progressing, and our company plans to increase profit margins by expanding sales of products such as heater wires and semiconductor products. However, the current market environment for automotive products is difficult to predict, as hybrid vehicles are selling well while the shift to BEVs is expected to proceed at a rapid pace, and there are also opinions that if Mr. Trump wins the presidential election, there will be a shift back to gasoline-powered vehicles. However, our product lineup is capable of responding to either BEVs or hybrids. We will continue to make capital investments so that we can increase sales and profits as the market changes.

Q Please tell us about the background of the switch from a wire harness to a bus bar.

A EV becomes more prevalent, batteries will account for the bulk of the floor, which will interfere with the bundle of wire harnesses and make robotic installation more difficult. By using a bus bar with a flat wire, it can be easily installed even in a robot, and it can fit compactly without taking space for a battery. These are advantages, and the market expansion is expected in the future.

Q Please tell us about the background to the rising demand for heater lines.

A It was anticipated that demand for heater lines would increase as EV became more widespread, but it was unexpected that demand for vehicles equipped with heater lines in the back seats, particularly in North America, was increasing. Especially in new cars for cold districts in North America, the installation rate of heater wire in rear seats is increasing. About 2 years ago, it increased the production capacity of the heater line by 50%, but the demand is increasing at a faster pace than that, and it is necessary to consider whether to further increase the production facilities by FY2026, the final year of the medium-term management plan. The heater wire mounted on the seat is important in flexibility and safety required during boarding and alighting. On the other hand, the heater wire mounted on the door is not required high specifications, the development of an inexpensive product is advanced. In addition, bendability and waterproofing are emphasized for the heater wire for the floor. Such elements will be a point for future development.

Q Please tell us about the factors behind MiDIP®'s rising demand from 2026 to 2030.

A Compared to third-party products, MiDIP® has a higher advantage. The reason why MiDIP® must be chosen is that it is excellent in heat resistance, conductance, and machinability, and can cope with high-voltage. With the popularization of BEV in particular, it is important to reduce power consumption. MiDIP® has a business machine. Other companies can enter the market, but it is difficult to offer thousands or tens of thousands of tons of products at this price point. By shifting to a portfolio of high-value-added products, we aim to achieve an operating profit margin of 10% or more in the future.

Q How will the slowdown in EV sector affect the electrical equipment and components business?

A In the European market, inflation and the cancellation of subsidies have cooled down, but in China and North America they have sold well without inflation. However, BEV seems to have run its course, and BEV is slowing due to increased sales of hybrids and gasoline-powered vehicles. In Japan, the shortage of semiconductors has eased, and demand is recovering mainly for hybrid vehicles, and we expect that this will serve as a tailwind for our products.

Q When and to what extent will profitability improve in the Electrical Equipment and Components Business?

A Because we will invest 6.6 billion yen during the medium-term plan, the depreciation burden will increase, and the prospects for growth are poor. However, the profitability of the copper alloys business, centered on heater wires, is extremely high, and in earnest, it is expected to contribute to incomes ahead of 2026. What we worry about is the delay in BEV transition. This is because there is a possibility that there will be a delay in the business model for square windings that is currently being developed. On the other hand, the number of hybrid vehicles sold is higher than expected, and our lineup of flat-angle windings for hybrid vehicles is also considered to cover the negative portion. We will strive to exceed the operating profit target of 2.6 billion yen, which is the minimum target for the period of the medium-term management plan.

Q Which finished vehicle manufacturers are shipped?

A MiDIP® is used for a considerable part of hybrid-car. Flat-angled status are mainly for Europe, and the market conditions are currently severe, but heater wires are extremely favorable for North America.

Q Is the heater line a Japanese manufacturer with a base in North America?

A As you recognize. It is assembled in North America by Japanese manufacturers.

■Communications and industrial devices business

Q Please tell us about the trends in orders for high-speed communication cable for automotive, which was newly launched in the current fiscal year, and the outlook for growth.

A In August and September of this year, we expect high-speed communication cable for the automotive industry, which began deliveries, to grow about 3 times in FY2024 compared to FY2023, and thereafter grow at an annual rate of about 10% toward 2026. Currently, it is for domestic automobile manufacturers, but new inquiries seem to be coming, and we would like to further expand it in the future.

Q Your company booked 300 million yen in restructuring charges. Is this 1-time?

A The loss of 300 million was 1-time, and the portion that was scheduled to occur in the next fiscal year was also recorded together.

■Impact of copper prices

Q Regarding the impact of copper prices, will the profit margin fall if copper prices rise?

A Fluctuations in copper prices are reflected in sales prices and are slided. As a result, when copper prices rise, sales rise, but profits do not change. The profit margin therefore falls.

■Capital Policy

Q Please tell us about future capital policies.

A Until now, we have promoted portfolio-based management by making decisions to survive, exit, or invest based on the spread between WACC and capital policies and ROIC management. There is no plan to change this basic policy in the future. While closely monitoring the balance sheet, we will appropriately secure cash using various means, such as reducing working capital and selling strategic shareholdings, to maintain a balance between growth investment, non-business investment, and shareholder returns. In ROIC management, the control of WACC is important. Rather than simply accumulating incomes, including managing dead capacity and controlling the debt-to-equity ratio, we will invest in the business, invest in human resources, and return to stockholders in a balanced manner from the perspective of cash allocation.

■Growth strategy, structural reforms, and future outlook

Q Are there any changes in the perception of the business environment and in the investment plan when implementing the growth strategy?

A One point in changing the investment plan in implementing the growth strategy is to further strengthen existing strong businesses and improve profitability. We think it is necessary to actively utilize the 31 billion yen investment limit for growth in order to move away from a company of "Electric Wire & Cable" and develop it into a company that can provide comprehensive solutions including connected parts. Regarding the automotive market, there is not only the trend of shifting to BEV, but also the trend of unstable market of returning to the hybrid car, but it is necessary to identify and respond to them. Over the past few years, our business conditions have stabilized, and the 3 pillars of our business have become solid. Rather than jumping into entirely new business areas as future growth investments, our policy is to expand the scope of its 3 existing businesses.

Q Please tell us about specific measures to increase product margins.

A We believe that there should always be a blue ocean area in the businesses in which we have strengths. We believe that it can secure a certain level of profitability by developing and investing in this area with technological capabilities and strategies. To this annual, we have been working to liquidate unprofitable businesses over the past 5 years. We will never run a company that is returning to an unprofitable company in the past. Our approach to profits has permeated its employees, and it will continue to promote business development based on this approach.

Q In the past, I think the challenge is to transition to a phase of structural reform and to a growth phase in the future. Please tell us about your future strategy.

A Since 2019 year, we have focused on ROIC management, exiting or divesting unprofitable businesses, investing capital in promising businesses, and promoting restructuring to improve productivity and profitability. Our financial position has improved and its profits are rising. However, as you have pointed out, it is still insufficient to be viewed as a growth company. Therefore, going forward, it will be necessary to further strengthen the strong business, and just because the market is large, I think it is important to consider a scenario with a success rate, rather than simply investing. FY 2024 will be the midpoint of the medium-term management plan, so we would like to specifically show our growth strategy going forward, including the rolling of the medium-term management plan.

Q I would like to ask you to provide a review of the past as the president and the future prospects.

A I was originally from a research field, and what I really wanted to do when I became president was to create something new. By prioritizing efforts to improve its financial position, our company was able to improve to the level it had targeted. However, there is a sense of urgency that if the situation remains unchanged, it will return to its original state. We believe that the task going forward will be to build the next system with a new stance that has further advanced the thinking that has been taken up to now.

