

SWCC Corporation (5805)

Q&A Sessions at the Small Meeting for Institutional Investors (Q2 FY3/25)

Date and time of implementation: Monday, **December 9, 2024**

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

Implementation site: Nihonbashi Kabutocho, Chuo-ku, Tokyo

Energy & Infrastructure Business

Q In the Energy & Infrastructure Business, the operating income target for the current fiscal year is at the level of 12.5%, but will it be even higher?

A Currently, in the Construction Business, the operating profit margin has risen to the high single-digit level, and in the electricity infrastructure business, it has risen to a level of 20% or more. Profitability can be further improved by implementing various measures. In the Construction Business, the Company expects to achieve an annual improvement in profitability of at least 100 million yen due to the transfer of the line-drawing processing facility at the Sendai Plant to the Ibaraki Plant and the establishment of an integrated production system. The company also intends to further increase the profitability of its wires by improving logistics services. Regarding electric power infrastructure, the Company aims to further improve profitability by shifting to the ultra-high voltage range of more profitable 154 kV class and higher, and by discontinuing products with low profitability.

Q In the Energy & Infrastructure Business, what are the drivers of growth over the past few years and their strengths?

A SICONEX ® was the driving force behind the company's growth. There are 3 companies, including ours, that are capable of manufacturing power connection equipment that can also be used in the ultra-high voltage region, and we are a leader in production capacity and technological capabilities. Entry into the market from overseas is also not easy, and we recognize that our advantage is very high.

Q Are there any risks in the energy infrastructure business, such as changes in the competitive environment and requests for price reductions from customers?

A Currently, there are only 4 companies for wire manufacturers, including ours, in the construction industry, and their supply is narrowed. In addition, SICONEX ® has a strong product-superiority in electric power infrastructure. Although there is little chance of receiving a price reduction request, we will adopt a strategy that can withstand risk.

Q Why was it not possible to anticipate the benefits of the revenue cap system for electric power infrastructure?

A Competitors focused on the submarine cable and other power transmission markets, which resulted in an increase in orders for substation market projects in which we excel.

Q What is the present manufacturing capacity and future growth potential for SICONEX®?

A Investment to increase production was completed at the end of FY2023, but capacity is still becoming inadequate. As demand is expected to increase further in the future, the company will invest in the second production increase in the next fiscal year and aims to start operations in FY2026.

Q The second phase of SICONEX® investment is larger than the first phase investment completed at the end of FY2023, which will the increase in income be due to the increase in volume or profitability go up?

A It is assumed that the investment amount will be larger than the first period investment. In Phase 2, the company does not target the ultra-high voltage region but invests in SICONEX ® subject the pre-existing extra-high voltage region. From the viewpoint of production efficiency, many people learned from the first phase of investment, and while making use of them, they increase production efficiency, leading to improved profitability.

Q Why have the FY 2030 figures not changed with respect to the sales growth target for SICONEX®?

A This is because the plan for FY2030 has not been revised yet. If the third-term investment to be made from FY2026 onward is solidified to some extent, the figures for FY2030 will also be revised.

Q What is the background for not expanding SICONEX ® abroad?

A In the Chinese market, equity-method affiliate SHOWA-TBEA (Shandong) Cable Accessories Co., Ltd. tried to develop SICONEX ®. However, the value such as shortening of construction time, compactness and earthquake resistance could not be sufficiently promoted in the overseas customers. Therefore, at present, it plans to focus on the Japanese market, where the market is active, and demand is expected to increase further in the future.

Q Is it highly profitable to provide SICONEX ® together with construction?

A As you recognize. Its strengths lie in its ability to win orders for power cable and power equipment (SICONEX®) and construction projects, which have the highest profit margins. If it can win orders for power cable and power equipment, it will also be able to win orders.

Q Even though SICONEX ® has been SWCC's earnings driver for a certain number of years, what is the background to the company's success?

A Competitors focus on the submarine cable and other transmission markets (long for cable and few for power equipment), while we focus on the substation market (short for cable and many for power equipment).

Q For competitors with larger business sizes, is the substation market unlikely to be in keeping with the scale ?

A We believe that it will not be in keeping with the scale for our competitors.

Q It seems that there will be a shortage of construction personnel in the future, but is there any risk that SICOPLUS ® strategy will not work well?

A In the special high-voltage region of 66/77 kV, construction is mainly requested to a cooperating company nationwide, and by shifting the construction worker to the ultra-high-voltage region of 154 kV or more, the labor shortage problem which is a bottleneck is solved.

Q Is it possible to maintain and further improve the level of earnings in the "construction" field, which is the most profitable of all electric power infrastructure?

A It is possible.

Q Regarding construction in the electric power infrastructure business, will the shift to ultra-high voltage advance in line with the increase in the number of partner companies?

A As you recognize. By having our subcontractors construct a special high-voltage region of 66/77 kV, we can shift our personnel to an ultra-high-voltage region of 154 kV, which is highly profitable and our specialty field.

Q How do we respond to unexpectedly large demand for construction in the electric power infrastructure business?

A We have no choice but to improve our efficiency and eliminate it by taking the necessary steps. However, there are limitations, so investments can be used to resolve them.

Q Regarding the Taki charts in material P.11, please tell us more about the impact of the productivity UP.

A This was due to an increase in production volume and the fact that the company was able to build a production expansion system without increasing personnel. Efforts to improve productivity based on the Toyota Production System resulted in a 30% or more increase in sales of SICONEX ® compared to FY2023 without increasing the number of employees, and a 20% increase in sales of power cable.

Communications and industrial devices business

Q What is the greatest hope of the marketplace for e-Ribbon®?

A The market is valued at several 100 billion yen per year, and it is expected to expand further in the future based on the national policy of building a telecommunications network through optical fiber, which is mainly BEAD(Broadband Equity, Access and Deployment in the North American market.

Q Will the technical advantage of e-Ribbon® indirect adhesion continue in the future? Are there businesses with similar technologies?

A The technology for intermittently bonding this optical fiber in a network form is originated in Japan, and it has been introduced in the Japanese market since around 2010. This technology is owned by 4 optical cable manufacturers, including us, and each company has obtained patents worldwide as well. The other 3 companies are in the process of expanding overseas, and we will continue to expand overseas in the future. There are also 1 or 2 generic companies, but we have not kept pace with the mass production technologies possessed by Japanese manufacturers. Therefore, considering the existence of patents, we believe that the state of technological superiority will continue for some time.

Q What are the net sales of e-Ribbon®?

A This fiscal year, it is about several 100 million yen. The technological capabilities of our products have begun to be recognized in North America and Europe. We will

further expand next year and next year, aiming for a net sales ratio of around double digits% of the telecommunications and industrial devices business in the future.

Product Portfolio Shift

Q Are there room to reduce unprofitable products in the electrical equipment and components business and the telecommunications and industrial devices business?

A There is room.

Mid-Term Management Plan

Q When will the medium-term management plan rolling plan be revised?

A We plan to review mainly the Energy & Infrastructure business. The company also intends to review SWCC VISION 2030 during FY2025 and present a subsequent growth plan for the medium-term management plan.

End