

SWCC SHOWA HOLDINGS

Q&A Sessions at Briefing for Institutional Investors

(Q1 FY3/23 Financial Results/Energy & Infrastructure Business Briefing)

Date: Tuesday, August 30, 2022

Part I 14:30 to 15:30/Part 2 16:00 to 17:00

Location: Nihonbashi Kabutocho, Chuo-ku, Tokyo

Q1. Please tell us about the current status and future prospects regarding the impact of high raw material costs, the impact of material shortages, and the impact of logistics.

A Looking at Q1 alone, the pressure is on for 500 million yen, mainly in petrochemical products. In addition, although there is a shortage of terminals in the wire harness business, although it is not a petrochemical product, we are working to respond to delivery times while devising procurement methods. In addition, we are promoting local production for local consumption as we shifted the production of wire harness business mainly to China. The energy infrastructure business is under the greatest pressure in terms of higher raw material costs. Since the latter half of the previous year, we have passed on the cost increases, and almost all of them have been understood by customers. However, there is a time lag until they are reflected.

Q2. Although there are concerns about an economic downturn, please tell us the difference between the situation during the past recession and the current situation (e.g., the impact is relatively small due to the structural growth of products such as products for SICONEX and xEV).

A Although there are concerns about a recession, energy and infrastructure projects are providing solid support. In terms of the business of energy infrastructure, the business environment is not so bad. The construction wire business is expected to become robust from the second half. The power system business is not so bad in the business environment itself, with reinforcement policies in the midst of decarbonization measures. We believe that the fact that we are able to raise prices firmly is a boost to our business performance. Results are also showing the effects of the business restructuring reforms that have been underway since FY2019, using ROIC as an indicator.

Q3. Please explain a little more about the view that the market for power infrastructures will be expanded. (P13) What are your thoughts on the substation business?

A The challenge is how to construct the network in the renewable energy business. (P11) In the construction of the network, we see it being built on a significant scale, including large-scale and medium-scale substations. In this context, we will expand sales by making SICOPLUS de facto.

Q4. Please tell us about the objectives of becoming an outside director of HOYA and its effect for SWCC in management.

A A company that is expanding globally, completely different from ours. They operate with a completely different mindset, which is helpful to me as a manager. It also handles semiconductor materials, focusing on manufacturing. I was interested in the idea of "catching big fish in a small pond," as they put it, by fighting to pick a market where they can win and make overwhelming profits.

Q5. What is the background behind the significant growth in SICONEX's market share and how does it differ in profitability?

A In terms of private-sector demand, we hold an almost 90% share. Its strategy is to gradually increase its share of electricity to 60%, 70%, and 80%. Although it is difficult to clearly divide electric power into private-sector demand, the proportion of electricity is high for long-scale cable, so the business of private-sector components, mainly SICONEX, which is a unique product, is higher in profitability.

Q6. Is it correct to think that the SICOPLUS strategy is to increase outsourcing as well as in-house support? Will this result in a lower profit margin? (16P)

A There is still a lot of demand for construction work, and it is not possible to cover it by itself. The profit margin may fall slightly, but I ask the partner company.

Q7. Is it possible to raise prices for SFCC because the number of players has decreased? Or will you raise profits through cost-cutting rather than further price increases?

A The price of petrochemical products has been rising since October last year, and fuel costs have soared. As customers understand the price increase, they have come to accept it. Considering that demand will also decline in the future, we will lower the break-even point without pursuing volume, and we will implement reforms in which profits will be generated even if sales decline.

Q8. You are projecting 1.6 billion yen for the full year to pass on raw material price hikes to selling prices, but the result of +0.3 billion yen in the Q1 appears to be a late start. Will this increase be reflected in the second half of the year? Also, copper prices are lower than initially planned, but is it correct to think that this will make it easier to generate profits?

A The three types of electric wires for construction (the portion handled by SFCC) are almost able to be passed on to cost increases, but the communication used by FUJI ELECTRIC CABLE CO.,LTD. is a little behind schedule. However, we believe that price shifting will probably

catch up later, and we intend to achieve the target throughout the fiscal year. Copper prices have recently declined a little and have been rising slightly since August, but the level remains unchanged from what was expected at the beginning of the fiscal year, so we do not expect this to be the case.

Q9. Please tell us why the telecommunications and industrial device businesses struggled compared to the previous fiscal year's Q4 and its background.

A There are some factors, but one of them is a delay in passing on cost increases. As a result of structural reforms, Aomori (closed in December last year) and the Isehara plant were transferred to the Sendai Plant, but the transfer was unexpectedly slow. We know what is wrong, so the question is whether we can recover in the first half of the year or whether it will take until the second half of the year. Overseas lockdowns have impacted the wire harness business. We almost know the cause of the problem, so we are making efforts to bring it back in the Q2 and Q3.

Q10. Please tell me if there are any problems with the defactorization of SICONEX.

A De facto, however, does not mean that they will be combined into a single standard, but rather that the components used by each electric power company will be standardized into SICONEX. Currently, manufacturers of electric power equipment feel the advantages of compactness and good workability, and they adopt them. Since the parts of the electric power equipment manufacturers and those of the electric power companies are adapted to the standards as male and female materials respectively, we believe that there will be no significant obstacles.

Q11. How do you achieve SFCC break-even point of -20% ?

A Sales are affected by copper prices. Targets are set so that profits can be raised even if the volume is lowered by raising the gross profit margin for each product.

Q12. (Electrical Equipment and Components Business) Please tell us about the current status regarding the reduction in automobile production, which was expected to recover in the 2H in the previous explanation.

A Automobile manufacturers have not returned to operation due to shortages of semiconductors, etc. Along with this, Tier 1 and Tier 2 parts manufacturers also remain in stock. It is still the case that the operation of the anoxic copper and heaters line is declining, so we think it will be difficult to start up from the 2H of the year. As other windings are strong, we think we can rewind the oxygen-free copper and heater wires.

Q13. Regarding the figures in the financial results, please tell us how effective the structural reforms will be in the full fiscal year.

A In FY2020, 800 million yen and 1.4 billion yen (cumulative total) were raised in FY2021. In FY2022, I thought it would be 2 billion yen (cumulative total), but the number of communication cables has been slightly lower than expected. Some of the 200 million yen in Q1 is appearing a little bit less, and I think that over 4 times that amount can be achieved for the whole year. The big hope this year was for the consolidation of plants, but the fact that Q1 is experiencing turmoil from the consolidation is a difference from the estimates.

Q14. In the area of power systems, what kind of speed are you expecting in the industry? Within that, what initiatives and time horizons are you taking? How is it going to grow at once in a period of stable growth?

A In addition to the government-led recruitment project of 14 trillion, a plan has been raised to invest 2 trillion to develop a next-generation transmission network. Within this figure, the figure of 2 trillion has not been included in the medium-term management plan. I think it's a story that will probably rise to about 2025. The 14 trillion figure has been factored in to a certain extent. The development and enhancement of the transmission network are thought to be from next fiscal year onward, and it is considered that it will grow linearly at an annual rate.

Q15. Please tell us what costs will be incurred for improving SFCC's (P19, P20) business processes and improving logistics, and how much is expected to improve profitability.

A It is proceeding with Acxio, an IT subsidiary within the group. Although the system is a little invested, it is not planning to make a large capital expenditure. We will talk about how to change the system. Visualization will be made using digital in the next fiscal year. The linkage will be carried out in FY2024 and FY2025 as a DX project, and a new challenge will be carried out in the 3-year plan.

Q16. You say that you will increase the production capacity of SICONEX by 1.5 times. Please tell us about your plant-wide decarbonization efforts. Are the electricity used in production and the means of transportation clean? Please tell us to what extent you are making efforts to save energy at your production sites.

A The Group as a whole will promote in-house consumption by introducing solar power generation systems. It has already been introduced at the Aichi Plant and Sendai Plant, but the Sagami-hara Plant is also considering the procurement of clean energy. We are also working to avoid CO2 emissions by improving efficiency.

In addition, we have set a CO2 emission reduction target as part of the Green Energy Project. We are working on a 35% reduction target for 2030 compared to FY2013, and have achieved a 40% reduction at the end of FY2021. For this reason, we intend to raise our target to 42-43% in the future. The Mie Plant uses the most electricity of all the sites with copper melting furnace equipment. We would like to contribute to decarbonization by making gas furnaces electric and making electricity cleaner.

Q17. Are you able to present CO2 emissions when making your products?

A I can present for scopes 1 and 2, but 3 is yet to come.