

SWCC Co., Ltd.

Summary of Q&A at the Institutional Investors Meeting (Financial Results for the Year Ended March 31, 2023)

Date and time of implementation: Friday, June 2, 2023

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

Implementation site: Nihonbashi Kabutocho, Chuo-ku, Tokyo

### **Points of Medium-Term Management Plan Rolling**

**Q What are the points to be factored into in the rolling of the medium-term management plan?**

A I didn't know when the offshore wind would start 2 year ago, but now I know a lot about it. Regarding the labor shortage, it has become possible to secure manpower in the domains below 154kv. Recently emerging topics have been the strengthening of the transmission network. The system interconnection of the new idea has emerged. 2 years ago, it was up to extra-high pressure, but we can now propose up to ultra-high pressure. There are many talks about plans for 2025 and 2026 that are now emerging. We will further examine the extent to which we can take on projects in new areas, whether or not capacity will be sufficient for SICONEX® only by increasing capacity by 50% at present, and whether we will need to invest further. Nevertheless, the forecast for the future has become quite clear.

### **Power Infrastructure Business**

**Q Regarding SICONEX®, the company expects to benefit from products such as restrictions on working hours from 2024 in the construction industry due to the nature of the shortened construction period. What is the reality?**

A While there may be benefits, they are perceived as serious problems. At present, the securing of construction personnel is truly due to the aging of the population or the lack of a workforce. In the past, we established the Construction Personnel Development Center at the Sagamihara Factory and have taken measures such as training personnel for construction work, which has a low level of power. People are already growing in their fourth term. The Company's policy is to allocate its own resources to the newly emerging needs for ultra-high voltage.

**Q Should SICONEX® be considered to be located at the Sagamihara Plant if it is to be further allocated for increased production?**

A It has not been determined at this time.

**Q What is the concept of profitability in the ultra-high voltage (275kv) field in the Power Infrastructure business?**

A The higher the ultra-high voltage, the higher the profit margin.

#### **Construction Power Sales Business**

**Q In SFCC of the core business, if the operating income margin reaches 5% in the future, is the cost reduction effect of the introduction of DX even more likely than the forecast that has been disclosed?**

A It would be better to generate an operating profit margin of 5%, but I would like to be able to use more cash than that. Is it safe if you don't have a lot of stock, or is there still a shipping style that has been done so far? By introducing DX, we can visualize such things and turn cash around. It is also crucial to generate PL operating income, but for SFCC initiatives, improving the cash conversion cycle (CCC) is a major goal.

#### **Overall Energy & Infrastructure Business**

**Q In the Energy & Infrastructure Business, if there is an increase in renewable energy projects in the future, I think that this business segment alone will have an operating profit of about 10 billion yen. What is the room for Upside?**

A Operating profit in the Energy & Infrastructure Business is expected to be 7.7 billion yen this fiscal year. The Company intends to further expand its CAGR by investing in expansion and strengthening profitability. In the rolling medium-term management plan, we will examine how much investment we must make in order to achieve this.

#### **Electronics and Components Business**

**Q Please tell us about the present business conditions (market conditions) of square windings for xEV.**

A We are unable to provide direct customer names. However, we have received many inquiries from Tier1 customers, and we have come to consult directly with manufacturers of finished vehicles. In this briefing, we expect production to increase by a factor of 10 in FY2026, assuming that Corona's previous level is set at 100, but I think this is a high-certainty story. We have the idea of capturing the suppliers firmly within our supply chain.

**Q It is said that the business model will be shifted from the wire material manufacturer to the wound wire manufacturer, but is that the brand-name power of MiDIP® being utilized?**

A Previously, MiDIP® was sold to other companies in the industry. In the future, rather than selling materials to other companies in the same industry, the Company will have to leverage MiDIP®'s

product-superiority while increasing the degree of processing and shifting to downstream areas with higher margins.

**Q Are there any initiatives to expand sales channels in the future, such as expanding sales channels for high-performance magnet wires in the electrical equipment and components business in Europe?**

A Regarding the expansion of sales channels, we are an issue that has been pointed out by outside officers as well. With regard to high-performance magnet wires, the company releases them to European manufacturers through its Tier1, but the issue going forward is how to achieve sales connections and whether to highlight the future of its MiDIP®.

### **Wiring Harness Business**

**Q What are the product advantages of wire harnesses?**

A Currently, there is not much technological differentiation, and the Company has earned the trust of the high level of its responsiveness, and is taking on the share of the consumer electronics manufacturer. As we continue our business for more than 2020 years, we have strong ties with our customers, and we are seeing an increase in opportunities for dialogue. The company thinks that it will not be able to expand its scale and generate revenues, and is also working to expand its customer base.

**Q With regard to the medium-term management plan, when will wire harnesses be accelerated by FY2026?**

**Also, will the effects of growth investments in this field be realized within the period of the medium-term management plan?**

A Our wire harness is not a very strong technique such as anaerobic copper MiDIP® or SICONEX®. This is a form of expansion based on relationships with customers up to now. The Company believes that this business will gradually expand through M&A and other initiatives, while also incorporating different areas. In the automotive and other sectors, if EV grows, demand for sensors and other products will rise, and there will be a need for high-speed communication cable for communication systems. As some of our products will grow, we intend to increase their size while taking 2 strategies. Growth investment includes M&A, but I think the timing of the profit contribution will be toward the FY 2030 operating profit target of 20 billion yen.

**Q How about entering the automotive wire harness market from now on?**

A With regard to main harnesses, even if we enter Red Ocean, we are not able to win. In other areas, such as sensors, we believe we can still compete by leveraging our technological capabilities.

## Shareholder Return Policy

**Q The dividend payout ratio target for the current fiscal year is 30%. If incomes are higher than planned, will dividends be raised in accordance with the dividend payout ratio?**

A I thought it was a problem that the dividend payout ratio was low. We have given this figure by wanting to get an average of 30-35%. From the next fiscal year onward, the Company intends to maintain the figure of 30% or more.

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## How to establish the initial plan

**Q There was a talk that the initial forecast for profits will be 3:7 in 1H: 2H, but if possible, I would like to see the forecast be raised or lowered. The company's initial plan is a conservative image. Is this because of performance-linked remuneration?**

A The plan has been announced for the entire year, but rather than attempting to control the 2H of the fiscal year with the 1H results, we intend to do so as far as the full year. However, we think that more than you have pointed out.

The Compensation Committee is also on the agenda, and other investors have expressed similar opinions. We have also begun discussions on how to formulate plans, including targeting stretched plans. I have a sense of the issue that executives will contribute to the growth of the company, so I would like to ask for a little more time.

## Measures to reduce the cost of capital

**Q Will the cost of capital increase profitability or decrease the denominator?**

A First of all, we would like to achieve the target of a 120 yen dividend for the final year of the medium-term management plan as soon as possible. However, the company has no plans to repurchase shares at this time because it still has to make investments. I think we have to give specific explanations about our investment strategy. The company is also considering M&A, but will explain specific details when it is at a stage where it can be explained. We will roll it from the 2H, so we would like to have time for the full this fiscal year.

## Governance

**Q What do you think we have chosen to be a member of this director? What are the remaining governance issues?**

A We are talking to the Nominating Committee in consideration of a well-balanced structure within the board structure. We would like to include those who have a background in overseas sales. We would like to include a majority of outside directors and auditors. I would like to see people who have knowledge and opinions about diversity join as outside directors and auditors. Members were selected because they had knowledge of sustainability and wanted many people who experienced company management to join in a position that was not too numerous.

The reason why we stopped holding company structure was that we had been in company size since the time we were appointed president, and we had long doubts about it. The group companies, many of whom are making the same kind of wire, considered that it would be better to manage it at the holding company and that it would be necessary to increase the speed of management, and thought that it would be the direction to adopt a system suited to its own strength and strategy.

### **Penetration of ROIC Management**

**Q What actions should be taken to achieve a target of ROIC10 percent or higher?**

A The first is the electricity infrastructure business. In terms of the energy/infrastructure business, ROIC exceeds 8%. There are still plenty of ground to go up. The plant is being expanded, but it may not yet be sufficient. If this is increased, the company's operating profit margin will also increase. Even in terms of the business environment, we think there is still a foundation for growth. The second is the construction and electric power sales business, which has a low profit margin compared to the electric power infrastructure business and has long-standing customs, but the Company is actively reforming its business, for example, by receiving comments that it wants to raise ROIC from the field to 8%. I think the Energy Infrastructure business will have considerable traction in the future.

**Q I would like to ask if there are any unexpected benefits to ROIC management.**

A There is room for improvement in the extent to which employees know how well they have penetrated the system, but I think that it has become widespread because there is now a positive story from young people about how much ROIC will improve. I do not expect that the target ROIC8 percentage for construction power sales will come out of the field, and I have great hopes that it will be able to lower the level of sales.

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