



SWCC Corporation

Q2 Financial Results Briefing for the Fiscal Year Ending March 2024

November 8, 2023

Event Summary

[Company Name]	SWCC Corporation	
[Company ID]	5805-QCODE	
[Event Language]	JPN	
[Event Type]	Earnings Announcement	
[Event Name]	Q2 Financial Results Briefing for the Fiscal Year Ending March 2024	
[Fiscal Period]	FY2024 Q2	
[Date]	November 8, 2023	
[Number of Pages]	34	
[Time]	10:00 – 11:02 (Total: 62 minutes, Presentation: 39 minutes, Q&A: 23 minutes)	
[Venue]	Webcast	
[Venue Size]		
[Participants]		
[Number of Speakers]	1	
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*Analysts that SCRIPTS Asia was able to identify from the audio who spoke during Q&A or whose questions were read by moderator/company representatives.

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Presentation

Moderator: Thank you for taking time out of your busy schedules to attend today's meeting. Today's briefing is also being livestreamed. For those participating via livestreaming, please click on the Presentation Materials link at the bottom center of the screen to download the presentation materials.

It is now time, so we will now begin SWCC Corporation's Q2 financial results briefing.

First, I would like to introduce the attendees. This is Mr. Takayo Hasegawa, President and Representative, and Group CEO.

Hasegawa: My name is Hasegawa. Thank you for your cooperation.

Moderator: We only have one person today.

The end time is scheduled for 11:00 AM. Now, I will let President Hasegawa discuss.

Hasegawa: Good morning. My name is Hasegawa and I am the president of SWCC Corporation. Thank you for taking time out of your busy schedules to attend today's briefing on our H1 financial results that we announced on the 2nd.

I will start with an overview of our financial results for H1 with our financial results for Q2, followed by our outlook for the current fiscal year, or what will happen in the future. Lastly, I would like to talk about our measures toward realizing capital cost-conscious management, and how these measures are progressing, which I mentioned in the previous year's financial results briefing in May.

FY2023 Q2 Overview of Financial Results



Business Environment	<ul style="list-style-type: none">Supported by the normalization of economic activity, acceleration of wage increases, and accommodative fiscal and monetary policies.Raw material and energy prices remain high due to the protracted situation in Russia and Ukraine and the weakening yen.In the automobile-related market, recovery production is in full swing and the EV-related market is also on the road to recovery.In the electric wire and cable industry, overall demand for electric wires was on a par with the same quarter of the previous year.The average domestic quotation price for copper increased slightly from the same quarter of the previous year.
Net sales	<p>The business plan for the current fiscal year is slightly weighted more towards the second half of the year than usual. Q2 results showed sales were down YoY.</p> <p>[Status of Major Business Fields]</p> <p>Energy Infrastructure: Strong construction-related business compensates for the second-half bias in electric power construction.</p> <p>Automobiles: Products for EVs bottomed out in Q1, but are in an adjustment phase towards a recovery in demand to "pre-pandemic" levels.</p> <p>Industrial Devices: Partial drop in pandemic-driven demand.</p>
Operating income	<p>While progress in electric power infrastructure was heavily weighted toward the second half of the year, as initially expected, earnings increased YoY due to solid performance in construction-related businesses. In response, the Company upwardly revised its full-year plan.</p>

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First, here are the results for H1.

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As described in detail here, looking at the big picture, Japan also experienced a variety of events in H1, including the resumption of various economic activities after the change in the COVID-19 measures in May, the ongoing war between Ukraine and Russia, and a slight change in the global supply-demand balance that led to inflation, higher interest rates, and a weakening of the Japanese yen.

In this context, as I will explain later, our domestic business accounts for about 92% of our total business, and H1 of the fiscal year was a time when we took on the challenge of how much we can strengthen our business and respond to changes in the world in the absence of such a large impact from the exchange rate.

FY2023 Q2 Consolidated Statements of Income



Revised full-year plan upward in anticipation of strong H1 construction-related performance and demand in H2. **Aiming for record-high operating income and ordinary income.**

(Unit: 100 million yen)	FY2022 Q2 Actual	FY2023 Q2 Actual	YoY %	Progress rate %	FY2023 Full-year plan (before revision)
Net sales	1,023	984	▲39	45.8%	2,150 (2,150)
Operating income	43	45	2	38.8%	115 (107)
Operating income margin (%)	4.2%	4.5%	0.3%	—	5.3% (5.0%)
Ordinary income	44	45	1	38.9%	115 (106)
Net income attributable to owners of parent	37	33	▲4	43.9%	75 (70)

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Let us look at the figures. When I announced the outlook for the current fiscal year in May, I also mentioned that a disproportionate emphasis will be put on H2 in this fiscal year. I told everyone that the ratio would be about 3 for H1 and 7 for H2.

Looking at the profit after H1, it is JPY4.5 billion. Last year, the amount was JPY4.3 billion, so it came out a little on the positive side compared to that. We have managed to accumulate earnings despite the difficult situation.

However, this does not mean that the disproportionate emphasis on H2 has shifted to H1. The emphasis will still be on H2. Considering this, we thought it would be better to announce the full-year results properly when we looked at the H1 results, so we revised the full-year forecast upward to JPY11.5 billion from the initial target of JPY10.7 billion. The same applies to ordinary profit.

This JPY11.5 billion is our highest profit in 33 years. The highest profit was achieved right around the time of the bubble economy, but since then, we have been going through a difficult period. Now, we are finally in a state where we can challenge our highest profit to date.

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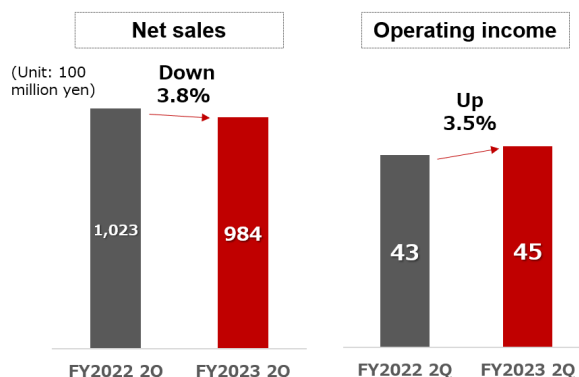
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Key Points of the Financial Results for Q2

Q2 YoY Change

The business plan for the current fiscal year is for **lower revenues** due to a bias toward the second half of the year, but **higher incomes** due to solid performance in construction-related business.



Q2 Progress rate

Progress in sales and operating income was **stronger than initial assumptions (H1: 30%, H2: 70%), which was biased toward the second half of the fiscal year.**

(Unit: 100 million yen)	Full-year Plan	FY19-22 Avg. progress rate	Q2 Progress rate
Net sales	2,150	47.8%	45.8%
Operating income	115✕	43.1%	38.8%

*Incomes are upwardly revised figures.

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Please look at our progress.

With regard to progress, if look at it in terms of operating profit, then it means that the result is 38.8%. It was roughly 43% in the past years, so as I have said from the beginning, the bias will remain in H2. We believe that H1 is where we finished well.

The denominator for the progress rate is the upwardly revised figure, so I hope you will read the progress as 38.8% toward the full-year target.

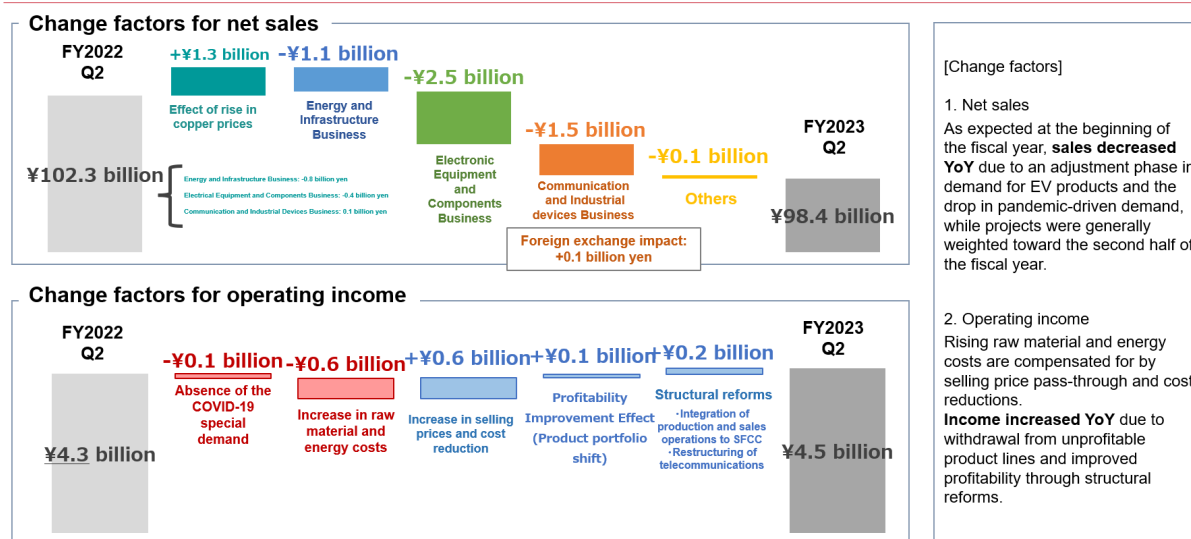
This is a comparison with the same period last year.

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FY2023 Q2 Change Factors (YoY)



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You are looking at the waterfall diagram. I am sorry to keep repeating this, but sales are down slightly compared to the same period last year because orders are more biased toward H2.

Although orders increased a little due to the effect of the price of copper, sales of our businesses itself have been gradually declining, so the sales in FY2023 were slightly lower than last year. H2 of the fiscal year was more heavily weighted toward energy and infrastructure, but we also sell electrical equipment and components, which are similar to copper materials used by our customers as parts for their vehicles.

The automotive industry seems to be recovering quite well since the end of last year, but we supply copper materials, so we are quite upstream. While we interpret this as a result of various inventory adjustments and other factors, sales in H1 were slightly lower than in previous years.

As for operating profit, raw material prices remain high, but we have been able to push back the cost of raw materials by passing on the higher prices and reducing costs at our plants, so we have been able to keep the operating profit level. This is the way we have been operating since last year, but we are maintaining a balance.

One thing that has slightly increased is our production efficiency. We have been working within the Company for the past 3 years on business restructuring, relocation, and combining our previously dispersed manufacturing bases into one location to improve production efficiency. The effects of these efforts are coming through even in this kind of environment.

We have been changing our business portfolio since 2019, and recently we have been reviewing our product portfolio in each business segment, mainly shifting from products that do not increase our profits to those that do. I think it was in H1 when the effects gradually appeared.

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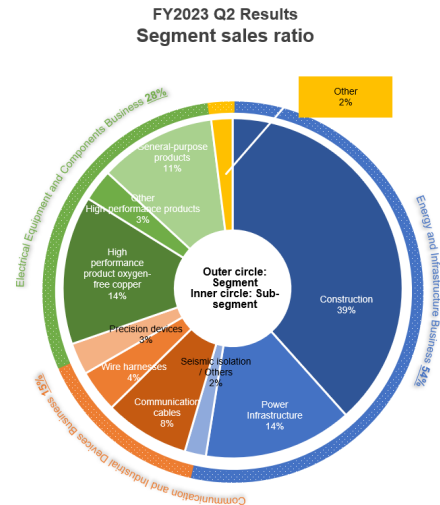
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FY2023 Q2 Segment Results



While the outlook is for the second half of the fiscal year to be heavily weighted toward the second half of the fiscal year, as initially expected, construction-related businesses are expected to drive overall performance (accounting for about 40% of the sales mix). Wire harnesses and precision devices, which are manufactured and sold mainly in China and Vietnam, were affected by the drop in pandemic-driven demand, but the impact on overall sales was limited (approximately 7% of the sales mix).

(Unit: 100 million yen)	FY2022 Q2 Results		FY2023 Q2 Results	
	Net sales	Operating income (Income margin %)	Net sales	Operating income (Income margin %)
● Energy and Infrastructure Business	539	32 (6.0%)	536	33 (6.1%)
● Electrical Equipment and Components Business	299	11 (3.5%)	278	9 (3.1%)
● Communication and Industrial Devices Business	164	5 (2.8%)	150	7 (4.6%)
● Other	22	(4)	20	(4)
Total	1,023	43 (4.2%)	984	4.5 (4.5%)



We have three business segments.

The energy and infrastructure business at the top of the list is our business of electrical wires and power equipment used in buildings. This is where our seismic isolation business belongs.

The electrical equipment and components business handles copper for automobiles, magnet wires used in automobile motors, and magnet wires used in general-purpose industrial motors and generators.

At the bottom is our communication and industrial devices business, where we handle various kinds of cables, such as communication cables that are used throughout the city, communication cables are always used indoors, and LAN cables. The communication and industrial devices business mainly handles wires and cables for home appliances and parts for photocopiers. We are supported by these three major infrastructure projects.

What is notable about this is that the energy and infrastructure business accounts for 54% of our sales and 73% of our profits, making it a very strong base for our business. In particular, electrical wires for use in construction have managed to increase their profitability and are finally becoming a cash cow business for us.

Even under these circumstances, sales and profits have not changed that much. This means that it exists as a business that firmly supports the Company.

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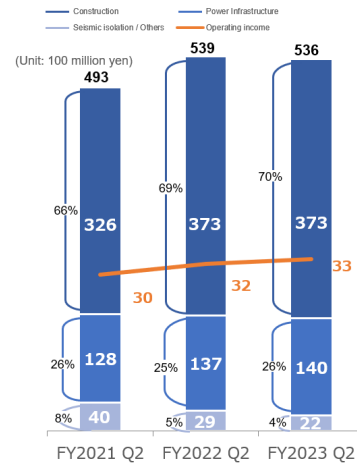
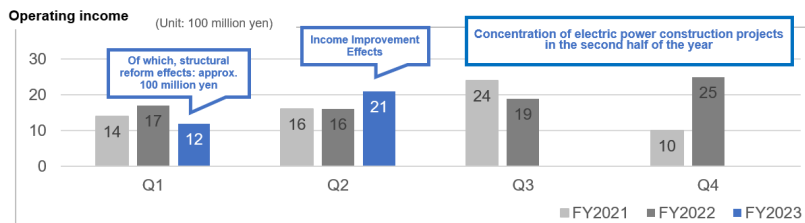
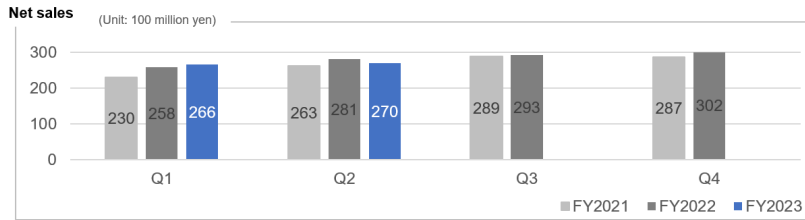
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FY2023 Q2 Energy and Infrastructure Business



The second half bias in electric power construction will be offset by strong construction related business. **Sales decreased and income increased YoY due to various income improvement efforts, including the effect of integration of construction-related production bases.**



The energy and infrastructure business. As I have just explained, is a business that has steadily increased sales and profits over the past several years within a broad structure of construction, electric power, and seismic isolation businesses. As I will explain later, our electric power business has a very unique business model, and we have a significant share of the market, mainly in substations. I believe that we are now in a position to make a solid profit even in the face of various risks.

Since the subject of electric power is concentrated in H2, our profits and sales are also higher in H2.

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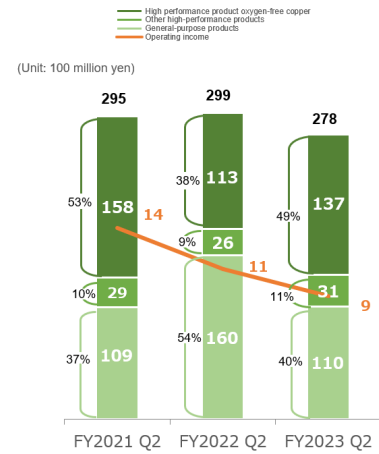
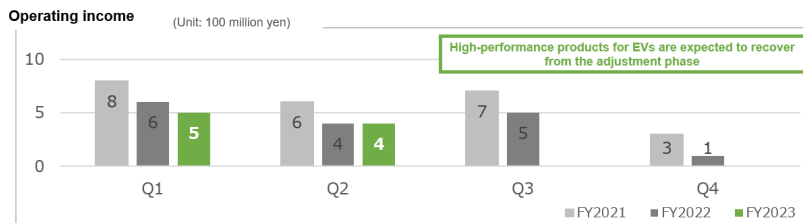
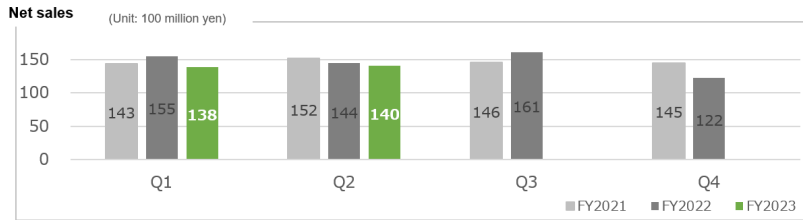
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FY2023 Q2 Electrical Equipment and Components Business



Sales of general-purpose magnet wires for heavy electrical machinery remained steady. On the other hand, demand for products for EVs was weak compared to the same quarter of the previous year, but **left the adjustment phase, with revenue and incomes decreasing YoY.**



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In terms of electrical equipment and components for cars, as I mentioned earlier, we have had a lot of difficulties since H2 of last year. We had a period of time when our factory operations did not pick up, but we have managed to turn a profit while having a flexible manufacturing schedule.

Although the business appears to be on a steady decline, it has finally found its footing and seems to be returning to normal since the summer, so I am hopeful that it will somehow return to its previous course in H2.

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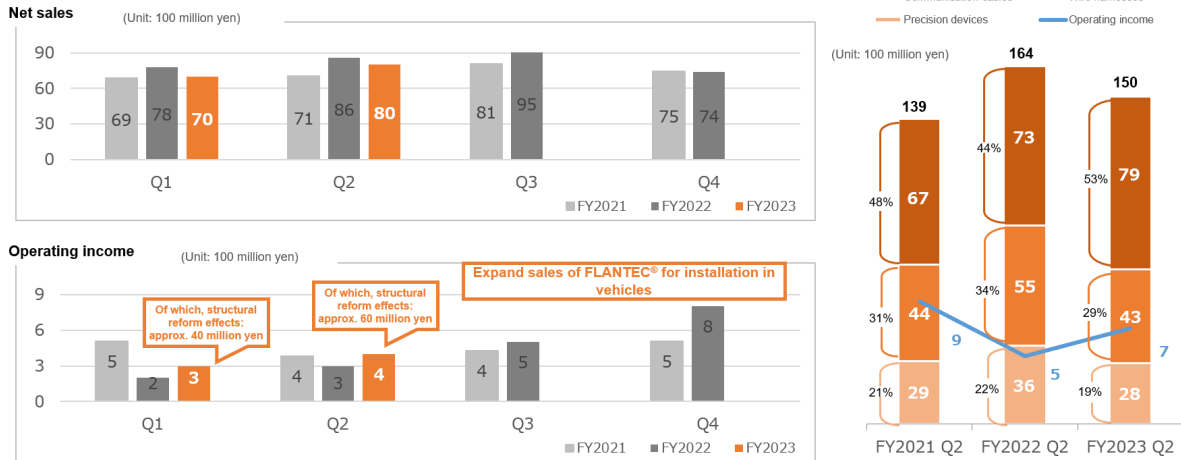
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FY2023 Q2 Communication and Industrial Devices Business



Wire harnesses and Industrial Devices were partially affected by the drop in pandemic special demand, but this was offset by increased sales of communication cables, the reorganization of domestic production bases and the effect of reasonable price sales. Sales decreased and incomes increased YoY.



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This is the communication and industrial devices business. What is distinctive about this segment is that we consolidated our production bases from three to one at the end of the year before last.

We wanted to make it an efficient business by having the three companies operate under one company, our affiliate Fuji Electric Cable, but we stumbled a bit at the start of last year. While our consolidation and the integration of systems did not work as well as expected last year, things are going more smoothly this year than last year. Therefore, we have seen a slight increase in revenues.

Another thing that will put more weight into H2 is that we have ventured into high-performance LAN cables for automobiles and have entered full operation since around August. All our cars are now equipped with many cameras and sensors, and when the world of automatic driving arrives, we will definitely need a reliable high-speed transmission cable with high transmission speed inside the car. With our company's release of such a product, I believe we can expect a lot in this segment in the future.

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FY2023 Q2 Consolidated Results B/S (Comparison with the end of the previous year)



(Unit: 100 million yen)	FY2022	FY2023 Q2	Change	
Total assets	1,567	1,518	▲48	<p>[Inventories] Inventories increased to secure stock in anticipation of demand growth in Q2 and beyond.</p> <p>[Fixed assets] Investment securities were sold in accordance with the policy regarding cross-shareholdings and decreased.</p> <p>[Interest-bearing debt] Interest-bearing debt decreased due to the sale of investment securities and a decrease in working capital.</p> <p>[Equity ratio] Equity ratio increased 2.8 points from the end of the previous period due to a decrease in total assets.</p> <p>[DE ratio] Interest-bearing debt decreased and shareholder equity increased, resulting in a 12.3-point decrease from the end of the previous fiscal year.</p>
Trade receivables	527	482	▲45	
Inventories	282	293	12	
Non-current assets	646	616	▲30	
Total liabilities	883	811	▲71	
Trade payables	249	241	▲7	
Interest-bearing debt	412	340	▲72	
Total net assets	684	707	23	
Equity	675	697	22	
Equity ratio (%)	43.1	45.9	2.8	
DE ratio (%)	61.0	48.7	▲12.3	<p><Recognition of current issues and future measures> Although BS showed improvement due to various measures, inventories increased due to the securing of inventory holdings in anticipation of soaring raw material prices and demand growth in Q2 and beyond. Continue to promote improvements by ensuring inventories at appropriate levels and shortening debt collection periods.</p>

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You are looking at our balance sheet.

Noteworthy about this is that our fixed assets decreased, but we sold some of our cross-shareholdings policies in September. This is why our fixed assets are falling.

Since cash was generated from that sale, we are using it to repay interest-bearing debts at this stage, so our interest-bearing debts have fallen significantly and the DE ratio has improved. That is how we ended H1 of the fiscal year.

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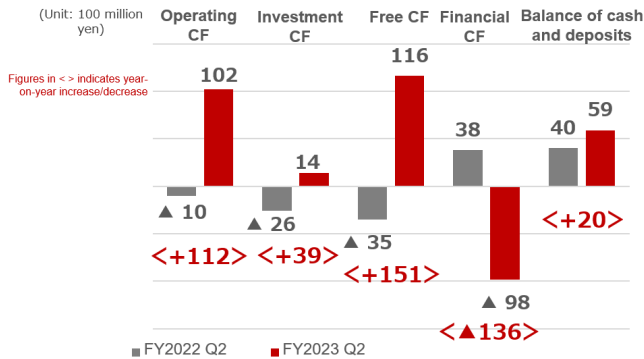
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FY2023 Q2 Consolidated Results CF and Capital Investment

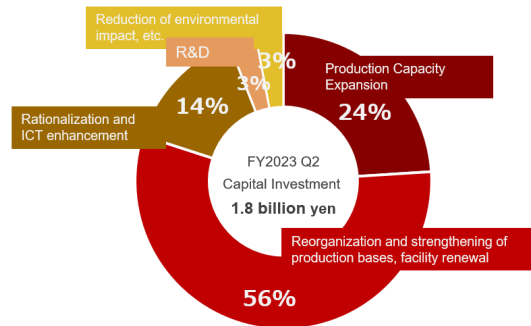


<Consolidated cash flow>



Operating CF increased mainly due to a decrease in working capital as a result of improved turnover of accounts receivable. Investment CF increased due to the sale of policy stock holdings. Financial CF decreased mainly due to repayment of debt.

<Capital Investment>



Breakdown by Segment	
Energy and Infrastructure Business Section	0.7 billion yen
Electrical Equipment and Components Business Section	0.5 billion yen
Communication and Industrial Devices Business Section	0.3 billion yen
Other	0.2 billion yen

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In terms of cash flow, the changes in our balance sheet are also more evident.

The Board of Directors has been discussing various ways to use the assets we sold through cross-shareholdings policies, but first of all, what I hope you get from this is that we achieved this balance at the end of H1 of the fiscal year.

We have also been working hard since last year to manage cash flow, and as copper prices inevitably rise, inventories will increase. We will find a way to reduce that. Then we will ask for a shortening of the debt collection sites. We have been working hard to generate such cash since the beginning of this fiscal year, and we believe that what we are doing has had some effect.

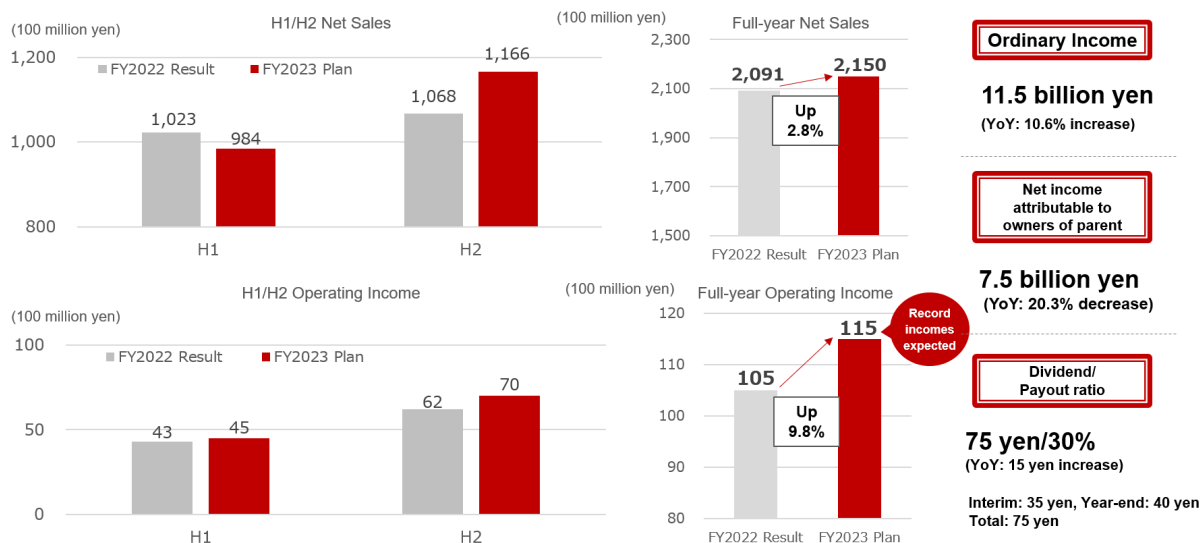
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FY2023 Full-year Forecasts (After Upward Revision)



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This is our full-year business results forecast.

As I mentioned earlier, for the full year, net sales have been left unchanged, but operating profit has been raised to JPY11.5 billion. The same applies to ordinary profit.

Last year, net profit increased by more than JPY2 billion due to the replacement of pension assets, but this has dissipated and net profit is slightly lower than last year. However, this will contribute to the temporary deposit and withdrawal of pension assets. We hope you understand.

As for dividends, we recently decided to pay an interim dividend in conjunction with the disclosure of our financial results, so we are proceeding as planned.

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Revision of full-year plan by segment

Progress in the first half exceeded initial projections due to steady construction-related demand. The full-year profit plan was revised upward in anticipation of strong demand in the second half of the fiscal year.

(Unit: 100 million yen)

		FY2023 Results for the first half	FY2023 Full Year Plan (Before revision)	FY2023 Full Year Plan (After correction)	Variation
Energy and Infrastructure Business	Net sales	536	1,135	1,200	65
	Operating income	33	77	86	9
	Operating income ratio (%)	6.1%	6.8%	7.2%	0.4%
Electrical Equipment and Components Business	Net sales	278	660	600	(60)
	Operating income	9	15	18	3
	Operating income ratio (%)	3.1%	2.3%	3.0%	0.7%
Communication and Industrial Devices Business	Net sales	150	305	305	0
	Operating income	7	19	18	(1)
	Operating income ratio (%)	4.6%	6.2%	5.9%	(0.3%)

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Please look at our full-year forecasts per segment.

First, in the energy and infrastructure business, we have revised our initial sales and profit forecasts significantly, and now expect sales of JPY120 billion and operating profit of JPY8.6 billion.

As I mentioned last May, the target for the electric power segment for FY2026 in our current mid-term management plan is JPY8 billion. The most recent figures show that the increase in sales and profit in the electric power segment, so while we are currently reviewing our mid-term plan, we believe that this is a segment where we can make a very strong mid-term plan.

In the electrical equipment and components business, operating profit is at JPY1.8 billion. Sales may be slightly lower than planned on a full-year basis due to the effect of the slight halt in copper for automobiles in H1 of the fiscal year, but we are determined to make a solid profit.

In the communication and industrial devices business, while the communication cable business has been recovering steadily, the two businesses of assembled electric wires for home appliances and parts for copiers, which had enjoyed considerable sales and profit growth in 2020, 2021 and 2022 due to demand from the increasing number of COVID-19 homes, have temporarily declined. As a result, this segment has slightly lowered its profit targets.

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FY2023 Recognition of Business Environment



		H1	H2
Forecast	Operating profit	4.5 billion yen (Initial plan: 3.5 billion yen)	7.0 billion yen (Initial plan: 7.2 billion yen)
	Dividend	35 yen	40 yen
Recognition of Business Environment	Construction	Steady demand	Average for time of year
	Electric power	Second-half bias in power construction	Concentration of electric power projects with strong demand, such as renewable energy system development Sales expansion through increased production of SICONEX®
	Automobile	Demand for high-performance products for EVs was in an adjustment phase in Q1, but gradually recovered from Q2.	High-performance products for EVs are expected to recover from the adjustment phase
	Industrial Devices	Drop in pandemic special demand in the industrial device business	Factoring in declining demand in China and Southeast Asia
	Communication	Demand for high-grade LAN expands; FLANTEC® shipments for automotive applications begin.	Expansion of overseas sales of e-Ribbon® and sales of FLANTEC® for automotive applications
	New Business (ICT)	Average for time of year	ICT in full swing

You are looking at the balance of our H1 and H2 figures.

As I mentioned at the beginning of this presentation, our current plan is to achieve a balance with JPY4.5 billion in H1 and JPY7 billion in H2. Our six main businesses have not changed that much from what I mentioned when I talked about H1.

Again, we are looking forward to seeing how much the recovery in automobiles after the summer will contribute to our profits in Q3 and Q4.

We are also looking forward to H2 to see how far the production of high-speed communication cables for in-vehicle use that we switched to full-fledged operations this year, as I mentioned earlier, will expand.

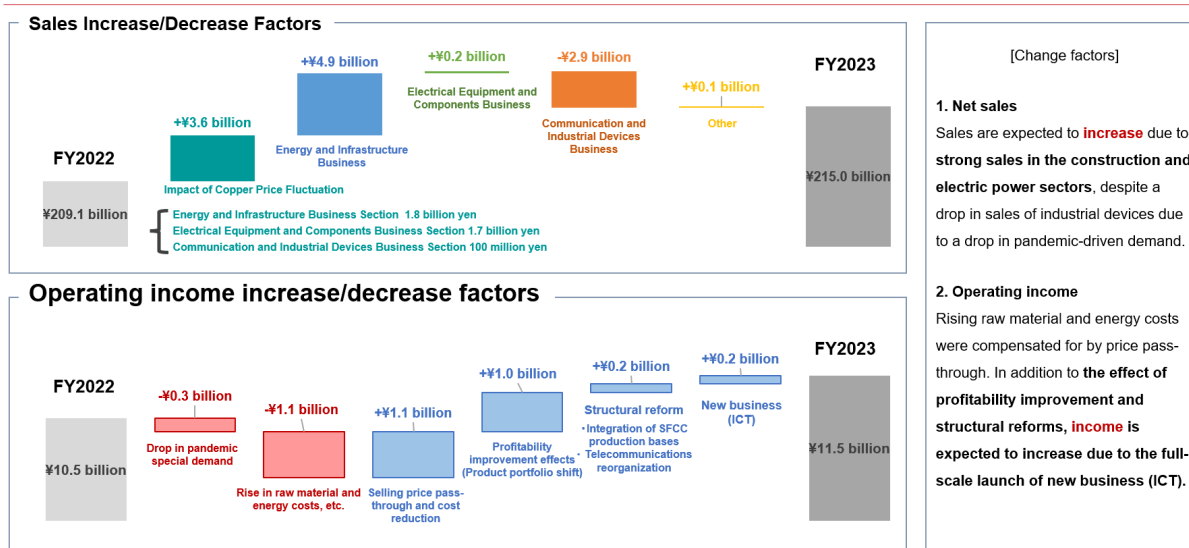
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FY2023 Factors for change



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You are viewing the increase or decrease for the full year.

As for sales, they have not changed that much from the beginning, but as for the operating profit, [unclear audio] the concept of reflecting the higher cost of energy and raw materials in the sales price has not changed.

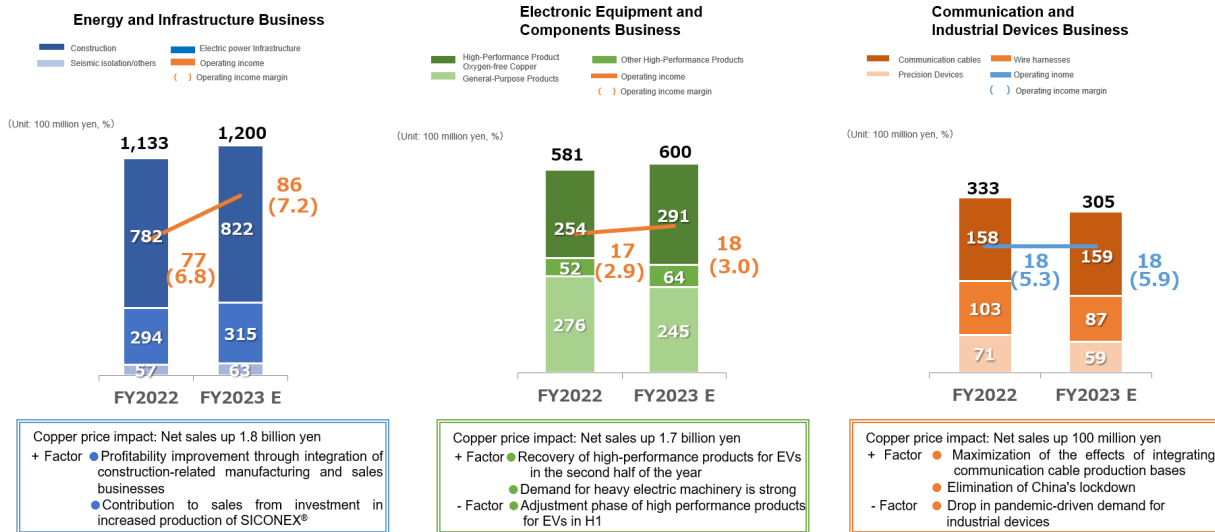
The effect of the structural reforms is expected to increase as sales and earnings rise, so for the full year, given the projection that the product portfolio shift will add JPY1 billion and the effect of structural reforms will add JPY200 million, we believe that this is where our profits will grow considerably for the current year.

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FY2023 Business Plan by Segment



This is the breakdown per segment. As I have already talked about it earlier, I will then leave this out. But what factors are affecting each segment positively and negatively in H2 are stated here, so please take a look. The figures are as explained in the table earlier.

Energy and Infrastructure Business

Efforts to resolve labor shortages in anticipation of the 2024 problem

With the "2024 problem" of the application of overtime work hour caps looming on the horizon, the Company is **promoting labor-saving, manpower-saving, and work efficiency improvements.**

Product **Universal Design Promotion**

Skill-less connection method

The introduction of universal design has made cable processing, which conventionally required skilled techniques, a **skill-less process.**

Provide products that are easy to handle for the elderly and women

Lowering of product weight

We were the **first in the industry** to review product weights based on the weight reduction needs highlighted in a survey.

Persons **Sustainable Human Resource Education**

Establishment of Construction Human Resource Development Center

Secured excellent human resources by establishing an early training program for engineers (utilization of DX materials, simulated facility training, knowledge acquisition and on-the-job training).

Local consumption market model cloud human resource strategy

Human resources trained at the above centers are now **expanding nationwide, from Hokkaido to Okinawa.** Enables flexible receipt of orders.

Logistics **Promotion of Logistics DX**

Visualization of optimum route and loading capacity

DX of logistics system centered on subsidiary LOGIS-WORKS. **Promoting operational efficiency in vehicle dispatch management** by sharing the delivery status of distribution centers nationwide via cloud computing and smartphones.

As I have said, we are also tackling a variety of issues under these circumstances.

First, let us go to the energy and infrastructure business, which supports the foundation of our company.

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In the case of construction, we have to consider the 2024 logistics problem, while in the case of electric power, our business model is to sell electric power components, power cables, construction work, and maintenance as a package, mainly in the substation market. Therefore, we need to consider the 2024 problem in construction as an issue to be addressed.

We have already taken some steps. First of all, I will talk about products. With regard to the shortage of human resources for construction work, electric power work involves connecting extremely high voltage cables and that requires a very high level of skill.

Based on the assumption that the number of such human resources will gradually decrease, we have been considering whether we can create a product lineup that is easier to use in general and with which even people with less advanced skills can perform power construction to some extent. It is a universal design. We would like to treat the terminals of power cables and assemble the connections and terminals of power cables in a way that places as little burden on the site as possible, and we are developing connection methods in this area.

Also, with regard to the carrying of things, we have changed the package to a weight that is easy to carry even for the elderly and women.

Another step is the training of sustainable human resources. We have been talking about this for about 2 years now, but we are not looking to have a single company hold all of the construction personnel. Rather, we have come up with a training program and the construction personnel employed by electric power construction companies throughout Japan undergo such program and then engage in such work in various places.

We plan to train those who are currently working with lower voltages to work with higher voltages, and to secure sales and construction personnel by having them use our products. We are making good progress in this area.

One other thing, and it has to do with logistics for the transportation of goods. We have a logistics company. We are reducing the driver's workload. We are now able to collect all the information on DX with a smartphone and manage all the information at once on the smartphone, such as what route and how much cargo is most efficient to transport, where the trucks are now, when the cargo will be delivered to the customer, how much inventory is available, and the availability of the distribution center. We have heard that it is quite convenient to use.

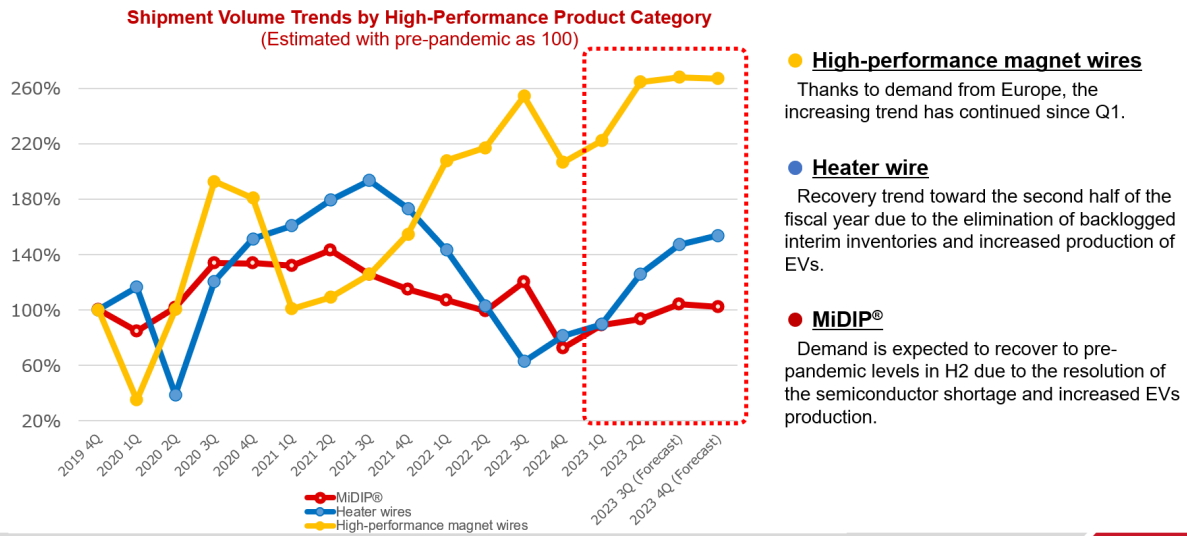
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Recovery in EVs related demand expected this fiscal year



This is the electrical equipment and components business.

As I mentioned earlier, I sense that the electrical equipment and components business has managed to pick up since this summer. We have three products, and the high-performance windings are for automobile motors and inverters.

Heaters are seat heaters, steering wheel heaters, floor heaters, and heaters in various places.

MiDIP is sold as a copper agent.

Therefore, the further you go this way, the more upstream our products become.

It was exactly in the summer that MiDIP started to recover, and compared to the pre-COVID-19 period, it was barely back to normal around Q3. Heater wires have recovered a little more before MiDIP, while in the area of high-performance windings, we are a newcomer in a sense, so I hope you can see that we are making steady progress.

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FLANTEC® product lineup by main industries and future growth projections

Expanding business performance in more profitable product areas by leveraging the Company's brand power and technological capabilities **with 40% share of the domestic LAN cable market.**

Twisted pair cables for automotive use



As driver assistance systems become more sophisticated, higher speeds are required in in-vehicle transmission networks. Developed twisted pair cables for automotive applications that **enable high-speed transmission. Shipment will begin in H1.**

Cat. 6A standard TPCC® 6A (10 Giga coil)



The GIGA school concept has led to a significant increase in demand for 10-Gigabit transmission. In addition, the recent increase in communication capacity due to the advancement of AI and IoT utilization has led to a **significant expansion of replacement demand.**

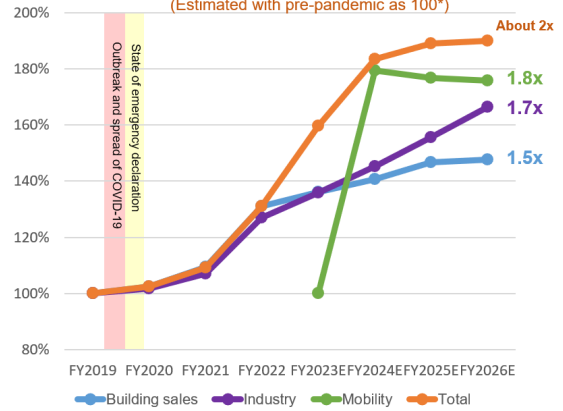
Cat. 8 standard twisted pair cable for LAN



Stable electrical characteristics in the frequency band up to 2,000 MHz – **four times that of Cat. 6A.** High-speed, large-capacity transmission at 40 Gbps is possible. **Demand is expected to increase for future increases in communication capacity.**

Sales Growth Trends

(Estimated with pre-pandemic as 100*)



* Mobility sales are estimated at 100 for FY2023, as they will be generated from FY2023.

This is the communication and industrial devices business.

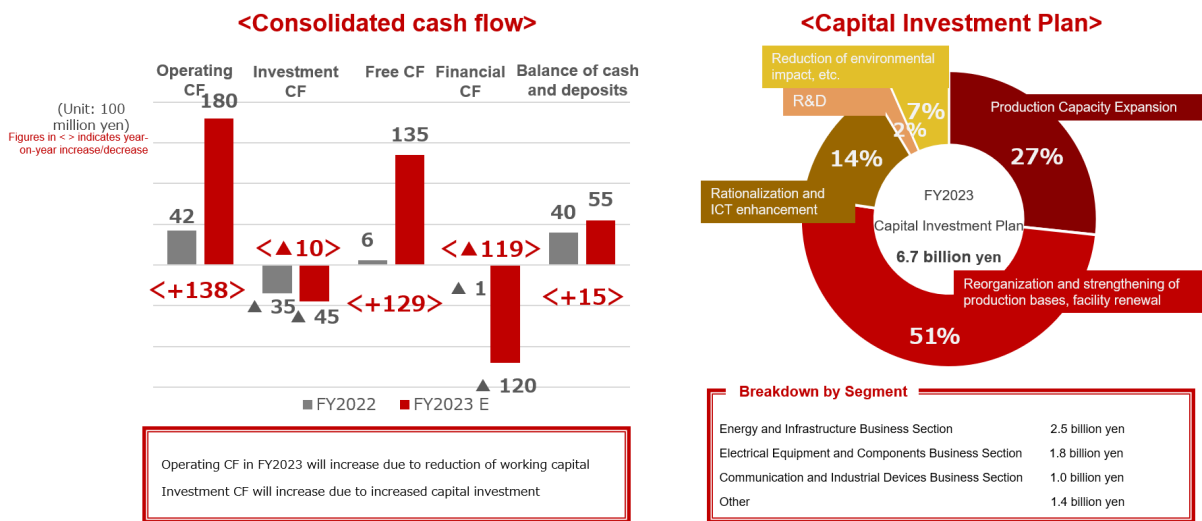
We are quite good at manufacturing and selling LAN cables. We have a large share of the domestic market. This is one of the reasons why we have shifted our product lineup to high-performance LAN cables and high value-added products.

The high-performance LAN cables that you use in your offices today are Cat. 6A. However, we are also developing Cat. 8, and in July we added twisted pair cables for use in vehicle and those used in cameras and sensors to our product lineup. We will continue to strengthen our strong LAN cable business so that they can be used in various places.

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Cash flow is for the same reason as I mentioned earlier. The shape has changed a little from last year, and we hope you will take a look.

Initiatives for Future Growth

SWCC Group Purpose
Innovating new ideas today. Becoming the norms of tomorrow.

In conjunction with changing the Company's name, the Group formulated our Purpose which contains the message of "responding to the changing times and creating new value."
We will contribute to the creation of a sustainable and better future through our business.

Create sustainable "corporate value" and "shareholder value" based on the Purpose

Aiming to promptly achieve ROIC of 10% or more, PBR of 1x or more, and a dividend of 120 yen or more, with a lower limit of 10% for ROE.

Business Strategy

- Promotion of businesses that solve social issues and optimization of business portfolio

Financial Strategy

- Overall financial and capital strategy
- Investment strategy and shareholder return policy

Non-Financial Strategy

- Promotion of human capital strategies that support sustainable growth
- Contribution to a decarbonized society

Finally, we are committed to achieving capital cost-conscious management.

We disclosed this information in May. We have been advancing our medium-term business plan with the following targets: ROE of 10% or more, ROIC of 10% or more, PBR of 1x or more, and dividend of JPY120. To this end, we have broken down our business strategies, financial strategies, and non-financial strategies, and are now in the process of formulating various policies for each.

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Measures and share price trends after the May disclosure of "Towards Realization of Management that is Conscious of the Cost of Capital"



Major initiatives after May 12 disclosure

- 9/4 Briefing session on "Key Points of Medium-Term Management Plan Rolling" held**
Explain the Group's future growth strategy to investors. Archived on the Company website.
- 9/11 Sale of Policy Shareholdings**
Sold some of the Company's policy holdings and reduced its consolidated net asset ratio to less than 10%.
- 9/29 Integrated Report published**
Discloses the Group's business activities and sources of value creation with a focus on non-financial information.
- 11/2 Resolution to pay interim dividends**
Resolved to pay a dividend of 35 yen per share of common stock (full-year dividend of 75 yen planned).
- 11/2 Initiatives to improve capital efficiency and enhance shareholder returns through share repurchases**
A portion of the funds acquired through capital efficiency improvement measures (sale of policy shareholdings) will be returned to shareholders.
- 11/2 ESOP introduction initiatives**
Introduced to enhance the welfare program for employees and to provide incentives to enhance the medium- to long-term corporate value of the Group.

As for our major initiatives after the May 12 disclosure, we held a small meeting on September 4 to discuss our medium-term management plan, which we are currently rolling out, and the three basic business segment managers spoke about the policies they were considering.

Then, in September, we sold our cross-shareholdings policies. We are in the process of selling our cross-shareholdings policies in line with our policy of not holding any cross-shareholdings policies. Our immediate target is to achieve a consolidated net asset ratio of 10% or less, and we have managed to get to that point.

As for non-financial information, we have released our Integrated Report at the end of September. I hope you have a chance to take a look at some of them, as I am sure you have some in your possession.

Also, on November 2, we paid the interim dividend I mentioned earlier. On the same day, we also resolved to buy back JPY1 billion of our own shares. It may be just a little less than 2% of the total number of our shares, but we decided to purchase our own shares to achieve that goal.

We have decided to do this in the hope that employees will take an interest in our company's value and stock price, and play a role in improving our company's value by receiving a portion of this money in the form of an ESOP trust and providing incentives to employees.

We are acquiring our own shares because we were able to generate some cash through the sale of cross-shareholdings policies, and we would like to return a portion of this cash to our shareholders.

The Board of Directors spent more than a month discussing this matter, and since we are preparing to invest in growth in various ways, the Board of Directors, including the outside directors, had considerable discussions on whether or not it was appropriate to do so, and this is the final decision we made.

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Analysis of Current Situation (1):

Changes in Profitability Improvement through Structural Reforms Based on Capital Efficiency

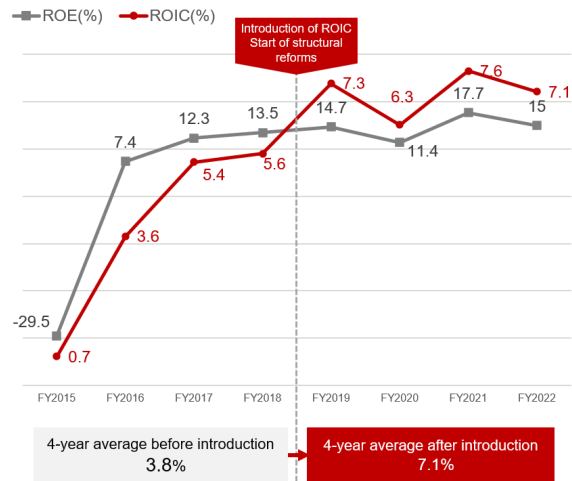


Profitability, **ROE and ROIC** have improved steadily since the introduction of ROIC and the start of structural reforms in FY 2019.

Reorganization of major domestic production bases and withdrawal from unprofitable businesses

FY2019: SWCC SHOWA UNIMAC made a wholly-owned subsidiary
 FY2020: TAMAGAWA MAGNET WIRE merged into SWCC SHOWA UNIMAC
 Sold the rubber wire business
 Dissolved DAJI
 FY2021: Transferred the anti-seismic and anti-noise business to SHOWA SCIENCE
 SHOWA RECYCLE merged into LOGIS-WORKS
 Reorganized the domestic production bases for communication cables and dissolved AOMORI SHOWA ELECTRIC CABLE
 Sold the Ebina Factory
 FY2022: Integrated SFCC's construction-related manufacturing and sales businesses

<Profit Improvement Results>	FY2020	FY2021	FY2022	Cumulative total
Integration of anti-seismic and anti-noise businesses		1	1	2
Integration of SFCC's manufacturing and sales operations			3	3
Rationalization of magnet wire business	3	3	3	9
Shifting wire harness business overseas	5	7	7	19
Reorganization of communication cable production bases	3	8	8	11
Total (Unit: 100 million yen)	8	14	22	44



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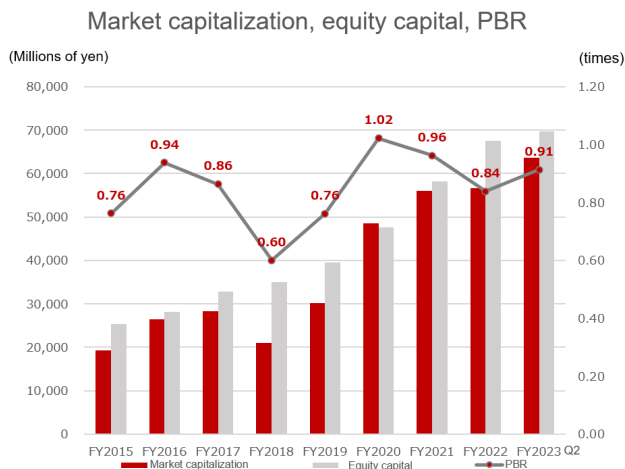
As for capital efficiency, we introduced ROIC in 2019 and first used it as an index for reviewing our business portfolio. Until last year, we have been engaged in various consolidations.

ROIC is staying at 7% so far, but I believe that this index is not yet widespread among all employees and there is still a lot of room for improvement.

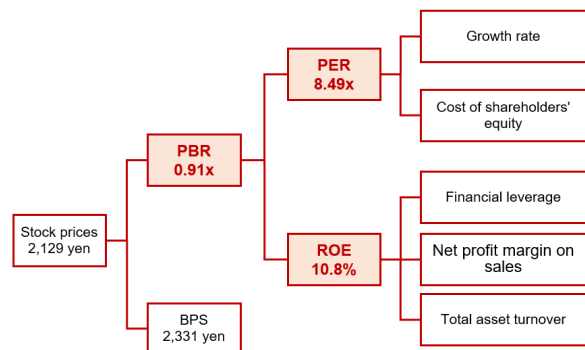
Current status analysis (2): Market valuation transition and decomposition of PBR factors



PBR ratios are rising as profitability improves, but are still below 1x recently. In addition, the market is expected to have a low evaluation of the Company's growth potential based on the level of PER.



PBR factor decomposition



* Share prices are closing prices on September 29, 2023.
 * All indicators are based on the balance at the end of September. However, profit ratios are the figures announced for the full year.

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And then there is the evaluation from the market.

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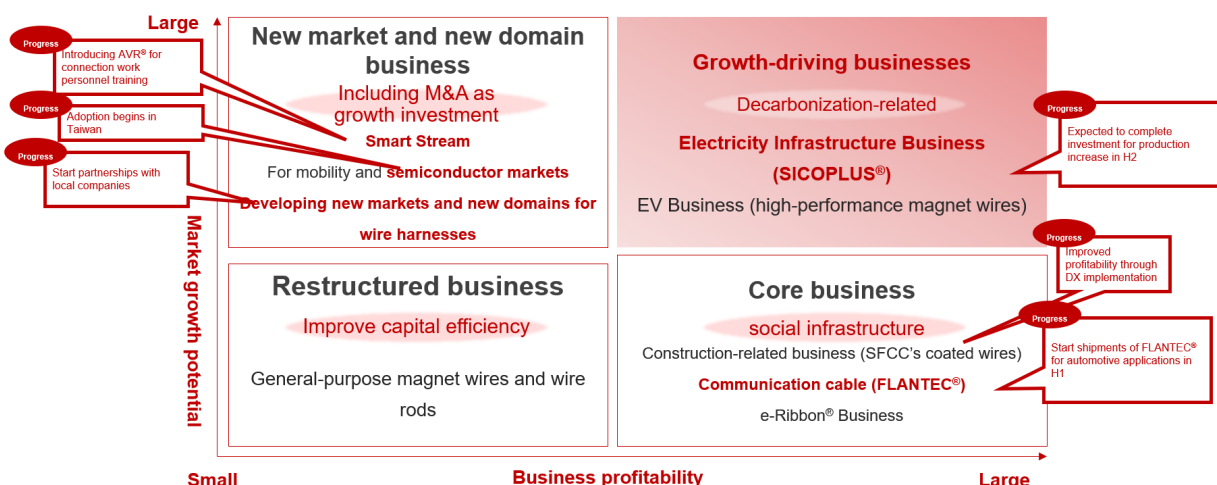
As of the disclosure on the 2nd, the PBR was 0.91. We have been conducting our business based on the realization that what we are doing is not well received by the market. The Board of Directors and the Executive Committee have been involved in various discussions on why this is the case.

Our growth strategy is not very attractive, and we have come to the conclusion that we cannot be judged as a company that will grow in the future. I think we need to explain our growth strategy a little more to everyone. We have come to the conclusion that we must be recognized as an attractive company.



"Business Strategy" Promotion of businesses that solve social issues and optimization of business portfolio

We aim to generate further profits by promoting concentrated investment in growth-driving and core businesses and by promoting the structural reform of the businesses. We will also develop businesses for new markets and domains based on our core technologies. We will expand our business through open innovation, internal ventures and M&A.



We are still in the process of reviewing the medium-term management plan, and I cannot tell you everything about how we will expand our business in the future. The most important idea is to invest in our core businesses and growth-driving businesses within the three main businesses. We are going to put our funds with the first priority being how much we can improve that business, including the seepage field first there, and make it a profitable business.

Our distinctive electric power component called SICONEX is now experiencing balanced supply and demand as we have received quite a few inquiries and our customers have been waiting for a long time. With the increase in production there, the amount of equipment will be about 1.5 times bigger. We believe that if we produce well, we will be able to double our current production. We are investing over JPY2 billion this year, and we believe that if we do this, our electric power business will become even stronger.

Next is infrastructure, our core. We took over Furukawa Electric's construction business into SFCC, which accounts for a large percentage of our earnings, and first established a sales company, and then integrated production to achieve efficient production.

When the merger was just completed, there were five locations, but these have now been consolidated into two and are being handled by our company. We have a much more efficient way of making things now, and we are also planning to relocate some of the copper wire drawing equipment currently in Sendai to the Ibaraki plant, so that all processes from copper wire making to wire finishing can be carried out in one plant. We believe that it will allow us to work even more efficiently.

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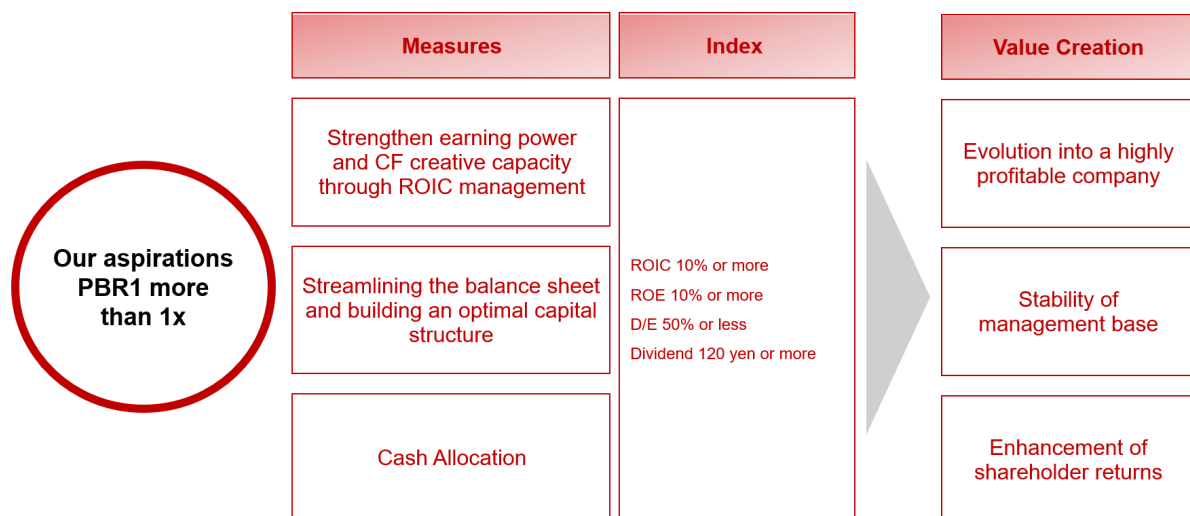
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We are also investing in communication cables for automobiles.

While it is a new field, we are now working on human resource training for connection work and using AVR, and we have also started to produce probe pins for semiconductors as a derivative product using copper. We would like to transform our businesses, and not just this business, into more value-added businesses, and I believe that we must invest in this area in the future.

"Financial Strategy" Overall financial and capital strategy



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These are our financial strategies.

The indicators I mentioned earlier are written here. We are not yet a very profitable company, with an operating margin of just over 5%, but we believe that we can still improve profitability by firmly transforming our portfolio and changing our product portfolio. So, we will continue to pursue this policy without any change. Of course, there will also be no change in our stance of generating profits and returning profits to shareholders.

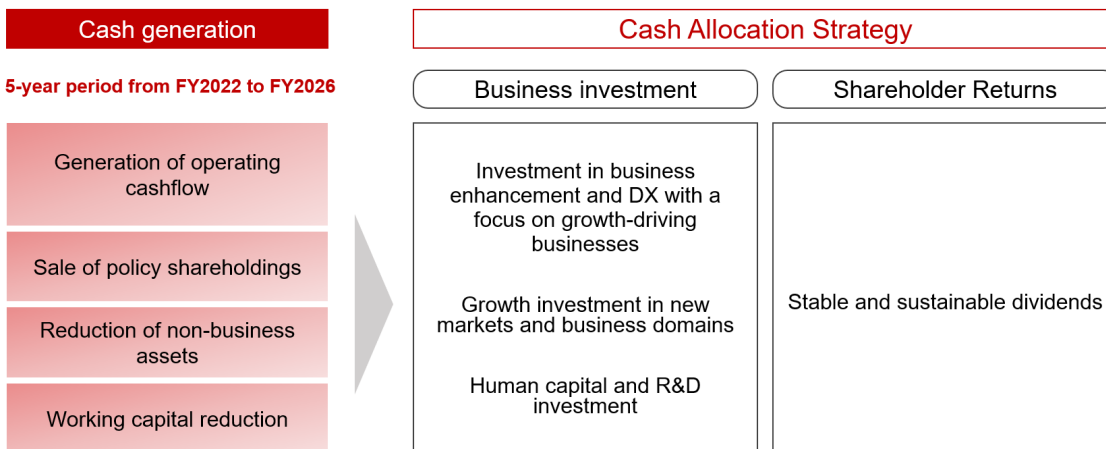
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Appropriately allocate generated cash to the strengthening of core businesses, growth investment in new markets and business domains, and returns to shareholders.



This is our cash allocation strategy.

I won't go into details because I will repeat them again, but I would like to say that our company, where I am not in my sixth year since I took office as president, has been reorganized considerably over the past 5 years, and we are now in a state where we have gained a lot of muscle as a company. Financial strength has also improved as initially targeted.

What is left for us to do is to grow the Company.

I believe that we cannot contribute to you unless we do this properly. We have to find ways to motivate our employees and grow this company in the future. How do we invest in that? With this in mind, we intend to balance investments in new businesses and returns to shareholders.

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☑ Diversity Management

● **From a "Women's Participation Promotion Project" to a "Diversity Promotion Project"**

• The project, which was launched in April 2021, has added male members from April 2023 to promote efforts to raise awareness of unconscious bias.

● **Extend the retirement age and introduce an optional retirement system**

• Creation of an environment in which experienced and seasoned employees can work with confidence.

☑ Increase engagement

● **Expand systems to match the needs of the Company and employees**

• In order to realize the placement of the right person in the right job, the job challenge system and internal recruitment system will be expanded and enhanced.

● **Establish a compensation system that encourages challenges**

• Transition to a compensation system that more appropriately reflects the efforts and achievements of employees who take on challenges.

● **Creating a comfortable working environment**

• Promotion of teleworking and flexible work hours. Introduced health promotion app and thanks points.



This is a non-financial strategy, but if you are interested, you can look at our Integrated Report for details. First and foremost, we would like to emphasize the importance of diversity, and by diversity I do not mean only for women, but also for everyone, regardless of age, nationality, gender, career, or anything else to head toward the same direction in order for the Company to grow. We are working on a project to promote this.

We are also extending the retirement age to 65 years old.

Also, we must not forget to improve engagement. Of course, we must create a workplace that is easy to work in, but I believe that it is also important for employees to be able to fully express their talents, so we must hold dialogues with employees while rolling out various systems.

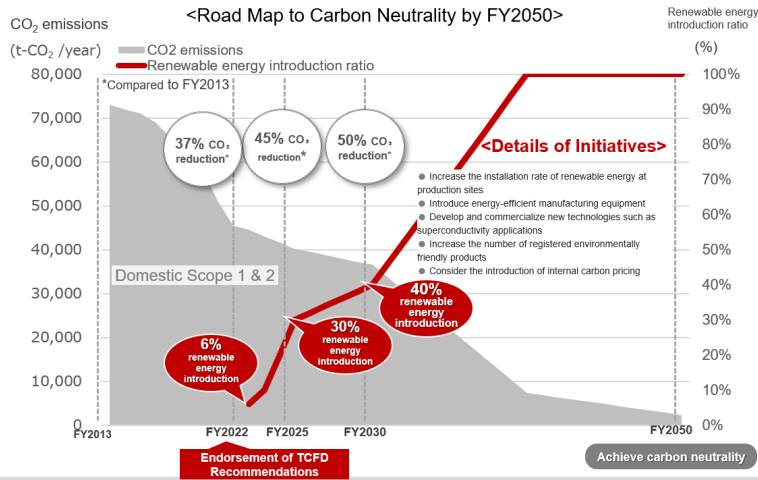
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Non-Financial Strategy: Contribution to a Decarbonized Society

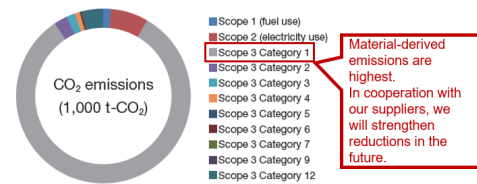
We aim to achieve carbon neutrality by 2050 by implementing various measures, including the introduction of renewable energy at domestic manufacturing sites, promotion of procurement of non-fossil energy, introduction of high-efficiency and energy-saving equipment using new technologies, and reduction of material-derived emissions through cooperation with suppliers.



FY2022 Results

GHG Protocol Scopes for Calculation	CO ₂ emissions (1,000 t-CO ₂)
Scope 1 (fuel use)*	8.8
Scope 2 (electricity use)*	40.5
Scope 3	
Category 1 Purchased goods and services	478.3
Category 2 Capital goods	15.4
Category 3 Fuel and energy-related activities not included in Scope 1 and Scope 2	9.7
Category 4 Upstream transportation and distribution	4.1
Category 5 Waste generated in operations	1.8
Category 6 Business travel	0.8
Category 7 Employer commuting	0.9
Category 9 Downstream transportation and distribution	0.1
Category 12 End-of-life treatment of sold products	21.8

*5: All bases in Japan



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This is our contribution to a decarbonized society.

We have released a mid-term plan for CO₂ reduction, and so far we are making good progress. In 2022, our company reduced its emissions by 37% compared to FY2013. We are currently implementing various measures to achieve a 50% reduction by 2030.

However, progress is a little slow in the introduction of renewable energy. We are working on PPA and off-site PPA for solar panels, but we are a little behind schedule. We expect the numbers to start rising in the next fiscal year.

We may have to consider carbon offsets and credits in the near future, but I think we will proceed with one measure at a time while carefully considering the situation.

That ends my incoherent explanation, but that is our report on our business performance at the end of Q2. Thank you very much.

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