

Small Meeting for Institutional Investors / Q&A Session

Date: Friday, 12 March, 2021 14:30~15:30 / 16:00~17:00

Location: Nihonbashi Kabutocho, Chuo-ku, Tokyo

Overall business

Q1. Material inflation has been occurring in Europe and the U.S. due to the shortage of containers, etc. Is there any impact on your business?

A Our overseas sales account for only about 8% of our total sales. Therefore, there is no significant impact on us as other companies with a large overseas sales ratio.

Q2. Copper prices have been rising. Is there any impact on your business performances?

A The rise in copper prices is bigger than we expected, but we have been working to balance copper prices by, for example, futures trading since several years ago.

Q3. In terms of ROIC management, what do you think about controlling assets and capital?

A We will utilize the ROIC tree and begin to control assets by reducing inventories and lower the amount of copper in stock. We are planning to utilize IoT as a means to realize this, and to centralize the Construction/Electricity business from orders to logistics to manage inventory and production. It has been a year since we started using IoT and AI, and we believe that we have been controlling the asset to some extent through efficient inventory management..

Q4. Regarding DX, your core system has been converted into cloud-based?

A We have partially started cloud computing. The Digital Innovation Promotion department has gathered engineers and utilizing the open system. We plan to form a team and start full-scale efforts from the next fiscal year.

Q5. Please tell us where there is a change from the mid-term point of this fiscal year in the market outlook.

A Construction in the Energy & Infrastructure Business has not yet recovered to the previous year's level, partly due to the impact of COVID-19. In the electric power business, demand is on an upward trend as electric power companies are making plans to address their facilities' aging. The market for the Communication & Industrial Device Business has not changed much. In the Electric Equipment & Component Business, demand for automobiles suddenly rose in the second half of this fiscal year due to the accelerated shift to EV. We think it will be difficult for the general-purpose winding wire business to recover due to a decrease in demand for the

replacement of general-purpose equipment caused by the COVID-19 disaster. There is no particular point of concern, and we do not believe that the trend will change significantly in 3Q and 4Q.

Structural Reforms

Q6. What is the overall progress rate for structural reforms?

A Half of the measures in the total have been decided. If the decisions are completed in FY2021, it is expected to be achieved by about 60%.

Q7. Please tell us if you have any medium to long-term plan for investment scales, schedules, areas.

A The first one is the electric power business. The key point is whether to secure construction personnel while increasing production and go to the next step without breaking down the business model. The other is automobiles. Currently, we have begun to consider the scale and timing of the investment, so we cannot disclose the specific figures. We would like to review them in conjunction with the redesign of the medium-term management plan and inform at the appropriate timing.

Q8. When will the effects of structural reforms emerge?

A We believe that the fact that we did not go into the red when sales did not increase due to the impact of COVID-19 is one of the effects of the structural reform. We believe that the effects of the structural reforms are being emerged in the year after implementation and the year after that.

Q9. What measures are currently most effective?

A Efforts are being made to integrate companies and convert them to independent capital. In addition, revisions to procurement methods have been effective, such as the centralized procurement of items that had been procured by individual companies before. In the next fiscal year, we will reorganize the domestic bases of the Telecommunication cable business, and we think that the effect of raising profitability will emerge from FY2022.

Q10. Could you please tell us about the room for structural reform, the target areas, and when they will be tackled?

A Regarding the room for structural reform, the reforms related to core businesses will be largely completed by the end of FY2021. After that, portfolio review remained, which will be decided in 2021.

Q11. What are the specifics of a well-balanced portfolio?

A Currently, 60-70% of our sales are for the infrastructure market. We think it will be difficult to keep profits constant unless we increase the businesses such as EV which has different economic cycles and rhythms from infrastructure. We intend to increase the ratio of automobiles and industrial equipment, and in order to achieve this, we will also consider M&A.

Energy and Infrastructure operations

Q12. Regarding the decision of investment for SICONEX, how do you expect the demand will be after investment?

A We plan to increase production by 1.5 times compared to FY2017. In the future, there will be a demand of about 1.5 times in the aging of the electric power-related facilities. In addition, demand for renewable energy and wind power will come in.

Q13. What are the key factors that led to the decision to invest in SICONEX to increase production?

A Currently, we have so many orders that cannot be produced and we are operating at almost full capacity. It is a good time to invest, as it is expected that there will be three demands: anti-aging measures, renewable energy, and disaster prevention.

Q14. How many years do you plan to achieve a production capacity of 1.5 times?

A Construction is scheduled to be completed in April 2023.

Q15. Are other companies still working on porcelain products that will compete with your SICONEX?

A There are still some. There are companies that manufacture porcelain products, but power companies are gradually replacing them with our SICONEX when they become obsolete. From the perspective of disaster prevention, we believe that this trend will increase further.

Q16. Will you be able to get a share of the porcelain product in the future?

A Since our product lineup also includes high-voltage products, the trend of replacing old ones with non-porcelain is well established, and there are demands for renovations for aging facilities, we believe that we can still increase our market share.

Q17. What are your plans to deal with the problem of manpower shortage in the replacement of older electric power equipment?

A As for the shortage of construction manpower, it is necessary to consider how to allocate resources, including collaboration, securing human resources, automation, and the use of drones for monitoring. We are fully aware that this is an important issue.

Q18. Please tell us about the future outlook for the construction field of the Energy & Infrastructure Business.

A The construction and electronics sales market is expected to decline at a certain rate amid a declining population in Japan, and we have formulated a medium-term management plan.

Q19. Could you tell us about the situation of SFCC?

A We had a difficult time in the first quarter due to the start of SFCC in the midst of the COVID-19 disaster, but as we progressed in the second and third quarters, we are back on track.

Q20. Are there any double costs associated with the realignment of production systems in the next fiscal year?

A As for the overseas transfer, domestic and overseas production overlap temporarily until the certification of overseas products is obtained. It is true that efficiency will decline temporarily, but plans are in place to prevent profits from falling.

Q21. How much effect do you see from transferring production overseas?

A Since some products will be withdrawn due to structural reforms while continuing production, relocation overseas may have a negative impact in FY2021. Profitability is expected to rise in FY2022, when the relocation is completed. Specific figures are not yet available, but we expect ROIC to be higher than it is today.

Communication and Industrial device operations

Q22. Regarding structural reform of the shift to local production & local consumption, there is a concern that you will be involved in local price competition, but how do you plan to add value?

A We have an advantage in that our wire harnesses for home appliances are used in high-grade Japanese home appliances. We are adopting a strategy to expand our capacity by aiming to increase sales in the high-end market.

Q23. Can we think that demand for “GIGA School” will continue in the next fiscal year?

A We think it is approaching an end in the sense of the sales of our cable. We think that there are still some demands for construction work.

Q24. How much weight do you plan to give to overseas operations in the medium to long term?

A The overseas businesses we want to expand are currently concentrated in the Communication & Industrial Device. We have disclosed our overseas ratio plan as 32% for FY2022 and we expect to exceed the plan since we are strengthening our wire harness plant in Jiaxing, China. Our sales target is 1.5 times the current level.

Electric equipment and Components operations

Q25. What exactly are automotive windings used for?

A We manufacture some of the windings used in motors and sub-motors for automobiles. We want to expand this market, so we will be investing in it.

Q26. I understand that the current winding business is not profitable, but is the winding business for automobiles different?

A The low-profitability winding is the part of general-purpose winding used for heavy electric machinery, etc., which is different from the winding for automobiles. We are narrowing down the production of general-purpose winding wires and shifting from general-purpose products to automotive products.

Q27. What do you expect from your relationship with the Futong Group regarding EV business?

A What we expect most from the alliance with the Futong Group is that we can procure the wires for our wire harnesses production from them. Another thing we have high hope is the copper business, where we have DIP forming facilities in Zhejiang Province. China's shift to EV is even more advanced than Japan's, so we are modifying our furnaces to enable mass production.

Q28. Which do you prioritize, the investment in MiDIP or the investment in EV windings? What will be the point of the decision and when will it be made?

A The investment in MiDIP has been brought forward because we made some repairs during the first half of this fiscal year when the operating rate was lower. We would like to invest in increasing production at Unimac in line with the launch of EV. We will determine the timing of the rise in demand for EV.

Q29. Is the capacity of the MiDIP sufficient since it was renovated in the first half of this fiscal year?

A We have managed to produce enough to meet the demand. But the demand is still higher. The market is expected to grow further, so we believe that we still need to invest.

Q30. Is it necessary to make an early decision to invest in the wires?

A We will comprehensively examine profitability, future growth of the market, and the amount of investment.

Q31. Regarding the windings for general-purpose, how do you tackle the low rate of return? Productivity, pricing, etc.?

A We are negotiating appropriate prices with our customers for general-purpose products, but their profitability is low. In terms of manufacturing, we will convert the facilities for general-purpose products to those for high-value-added products.

Q32. Regarding MiDIP, why is MiDIP superior to other oxygen-free copper products?

A The manufacturing process is different from that of oxygen-free copper other than MiDIP. Ordinary oxygen-free copper is made by making a certain amount of lump and removing oxygen through separate processing. It is expensive and contains many impurities.

Q33. What is the competitive environment for oxygen-free copper in EV windings?

A We are currently manufacturing products for high-end applications, but it will be necessary to determine the level of oxygen-free copper required for middle-class applications. In this respect, I think our strength is that our staff, who are well versed in the characteristics of oxygen-free copper, are manufacturing windings.