

SWCC SHOWA HOLDINGS CO., LTD.

Small Meeting for Institutional Investors / Q&A Session

Date: Tuesday, 31 August, 2021 14:30~15:30/16:00~17:00

Location: Nihonbashi Kabutocho, Chuo-ku, Tokyo

## **Overall business**

### **Q1. How should you consider the impact of copper prices on your performance?**

A It is stable in terms of trading transactions. The impact of trading gains and losses has almost gone. However, revaluation has some impact. Although we do not announce the specific figures, its impact of several hundreds of million yen is included in the 1.4 billion yen increase in operating profit in the domestic business. In the future, we will manage our business so as not to be affected by copper prices, such as by increasing the number of products and services that use less copper.

### **Q2. To what extent do you factor in the impact of the spread of the delta variant of the new Coronavirus?**

A This is one of the factors that left the full-year forecast unchanged. Currently, no status has occurred, such as a cluster occurring within our factory and ceasing operations. Due in part to the shutdown of automobile manufacturers' factories, restriction of commuting in Vietnam, etc., we are cautiously looking at the impact of the shutdown. However, we do not expect this to have a significant impact throughout the year.

## **Structural Reforms**

### **Q3. You have adopted ROIC management, and reforms have been implemented. Is there still room to cut the denominator? And are there any fields that you expect to grow the numerator?**

A The denominator still has room to be cut. We think there is still some area where inventory is too much. However, there are some difficulties with the current method. So we will permeate ROIC management to the finest extent by using DX and ROIC trees

In terms of expanding the numerator, we are eyeing large markets, such as offshore wind and other renewable energy sources, which we have not seen so much before. In the Electrical Equipment and Components Business, we believe that the numerator will grow by developing its business from upstream materials to slightly downstream value-added products. In addition, we would like to develop our DX case as a solution business.

## **Energy Infrastructure Business**

**Q4. What is different between SICOPLUS™ and SICONEX®?**

A SICONEX® is the brand name of the product. SICOPLUS™ is the name of the total service brand that includes cable, construction, etc., with SICONEX®. In the future, we would like to increase the size of SICOPLUS™ as a solution business by expanding the training program.

**Q5. How is the share of SICOPLUS™ calculated? For most of the substation renewal and expansion market, SICOPLUS™ is adopted as default?**

A The share is calculated by ourselves based on the orders for our SICONEX® (components), cable, and construction, relative to the total market size of substation renewal and expansion market. And as you mention, SICOPLUS™ is adopted as default for most cases.

**Q6. What kind of image do you have regarding "strategic alliances" and "M&A" presented as future strategies for the electric power business?**

A We can expand of production of SICONEX® by increasing the manufacturing facilities, but at the same time, it is difficult to secure the construction capacity and the installation personnel. SICOPLUS™ is to create educational programs and firmly establish cooperation systems and sales expansion systems with third parties. In the future, we are considering that we will establish an education program in cooperation with venture companies, etc.

## **Communication and Industrial Device Businesses**

**Q7. What are your thoughts on trends in the optical fiber market?**

A North America and some of the Southeast Asian countries are moving toward 5G. But as the largest market, China, remains stagnant, we think the market as a whole will not grow drastically soon. The problem of shortage of semiconductors and chips between the United States and China has a large impact. We think there will be no rise in demand until next year.

## **Electrical Equipment and Components Business**

**Q8. We heard that the production of Oxygen-free copper for automobiles has been close to full operation since the 2H of the previous fiscal year. Is this the main reason for 1Q's profit expansion? Or due to changes in the product mix or something?**

A Technological development has been advancing, and we have come to be able to produce Oxygen-free copper at a high level with stability. The impact of this is reflected in the last fiscal

year's 2H and 1Q of the current fiscal year. But there still is room for technological development and profit growth. And general-purpose products also performed well. Mainly because many customers procured industrial-use winding wires from us this year due to the problems of overseas supply-chain. (There were almost no industrial-use winding wires sales last fiscal year.)

**Q9. The EV market in China is said to be centered on the low-price range. I think that Oxygen-free copper is over-spec for a low-price EV market. What do you think of this point?**

A This is an issue for the new medium-term management plan. There's an opinion that low-price coppers meet the demand for the mid and low-end EV market. So we are gathering and considering how we can strike a balance with Oxygen-free coppers at this point. We would like to explain this in the new medium-term management plan.

**Q10. What are the competitors in the automotive products and your market positions?**

A For MiDIP<sup>®</sup>, it can be said that there are no competitors in the sense that we are the only company with this manufacturing facility in Japan. MiDIP<sup>®</sup> is for high-quality motors only, so not used in all cars, but we consider it competitive.

As for heater wires, we produce them with copper-silver alloys made of copper and silver. They are used for seat heaters, handle heaters, and battery heaters in luxury cars. There are two domestic competitors, but they do not use copper-silver alloys. Our products are hard to break and have a strong durability to bending. Not only in Japan but also there are overseas demands for seat heaters.

**Q11. Are automotive winding wires included in general-purpose products?**

A As winding wires for automobiles are included in "Other high-performance products", they are not general-purpose products.

**Q12. Compared to 2 years ago, there are major changes in the Electrical Equipment and Components business. Is this affected by copper prices?**

A The impact of copper prices is somewhat affected. But we believe this is mainly due to an increase in the number of xEV vehicles using high-performance products. And an increase in shipments due to an increase in the production of high-grade Oxygen-free copper due to our technological innovations.

**Q13. Do 1Q net sales of the Electrical Equipment and Components business include the impact of copper prices? Your 1Q operating profit is already more than half of the full-year profit forecast. Is there any upward revision to the full-year earnings plan? If not, what risks are you factoring in?**

- A The impact of copper prices was partly offset by favorable sales of general-purpose products as well as high-performance products due to 1Q supply-demand balances. As for the full-year earnings plan, we are carefully looking at the impact of the movement of automobile manufacturers' factories shut down and other factors.

## **New Businesses**

### **Q14. What is the progress of verification tests with BASF on superconductivity?**

- A The construction period has been longer due to the impact of the Corona disaster. The demonstration test is scheduled to be completed in September 2021. Currently, progress is being made as planned. The company hopes to commercialize this product under the new medium-term management plan.