

**Condensed Transcript of Q&A Session Regarding Business Strategy**  
**Meeting for the Fiscal Year Ending March 31, 2021**

Date: October 30, 2020 (Friday) 9:30–11:30

**Power Electronics Systems Energy**

Q. What was the growth rate for the comprehensive electrical equipment business in the power supply and facility systems business? How does the profitability of this business compare to businesses dealing in standalone products?

A.

- Orders in the comprehensive electrical equipment business grew 5% year on year in the fiscal year ended March 31, 2020, and we expect to see particularly large growth in orders for data center projects in the fiscal year ending March 31, 2021.
- Profitability is increasing with each coming year as we standardize switchgears and controlgears, ramp up in-house manufacturing, shorten lead times, and improve manufacturing productivity.

Q. How has the outlook for data center demand in the power supply and facility systems business changed as a result of the global COVID-19 pandemic? Also, how is the competitive climate in this business?

A.

- In the fiscal year ending March 31, 2021, the Japanese data center market has been growing in comparison to the fiscal year ended March 31, 2020, particularly with regard to data centers for foreign companies. Fuji Electric has been acquiring orders against this backdrop. We expect that such customers will continue to advance data center plans going forward.
- Fuji Electric must compete with major electrical machinery manufacturers. However, we are confident in our ability to acquire orders through means such as comprehensive electrical equipment proposals by capitalizing on the strength of our trust-based relationships with customers and our robust delivery track record.

Q. What is your outlook for the recovery of ED&C component demand and on what factors will this recovery be conditional?

A.

- Looking at order trends in the fiscal year ending March 31, 2021, we project that third-quarter orders will be in line with second- and first-quarter orders and that fourth-quarter orders will be up slightly. ED&C components demand is unlikely to recover if orders from machinery and switchboard manufacturers do not pick up.
- It is difficult to project the speed at which the market will recover amid the global COVID-19 pandemic. Accordingly, we will take steps to strengthen our constitution by significantly lowering the break-even point to hedge against the possibility of the current conditions continuing for one or two years, or even for several years.

Q. To what degree will fixed costs be reduced through structural reforms in the ED&C component business and withdrawals from unperforming product lines and what is the projected timeline for these reductions?

A.

- We have been advancing structural reforms since the first half of the fiscal year ending March 31, 2021, and we aim to complete these reforms within the fiscal year. These reforms are anticipated to reduce development and other fixed costs by more than ¥1.0 billion.

#### **Power Electronics Systems Industry**

Q. Has there been any delays in deliveries pertaining to orders from Central Japan Railway Company for products for use in N700S Shinkansen bullet train railcars as a result of the global COVID-19 pandemic?

A.

- There have been no delivery delays with regard to these orders stemming from the COVID-19 pandemic.

Q. How are market conditions for SOx scrubbers and when are these products expected to begin contributing to profits?

A.

- Demand for units for existing vessels is stagnant as the benefits of SOx scrubbers are currently low given the recent heavy oil prices. However, there are opportunities to acquire orders for units for new vessels as use of SOx scrubbers is being examined from a medium- to long-term perspective. Furthermore, Fuji Electric is currently moving forward with efforts to acquire orders for the larger-sized SOx scrubbers launched for use in large-scale vessels in April 2020.
- We do not expect these products to begin contributing to profits under the current conditions, but we do anticipate contributions in the final year of the medium-term management plan.

Q. With regard to the IT solutions business, many commentators expect that projects related to the GIGA School Concept will have low margins. Do you anticipate that profit will grow as a result of increases in sales from such projects?

A.

- Fuji Electric's involvement in projects related to the GIGA School Concept will primarily be related to the installation of terminals and networks. Profit margins are low with regard to terminals in particular. Fuji Electric therefore aims to grow profits through network installation and other operations targeting the academic sector.

### Electronic Devices

Q. The operating margin in the second half of the fiscal year ending March 31, 2021, has been improving in comparison to the first half of the fiscal year. Is the operating margin projected to continue improving going forward?

A.

- We forecast that sales will grow on the back of rising demand for electrified vehicles in the fiscal year ending March 31, 2022, and beyond. By capitalizing on this sales growth, we hope to lift the operating margin above 10% as quickly as possible.

Q. The financial results presentation for the fiscal year ended March 31, 2020, stated that it is possible that sales may exceed the levels indicated in the medium-term management plan. In what areas will these higher-than-projected sales be seen?

A.

- We see the potential for sales to the automotive field to exceed forecasts. Some automobile manufacturers posted record-breaking production volumes in September 2020, and it is therefore possible that demand for products for engine applications will surpass the forecast levels going forward. In the industrial field, we anticipate demand for 5G-related products, for machine tools for smartphone manufacturing, and for products for industrial machinery.

Q. Will the second-half rise in sales of products for electrified vehicles (xEVs) be attributable primarily to existing customers or to customers to which deliveries commenced in the fiscal year ending March 31, 2021?

A.

- Sales volumes are rising for automobile models for which mass production commenced in the fourth quarter of the fiscal year ended March 31, 2020. Sales increases associated with these vehicles and others in the fiscal year ending March 31, 2021, will predominately be from existing customers.

Q. How much will sales of products for electrified vehicles grow in the second half of the fiscal year?

A.

- Sales of products for electrified vehicles will grow by approximately 80% year on year.

Q. What are the reasons behind Fuji Electric's ability to achieve growth in automotive semiconductor sales that exceeds the market growth rate? Also, what is Fuji Electric's competitive advantage in comparison to competitors?

A.

- Sales growth in the fiscal year ending March 31, 2021, will be driven by the full-fledged mass production of vehicles for which deliveries were commenced in the previous fiscal year as well as by the adoption of Fuji Electric products in strong-selling sport utility vehicles. Our competitive advantage over competitors stems from the fact that we began applying RC-IGBTs to automotive applications a step ahead of them. Our [RC-IGBT] products are compact while also boasting an output electricity density that is 60% greater than that of rival offerings. Chinese rivals lack RC-IGBT technologies while European and U.S. rivals are not using these technologies for automotive applications.

Q. How is progress in specification incorporation activities pertaining to xEVs ?

A.

- Our specification incorporation activities are progressing smoothly. Automobile manufacturers are currently promoting sales of eco-friendly vehicles. We have recently been successful in encouraging new customers to embrace our specifications. In fact, Fuji Electric's specifications are being utilized for a larger number of automobile models than had been initially projected, and we expect that this number will continue to grow going forward.

Q. Could you please offer details in regard to Fuji Electric's competitive edge, future outlook, and market share in the area of semiconductors for new energy applications?

A.

- Our strength comes from how our products are being used by major manufacturers of power conditioning systems and solar and wind power generation equipment. We are currently in the process of commercializing seventh-generation IGBTs for new energy applications, and we plan to adapt RC-IGBTs for these applications in the future. I do not have precise figures at the moment, but Fuji Electric's global share for products in these areas is estimated to be between 20% and 30%.

Q. The magnetic disk business is projected to experience a substantial decrease in sales in the fiscal year ending March 31, 2021, amid a medium- to long-term trend toward using solid-state drives in place of hard disk drives. What is the outlook for demand in this business in the fiscal year ending March 31, 2022, and beyond? Will enough sales be generated in the fiscal year ending March 31, 2021, to secure profits in this business?

A.

- It is expected that demand will not recover until we see improvements with regard to the global COVID-19 pandemic and that net sales will remain around the current level as a result. Sales in the magnetic disk business are forecast to decline substantially in the fiscal year ending March 31, 2021, but we still expect to maintain a high profit margin.

#### **Food and Beverage Distribution**

Q. How profitable is the vending machine business? Also, what are your thoughts regarding the oligopoly of vending machine manufacturers?

A.

- We are working to extensively strengthen our constitution in response to the impacts of the global COVID-19 pandemic. Market needs are changing, and the value needing to be delivered by each vending machine is rising as a result. We therefore expect profitability to improve in the vending machine business in the second half of the fiscal year ending March 31, 2021, and in the following fiscal year.
- Fuji Electric is committed to pursuing greater heights through competition with its industry peers going forward.

Q. According to slide 8 of the presentation materials, the domestic vending machine market is projected to show an upturn over the period from 2021 to 2023. Specifically, what segments of the market will Fuji Electric target going forward?

A.

- We look to grow our system business in which we seek to help customers operate their vending machines more efficiently. Fuji Electric has delivered more than a million vending machines to date, and there are significant opportunities to be capitalized on for improving how efficiently these vending machines are operated. We also see the possibility to develop new earnings sources through subscription schemes. As for the number of vending machines sold, there is demand for replacing some of the existing machines, but we do not anticipate a swift increase in vending machine sales volumes.

Q. Why is the growth of the vending machine business slow in China?

A.

- China has a massive population, and the vending machine market in this country is expected to grow going forward. However, the growth of this market will differ from that of the Japanese vending machine market during its growth period as consumers in China have the option to buy beverages from convenience stores as well as from vending machines. Meanwhile, the diversification of needs arising from the trend toward cashless payments and e-commerce is making for a complicated operating environment.

Q. How are orders in the store distribution business, and what is the outlook for this business going forward?

A.

- I cannot offer concrete details regarding specific products due to agreements with customers, but I can say that we have already received orders for renovation projects. There is demand from customers to promote sales of items displayed on counters in order to improve daily sales, and there has been a rise in negotiations pertaining to products such as counter fixtures and self-service registers that allow for cashless and non-face-to-face payments.

### **Power Generation**

Q. The government of Japan has announced its plan to decommission 100 coal-fired thermal power plants. How will this plan impact the after sales business?

A.

- Customers are responding to this government policy in a variety of ways. Fuji Electric sees this development as an opportunity, and we aim to utilize our proposal capabilities to engage in new business negotiations.

Q. What overseas regions are being prioritized in renewable energy operations?

A.

- For geothermal power, we are prioritizing regions with access to geothermal heat sources. As for solar power, we are primarily focusing on Southeast Asia.

Q. Given the favorable conditions in the domestic wind power market, what are Fuji Electric's strengths and strategies?

A.

- In the wind power field, we are currently engaged in one onshore wind power engineering, procurement, and construction project in Japan.
- We are capitalizing on Fuji Electric's strengths, namely the electricity storage, stabilizer, ultrahigh voltage, and transformer technologies it has cultivated in the solar power field. As for offshore wind power, Fuji Electric will focus its efforts on ground facilities.

Q. Fuji Electric engaged in unprofitable projects in the fiscal years ended March 31, 2019 and 2020. Is there any risk of costs increasing in the second half of the fiscal year ending March 31, 2021?

A.

- At the moment, we have not identified any risks of unpredicted losses.