

Financial Results for Fiscal Year 2019

April 1, 2019 - March 31, 2020

(Q&A)

【Event Summary】

Date : June 5, 2020 15 : 00~16 : 00

Venue : Teleconference

Speakers : Toru Kurono	President and COO
Hideto Iida	Head of Production Division, Executive Officer
Akitaka Tejima	Head of Business Management Division, Executive Officer
Takaaki Mano	General Manager in Charge of General Affairs Department

Question & Answer

Q: Last fiscal year's results were very good even compared to the medium-term management plan. This fiscal year, however, you mentioned there will be some impact of COVID-19. You still anticipate sales at a level that exceeds the medium-term management plan, and I assume this is also the result of M&A, but can you tell us a little more about the background of why profits are likely to fall short quite significantly compared to the medium-term management plan?

Tejima: You pointed out that the benefits are slightly weighed down. That is the case. As sales decline in the distribution board business, it becomes more difficult to cover fixed costs, and marginal profit declines. As I mentioned in the presentation, the distribution board-related business accounts for 81% of total profits, so the impact is significant when it declines.

Also, we have a relatively positive view of the telecommunications-related distribution business. If the top line here goes up, the profit margin will go down, which is inevitable in the overall mix as this is a trading business. So, we assume that profits will inevitably be weighed down.

Q: Regarding the outlook for the current fiscal year, it is based on past experience that the impact will be delayed by about six months or so. But in the first half of the fiscal year, the negative rate is slightly larger. Is this mainly because the pullback from the school air conditioning market will be large in the first half of the fiscal year? If there are any other factors, I would like to know.

Tejima: As you just mentioned, when we compare it YoY, the first quarter of the previous fiscal year saw fairly robust performance of distribution boards, including for school air conditioning. In a usual year, production increases from the first quarter to the second, and from the second quarter to the third. However, in the previous fiscal year, due to the contribution of school air conditioning systems, both production and sales were fairly high through the first and second quarters. The relative drop from there is also large.

The assumption for stronger performance in the second half of the fiscal year is based on higher expectations in the second half, including 5G-related business. Therefore, if we look at the first half and the second half of the fiscal year, we expect a major dent in the first half due to the reasons you mentioned.

Q: Considering the trend that the impact will be felt six months later, in terms of the impact of COVID-19, is it better to assume that the impact will not completely run its course during the current fiscal year, and that a considerable impact will still remain until around the first half of the next fiscal year?

Given the assumption that economic activity will recover from the second quarter, what is the current view of the situation? Do you think that the effects will almost settle down in the current fiscal year? Could you tell us what is the current view of the situation?

Kurono: The situation is very unclear, and we expect the distribution board business to be affected up to the end of the fiscal year under review.

In the next term, for example, it's possible that buildings are not built, and construction activities are shrinking, or projects are being postponed or downsized for restaurants, tourism, et cetera. If we think this situation will continue, it is possible that we will face some weakness in the next fiscal year as well.

Nevertheless, another possibility is that there will be smooth recovery without such incidents. We assume that the situation is truly uncertain.

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