

Financial Results for the Second Quarter

Fiscal Year 2021

April 1, 2021 - March 31, 2022

(Q&A)

【Event Summary】

Date : December 1, 2021 15 : 00~16 : 00

Venue : Shinko Building Nihonbashi 1 9F, 1-17-10 Nihonbashi, Chuo-ku, Tokyo

Speakers : Toru Kurono President and COO

Koichiro Sato Head of Sales Division, Director

Akitaka Tejima Head of Business Management Division, Director

Nobuki Kato Financial Planning Office Manager

Question & Answer

Q : You have announced a revision to product prices. I think you have indicated that soaring prices of raw materials will be a factor that slashes income by JPY1.7 billion for the current fiscal year. I wonder if the price revision starting next July will bring back the JPY1.7 billion or not, and of course, whether it will be accepted or not because of the competition. Also, is there any risk of losing your market share? Please show us your prospects, including the achievements of the price hike in 2018. This is the first question.

Kurono : First of all, we have announced the price revision while we expect that our operating income will decrease by JPY1.7 billion. However, this JPY1.7 billion is for the current fiscal year. The prices of our iron materials were not affected much in H1. Since we began to be affected in H2, our estimate of the negative effect on the fiscal year ending March 2022 has come to the JPY1.7 billion.

For the next year, the fiscal year ending March 2023, as the rising iron prices will take effect for the entire year, we estimate that the surge in materials prices will total around JPY3 billion. In this case, the question is whether the price revision will be able to cover the JPY3 billion in the next fiscal year. Since our price revision will start in July and will not have an impact for the entire fiscal year, we believe that we will be able to recover approximately 60% to 70% of the amount.

Regarding the price hike in 2018, there was no impact at all, such as a decrease in sales, because our products were attractive and had an advantage, and people who needed our products bought them. This means that the price hike turned into profits.

As for the competition, we hold a market share of 40% to 50% for standard enclosures. Therefore, we assume that the competing manufacturers will follow suit in raising prices.

Q : Question is related to the medium-term plan. In particular, I would like to ask you about your overseas strategy.

In this medium-term plan, I believe you are planning to increase overseas sales by more than 1.5 times to JPY15 billion in the final year. However, in the past, it has been written on some pages about Gathergates and the Thai business that their contribution to the overall profit is low. I wonder if it would be possible to increase profits by increasing sales.

You have been running very good business and generating relatively stable and high earnings in Japan, but I think the overseas business has been a problem. I wonder if it is

possible to do something that will bring the overseas business closer to the domestic operations in the 3 years. Of course, I am aware that the business environment is quite different in Japan from overseas, but please tell us your thoughts on this matter.

Kurono : Let me talk about overseas. As a matter of fact, Gathergates in Singapore had a very strong performance from January to June. As a result, its impact on consolidated sales in H1 of the current fiscal year was a positive JPY800 million or so. The company's sales doubled YoY, so it was doing very well.

Due to COVID-19, the market in Singapore was affected as well as the plant in Malaysia by the lockdown. However, there is still a slight shortage of workers in Singapore for construction projects. It is said that there is a shortage of about 30,000 workers in Singapore right now. As a result, there have been some delays in construction projects, but we believe that orders have been very strong and are showing positive signs.

As we noted earlier, there may be some delays in procurement of products and components due to the global shortages of parts, materials, semiconductors, and others, but orders received are still very strong.

In addition, we have been working on cost reduction activities in Singapore under the guidance from Japan, and we believe that this has had an impact on their profits.

Therefore, the planned increase of JPY5 billion in the medium-term plan is largely based on sales at Gathergates and many others.

Q : I was wondering if it would be possible to bring profits closer to the domestic level by increasing sales.

Kurono : We think it is possible.

Q : On page 35 of the materials, as new businesses in the Distribution business segment, you introduced environmental products, such as LED lighting equipment and self-consumption solar power systems. If you enter this area, what would you say are your special features?

Recently, the business environment is not so bad, but if you engage in that business, what will be your strength in selling your products, which will differentiate yourself from competitors, such as the scale of your business?

Tejima : Suntelephone leads our trading company business.

It has a very wide range of business partners and suppliers. In addition to its traditional transactions, it will engage in the kind of work that we introduced. We will provide self-consumption solar power systems and, in particular, we will provide solutions to the damage of wind turbines by lightning at wind power generation systems already in operation. The subsidiary has a large number of business partners and suppliers, which makes it unique in that it can respond to such problems.

In addition, it has a bit of deft footwork in addressing such troubles due to its wide network. There are still very few companies that are actually dealing with lightning strikes on wind power generation sites or that are actually seeing results, but we are 1 of the first to do so, and we are receiving inquiries from customers.

To be honest, we believe that the most important point in this business is deft footwork and quickness. As SunTelephone is a trading company, it has none of its own products. I think its greatest strength lies in identifying customers' troubles quickly and provide solutions to them.

It's different from a founder's profit, but I think its greatest strength is becoming the first solutions provider that reaps the benefits to some extent and establishes a certain level of business before the price competition starts.

Q : Please tell us about anti-lightning measures.

Tejima : Lightning rods have been around for a long time, and there are manufacturers that make such products to protect against lightning strikes. We propose such products to customers in the course of actual solutions, and they install them. By doing this, we basically provide solutions and make profits by selling the products.

Q : I understand. It's a matter of providing solutions to existing equipment that enable it to operate more stably.

Tejima : That's right. Once the system breaks down, repair work needs a lot of costs and the wind power generation business is suspended. This business provides solutions to avoid such costly repairs as much as possible.

Q : I understand. From this perspective, are there any items or ideas that could generate continuous revenue?

Tejima : Well, lightning strike response and wind power generation itself are not handled by our group. We sell the technologies of other companies to the equipment that our customers have. We also sell self-consumed solar power equipment, but I think it is different when it comes to continuous profit growth.

Q : Question is about Kitagawa Industries in the Electronic Components-Related business. It has been a little while since Kitagawa joined the Group. While the external environment and various other factors have been changing, has specific synergy begun to appear?

In the business plan for the current fiscal year, there is not much change from the past. The company's size is quite small, but while it invests in the EV chamber and others, are there any changes in areas like the activities of utilization, the relations with customers, and so on? Then again, what are the remaining challenges?

I would like to know of your suggestions about Kitagawa's past and future in more detail.

Kurono : You asked about the past and future of Kitagawa. First of all, an EV charger with the energy management function, which NITTO KOGYO launched in the current year, includes a lot of Kitagawa's products for responding to EMC. Therefore, we believe that there is a great deal of technological synergy.

Moreover—it may be of a different significance from the question—we have created synergy in various ways. For example, to cope with the difficulty in securing materials, we are engaged in joint purchasing activities, using each other's purchasing channels and trying to procure materials and parts.

As for quality maintenance activities, though each Group company has established its quality maintenance system, the NITTO KOGYO Group is aiming for a higher level of quality and developing common quality-keeping activities.

I believe that all Group companies have become more powerful with each other's activities and within the Group.

Tejima : As a matter of fact, in the current environment for Kitagawa Industries, electric vehicles come as the first and foremost factor. That is demand from the automotive industry. Also, in the area of electric appliances, air conditioner-related demand is increasing worldwide. Kitagawa's products are being used by a lot of customers.

If you look at the details, its business structure appears to have changed a little since it joined our Group. As for whether the business scale has increased, as you can see, it has not changed that much. Given the current environment, we have high expectations for

Kitagawa's performance related to EVs and other products within the Group. There is strong demand related to vehicles, appliances, and others, such as EMC-related demand, in terms of electrification, in particular. We are also working on heat-related business, which we believe can be expanded significantly as solutions.

Q : In terms of growth, what kind of case do you think about issues like expanding the customer base? Considering the size and expansion of the target market, I guess that you could have aimed at a far higher level than the JPY13 billion you set for the fiscal year ending March 2024. Even if it may be a sufficient target for the former Kitagawa alone, since it has joined the NITTO KOGYO Group and there have been significant changes in capital strength and creditability, so can't you tell quite a different story for the company?

Based on the recognition of the business environment, please show us if you have anything you can share with us.

Tejima : We have started to understand a little more about Kitagawa since we consolidated it. As for EMC-related products, when a new vehicle model is launched in the automotive industry, new EMC countermeasure components will be necessary for the model, and we have come to find that with each model change, these EMC components will no longer be needed.

EMC countermeasure parts are required for every new car or every new in-vehicle product. We are now beginning to see that the process is repeating itself.

Kitagawa trades with major automakers in Japan and has expanded overseas, though it is yet to start talks with European automakers. In this sense, its business is going to expand. Meanwhile, as I have just noted, there is a risk that its specific EMC countermeasure components are no longer needed. It is very difficult for Kitagawa to expand simply.

As I said earlier, since it became a member of the NITTO KOGYO Group, it has not yet been able to get into the so-called EMC countermeasure components for various areas, including base stations of mobile phone carriers. We are looking for ways to expand the entire Group's distribution business, manufacturing business, and Kitagawa's business, so we will do our best to meet your expectations.

Kurono : If I may add, as for new businesses and new markets, they may still be related to electric vehicles. In the area of automated driving, there is no way of thinking about a runaway by noise, so there is a way of launching EMC countermeasures there.

In the energy management business, the EMC technology can be used for energy management of solar power and wind power stations, including storage batteries. Moreover, there is a telecoms-related area, such as 5G, which we will aim for as a new target market.

Q : I have an impression that you are proceeding with the construction of the Seto Plant while the business opportunities and objectives are unclear for the medium term. Is this a right thing?

Kurono : As for the Seto Plant, we have a plant in Nagoya, which is our main plant, near our headquarters. The Nagoya Plant was built in 1967, and it is aging. We were studying whether to take measures against the aging while we operate the old plant, but we have come to the conclusion that it is extremely difficult. As a result, we decided to build a new plant in a new location.

However, we want to make the plant more than just a measure for the aging, but make it a plant for growth. While the existing plant is an old building and its facilities and systems are also old. Thus, we are aiming to build a new plant by making full use of DX and other advanced technologies.

In fact, our company has its strongest point in making a standard product called enclosure. These enclosures contribute greatly to our profits. Standard products do not necessarily mean that customers will be satisfied with all of them. Depending on the time and situation, we may need to match a customer's order for a slightly different size or a different color.

At the moment, such things are being made in a way that is close to handmade. At the new Seto Plant, we will be able to manufacture custom-made products as if they were standard products, with stable quality and stable performance. We aim to produce such products for early delivery. By doing so, we hope to create new demand and we will not just transfer the Nagoya Plant, but we will aim to expand the market further. We are building the Seto Plant based on this decision.

Q : This question is related to page 26. It has been reported that Apple will realize a net-zero impact on climate throughout its entire supply chain and lifecycle of all its products by 2030. What will be the impact of this commitment on your company? Do you have any investment plan in line with this? Please answer the question.

Tejima : You mentioned a very big issue. We are yet to have a specific plan about a big picture of this issue at present. However, the Seto Plant will introduce a self-consumption solar power system toward carbon neutrality. We have been conducting our own investment related to the issue.

When we launch a new product, we also propose energy management promotion measures. I don't know if this answers your question or not, but of course we are considering how we are able to contribute to customers' reducing CO2 emissions by using our product group, such as cutting peak power consumption.

As we are mainly in the manufacturing industry, we naturally need to consider reducing our own emissions, and while we direct our attention to the emissions, we have to provide various proposals and solutions, such as storage batteries for solar power systems. We will repeat verification tests at the new and existing plants, and we would like to develop solutions for customers.

I'm not sure if this is the right answer. We are also aware that this issue will have a significant impact on our performance, but there will also be business opportunities in that area and we will have to reduce emissions.

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