

Financial Results for the Second Quarter

Fiscal Year 2022

April 1, 2022 - March 31, 2023

(Q&A)

【Event Summary】

Date : December 1, 2022 15 : 00~16 : 00

Venue : Webcast

Speakers : Toru Kurono President and COO

Akitaka Tejima Head of Business Management Division, Director

Hiroshi Minoura Head of Development Division, Director

Takaaki Mano General Manager of General Affairs Department

Some explanations are supplemented and key points are summarized.

Question & Answer

Q: I have two questions, and I would like to ask one question at a time.

The first question is, unfortunately, the downward revision to the full year forecast, especially for operating income, seems to have raised the bar a bit for the JPY13 billion target for the next fiscal year in the medium-term plan. There are many factors contributing to this downward revision, but I believe one of them is the further rise in the cost of raw materials.

I think you are still in a situation where the price increases are not offset by the price hikes. Not necessarily to achieve the medium-term plan target, is there a possibility of further product price hikes? I guess that demand may be cooled if you conduct such price hikes, what are your thoughts on this? Thank you.

Kurono: We have revised down our full-year operating income forecast to JPY7.6 billion. Against the JPY13 billion target for the next fiscal year, you asked if the hurdle has been raised. Furthermore, you also asked if it will be alright in the next fiscal year as for the major factor of the surges in raw material prices. As a matter of fact, we have raised the prices of our main enclosures that use steel since July of this year as the first round of price hikes.

In addition, we have announced another price increase to be made in April 2023. This is a continuation of the price increase for those items that could not be raised in the first round. As for the second phase, we understand that there may be some concern that this price increase will result in a decrease in sales, but in fact, taking into consideration the situation with other companies in the same industry, we have decided to delay the price increase, which other companies in the same industry have already done, and announced that we will conduct it next April.

Therefore, we do not believe that our sales will be significantly damaged by this price increase, and we will continue to work toward achieving our goal of JPY13 billion.

Q: The second question. In your medium-term management policy, I believe you mentioned the further improvement of capital efficiency by further raising the ROE target. If I am not mistaken, it sounded as if you were saying that you will continue to promote this concept in the next medium-term business plan. If so, I would like to know if you are planning to continue the current concept of keeping the dividend payout ratio at 100% for the current and next fiscal years, or if you are planning to introduce other types of shareholder returns, such as share buybacks, etc.

Tejima: As you understand, we have stated that we will maintain the dividend payout ratio of 100% for the current and next fiscal years, and that we will continue this capital policy in the next fiscal year and beyond. As a matter of fact, we have not given up on growth investment yet.

We will consider taking an optimum balance between growth and returns, and we have not yet decided on the concept for the next medium-term management plan. We will be working out the details from now on.

So, in case there is any misunderstanding, please understand that the 100% dividend payout ratio is for these two fiscal years, and that is all that has been decided at this point.

Q: I also have two questions. The first point is a bit similar to the previous one. How much of the effects of the raw material price surges and price revisions should we expect for the next fiscal year? I hope you will provide some tips about it.

If you assume that there will be an impact of JPY1.8 billion for the current fiscal year alone and if this will make a full contribution in the next fiscal year and you will make another round of price hikes, will there be the price revision effects of about JPY3 to JPY4 billion? In this context, I would like to confirm that the prices of raw materials for parts and components will not be so bad anymore, because these alone have a considerable impact. This is the first question.

Tejima: At this time, we are not disclosing any figures in terms of the next fiscal year, so we ask for your patience.

However, in terms of raw material prices, we expect that the increase in the current fiscal year will probably settle down a little in the next fiscal year and thereafter, but nothing has been decided yet, so at this stage, I am sorry, I would like to refrain from giving a response.

Q: How about the concept of the price revision? There will be a positive impact of JPY1 billion for H2 alone. This will make the full-year contribution for the next fiscal year, and your performance will make another step forward.

Tejima: Yes. As Kurono mentioned earlier, the market has accepted the price revision. Since our customers have accepted the price hike, the prices will follow if sales go well, depending on the plans we will make in the future.

Q: The second question is on page nine, where there are the factors for changes in operating income compared to the initial plan. The decline in marginal profit was still large relative to the decline in sales, so I would like to ask you to explain this point in more detail. I also would like to know how we should see such mix for H2 and the next fiscal year.

Tejima: The decrease in marginal profit naturally means that the top line has dropped, and this is true in this area, but as you have asked, there are products with high profit margins and also those with low margins. Profit margins are particularly high when enclosures grow significantly.

In this area, as I explained earlier the Q2 results, the ratio of distribution boards and cubicles, which have slightly lower profit margins than those for enclosures, has increased.

This is the reason why the marginal profit was pushed down. We expect this trend to continue in the current fiscal year.

Therefore, from the next fiscal year onward, I believe that this area will depend on how well the enclosures recover, although the trend is still showing some signs of recovery. While we are naturally pleased with the growth of distribution boards and cubicles, we are also concerned about how sales of stand-alone enclosures will develop. As I mentioned earlier, the price revision has been accepted, and I believe that the profit margins will improve as the ratio of enclosures increases.

Kurono: I would like to add something.

We assume that enclosure-related sales will increase. We are currently experiencing procurement difficulties, and due to these difficulties, we are unable to obtain items to put in our enclosures. Therefore, our enclosures are also decreasing with the idea that they are not needed.

As the impact of the procurement difficulties gradually diminishes, there will be demand for enclosures to protect the important equipment, and we expect to see a gradual recovery in the next fiscal year and beyond.

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