

Financial Results for the Second Quarter

Fiscal Year 2023

April 1, 2023 - March 31, 2024

(Q&A)

【Event Summary】

Date : November 29, 2023 15 : 00~16 : 00

Venue : Webcast

Speakers : Toru Kurono President and COO

Akitaka Tejima Head of Business Management Division, Director

Takaaki Mano General Manager of General Affairs Department

Some explanations are supplemented and key points are summarized.

Question & Answer

Q: I would like to ask two major questions.

The first question is about business performance. I would like to ask you about operating income and profit rather than sales, but I believe that H1 was an upswing. I believe that the amount exceeded the original plan by about JPY800 million.

In your earlier explanation, you said that sales did not exceed the plan by that much, but with the price revisions on schedule and with raw material price costs rather under pressure, what did you do well to achieve this result? Was it good performance of the subsidiary, good distribution business, or some other factor?

In addition, if you have not changed your annual forecast based on these upward factors, I assume that there will be some deteriorating factors in H2. Please also explain that as well. This is the first point.

The second question is about price revisions. I believe that you announced early on that you would be revising your prices from next April onward, and the amount of the impact was under scrutiny. I think that the third round of price revisions is now underway, and I believe that the first round had an effect of approximately JPY2.8 billion after one year. The second phase is expected to have an effect of JPY1.9 billion this fiscal year, and since the third phase is similar to the first phase in terms of items and price range, I would expect the same effect. I am not sure if this is the right way to look at it.

After two price revisions this time, I think there is probably no tendency for volume to drop due to the price increase, but could you please confirm this and also tell us about the fourth or fifth price revision in the future?

Sorry, this has been a long question, but these are the two questions.

Kurono: Thank you for your question. The main reason for the upward trend in operating income is, as I mentioned earlier, the steady progress of the price revision effect.

Q: Wasn't the effect of the price revision right on schedule?

Kurono: Yes, the effect of the price revision is on schedule, but other than that, the marginal profit has improved due to higher sales.

In addition, we feel that our industry is seeing brisk facilities investment, which is a good sign for our sales. In addition, facilities investment from the viewpoint of energy conservation has been increasing due to the sharp rise in energy prices. In addition, in the case of our mainstay distribution boards, replacement demand for old cubicles is becoming more pronounced this fiscal year.

Due to the fact that we were able to secure such projects at relatively competitive prices, our operating profits have exceeded expectations.

Q: I think that the total sales only increased by about JPY160 million, but I wonder if it is more due to the product mix, in other words, more profitable products are selling well and less profitable products are being held back.

Kurono: That is also the case.

I think your question was about how H2 will turn out since H1 was revised upward but the full year was not. This is due to a number of uncertain factors. The first is that raw material prices are still high. This is a major component of our purchase, but the price is to be raised here. Also, the Seto factory, which will start operation next spring, will require expenses for moving the equipment and other such things. In addition, a large amount of inventory was accumulated in H1, and this inventory will incur expenses for sales in H2. Such uncertain factors may occur.

We also believe that the overseas market may have been dragged down by the Chinese economy and that the Southeast Asian economy may also be showing some weakness. The impact will be all on the distribution board-related business. As for the distribution board manufacturing, installation, and service business, also in the electronic components-related business, we have excess inventory in the air conditioner-related and appliance markets, and we are now in an adjustment phase. Due to the prolonged period of this adjustment phase, we have left our plans unchanged for H2 due to such uncertain factors.

Q: Thank you very much. I understood the first question very well.

Kurono: Regarding the second question about price revision, we believe that the third round will have the same effect as the first and second rounds. When COVID-19 declined to some extent and facilities investment declined, enclosure sales showed a decline in terms of volume because various products were not being distributed due to the shortage of semiconductors. However, we have recently regained that and do not expect a decline in enclosure volume due to price revisions.

We do not have any plans for a fourth or fifth price revisions at this time.

Q: Thank you for your help. I have two questions, please.

First, let me ask you about the impact of the fluctuations in the area of increased operating income and decreased income and the impact of the sharp rise in the cost of materials and components.

I believe that H1 was a negative factor and H2 a positive factor. I get the impression from what you just said that the situation is quite severe, but I wonder if the impact of the sharp rise in materials prices in H2 will really have a positive effect. If so, please let me confirm whether the next fiscal year will be more positive here. That is the first point. Thank you.

Tejima: I, Tejima, would like to answer your question.

Regarding the sharp rise in the cost of parts and materials, we have planned for a 2.5% increase in H2 compared to H1.

Regarding this aspect, there are no changes in our plans, and although the numerical representation may look that way, we are expecting a slight stabilization in the escalation of component and material costs. Compared to H2 of last year, when materials prices soared to a certain extent, we expect prices to return to normal or not rise much more in the future.

However, as I have said before, there are naturally some uncertainties. As we have already announced that we will raise prices in the next fiscal year, this issue could lead to sudden price hikes, so I would appreciate it if you would understand that we are taking a cautious approach to this issue because of the uncertainties involved, as I have already mentioned.

Q: Thank you very much. Second, let me ask you about facilities investment.

I think you have made a large investment in the Seto Plant this time, but I would like to ask you whether there are still other areas that need investment, such as capacity expansion, or whether there is an excess or shortage of investment in the [inaudible] area. Thank you.

Tejima: Yes, thank you. As for facilities investment, we have a very large Seto plant, which is the largest investment we have ever made. Of course, we will need to invest in facilities and equipment to improve our production system, to increase production capacity, and to increase production efficiency. However, we do not have any big plans right now, and I think that investment in renewal will be the main focus.

Of course, we will not only raise prices, but we will also need to make new investments and change our facilities in an effort to, for example, save energy and improve production efficiency, as we naturally have to do. Of course, this is not to say that it is completely impossible with the current capacity, but we are weighing these issues and considering what kind of equipment should be installed in order to do so in a sustainable manner, including investment. We would like to announce the plan again after the next fiscal year, but at this point, that is the way we are thinking about it.

Q: Thank you for your help. I would like to ask one additional point.

Regarding the concept of ROE, I know there is a lot of discussion right now about improving ROE, such as increasing profit margin, increasing total asset turnover, changing leverage, etc. What are the key points you are focusing on? Can you please tell us if and how you are discussing to raise this to 8.5% now? Thank you.

Tejima: Thank you. As for the concept of ROE, we have set it at 8.5% or more in the current mid-term plan. I believe that the most important thing is to make a profit in our core business.

We have finally started to introduce not only profitability but also turnover and capital efficiency management, and I think that we have finally come to a starting point. We are currently discussing what we should do, including how we should allocate and invest, as we discuss the next mid-term plan.

Of course, since we have set a target of 8.5% or higher, we would like to do what we can to bring it closer to that target, but we do not yet have anything that we can show you, and we are hoping to be able to show you a little more of a breakdown of what we should do in the next mid-term plans. I hope to be able to show you a more broken-down plan in that.

Sorry for what may or may not be an answer, but that is all.

[END]