

Financial Results for Fiscal Year 2020

April 1, 2020 - March 31, 2021

(Q&A)

【Event Summary】

Date : June 9, 2021 15 : 00~16 : 00

Venue : Webcast

Speakers : Toru Kurono President and COO

Akitaka Tejima Head of Business Management Division,
Director

Yusuke Kobayashi Head of Corporate Planning Division, Executive Officer

Takaaki Mano General Manager

Question & Answer

Q: My question is about the effects of the special demand related to the GIGA School projects in the fiscal year under review at the parent and SunTelephone. It would be helpful if you provide the contribution to sales and, if possible, to profit.

Kurono: As for the GIGA School projects, we had an annual target of JPY10 billion. However, the actual results were about 80% of the target figure. Of this amount, SunTelephone accounted for around JPY6 billion. Please understand that we have not disclosed the profit figures.

Q: I have an impression that your operating income target of JPY13 billion for the final year of the new medium-term plan is substantially low.

In the meantime, you assume that there will be rises in depreciation and amortization and other costs, such as the construction cost for the Seto Plant, and they will be a burden. How much of an increase in costs did you factor in your plan? You said you aim to accelerate growth from the year ending March 2025 onward with the full-fledged operation of the Seto Plant. What kind of effect are you expecting on your performance with the full-scale operation of the plant? I would like to ask you about this area.

Kurono: You asked for what you regard as too low a target of JPY13 billion for the final year of the medium-term plan ending March 2024 and the effect of the Seto Plant, which we are going to invest in, on our performance in the year ending March 2025.

First of all, as for the JPY13 billion target for FY 2023, as described there, most of the planned income will be earned at the parent NITTO KOGYO. For the Company, we forecast that the market prices will become somewhat weaker, and, while we use a lot of copper and iron as the panel board maker, the prices of materials, including plastics, will surge, working negatively for the parent's performance.

There will be rises in the costs related to the Seto Plant and in depreciation and amortization, so income will not grow as much as sales will grow.

In terms of the start of operation at the Seto Plant, we see a combined amount of nearly JPY1 billion in depreciation and amortization and expenses. Will anyone add anything supplementary?

Tejima: For the year ending March 2024, we estimate the total expenses and depreciation and amortization related to the construction of the Seto Plant at around JPY1 billion, as mentioned earlier. In reality, the plant will be operational from April 2024, so some equipment will be added, and we estimate that the total cost increase, along with depreciation and amortization, will be about JPY1 billion.

As for the effect after April 2024, the effect on our performance for the year ending March 2025, we are now scrutinizing it. As Kurono earlier said, there will be total investment worth JPY25 billion. Against the annual investment of JPY25 billion, we estimate that we will report depreciation and amortization of around JPY1.5 billion for each year.

Of course we aim for sales at least at a level that will give a surplus after shouldering a more depreciation and amortization amount than that estimate. We are now formulating such a plan.

Q: Please give some supplementary information. While you expect the rise of around JPY1.5 billion in annual depreciation and amortization, you aim to secure more sales.

What kind of increase in demand do you expect at the start of full-fledged operation of the Seto Plant? Would you please provide us with some favorable factor in terms of demand when you will start the full-scale operation of the plant?

Kurono: We believe that the distribution board business has still a lot of room for growth. The overall market will naturally shrink due to the lowering birthrate and aging population, but we have the capacity to produce large quantities. We have some other ways like collaborating with small and medium-sized manufacturers, who are struggling in their communities, and providing them with enclosures. While providing them with standard products, we will be able to grow enclosures smoothly. We believe that the market here is still very large.

Moreover, I am sorry for my previous explanation being insufficient, but we will have to generate sales so as to enjoy operating income of JPY1.5 billion a year. More than that, we

still have room for enhancing our productivity, and if we drastically review product items manufactured at our 8 plants, we will still have room for reducing distribution costs.

Please understand that there will be the Seto Plant for that purpose. It is true that the Seto Plant will be a countermeasure for the Nagoya Plant that is becoming too old, but we are also aiming for growth investment.

Q: On page 34 of the materials, you show the shape of the Electric and Telecommunication Infrastructure-Related Manufacturing, Construction, and Service Business for the year ending March 2024.

Of the 5 areas like distribution boards, enclosures, and ICT, I would like to ask which one the President would like to grow most or expects to grow. Please name the top 3 in order.

The reason why I am asking you this question is because I personally believe that at the latest by the fiscal year ending March 2024, the ICT business, or 5G-related projects, will probably start to see some movement in Japan, and I also believe that something will move in the EV infrastructure, although it will probably take a little longer. I would like to confirm whether there are any gaps between these ideas and your company's ideas. That is all.

Kurono: The question is about what I hope to focus on or grow significantly in the Electric and Telecommunication Infrastructure-Related Manufacturing, Construction, and Service Business on slide 34. Please let me explain.

Considering the 3 parts in red, the competitiveness of the core business, globalization, and new businesses, we aim that the competitiveness of the core business will account for 50% of the planned sales during the 2023 medium-term management plan. The remaining 2, globalization and new businesses, will account for the remaining half of the sales.

Of the core business, I think that each of the distribution boards, enclosures, and ICT will be almost at the same level. I mentioned, with regard to the Seto Plant, that there is still room for growth for enclosures. I also believe that distribution boards will be able to grow further once the production capacity is ready.

In addition, we would like to further expand our standard products, which I believe is one of NITTO's strengths, and we would like to strongly promote this.

As for ICT, as 5G-related projects shift from Tokyo-led base stations to regional ones, the number of data centers and others will increase further, so we will focus on them.

As for new businesses, though we want to grow them very much, sales will not increase drastically, but moderately during the medium-term plan. Rather, I believe that the globalization area will even grow far more sharply, two-fold or three-fold.

As for EVs, as the government is talking about a change to EVs for 2035 and is expected to conduct considerable investment in the infrastructure, I think it will be strong support. However, sales are expected to accelerate sharply during the next 2026 medium-term plan or toward 2030.

Q: My question is about the rise in materials cost. You explained that there will be a negative factor of JPY1.6 billion on income due to changes in market prices. Is that okay? Don't you expect that you will pass the rise in materials prices on to the customers during the medium-term management plan? Please explain your response to and assumptions on the higher materials prices.

Kurono: The question was about the rise in materials prices and whether we can transfer the rise in the cost to the customers.

As we talked about the rise in materials prices, we use iron and copper for our core product, distribution boards. Both iron and copper prices are rising sharply.

During the period where we were formulating the medium-term management plan, we factored in several hundreds of millions of yen due to the rise in the cost, expecting not so sharp a rise in prices. However, observing the recent situation, the materials cost may further suppress our profits. We feel that we will have to transfer the rising prices to various product prices to secure profits.

We sell standard products using ecommerce and conduct discounts to a certain extent. It is difficult to change this custom and pass the rise in the cost on to the customers immediately for standard products.

However, we plan to conduct some price hikes for distribution boards and system racks for ICT as we estimate a price for each separate unit, and we will ask for the customer's understanding.

Q: I would like to confirm whether you foresee the decline in profits due to the higher raw materials cost based on the recent prices. I think that you set the overall framework for the medium-term management plan a little earlier, and now you have explained that the recent rise in prices is so significant. So, can I understand that you foresee the reduction in profits based on the recent price levels?

Do you expect that the price rise will pause at the recent levels during the medium-term management plan, or do you consider a further rise?

Kurono: During the medium-term management plan, we do not foresee a significant return, or a reduction in materials prices. We expect that copper prices will remain high. We feel that demand will stay strong for electric vehicles and others.

However, if the economy stands still, the materials prices will naturally change, so it is difficult to expect, but we estimated that the prices will remain high during the medium-term management plan.

Tejima: I would like to provide some additional information. When we were formulating the medium-term plan, we were not foreseeing the current rise in materials prices to the extent as we see at present. So, we believe that the situation has turned somewhat worse since the announcement of the medium-term plan.

However, the future is still uncertain. As the President has just said, it is hard to expect that the prices will show a reactionary fall or return to the previous levels. We have not conducted a price revision to standard products since October 2018. Though we do not plan a price hike at present, we would like to conduct some price transfers for custom-made products at the estimation stage and make efforts for further cost cuts. We are planning to reduce costs in various ways.

Q: You mentioned 5G in terms of ICT. I think that there will be local 5G networks in the future. I would like to ask how much 5G-related sales are at present and what size of contribution to sales you are expecting during the medium-term plan.

In addition, as for the facilities investment trend, please show us the expected depreciation and amortization amount for the years ending March 2023, 2024, and 2025. These 2 are my questions.

Kurono: One is about our prospect for 5G-related sales and the other is about depreciation and amortization plans for the years ending March 2023, 2024, and 2025.

First of all, for the fiscal year under review, we planned 5G-related sales at JPY5 billion for the whole Group and we almost achieved the target.

The 5G-related services are yet to be launched in a full-fledged manner, and there will be local 5G networks and a lot baser stations, so we expect that we will maintain this level of sales amount for several years to come.

On depreciation and amortization.

Tejima: In terms of depreciation and amortization, for the fiscal year ending March 2024, we currently estimate that the Seto Plant's depreciation will be JPY300 million to JPY500 million for a single year. For the year ending March 2025 and thereafter, we roughly foresee JPY1.5 billion a year at present.

Is that okay?

Q: I was wondering if you could give me the total planned amount for depreciation and amortization.

Tejima: The overall depreciation and amortization amount? We are sorry, but we are not ready for the total depreciation and amortization amount against our total planned investment for JPY25 billion. Please allow us to fail to answer that. We are sorry.

Q: As for 5G, the President said that the Company almost achieved the target of JPY5 billion for the year ended March 2021. What was the result in the preceding year ended March 2020, and what is your outlook for the current year?

Kurono: I remember that the preceding year's result was JPY3 billion to JPY3.5 billion. In the year ended March 2020, the result was JPY5 billion, and we aim for the same level of sales for the current fiscal year.

Q: I have an impression that the flat level from the previous year is strange as the current year's target, and I would like to know the breakdown of the JPY5 billion.

Kurono: The products we are selling in relation to 5G are boards, racks, and boxes used for base stations. Then there are optical junction boxes. These are our merchandise related to 5G.

SunTelephone handles peripheral products. In the year ended March 2021, we engaged in a major carrier's project in the Tokyo metropolitan area. We believe that sales in the metropolitan area have peaked with the project. With sales in the metropolitan area hitting peak, the key battlefield is going to shift to regions, and we will focus our efforts on regions. Though we cannot imagine the size of the business, we estimated the same size as the previous year's level for the time being.

Q: So, you have a plan for 5G, but are you yet to factor in matters like local 5G networks?

Tejima: There are various scales of local 5G networks. There are large-scale ones and small-scale ones. We could not follow all of them precisely in our plan. As Kurono earlier said, we have just factored in the projects we are involved in, meaning only part of a major carrier.

If various other projects emerge, we will be able to obtain related orders. Please understand in this way.

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