

Financial Results Briefing
for the Fiscal Year Ended March 2024
April 1, 2023 - March 31, 2024
(Q&A)

[Event Summary]

Date : May 30, 2024 13 : 00~14 : 00
Venue : Webcast
Speakers : Toru Kurono President and COO
Akitaka Tejima General Manager of Business Management Division,
Managing Director
Koichi Takenaka General Manager of Group Business Planning
Administration Division, Director

Some explanations are supplemented and key points are summarized.

Question & Answer

Q: Two questions, please.

The first question is about the concept of performance for the current year. I believe that the price of raw materials has been factored for the decline in profits by about JPY1.7 billion this fiscal year. Does this mean that the price of steel plates is going up, copper prices going up, or other several factors are included? Please also tell us about your thinking on whether you are raising prices this time in response to this raw material price increase. Conversely, whether you will consider raising product prices further again in the future because of the price increase.

The second question is about the medium-term management plan. I believe the fund allocation plan is on the last page. Since you have lowered the dividend payout ratio, you will be asked to invest in growth even more than before. You mentioned that you are looking at JPY6 billion for business area expansion, but what do you expect most out of this? In addition, you have set the overseas business at JPY5 billion. However, I do not think you have achieved a large return on your overseas business to date. In this context, what is expected of you in the next three years?

Kurono: Regarding the concept of performance, the price of raw materials has increased by JPY1.7 billion. First, as you just mentioned, iron, copper, and many other materials. In addition to this, we manufacture distribution boards, and the prices of materials, parts, and equipment we purchase have also risen. The value of the price increase for those items is JPY1.7 billion.

You ask whether we have revised the price because it has gone up, and of course, we have that idea. In addition, we have increased our prices to maintain our previous level of profitability. Despite our efforts to reduce costs, these measures were not matched.

As for the third price increase, the price of trans, which we use a lot, will go up. Since we are affected by these factors, we are also revising our prices.

Tejima: Also, I think you just mentioned whether we are considering a price revision after that, but we are not considering a fourth price revision at this time. First, we will implement the third round of price revisions. Since the situation is still unclear, we will make decisions as necessary while keeping an eye on the situation.

Kurono: Next, as for fund allocation, business areas expansion, and overseas business. As I mentioned earlier in the medium-term business plan, I believe a time will come in the future when products, even high-quality ones, will only be marketable if they are environmentally friendly. We are investing in energy management and, as I mentioned earlier, in changing our products to more environmentally friendly ones.

I have also recently been thinking about DX, which has become a very popular word, but I believe that data supports it. We are considering investing in the acquisition of such data as part of the expansion of our business areas.

Regarding our overseas business, you are correct that it has faced challenges. However, we have recently observed a steady increase in sales and a rise in the number of companies contributing to our profits. As for our subsidiaries, we believe that the overseas distribution boards business will still grow, mainly through that group company.

In the area of electronic parts-related manufacturing business, Kitagawa Industries offers noise suppression products, which are widely used in EVs and various robots. To this end, we are considering investments in increasing productivity overseas.

Q: Two questions from me as well, please.

For my first question, let me confirm about data center-related business opportunities. I think that until now, racks have been highly competitive and unprofitable, but data centers are booming in Japan. So please tell us if there are any opportunities or profit margins to be improved in these areas.

Kurono: I believe that data centers will be highly active in the explosive expansion of information. We have a telecommunications-related company, SunTelephone, to which we can sell a lot of infrastructure-related products and equipment. We are very excited about it.

However, regarding the racks, we consider the situation to be exceedingly difficult. We will continue to expand sales of racks for data centers, as we believe there remains a need for earthquake-resistant racks, a specialty of Japanese companies. Despite ongoing imports from overseas, we see potential in this area.

Tejima: As I said, we are thinking not only of system racks but of all commercial products. So, I believe that competition for racks will continue to be intense.

However, as I mentioned earlier, we are considering how we, as a group, can take advantage of the opportunities presented by the new company, including EM Solutions, in areas such as installation and involvement from the initial design stage of data center construction. We look forward to seeing growth in this area and hope you will continue to monitor our progress with a long-term perspective.

Q: Second, let me ask about cash allocation. Shareholder returns, about the same as in the previous Medium-term plan, seemed quite large. I have the impression that share buybacks will probably increase. I would like to ask if you have any ideas or hints regarding share buybacks, such as the status of fundraising or share price in the final year, while looking at ROE or share price, for example.

Tejima: I understand that you have expectations for share buybacks. However, at this point, as Mr. Kurono mentioned earlier, we will be flexible in our approach. I believe that the underperformance of ROE and stock prices may be influencing various situations.

Also, there may be cross-shareholdings. There may be a dissolution of crossholdings and many other things. I believe that many factors are involved, so I would like to take this opportunity to say that we act flexibly.

Q: Now, I just want to confirm one more point regarding your last question about the share buyback. Am I correct in understanding that the JPY17 billion plus extra for shareholder return does not include the budget for share buyback?

Tejima: It is not in the JPY17 billion. The reason I said "plus alpha" is that we are saying that the return on equity is 50% or DOE, depending on performance. So, the number does not include share buyback in the plan.

Q: I think the gross profit margin improved and rose considerably during the period when prices of raw materials and components were rising. Lower cost ratio. In your comments on the financial results, you mention price revisions and increased marginal profit, but are there any other factors, such as changes in the product mix of the portfolio? In other words, did the price revision increase more than the price of raw materials and components, or did other factors also contribute to this level of gross profit, or did the gross profit margin change this much in the face of inflation?

Kurono: I think the biggest factor is the selling price. When we sell standard products, the discount rate remains almost constant. For individual projects, we believe we can recover the pricing, though it may sound a bit unusual to phrase it this way. Our main product and mainstay is the distribution boards business. I think the best part is the improved profit margin here. We also believe another factor is that we do not engage in low-profit projects.

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