

Financial Results for the Second Quarter

Fiscal Year 2025

April 1, 2025 - March 31, 2026

(Q&A)

【Event Summary】

Date : December 2, 2025 10 : 00~11 : 00

Venue : Webcast

Speakers : Toru Kurono President and COO

Akitaka Tejima Managing Director, Business Management Division

Norihiro Kondo Head of Business Management Division, Executive Officer

Yukihiro Taguchi General Manager of General Affairs Department

Some explanations are supplemented and key points are summarized.

Question & Answer

Q: I would like to ask about the component's shortage for my first question. I have not heard this kind of issue from other companies, so I would like to know what products are in short supply and how this is affecting production, especially as we are already entering December. I would also like to hear about your prospects for resolving this materials shortage.

Kurono: As I explained earlier, the transformers used in high-voltage power receiving equipment, which we refer to as cubicles, will be subject to a new standard starting in FY2026. As a result, transformer manufacturers will be required to sell only the new standard transformers from April next year.

Furthermore, demand for the pre-revision transformers has increased even more than before, as the post-revision transformers are expected to be more expensive due to both a change in size and an anticipated price increase.

Therefore, those transformers are expected to be in short supply. However, we have not received much information from transformer manufacturers about the production of the new transformers after next April, so the situation remains somewhat uncertain.

We will continue to make our best efforts to procure and deliver cubicles to our customers.

As for other parts, high-voltage switchgear is also in short supply because, as with transformers, it is difficult to build up a production system at once due to limited production capacity. These two parts and materials are in shortage.

Q: Are there actual impacts on production this November and December? Or is this something that will begin to affect you going forward?

Kurono: As for November and December, we expect that there will be no impact because the products that we had arranged in advance have been delivered. However, we are a little concerned about the products to be delivered next year.

Q: The second point I would like to ask is about system racks for data centers. Of course, I think there are opportunities, but I had the impression that your company had not been very aggressive, given the intensifying competition and the fact that data centers that handle generative AI often work with their own preferred rack manufacturers.

Are there any changes in the competitive or demand environment, including your plant investment and the other points mentioned in the presentation materials, that are creating significant opportunities for your company? Could you please tell us a little more in depth here?

Kurono: As you know, the data center market is expected to see a rush of construction in the future due to AI, automation, electrification, and automated driving.

As I explained earlier, in the data center market, racks need to be extremely high-density and high-performance, and heat countermeasures are becoming necessary. The OCP standard, which major tech companies are promoting as a unified standard, addresses these needs, and although it has begun to spread worldwide, it is not yet widely used in Japan.

However, we believe that demand for data centers for foreign companies will also come to Japan in the future, and we believe that the development of OCP racks is necessary to meet this demand. We are considering developing and expanding sales of this product together with our partner companies.

Q: A follow-up question. As for data centers being built in Japan, demand for racks made by Japanese companies is increasing, and I would like to know whether this creates opportunities for your company. Also, given that the requirements in the rack business are becoming more sophisticated, making profitability more difficult, is this a business where you can secure a solid profit?

Kurono: I think it is a bit different when we talk about whether data centers will choose racks made by Japanese manufacturers only. Some foreign data center operators import servers that have already been assembled in their own countries directly into Japan, so I do not think they will buy everything from Japanese manufacturers.

However, it is very difficult for data center racks built by foreign companies to meet Japan's unique earthquake requirements. In this context, NITTO KOGYO Corp. has seismic facilities to support conventional data centers, and with this know-how, we believe we can further expand our sales in the Japanese market, where such requirements exist.

Q: Lastly, just to confirm, am I correct in understanding that you are aiming for stand-alone information and telecommunications sales of JPY10 billion, which is 1.3 times the current level? Please tell us when and by which fiscal year you are aiming to achieve the target. I would like to confirm years and numbers.

Kurono: We are aiming for JPY10 billion in FY2030.

Q: You mean 1.3 times of the current level.

Kurono: Yes.

Q: First, I believe you mentioned that sales of high-voltage power receiving equipment were strong in H1 due to last-minute demand ahead of the revised top-runner transformer standards coming into effect next April. Regarding this, do you expect any last-minute demand in H2 as well? And although you view transaction prices as neutral in H2, is there a possibility that they could exceed your expectations?

One more point. In the comments on page 23 of the presentation material, it says that the group factors left the plan unchanged due to the uncertainty of the business environment in H2. Is this strictly a group-level factor, or does it also apply to NITTO KOGYO Corp. on a stand-alone basis? Can you tell us what is in it?

Kurono: First of all, you asked whether there will be last-minute demand for top-runner transformers in H2 as well. Yes, demand is very high. It is strong.

However, as I mentioned earlier, if we are able to obtain transformers before the standard revision, we can meet that demand, but procurement in this area has become extremely tight. If we can secure the transformers, there is a possibility of an upswing, but this is not clear at this point.

Tejima: And second question, as for the group factors on page 23, the non-consolidated factors are shown on the left side.

As for the right side, where the upward swing is limited to JPY150 million after reducing the same portion as in H1, this also reflects group factors related to the distribution boards group. Similarly, the main factor is the difficulty in procuring transformers due to the top-runner transformers.

Since we did not change the plan for the full year, we could not touch the group's factors in this area, or rather, the figures had to be adjusted at the end. So, we made some group adjustments in that area, but the main factor is the same reason in the manufacturing, construction and service segment anyway.

Q: In the business strategy section of the Mid-term management plan, on page 33, there is a reference to Sun Telephone, an affiliate company. I believe their security solution is surveillance camera. I would like to know the sales scale and if they are in overseas or domestic. Can you tell us about that?

Tejima: Security solution, as you mentioned, is solutions centered on network cameras.

Regarding whether the sales are domestic or overseas, they are mainly domestic. However, I am sorry that we are not disclosing the size of the sales from security solutions.

Q: Looking at the factors behind the increase/decrease in H1, I think there was a large improvement in the group factors other than Sun Telephone and Kitagawa Industries. Can you tell us the background of this and your outlook for H2 and beyond, and how we should view it?

Tejima: The group factors were driven mainly by Aichi Electric Works, which is also part of the distribution boards segment, and by Tempearl Industrial, which I partly explained during the presentation. In other words, the board segment contributed significantly.

As for the outlook for H2, there is the same risk of procurement difficulties as with NITTO KOGYO Corp., and the situation remains uncertain.

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