

SENSHU ELECTRIC CO., LTD.

FY2024.10 Q & A

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[Place] 2-2-1 Nihonbashi Muromachi, Chuo-ku, Tokyo

14th Floor Conference Room G, Muromachi Head Office, Okasan Securities Co., Ltd.

Q1. Could you explain the reasons why the 4th quarter performed well and what, given the current situation, might be the reason for the upturn in demand, and if so, what will lead to this in the current financial year?

A1. One of the backgrounds for this is the rise in copper prices. It generally takes some time for the increase in copper prices to be reflected in actual sales, so this has had a considerable impact in the 4th quarter. Specifically, the movement can be seen in semiconductor factories (in Sapporo), which have started to ramp up operations. On the other hand, there hasn't been much movement in the Direct demands sector; it has remained quite flat.

The improvement in profit margins has been ongoing for the past few years, but after the shortage of electric wires occurred at the beginning of the year, the priority on delivery times for materials has become particularly stronger for companies, especially in the latter half of the year.

Q2. I would like to discuss the outlook or forecast for this fiscal year.

I am curious about your views on the current business environment. One aspect is that, Direct demands seems that the recovery is somewhat delayed. Additionally, will the improvement in margins continue to improve due to tight supply and demand?

A2. Yes, regarding the overall movement of direct demands, there hasn't been much activity. Specifically, in semiconductor manufacturing equipment, there are some that have started moving, but the main flow has not really begun yet. However, on machine tools the customer side, there is still a considerable amount of inventory, and the size of that inventory is also a concern. If that inventory clears out, I think there is a possibility that things could start moving easily.

In general, regarding the improvement of margins due to supply and demand tightness, we are trying to pass on price increases from manufacturers to customers as quickly as possible. However, the pace of price increases from manufacturers has also been accelerating, so I would like to proceed carefully in that regard.

Q3. Regarding the recovery of semiconductors and machine tools, is it correct to understand that you have not incorporated this much into our forecasts for this fiscal year?

A3. I think it depends on the timing. Whether it will be in spring, or if we are already in the latter half, or if it will be a little before. We will determine that aspect, so I would like to confirm this on a quarterly basis, and we are providing the numbers within this flow.

Q4. The medium-term plan, I would like you to show more specifically what actions will be taken to achieve it. For example, what do you consider what measures will be taken to increase customer share in order to boost sales of Direct demands. I would like you to delve deeper into how you plan to tackle these issues and what actions will be taken over the next 3 years.

A4. According to Japan's economic indicators, approximately 40% of the so-called industrial machinery is concentrated in the Chubu region. This time, our company will complete a Nagoya FA center in April next year, and once it is operational, we would like to utilize it to further develop and deepen our customer base. Additionally, we plan to consolidate with overseas operations and connect with overseas factories to further pursue direct demand customer development.

Q5. Is background share decline of direct demand because of the large percentage of transactions for semiconductor manufacturing equipment?

A5. The share we are referring to is the share in terms of sales composition ratio. As copper price increases, the sales of electric facilities and electrical materials, which primarily consist of power cables, will naturally rise. Therefore, the actual sales in the direct demands have not significantly decreased; rather, the share has fallen amidst the overall increase in surrounding sales.

Q6. I would like to ask about the Medium Term Management Plan (referring to slide 20), Could you provide an image of how the market environment is expected to grow over the next 3 years?

A6. Particularly, I am curious about how the next super cycle for semiconductors will unfold, especially with the developments involving AI, which I think will become global. In this context, I wonder if the Japanese manufacturing equipment industry will be able to move forward, and I believe that if it does, it could have a significant impact.

Regarding construction, this also applies to manufacturers in the electrical wire industry. There is indeed a demand for updating old equipment, as well as a focus on renewable energy. Additionally, a new area that has emerged is data centers, so I think the demand for electric wires will remain quite strong.

Furthermore, on a broader scale, I believe that the trend of domestic return in manufacturing due to the weak yen will continue to have an impact.

Q7. How does your company perceive the impact of wireless power transfer? If there is an impact, could you please share what measures you are considering?

A7. "You think that with the advent of wireless power, the demand for electric wires may decrease", but at the moment, I don't believe there is much impact.

If in those cases, we are still providing fine wires and wiring components, so I believe it is a matter of where demand decreases and where it increases. However, customer convenience will definitely improve, so if we can respond well to these changes, I think we can increase our sales.

- Q8. For Recurring profit in the medium-term management plan, I believe there are the ratio indicating that the profit margin will improve further is mentioned.**
Could you give us if this is related to a perspective based on product categories. (For example, will FA cable sales grow)
- A8. Yes, it is written there, but in the section on Direct demands, the focus is mainly on FA cables and Non-Cable includes Cable assembly, I believe that increasing this will significantly improve the profit margin. As for what happens next, there is also a relationship with the power cables by rising copper prices, but I believe that this improvement in profit margin is entirely possible.
- Q9. I would like to ask about the automotive sector related to direct demands.**
It is said to be for automobiles, I believe that the EV business itself is not that vibrant among automakers.
Could it be that to demand in development investment for EVs is affecting of your business?
- A9. Yes, Investments have become quite concrete to the battery-related aspects.
Additionally, regarding overall automobile production, there have been issues within the automotive industry, and production had been somewhat stagnant. However, it has recently improved considerably, leading to new developments in production lines and an increase in demand. Of course, there are significant differences depending on the manufacturer.
- Q10. The sales ratio of India being 30% in the long term is quite a surprising figure, but I think this probably assumes following Japanese companies.**
Could you explain which Japanese manufacturers you are following?
- A10. Yes, I need to apologize for the way I presented those numbers.
The 30% figure is not just for India, but rather for the overall international transactions and sales of our international division. Currently, our international division has not yet reached 5%.
In the future, including India, we aim to increase this to 30% overall. It is still quite a high target, we will be exhibiting at the International Machine Tool Exhibition in India next January.
we want to respond as promptly as possible.

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