

Summary of the Q&A at the Consolidated Financial Results Briefing for the Second Quarter of Fiscal 2024 (Institutional Investors/Analysts)

Date and time:	Tuesday, October 31, 2023 from 4:00 p.m. to 5:15 p.m.
Venue:	Head office of Mitsubishi Electric Corporation (Online briefing)
Respondents:	Kuniaki Masuda, Executive Officer, CFO Kenichiro Fujimoto, Executive Officer overseeing Accounting and Finance, Senior General Manager for Corporate Accounting Div.

- Q. Regarding FY24 forecast for the factory automation systems business, what is the background to the increase in operating profit during H2 compared to H1?
- A. It is due to the effect of price hike implemented in the previous year as well as the slowdown in the trend of the effect of cost increases in materials and components. In addition, while we continue investing in the factory automation systems business and the air conditioning systems & home products business because we expect medium- to long-term growth in these businesses, we will ensure profitability during H2 controlling some of these investments. We will also ensure elimination of the order backlog, which includes orders that have been received at the new sales prices.
- Q. What is the background to be revised upward FY24 forecast for the semiconductor & device segment? How is the progress of depreciation associated with capital investment?
- A. Demand for optical devices, for which the slowdown was expected during H1, was not worse than expected due to high demand for generative AI and other reasons. Profitability also increased more than expected due to the effect of price hike. A slight delay in the timing of capital investment also contributed to the factors putting upward pressure on profit.
- Q. In response to the previous question, you stated that you would control investment in the factory automation systems business and the air conditioning systems & home products business. Will you be adjusting mainly investment to increase the production which was the factor applying downward pressure on profit in the factory automation systems business during Q1 and Q2? Will the investment which was planned toward local production for local consumption in the air conditioning systems & home products business also be postponed due to weak demand? Mitsubishi Electric had thus far been one step behind in controlling costs when the market was slowing down, but I had the impression that you deal with promptly this time.
- A. We would like to steadily increase production capacity as our basic approach and we will implement necessary investments, though they may be delayed slightly. This time we have been able to control costs when necessary.
- Q. Regarding the “price hike” on page 9 in the consolidated financial results briefing material, what is the breakdown by segment?
- A. Of the price hike of +51 billion yen, about half was made in the air conditioning systems & home products business, 30% in the factory automation systems business, and a little under 20% in the automotive equipment

business. The price hike in the automotive equipment business for H2 is expected to increase compared to H1.

Q. Regarding H2 forecast for the air conditioning systems & home products business, how is the situation in Europe and North America? Can you share with us the time the effects of the Inflation Reduction Act (IRA) appear and the eligible products under this rule, the impact of subsidy trends in Europe, risks with regulations on refrigerants, and other details?

A. In the air conditioning systems & home products business in North America, we understand that channel inventories are building up, both at our company and others in the industry; however, resale is somewhat strong. We consider that while inventory adjustment may take some time, the market as a whole remains robust. At first, we were hoping to see the effects of the Inflation Reduction Act (IRA) within FY24, but we now anticipate it will be seen in FY25 and many of our products are eligible for subsidies under the IRA. In Europe, though the situation is different depending on country, there is some impact due to the end of subsidies in Spain and the revision of the subsidy system in Italy. Although we need to keep an eye on, we believe there will be no change in the trend of increasing demand for our heat pump products, including Air to Water. As for the current regulations on refrigerants, we have the technological capabilities to respond to them, so it won't be major risk.

Q. The orders received in the infrastructure segment during H1 increased significantly YoY. How is the situation in sub-segment?

A. Orders received in the infrastructure segment can be broken down into 122% for public utility systems, 170% for energy systems, and 235% for defense & space systems, and they increased significantly YoY.

Q. Regarding the restructuring of the automotive equipment business, I expect the xEV and advanced driver assistance system (ADAS) businesses will be excluded from consolidation according to the partner strategy. Since car multimedia business will also be shutting down, do you envision that nothing will be left in the split subsidiary in the end? Or, do you plan to spin off on the assumption that the split subsidiary will be excluded from the consolidation all together? What is the future prospect?

A. For the automotive equipment business as a whole, the xEV and ADAS businesses account for approximately one fourth, the car multimedia business accounts for approximately one fourth, and the other businesses account for the remaining half. While we have temporarily removed xEV and ADAS from the key growth businesses, we believe steadily creating good scenarios is important. At this point, we have not decided whether we will be a minority or majority, and we have not determined their exclusion from consolidation. Since the remaining one-half of the business includes businesses such as the electric power steering system business that has a high market share, we will carefully refine profitability to survive. We have many kinds of options including alliances with other companies in the process of it; at the moment, only the partner strategy for xEV and ADAS has been decided.

Q. What is the outlook at this point for company-wide restructuring? I think human resource utilization is the key. While you have clearly stated that you will not reduce the number of personnel, how will you improve added value and profit per employee on a consolidated basis?

A. We will relocate personnel from businesses where it is possible to do so. For other businesses, we will consider the portfolio after ascertaining whether we are the best owner. In this process, we will need to consider

transferring businesses, including the people engaged in them. In addition, we have many kinds of options as to whether we will handle processes and components alone and as to which management styles, such as collaboration with other companies and outsourcing, should be used. Instead of continuing businesses under consolidation without changing any of them, we will ensure, for example, that the talented human resources gathered in the automotive equipment business are utilized as precious resources given the environment in which hiring talented engineers is difficult.

Q. Regarding the exchange rate fluctuation of +47.0 billion yen and the volume changes, portfolio shift, etc. of -52.0 billion yen that were the factors for revising the previously announced operating profit for FY24 forecast, what is the breakdown by sub-segment?

A. Regarding the breakdown of foreign exchange fluctuations, the air conditioning systems & home products business accounts for +17.0 billion yen followed by the factory automation systems business, which accounts for +10.5 billion yen. Positive effects were also seen in the automotive equipment business, building systems business, and Semiconductor & Device segment. As for the volume changes, portfolio shift, etc. the effect of approximately -30.0 billion yen due to a reduction in sales volume of approximately -100.0 billion yen in the factory automation systems business and the effect of approximately -20.0 billion yen due to a reduction in sales volume of approximately -60.0 billion yen in the air conditioning systems & home products business are included.

Q. I have the impression that the Semiconductor & Device segment saw strong orders for Q2. How is the situation by area?

A. The Semiconductor & Device segment has had a high level of orders and still has an order backlog. With respect to orders for Q2, demand for power devices for industrial and consumer applications was in a correction phase, but demand is robust due to an order for a large power transmission project. Demand is decreasing for high frequency and optical devices as well as TFT-LCD modules.

Q. Regarding the competitive environment with respect to the Semiconductor & Device segment, I heard that price competition is intensifying due partly to large investments made by Chinese companies. Has Mitsubishi Electric been developing the business in a position by which you will not become involved in the price competition?

A. We understand that they are increasing investment partly because of a subsidy provided to semiconductor companies in China and we expect that the competitive environment will intensify. While carefully considering its effects, we will refine our strengths in terms of functionality, performance, and quality in this area, where we can differentiate ourselves. As for devices for air conditioners, although products of the same size as ours other than latest products have been launched, we believe we outperform in the quality of our products, though we are not optimistic at all.

Q. You stated that there would be no sign of orders for the factory automation systems business to pick up for a while under the circumstances the geopolitical risks and the macro environment are changing. What would be the timing or what would trigger orders to recover?

A. Given the trend in the Chinese market in which production bases are being relocated to other regions, we consider it a big opportunity that customers who have been manufacturing in China will be developing

businesses in other regions and will carefully respond to them at their new locations. We believe the recovery timing will be FY25 or later, but we expect that demand will certainly pick up due partly to the shift to electric vehicles (EVs). Because there is a need for manufacturing sophistication as well as due to a global shortage in the manufacturing workforce, we consider the factory automation device market to be promising from a medium- to long-term perspective. Although the overall recovery of the economy is slower than our initial prediction, we expect signs to be visible from around FY25.

Note: This document has been translated from Japanese original for reference purpose only. In the event of any discrepancy between this document and the Japanese original, the original shall prevail.