

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

Date and time:	Monday, February 5, 2024 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. Can you share with us the current order backlog, production status, and operating rate of the factory automation systems business?
- A. Orders won by the factory automation systems business have been decreasing, and the order backlog is being eliminated. We believe that the order backlog balance will be appropriate at the end of this fiscal year. If orders continue to decrease, we expect production to be affected.
- Q. In the air conditioning systems & home products business, I think the situation varies from region to region, but what are your prospects for the next fiscal year, including market trends?
- A. In Europe, France and Germany, which account for a high percentage of the regional sales mix, showed a noticeable rebound in growth in Q2, but we believe that the overall European economy, issue of gas prices, policy changes, and other factors had a significant impact, rather than major factors in specific regions. Inventory reduction is progressing slowly in North America, and we hope to see a recovery once the effects of the Inflation Reduction Act are seen in the upcoming future. While there has been no change in the trend regarding the spread of our energy-saving products due to decarbonization, we believe it is necessary to assess the timing of capital investment based on the current situation while taking into account expectations for North America in the next fiscal year.
- Q. Can you share with us the status of improvement in the actual performance of the automotive equipment business as well as the progress of the partner strategy for the electrification and advanced driver assistance systems (ADAS) businesses?
- A. Since the Q3 results include the effects of price hike, including those implemented in the past, we think that the Q4 operating profit will be slightly tougher than in Q3. In addition, the impact of last year's impairment has reduced depreciation and amortization, and the Company is finally keeping above the waterline, so we believe that further improvement is needed in the future. Regarding the partner strategy, we are working to make some sort of announcement by IR Day, which is scheduled for May 2024, and both front-line personnel and top management are working on negotiations not only speedily but also by including the details of collaboration.
- Q. For the air conditioning systems & home products business, what is the background to the growth rate in each region and to the improvement expected in Q4?
- A. The growth rates of residential air conditioners and industrial air conditioners in Japan were 108% and 89%

YoY, respectively, based on the number of units. On a local currency basis, the air conditioners growth rate was 85% in Europe, the Middle East, and Africa; 59% in North America; and 87% in China. Sales of air conditioners increased in ASEAN, India, and Oceania. In North America, inventory adjustments are expected to continue; in Europe, since regions where sales were strong in Q2 are seeing a decrease in Q3, we believe that the Q4 figures may be slightly more promising in terms of a quarterly comparison.

Q. Regarding the air conditioning systems & home products business, are the figures for Air To Water also decreasing in Europe? In addition, if the factors for decreased demand in North America are split into market conditions and inventory adjustments, what was the extent of the impact of each of these factors?

A. The figures for Air To Water are also falling. Overall growth has slowed, largely due to the impact of reduced subsidies. We also believe that one of the main reasons for the slowdown in North America is that the market as a whole has built up large inventories, but the inventory situation is gradually improving.

Q. Can you share with us quantitative changes in inventory volume from the end of September until the end of December in the air conditioning systems & home products business in Europe and North America? The general appropriate value is said to be about 3 months, but what is Mitsubishi Electric's view? Also, will you continue to implement price hike for air conditioner products in the future?

A. It is difficult to answer about channel inventories because we have no figures that can be disclosed at this time. Price increases for air conditioner products must be considered as appropriate, since there are requests for price increases not only for materials but also for labor cost increases on the supplier side. Although logistics costs were increasing until last year, the situation is now improving. The current situation is that component cost increases are being offset by cost reductions in logistics.

Q. What is the actual operating profit ratio of the automotive equipment business? Do you expect to see a decrease in the operating profit ratio toward Q4? What is your view regarding profitability throughout the next fiscal year?

A. We have announced an operating profit ratio of 2.1% as our FY24 forecast, and we believe this to be our current level of performance. As I said when answering the previous question, this year's depreciation and amortization burden is light, and we believe that there is still much work to be done to reach our FY26 target of a 5% operating profit ratio.

Q. Regarding the price hike coming in the next fiscal year, is it safe to assume that the effects of the price hike will continue to be in line with the effects of global inflationary trends? Or, do you expect that these effects will disappear during the next fiscal year as material price hike have slowed down?

A. We recognize that pricing is extremely important. We have been working to raise prices, including past costs of components, materials, and logistics; however, we recognize that pricing is not just about raising prices, and we believe it is important to ensure customers properly recognize the value of our products. We must continue to make greater efforts than ever before and pursue efforts in all of our businesses to focus on business negotiations that will lead to our value being recognized.

We recognize that price review as a measure against the cost pressure of the past few years is showing some positive results. Meanwhile, we must continue to work on pricing in the broad sense. We believe this will become one of the major pillars of improving our management.

- Q. You emphasize a policy that prioritizes ROIC. Cash acquired from the sale of cross-shareholdings is likely to raise expectations in the stock market for increased purchase of treasury stock to improve ROIC. Do you have a policy on the use of such cash acquired?
- A. We recognize the need to increase asset efficiency, and in addition to cross-shareholdings, we will refine other assets that should be refined. Naturally, the cash acquired by increasing asset efficiency will be allocated to shareholder returns, but first we would like to invest in our business. We believe that purchase of treasury stock is an important means of securing shareholder returns, but we consider dividends to be the major pillar of our shareholder returns.
- Q. Regarding the Infrastructure BA, it seems to be recovering rapidly from the H1 deficit, but what is the background to that? Isn't the Q4 plan too conservative?
- A. Although Q3 performance was relatively better than H1 performance, it is very important to receive orders for profitable projects and to develop the business accordingly. In the energy systems business, we are receiving orders for some projects that we expect to be profitable in the future, and in the defense & space systems business, we are gradually reviewing the details of contracts with customers, but this will not immediately impact the Q4 results. The Q4 forecast is based on our current actual performance and is not particularly conservative. On the other hand, we are continuing our efforts to improve profitability, and we believe there is room to increase overall profitability in the future. We would like to proceed gradually with these projects from FY25 onward.
- Q. Q4 revenue and profit in the factory automation systems business are expected to remain flat from Q3. I think operating expenses are usually likely to be incurred during Q4, so what items are you assuming will ensure profitability?
- A. The factory automation systems business slowed down considerably during Q3. With the recovery of smartphone-related demand in Q2 continuing for a little while, we believe we can hope to see a certain range of recovery in Q4 as well. We also need to optimize the order backlog during Q4. The other point is to make good progress on cost control. We will continue to make important investments, but we are streamlining and selecting expenses, which we made progress in during Q3 compared to Q2. We are considering the Q4 figures on the assumption that we will continue to make progress in such efforts during Q4 as well.
- Q. The building systems business is showing significant improvement and appears to be close to achieving its FY26 targets. What is the background to this improvement?
- A. During Q3, in addition to the impact of the weaker yen, contributions to the improvement in the business came from increased revenue from projects for Asia excluding China, for Japan, and for Europe as well as ongoing initiatives to select new installation projects and to expand maintenance/renewal business. The full-year forecast appears bullish partly because the gain on sale of assets, which had been factored in to some extent since the start of the year, was reflected since additional gains can be expected, which resulted in raising the forecast. We recognize that continued efforts are needed to achieve the medium-term management plan target.
- Q. The defense budget is expanding, but by how much do you expect the business to grow over the next fiscal year? Is a large increase in profit possible?

A. The Ministry of Defense's contracting system was revised, and the new contracts are gradually replacing the existing ones starting with those entered into during FY24. Meanwhile, some already contracted projects are ongoing, and the impact of these contracts will continue during FY25 and FY26. If there are any parts of the past contracts for which it is permissible to make revisions that are similar to the new contracts, we want to make efforts to do so. In any case, the Ministry is reviewing the current contracts, and we believe it will be some time before we see the effects of these revisions.

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