May 16, 2024
Mitsubishi Electric Corporation

Summary of the Q&A at the Consolidated Financial Results Briefing for Fiscal 2024 (The Press)

Date and time:	Friday, April 26, 2024 from 3:30 p.m. to 4:50 p.m.
Venue:	Head office of Mitsubishi Electric Corporation (Online briefing)
Respondents:	Kei Uruma, Representative Executive Officer, President & CEO Kuniaki Masuda, Executive Officer, CFO

Q. Regarding the forecast for FY25, will you reach record-high revenue as well as net profit attributable to Mitsubishi Electric Corp. stockholders?
In addition, how do you feel about the condition of the factory automation systems market in FY25?

A. We will achieve record highs in both revenue and net profit attributable to Mitsubishi Electric Corp. stockholders.
Orders won by the factory automation systems business in Q4 of FY24 have improved slightly from the previous quarter, but they have yet to recover strongly. While we expect market conditions to recover starting from the second half of FY25, we will improve our performance by working on price hikes, increasing cost efficiency, and so on. (Masuda)

Q. What areas do you expect will drive profits in FY25?

A. In general, we expect each segment to contribute to profits, but in particular, we expect profitability to recover in three segments. In the Infrastructure segment, while we expect a decrease in profit in the energy systems business, we expect an increase in profit in the public utility systems business and the defense & space systems business. In the Industry & Mobility segment, we also expect a significant recovery in the factory automation systems business. In the Life segment, we expect an increase in profit in the air conditioning systems & home products business. (Masuda)

Q. What kind of investments do you plan to make this fiscal year toward improving your business structure?

A. We have started a full-fledged transition to B/S management based on ROIC from this fiscal year. To strengthen our business capabilities, we will measure the "cost-effectiveness of investment" in each business group. We have made particularly large investments in the semiconductor area. We are constructing a new plant in Kumamoto. In addition to the investments we have already made decisions about, we will continue to make solid investments as needed based on future demand trends in SiC. (Uruma)

Q. Regarding the automotive equipment business, performance recovered and the business turned into profit in FY24, but do you think spinning-off the business was the right decision? Now that the new company is in place, what do you think of the current market conditions and the challenges it faces?

A. In April 2023, we announced that we would be spinning off the business, and we have been making preparations to do so. For three years, we recorded significant losses, which was because the value of our products was not commensurate with their market prices. We negotiated with our customers so that we can earn a fair profit and succeeded in gaining their understanding regarding the price revision, which led to a return to profit. With the establishment of the new company, we believe that we will move forward in an even better direction. We will also find a partner in the electrification business and properly handle the business. (Uruma)

Q. Looking at the FY24 results by region, only China's performance was down from the previous year, but is this due to a slowdown in domestic demand? What are your plans for dealing with this situation in the future?

A. Domestic demand in China remains very weak. It started with the real estate recession, which has affected various areas. Our businesses—for example, the factory automation systems business—are also seeing the effects of these market conditions, as well as intensifying competition with local Chinese companies. Going forward, we will work to strengthen our competitiveness, introduce new products in line with market conditions, and improve our model lineup. (Uruma)

Q. Regarding the weakening of the yen, it reached a level as high as 156 yen to the U.S. dollar today. How are you responding to the situation?

A. Although the weaker yen has the effect of boosting revenue and operating profit in terms of exports, it is not necessarily a good thing for our company, as parts procurement from overseas is also increasing. We are assuming an exchange rate of 140 yen to the U.S. dollar for FY25, but if the yen continues to depreciate, we believe it will be necessary to respond by firmly achieving cost reductions for products for which we procure many parts from overseas. (Uruma)

Q. With regard to the semiconductor sector, a slowdown in the electric vehicle (EV) market has been noted. Is there any impact on the power device business?

A. Although SiC power modules are used in many EVs, they currently account for a low percentage of our power modules business. So, we will continue to monitor the slowdown in the EV market, but we are not too concerned about the impact on our business. We believe that the shift to EVs will continue, and we will respond firmly to this trend as we consider our future SiC power modules strategy. (Uruma)

Q. The weaker yen is expected to have a negative impact on domestic consumer confidence. Will there be any impact on your business performance?

A. Some companies are moving their production systems back to Japan from the perspective of economic security, and we do not expect domestic capital expenditures to decrease due to the weaker yen, nor do we expect domestic consumer confidence to fall sharply. Therefore, we do not expect the weaker yen to have an extreme impact on our orders. We expect the yen to gradually appreciate in the future and are not that concerned. (Uruma)

Q. I think inventory in the air conditioning systems business was an issue in FY24, but what is the current situation?

A. The North American market was affected by increased inventory, and we recognize that this inventory had been eliminated to some extent by the end of FY24. As for markets other than North America, inventory adjustment is progressing gradually. (Masuda)

In Q4 of FY24, our U.S. companies engaged in the air conditioning systems business showed a significant improvement from the previous quarter, and current order trends are favorable. (Uruma)

Q. Regarding the outlook for the air conditioning systems & home products business, the mainstream view among competitors is that recovery will be difficult for roughly two years. In which areas do you expect to achieve recovery in FY25?

A. Our understanding is that the sense of slowdown in the air conditioning systems business was influenced by the fact that expectations for demand expansion, mainly in Europe and North America were originally quite high. While demand in FY25 will not be as strong as initially expected, we expect it will grow more steadily compared to FY24. By region, demand in North America, which has been struggling since Q2 of FY24, is on a recovery trend, and in the Asian region, demand in India is particularly strong. In Europe, we expect the Air To Water (ATW) business to continue to face difficult conditions, but sales of industrial air conditioners are relatively strong and are expected to grow in FY25 compared to the previous year. We expect the air conditioning systems business as a whole to grow steadily. (Masuda)

Q. What is your response to the overseas sales ratio having exceeded 50%?

A. We are diversifying our overseas efforts and expanding our development bases overseas. For example, in the air conditioning systems business, we have a development base in Thailand, and we are working to develop products that meet the unique tastes of the region, while in the U.S., we intend to further strengthen our partnership with TRANE.

We believe that our overseas businesses will not be able to grow any further without developing strategies tailored to regional characteristics, and we will continue to explore all possibilities, including partnerships and acquisitions. (Uruma)