IR Briefing - Summary of Q&A Session

Date: August 21, 2024 16:00 - 17:30 (Explanation: 60 minutes, Q&A: 30 minutes)
Format: Venue + Online Streaming
Presenters: Kikuo Toyoda, Chairman and Representative Director, CEO
Ryosuke Matsubayashi, President and Representative Director, COO

■ Medium-Term Management Plan

Q: When will you achieve the target operating profit of 100 billion yen (FY2024) set in the current medium-term management plan?

A: We recognize that there is sufficient potential to hit operating profit of 100 billion yen. To achieve the targets set in the plan, we will identify 18 core companies over which we will strengthen own grip, create synergies and if necessary, carry out M&A activities.

Therefore, we hope to achieve this target within the next medium-term management plan (around FY2026).

■ Capital efficiency

Q: Regarding your ROE and ROIC targets, I assume this will involve making effective use of your existing assets, but how specifically will you achieve these targets?

A: As we are a company that has grown through M&A activities, we have tended to become asset-heavy. We will inspect all of our businesses and assets and work to improve asset efficiency. We will also explore which businesses can be combined to create maximum synergies.

Additionally, regarding asset efficiency, we will make smart use of Group assets to invest in growth, and in the future focus on increasing cash flow from operating activities.

■ Cash allocation

Q: Regarding M&A activities, over the two years up to 2023 you did not seem to make use of this very much, committing only 56 billion yen. Are there any changes from your previous approach to M&A? In addition, do you intend to strengthen shareholder returns, such as by acquiring treasury shares?

A: Compared with the small-scale domestic M&A activities we have implemented in the past,going forward we will consider M&A activities of a larger scale, including overseas acquisitions, in a more strategic fashion.

Regarding shareholder return, our initial focus is to provide return through dividends. We will continue to reduce our relational shareholdings. At the point free cash flow has moved into positive territory, we will also consider the acquisition of treasury shares.

■ **Growth strategies**

Q: Regarding the industrial gas business in India and North America, which is a core area for you, it appears that your investments are of a lower density compared with major overseas competitors. Given that, how will you achieve efficiency and growth?

A: In India, each company's infrastructure and its customer density varies by region. In eastern India, we are operating our business at a density that compares favorably with competitors, and we have made proactive investments.

However, in northern and western India where we are expanding these businesses, our strategy is to acquire large-scale on-site businesses* and use them as a base to capture surrounding demand. In India, we are already in a position to participate in large-scale bidding.

North America is an area with a high density of competitors. In the future, we will expand our business by securing new projects leveraging our strength in energy efficient plants in areas including semiconductors, which will require greater environmental considerations, and chemicals that will require green production approaches with energy savings.

* On-site business: A business where our gas production equipment is situated on the premises of or adjacent to a customer plant that constantly requires a large volume of gas, directly supplying the gas to the usage site via a pipeline.

Q: Regarding the industrial gas business, domestic market is expected to recover in 2025, but what do you expect the profit composition to look like around 2026 and 2027 in terms of semiconductor-related business and other areas?

In addition, around when do you expect to achieve an operating margin of 10% overseas?

A: Currently, the domestic industrial gas business operates at a ratio of around 1:1.5 for semiconductor applications and others. In 2026 and 2027 we expect the ratio to be around 1:1.

Overseas, we have already achieved profit margins exceeding 10% for industrial gas. In our next medium-term management plan (from FY2025 onward), plants that have not yet entered service will become fully operational, and we expect that overall profit margins will exceed 10% as a result. Currently the split between industrial gas and equipment/engineering is roughly even, but in the future overall operating margin will rise as the industrial gas accounts for a greater proportion.

Q: You mentioned leveraging the fact that you have many sites in Hokkaido to capture demand associated with construction of the new Rapidus plant. Do you have any other new ventures planned in Hokkaido?

A: We have just over 200 sites in Hokkaido and we hope to make use of them as we work to create new business. We would like everyone to see how many new businesses are created in Hokkaido in the future.

Q: You mentioned that in India you are pursuing 4-5 industrial gas plant projects in the steel sector. What scales do these projects involve? Additionally, do you have sufficient industrial gas plant construction capacity?

A: The plant sizes involve investments exceeding 10 billion yen per installation. We have fielded multiple inquiries regarding installations capable of supplying 1,000 to 2,000 tons of oxygen per day for blast furnace manufacturers. We hope to secure one or two of those projects as firm orders.

Previously we had been using engineering functions from outside India, such as in Japan and the United States. However, now we have cultivated Indian engineers, so our ability to provide local engineering services has steadily improved. Going forward the number of projects we will be able to handle will steadily increase.

■ **Group management**

Q: You mentioned that the size of your core companies will expand as you further consolidate and restructure subsidiaries within the Group. What kind of synergies are you aiming to achieve?

A: The Group has become a company with 1 trillion yen in revenue, and new business transactions are on the rise. Compared with before, there has been an increase in collaboration with industry, government and academia, particularly with government and academia, and we have strengthened our ability to create new business.

We will grow our core companies to a certain size and further enhance collaboration with outside entities, creating synergy as a Group and increasing profit margins overall.

We hope to increase the number of core companies to 30, and if we get that far, we believe we will become a special type of corporate group.

End of Q&A summary