



Creating new corporate value through solving social issues is the mission of our Group, now as a trillion-yen company.

Chairman and Representative Director
Chief Executive Officer (CEO)

Kikuo Toyoda

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Achieved revenue of 1 trillion yen

Air Water, which started in 2000 as a group of three companies with industrial gas as its business foundation, has been growing its comprehensive strength as a group through related diversification with industrial gas as its origin. In FY2022, we as a group have achieved the goal of 1-trillion-yen revenue, an important milestone for the company's growth stage.

Now that we have become a one-trillion-yen company, we feel more than ever the greater expectations of our stakeholders and society. At the same time, we are bracing ourselves to enter a stage where we must create value beyond that point. We will respond to their expectations and steer our management with an even greater emphasis on profitability and capital efficiency to further grow.

Our Group has advantages in diverse businesses, human resources, and technologies that it has cultivated on its path to becoming a trillion-yen company. We will maximize these strengths to achieve new growth that cannot be realized by existing businesses alone. We are turning global social issues into business opportunities while promoting partnerships and alliances with major companies, universities, and local governments, all of which can only be realized now with our increased presence.

To achieve sustainable growth in today's world where society and the economy are changing at an unprecedented speed, we are committed to manage our business with the utmost importance on increasing the social value we provide to the world by solving social issues, while constantly changing the form of our company and business.

We set our 2050 Sustainability Vision as "achieving a recycling-oriented society through coexistence with society and the earth." Under the long-term vision "terrAWell30" for 2030, which is a milestone of the 2050, we have started working to create new corporate value through the solution of social issues. I can already see a path for our Group to evolve under this vision. We will contribute to the less burden on the global environment and to the more healthy lives of people by leveraging our management base cultivated through our diverse businesses. While doing so, we can continue to be chosen by local communities, customers, employees, and shareholders, as well as meet their expectations through sustainable growth. I see the route for becoming such a presence.

In the following, I would like to discuss the path we are on, starting with (1) our Group's vision, (2) our growth policy, and (3) our challenges and solutions.

(1) Our vision Contributing to solving social issues through "Global Environment" and "Wellness."

Under the "terrAWell30," our Group has integrated its diverse business vectors into two growth axes, "Global Environment" and "Wellness," reflecting global social issues such as energy decarbonization, population growth, and the food crisis.

Global Environment

As carbon neutrality becomes a precondition for business activities in many countries and companies, decarbonization is an urgent and long-term challenge that cannot be avoided. The need for both a stable energy supply and decarbonization is increasing, as is the need for products to be green. Also, as we rapidly shift to a smart society with AI and IoT, there is a growing need to address DX and other digital technologies.

Wellness

As we enter the "100-year life era," extending healthy life expectancy and advancing preventive medicine have become important issues. As we face food insecurity issues due to the growing world population and heightened geopolitical risks, it is also essential to expand the agriculture and food industry.

These social issues are risks, but at the same time, can also be great business opportunities for our Group. We should identify the essence of such problems, provide solutions by leveraging our diverse businesses, human resources, and technologies, and pursue the social values. This is the theme of "terrAWell 30." In today's rapidly changing and uncertain society, we are confident that by pursuing the values leading to a sustainable future, we can inevitably create new economic values.

(2) Our growth policy Realizing “terrAWell30”

Our Group has established a position as a comprehensive industrial gas manufacturer in the first founding stage since 2000. And then, built a diversified “All-Weather” portfolio in the second founding stage since 2010. In the third founding stage, we achieved 1-trillion-yen revenue in FY2022 as the grand finale to our efforts to date. We are now looking to “creating new corporate value through solving social issues,” where we leverage synergies from our “diverse businesses, human resources, and technologies” gained through the preceding phases as well as “presence as a trillion-yen company.”

The “terrAWell30” is our long-term vision to face our own Materiality and promote sustainability management in the third founding period. Assuming that we cannot expect significant future growth from our existing businesses alone, especially within Japan, it sets forth three basic growth policies.

First, we will continue to restructure our existing businesses in Japan, including the integration and reorganization of group companies, while improving profitability through price management, optimal allocation of human resources, and DX to increase earning power.

Second, in addition to the engineering expertise we have developed to date in the domestic market, including the acquisition of large-scale gas plant technology, we will seek future growth overseas by taking advantage of the strategic alliance with MITSUI & CO. that was realized in 2022. For overseas expansion, we are currently accelerating the expansion of our industrial gas business with India and North America as key strategic areas. There we aim to establish a business platform for industrial gasses, and in the future, develop businesses that take advantage of our Group’s diverse businesses and technological capabilities in areas such as medical care, environment and energy, and food products.

Third, in order to respond to the changing times, we will create and explore new businesses that contribute to solving social issues in the region. Instead of relying on existing businesses, we will move forward based on innovation through technology and the social relationship capital we built with local governments, universities, and other entities in each region.

Going for that, the “terrAWell30” sets targets and indicators for economic values (profitability/business expansion/capital efficiency) and social values (non-financial indicators/target society) respectively to be achieved by FY2030. (For details, see

“Realizing terrAWell30” on p.40-41.)

(3) Our challenges and solutions Creating a corporate culture that generates synergy and transformation

Our Group has the earnings base and strengths that can support growth for the foreseeable future. What I need to do now as CEO is to improve the “quality” of the organization so we can use the profits and cash generated to create new markets, develop them into businesses, and realize our vision of sustainability. Specifically, it means to transform our Group into an organization that (1) flexibly responds to change and continues to innovate, and (2) is capable of autonomously creating synergies through a combination of technologies, human resources, and businesses.

When I became CEO in 2019, our Group was only partially optimized with fixed businesses and human resources due to business expansion based on a Company System. I recognized that our greatest strengths of diverse businesses, human resources, and technologies were not being fully optimized as a whole, which was a key management issue. In order to resolve this issue and move from partial to total optimization, we have been working to build an organizational structure that provides a cross-organizational framework for functions essential to the Group’s growth, such as technology development, engineering, and gas products.

Introduced a Unit System to elevate group-wide management

In April 2022, we reorganized our diverse business fields into four groups (Digital & Industry, Energy Solutions, Health & Safety, and Agriculture & Foods) and introduced the Unit System. It shifted us to a new group management structure which integrates the headquarters organization of Air Water and the group companies. In May 2023, we also established a new Global & Engineering Group to promote and manage our overseas business development.

The Unit System aims to develop next-generation management personnel by selecting presidents of the group companies, each of whom plays the core role of respective business operations, as head of the business units, a key position in the main organization. Under the system, we identify talented personnel in our Group and also appoint those who are familiar with

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We will create corporate value through truly integrated group management, total optimization of management resources, and investment in intangible assets.
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the business to such positions to ensure there is no discrepancy between the overall strategy of the unit and the on-site sense of business promotion. In addition, the Unit System serves as a milestone in pursuing truly integrated group management, as it opens the way for the group employees to be promoted to managerial personnel and increases their motivation.

This is the main reason why we moved from the Company System to the Unit System. The Unit System allows us to flexibly change the relationship between each business and the group companies in response to changes in the environment, and also promotes the fluidity of human resources within the Group, thereby revitalizing the organization. Our group companies have been expanding their performance and largely contributed to the one-trillion-yen revenue, behind which there was the Unit System in place.

Going forward, we will evolve the Unit System to promote group management that integrates the organization of AIR WATER INC. and its 30 group companies that play a core role in each business domain. While maintaining the business characteristics of our diverse group companies, the corporate division at the headquarters will be taking the lead in standardizing common management functions of each group company, such as financing, investment, and governance, and further promoting the mobility of human resources. Simultaneously, we will develop the data infrastructure and reform the personnel system to realize these goals.

Emphasizing human capital investment, as people and business are inseparable

Our Group has focused on M&A and capital investments to date, but in this era of uncertainty ahead, we consider intangible asset investments are critical, such as intellectual property, human capital, and brand power.

As expectations for us have risen with our becoming a one-trillion-yen company, we are building a framework for new value creation structures, including open innovation that will contribute to solving social issues.

At the same time, we are promoting integrated group management to achieve “management that leverages human resources.” People and business are inextricably linked. Without

the growth of human resources, the growth of a company is not possible.

I believe that the most important part of developing people is to make them realize and to place them in roles with responsibilities as early as possible after having them gain experience in various departments. Taking on a position with more responsibility will change your view and broaden the scope of what you can do. In a place like our Group with diverse business operations, we need to think of the best combination of human resources to create and change the shape of our business. It has unlimited possibilities, just like art.

Our Group is currently revamping the personnel system to encourage employees to gain various experiences and raise their hands, as well as to ensure that their achievements are fairly rewarded. We believe that encouraging challenges and increasing the mobility of human resources within our Group will create synergies and foster a culture of self-initiated innovation.

“Beyond” the 1 trillion yen, we create a new era

Today, we are witnessing megatrends such as a smart society, a decarbonized society, a 100-year life span, and increasing food self-sufficiency. The future is more uncertain and changing than ever before. In such times, it is important to keep changing with an understanding of such megatrends, and not taking the “risk of change” would be a serious risk.

For now, our Group is making profits from its existing businesses. It is precisely at such times that we must break away from businesses that assume existing values and continued growth, dare to seek change, and create new businesses with the ability to earn even more revenue.

As a company that achieved a trillion-yen mark, what can we do to help solve social issues? We are determined to take a higher perspective, make better use of the assets we have today, and continue to take on the challenge of creating a new era.



As COO, my key role is to lead our growth strategy, including the extension into new growth areas.

President and Representative Director
Chief Operating Officer (COO)

Ryosuke Matsubayashi

As of April 1, 2023, I have been appointed President and Representative Director and COO (Chief Operating Officer) of AIR WATER INC. I am very proud to be leading the business execution at a time when the Air Water Group is entering a new stage of its history, having achieved 1-trillion-yen in group revenue as its goal set since 2010.

My role is to work with the CEO to develop and lead a growth strategy for 2030 and beyond, based on a policies of “expanding growth areas,” “creating new businesses,” and “strengthening profitability of our existing businesses.” I am willing to fulfill my responsibilities to the fullest to meet the expectations of our stakeholders.

History and growth strategy of our industrial gas business

Before discussing our business growth strategy, I need to explain our steps so far in the industrial gas business, where we started. The domestic industrial gas market peaked around 2010 and has since stagnated in line with the decline in crude steel production. Under such circumstances, we continue to achieve sustainable growth by adapting to changes in the business environment and users. The reasons for this sustainable growth include the development of technologies such as the high-purity nitrogen gas generator “V1” and gas total system, a business model based on these technologies, and a regional strategy based on the deployment of the small- and medium-sized liquefied gas plant “VSU”.

We developed the “V1” in 1980 and devised a total gas system that covers plant design and construction, gas production

and supply, and related backup and maintenance. Together, we created the de facto standard model for the supply of nitrogen gas to semiconductor plants. Since then, we have continued to improve our plants by utilizing data from the field as well as develop technologies to adapt to changing needs, such as higher efficiency and larger flow rates. Those efforts laid the foundation for our electronics business (ref. p.48), which is now one of our growth drivers.

In the past, industrial gas was produced in large concentrated volumes at industrial complexes in the Gulf Coast area and then transported to areas of demand for sale. However, we developed a decentralized supply chain by installing VSUs, small and medium sized liquefied gas plants, in the outskirts of those areas as demanded. It is expanding as an innovative community-based gas supply model that can contribute to the risk of decreasing on-site plant locations due to Japan’s changing industrial structure and supply chain troubles caused by abnormal weather conditions.

Such competitiveness as our improving technologies and a community-based foundation have also helped expand our Group’s business domains from industrial gases to medical care, food products, and other areas. We will leverage these strengths to further expand our growth areas and create new businesses moving forward.

To seek further growth areas and new businesses

Expanding growth areas

Currently, we are expanding our overseas business (especially in North America and India) and electronics business, both of which we have designated as priority growth areas.

In North America, we were a late entrant into a mature market where industrial gas majors hold approximately 85% of the market share. Therefore, we first established a basic business of cryogenic equipment, which is our area of expertise, with gas majors and dealers as our customers. At the same time, we have differentiated ourselves from the industrial gas majors by staying closer to the local gas dealers and users through a proposal which combines plant engineering and VSU models. Since 2022, we have acquired gas dealers in several regions and have also begun construction of an on-site plant in New York State, our first in-house manufacturing facility. In addition, entered the helium supply business, which covers the entire North American region. Going forward, we will continue to broaden our supply chain with the VSU model, as well as

commercialize hydrogen and CCU*, for which new demand is expected against the backdrop of decarbonization.

*stands for Carbon dioxide Capture and Utilization.

In India, we have earned trust through stable and safe operations with superior operation/maintenance technologies through large-scale M&As of steel on-site bases in the eastern and southern parts of the country, and have gained the third largest market share in the world’s fastest growing market. In addition, we have received many new inquiries for steel onsite projects, and recently received an order from SAIL, India’s government-owned steel company, to supply onsite gas to its Durgapur steel plant in the eastern India. The Group’s engineering capabilities strongly support our strategy to become an industrial gas manufacturer with a strong presence in the global market, especially in terms of “quality,” and contribute to the expansion of our growth areas. (ref. p.44)

In the Electronics business, we are currently constructing on-site plants for large-scale semiconductor factories for CMOS sensors, DRAM, NAND flash memory, and other products at several locations in Japan. In response to strong investment in new and additional semiconductor plants in Japan, we are expanding related businesses based on on-site gas supply. Concurrently, we will grow our business by developing products for the growing markets of semiconductors and the environmental field.

Creating new businesses

We are also proactively creating new businesses that start with solutions to social issues. At present, we are building a regional recycling-based clean energy supply chain in Hokkaido that utilizes biogas generated from livestock manure, and we are steadily producing results. This is exactly the kind of new business that only our Group, which has been dealing with local issues in Hokkaido, can offer.

Furthermore, as food security and food self-sufficiency become social issues, we are strengthening our “fruit and vegetable distribution and processing platform,” which crosses the value chain from procurement, processing, and sales of fruits and vegetables with logistics capabilities that link production areas and consumption areas. In February 2023, a collaborative structure was formed with VEGETECH Co.,Ltd., and DELICA FOODS HOLDINGS Co., Ltd., trading companies specializing in fruits and vegetables. In October, Marushin Seika, a middle wholesaler in Fukuoka Prefecture, joined our Group, enhancing the stable supply system and developing new production areas to diversify risks.

Technology strategy for further growth areas and new businesses

To date, we have evolved in the industrial gas business by growing existing businesses, diversifying into related industries, and expanding overseas while developing its core/related technologies and conducting M&As. The acquisition of a wide variety of development personnel, technologies, and other resources through this process has been a major strength of our group.

In May 2023, we reformed our organization for the technology development structure. We have established a structure that accelerates the process from development to commercialization in all business areas. Also, the new “Gas Technology Development Center” is now in place. We are focusing on gas technology development as the base for all our businesses and a source of synergy.

In our overseas business, we launched the “Global & Engineering Group” to strengthen our engineering structure, an essential technical area for the industrial gas supply, and centralized the management function of the overseas business to enhance global governance.

We will continue to upgrade our diverse technologies and provide solutions to increasingly complex social issues with our combined technological development resources, thereby creating new social value.

To strengthen profitability

In existing businesses, mainly in Japan, we are pursuing several initiatives to further increase profitability. Existing businesses will become a solid earnings base if they are made more efficient and improved. Improving the profitability of existing businesses will be a prerequisite for allocating management resources to new businesses and growth areas. Therefore, we will review our current position in each business area, or what we call a full inspection of our business at first, then take measures for the higher profitability based on possible synergies to be generated in our Group.

Toward the integrated group management (ref. p.42), we will continue to reorganize our group companies. Through the business inspection, also ensure price management for rising costs. Further more, we will continue to take steps to strengthen the profitability of existing businesses from various angles, including reviewing low-profit projects, optimizing personnel allocation, improving the efficiency of logistics and procurement, and the nature of our business bases, to do strengthen the profitability of our existing businesses. Along with these to

enhance profitability, we also aim to improve capital efficiency by optimizing inventories and shortening the CCC (Cash Conversion Cycle).

Traditionally, the criteria for business valuation did not change from business to business, and business profit and loss was used as the main criterion for all the businesses. However, mature businesses and growing businesses should not be evaluated on the same scale. Going forward, we will consider each business individually and, if necessary, combine multiple indicators such as ROIC and other capital efficiency, market growth, and social contribution in a composite manner to establish evaluation indicators that match the characteristic of each business. Given that, we strive to strengthen the profitability and improve the productivity of each individual business. The goal of these initiatives is to raise the operating profit margin of the entire business to at least 10% by FY2030.

Disciplined capital investment and M&A

Continuous investment is essential as well to expand our growth areas. We are planning to make vigorous capital and M&A investments, mainly in the Overseas and Electronics.

In order to maintain sufficient financial security in case of prolonged stagnation in economic activity and to concentrate management resources in growth areas, we will make future M&A investments and capital expenditures even more carefully. As part of this effort, we will thoroughly examine ROIC and enhance our investment verification function.

In fact, we started reviewing the functions of the Investment Committee this year as well as verifying our previous investment projects. The previous Investment Committee focused on checking the profitability of investments, identifying risks, and supporting solutions. However, in the new Investment Committee, I, as the president, will make a decision on whether or not to make an investment based on an evaluation of the business potential of the project by the investment planning and the head office administration divisions. The decision process includes qualitative and quantitative assessments of consistency with the company’s overall strategy, synergies with existing businesses, the probability and execution structure of the business plan, geopolitical risks, exit strategies, and other factors. We then make the most appropriate choice for the future growth of our Group.

What is important in investing in a new business is the process and story of how to sprout the “seed” of the business, nurture it, and develop it into a successful business. We believe it is important to formulate a hypothesis of that story in the planning stage and execute it after logical verification. So, in verifying

new project investments, we will establish a process whereby the Investment Committee reviews the “seed” stage, followed by the verification process.

Financial discipline and capital efficiency indicators

While we plan an aggressive investment strategy, we will maintain a sound financial discipline. Specifically, we have set the target range for the ratio of equity attributable to owners of the parent (to total asset) at 36-40% and the target range of net D/E ratio at 0.8-1.0 times. In terms of capital efficiency, we have set company-wide targets for ROE (return on equity attributable to owners of the parent) and ROIC (return on invested capital). Now we aim to increase them from 9.7% ROE and 5.6% ROIC as of FY2022 to more than 12% and 8%, respectively.

Shareholder return

Our basic policy is to increase the return of profits to shareholders as one of the most important management issues, while strengthening our management base to constantly improve our corporate value, and to increase dividends by increasing our profits. Specifically, we aim for a dividend payout ratio of 30% or more as shareholder return and stable dividends that match our business performance. For FY2022, the year-end dividend was 28 yen plus a special dividend* of 4 yen per share. As a result, the annual dividend for FY2023 was 60 yen per share as a total of 28 yen for the interim, 28 yen for the year-end, and 4 yen for the special dividend, making a dividend payout ratio 33.9% on the consolidated basis. This represents a dividend increase of more than 2.5 times over the past 10 years.

*To commemorate 1-trillion-yen revenue, which had been a group-wide effort since 2010.

To realize a sustainable society

The most important premise of our Group’s business activities is “to be sustainable in terms of the global environment.” All of our Group’s businesses are based on the Sustainability Vision for 2050 and Purpose. We do our business with the vision to “achieve a recycling-oriented society through coexistence with society and the earth” and the Purpose of “meeting society’s needs with nature’s blessings.” Through our business activities, we aim to realize a recycling-oriented society, zero environmental impact, and the revitalized global environment. We keep moving forward to become a corporate group that continues to be chosen by local communities and customers, and that realizes the well-being of our employees.

In particular, we have reflected our response to climate



change in our business strategy as one of our Pillars to Success (Materiality). We are committed to carbon neutrality in terms of both our “responsibility” to reduce GHG emissions and our “contribution” to a decarbonized society through our products and business. As an example of how we are contributing to GHG reduction through our business, we are using gas control technologies, such as refining, separation, and storage, developed in our industrial gas business, to supply biogas, methane, hydrogen, and other gases, and to develop carbon neutral technologies that contribute to low carbon and decarbonization such as CO₂ capture and utilization. To reduce our GHG emissions, we are also prioritizing energy conservation activities such as low-carbonization of energy used in our production processes and investment in energy-saving equipment. We will also work to expand the use of renewable energy in stages and build a low-carbon logistics business.

Message to our stakeholders

The Air Water Group has a diverse range of businesses, human resources, and technologies. We have an “All-Weather” management base that is resilient to changes in the business environment, a foothold for further growth, and enough connections with local communities, customers, local governments, and business partners. I am convinced that if we can maximize the potential of these management resources, we can grow even higher and create more values.

In order to enhance our corporate value from both social and economic perspectives, and to grow our Group into an “essential” member of our society, I will fulfill my role by implementing our strategies, sometimes cautiously, sometimes boldly.