

Full-year Financial Results for Fiscal Year Ended March 31, 2022
Q&A Summary of Conference Call for Analysts and Institutional Investors

Date:	Thursday, May 12, 2022 19:00 - 19:50 (Explanation: 25 minutes, Q&A: 25 minutes)
Format of the meeting:	Conference call
Presenters:	Masato Machida: Representative Director Executive Vice President, Corporate Management Officer Koichi Nakai: Executive Officer, Corporate Communication General Manager Office of Corporate Communications Hiroshi Komatsu: IR General Manager Office of Corporate Communications Financial Strategy General Manager Office of Financial Strategy

■ **Impact of rising material and fuel prices and response**

**Q: Material and fuel prices continue to rise. What is your estimate of its impact for fiscal 2022?
And what are the circumstances surrounding price revisions?**

A: We operate a wide range of businesses. The surge in the prices of materials and fuels will have some impact on each business, but the scale of the impact will vary from business to business. Our results forecast for fiscal 2022 takes into account the impact of rising material and fuel prices on the assumption that this trend will ease in the second half of the fiscal year.

We foresee that it will have particularly significant impacts on the following businesses.

- Industrial gas business: The impact of increase in electric power costs on results for fiscal 2021 was 1,000 million yen higher than for fiscal 2020. We expect an impact of similar scale on the results for fiscal 2022.
- Seawater business: The Sanuki Plant fires coal for boilers to produce the heat required for the salt making process. In the forecast for fiscal 2022, the impact of the rising coal price is estimated to be equivalent to the electric power cost in the industrial gas business.
- Logistics business: Its fiscal 2021 results were affected by the light oil price, which remained high. For the forecast for fiscal 2022, we anticipate that the impact will be around 500 million yen greater than in fiscal 2021.

- Electric power business: Our woody biomass and coal co-fired power plant in the city of Hofu in Yamaguchi Prefecture uses coal as part of its fuels. The increase in coal prices leads to an increase in the power selling price. Therefore, it will have little impact. Meanwhile, we import palm kernel shells (PKS), which is a biomass fuel, from Indonesia. The freight cost is rising. The forecast for fiscal 2022 takes into account an impact worth around 500 million yen for the overall the electric power business in the Other segment.

Circumstances surrounding price revisions are as follows.

- Industrial gas business: We are working to revise prices mainly of gas supplied using tank trucks and cylinders.
- Seawater business: In February 2022, we changed the salt price. Salt sales have since been healthy. However, coal prices are also rising at present. We will consider what response should be taken in the future, including another price hike.
- Logistics business We will fully pass the cost increase onto cargo owners. That will offset nearly half the amount of the impact.
- Electric power business: We will offset the rise in freight cost by rationalizing regular repairs and taking other measures. However, their effect will be limited and we forecast a profit decline for fiscal 2022.

■ Industrial gas business

Q: I understand that you owned a neon production plant. I imagine that it is not in operation at the moment. Do you have a plan to resume its operation in light of the tight supply of neon gas amid the Russia-Ukraine war?

A: We used to produce neon gas at our Wakayama plant. Production was discontinued around 10 years ago. In practical terms, it is difficult to overhaul the equipment and to restart its operation. Currently, neon is not produced in Japan. It is entirely imported. At this point, we have no plan to produce neon in response to demand. In line with the rise in semiconductor manufacturing, xenon and krypton are in growing demand. We will make decisions on whether to increase production of these gases in consideration of future circumstances.

Q: You explained that the forecast for fiscal 2022 took into account an impact of soaring power costs worth around 1,000 million yen. Given the current situation, I feel that this amount is too small. Would you give us more details?

A: Our industrial gas business employs two supply methods. One is on-site supply, and the other is the supply using tank trucks and cylinders. The on-site supply means that gas is supplied directly to users via piping. It accounts for nearly 40% of our industrial gas revenue in Japan. With this method, the cost of electric power consumed for gas production can basically be incorporated into the gas sales price. Revenue is not affected by the power cost change. The power cost change will impact the revenue from gas supply using tank trucks and cylinders, which accounts for the remaining 60%. For the forecast for fiscal 2022, we anticipate that the electric power cost will remain high in the first half of the fiscal year and will ease in the second half. We expect a higher cost by around 1,000 million yen than for fiscal 2021. If the power cost remains high throughout the year, its impact may be double the expected level. We will therefore take a firm stance on price revisions. So far, it is very difficult to foresee its effect. We assume that it will cover nearly 60% to 70% of the increase in power costs.

■ Chemical business

Q: Why is the increase in operating profit smaller than the increase in revenue in the forecast for fiscal 2022?

*** Revenue is expected to rise 4.7 billion yen (111.9%) from fiscal 2021, whereas operating profit is anticipated to increase 0.1 billion yen (102.0%) .**

A: For fiscal 2021, operating profit rose temporarily for reason of inventory evaluation after a sharp hike in market prices of organic acids.

The forecast for fiscal 2022 foresees disappearance of the temporary profit of organic acids.

■ Medical business

Q: Why is the increase in operating profit smaller than the increase in revenue in the forecast for fiscal 2022?

*** Revenue is expected to be 39.3 billion yen (120.2%) from fiscal 2021, whereas operating profit up 1.3 billion yen (110.9%).**

A: The revenue growth is due largely to winning new large projects for supply processing & distribution (SPD) services for medical institutions. The SPD services will be a great boost to revenue growth but they are less profitable. That explains the limited growth in operating profit. In the medical business, there are impacts of rises in material prices in some domains. Examples include surges in steel materials and stainless steel prices affecting the equipment business.

However, these impacts are small in the whole business segment.

■ **Agriculture and food products business**

Q: What is behind the massive jump in operating profit in the forecast for fiscal 2022? Do you predict that rallying market prices of vegetables will help or foresee any other factors?

*** Operating profit is expected up 1.5 billion yen (126.8%) from fiscal 2021.**

A: For fiscal 2021, poor weather conditions resulted in poor harvests of onions and potatoes in Hokkaido. That had a tremendous impact on both prices and quantities. For fiscal 2022, we forecast recovery from the negative impact and an effect of full-year inclusion in consolidated accounting of Plus Co., Ltd., which has been consolidated since the second half of fiscal 2021. In the fresh fruit and vegetables business, the number of customers, which was small in fiscal 2021 given the pandemic, is expected to rally. Positive effects from new consolidation of companies acquired through M&A deals are also taken into account. In the beverage business, commissioned production of plant milk drinks and other drinks in paper cartons was brisk in fiscal 2021. It is a business in which we excel. Commissioned production of these drinks is expected to stay brisk. As are sales of frozen processed food products to large mass retailers in the farm products and food processing business.

■ **Other businesses**

Q: What is behind the significant revenue leap in the forecast for fiscal 2022?

*** Revenue is expected up 24.8 billion yen (116.1%) from fiscal 2021.**

A: We anticipate a recovery from the impact of delayed construction in the domain of high power UPS business as part of the overseas engineering business in fiscal 2021, chiefly in Singapore and Asia for reason of the pandemic. In the industrial gas equipment business in North America, sales of liquefied hydrogen tanks and trailers remain buoyant. We forecast that they will show continued growth. We also expect to enlarge businesses of information electronics materials including connectors for automotive components and of O-rings for semiconductor manufacturing among others. In this business, the effect of newly consolidation of a North American industrial gas dealer acquired through M&A is taken into account.

Q: The forecast for fiscal 2022 gives me the impression that operating profit growth in other businesses is small in comparison with the revenue jump in the high power UPS sector. What is the reason for that?

A: The high power UPS business fundamentally has a high operating margin. However, its operating profit growth will be limited due to soaring material prices and rising marine transport expenses. In addition, climbing freight costs will have a negative impact on the electric power business. The effect of new consolidation after an M&A deal expected in the overseas engineering business will have a minor positive effect on operating profit. One of the reasons for this is that the costs of financial advisers (FA) will be posted for the first fiscal year.

■ **Investments**

Q: For fiscal 2022, cash flows from investing activities are expected to be far higher than in fiscal 2021. I suppose that this forecast is premised on achievement of the one-trillion-yen-company vision. Would you give us the main details?

A: We expect to make total capital expenditures of 77 billion yen. This includes 31.9 billion yen to be invested in the industrial gas business. Major semiconductor manufacturers in Japan continue to vigorously strengthen their facilities. Accordingly, we will strengthen our nitrogen gas and other gas plants. We are planning to invest an approximate total amount of 40 billion yen in M&A. We are thinking of actively carrying out M&A in fiscal 2022 and the figure is based on this.

■ **Effect of foreign exchange rate**

Q: What is the impact of foreign exchange fluctuations on business results?

A: While we have an increasing number of overseas subsidiaries, we import materials for food products, medical equipment and other goods. A weaker yen has a downward impact on companywide results. A yen depreciation of 1 yen against the U.S. dollar is expected to lower operating profit by slightly less than 100 million yen.

End of Q&A summary