

Q&A Summary at Fiscal Year 2019 Full Year Financial Results Briefing (for analysts and institutional investors)

Date:	Thursday, May 28, 2020 18:00 – 19:15 (Explanation from the company – 35 minutes, Q&A – 40 minutes)
Format of the meeting:	Conference call
Presenters:	Masato Machida: Representative Director Executive Vice President, Corporate Management Officer Kikue Inoue: Senior Executive Officer, Manager of Corporate Communications department

■ Impact of the COVID-19

Q. How much of an impact has the COVID 19 had on the year ending March 2020 (the previous fiscal year)?

A. In the previous fiscal year, the COVID 19 caused the postponement of the implementation of hospital facility construction projects (in Japan and in Singapore) in our medical business. The COVID 19 also affected our agriculture and food products business which saw a decline in sales of products for commercial use for restaurants.

Q. How much impact the COVID-19 is expected to have on the year ending March 2021 (the current fiscal year)?

A. The impact of the COVID 19 is expected to cause a decline of about 6.8 billion yen in operating profit.

This decline will be offset by an overall increase in profit (about 5.2 billion yen) including the effects of the new consolidation through M&A implemented in the previous fiscal year, which is expected to result in a profit decline of about 1.6 billion yen.

To be explicit, operating profit will decrease by 4.6 billion yen (50.6 billion yen for FY2019 → 46 billion yen for FY2020). For fiscal 2019, there was “other income and expenses” of around 3.8 billion yen in total, as a result of a gain on bargain purchase and sale of land. By contrast, for fiscal 2020, “other income and expenses” arising from such specific factors are expected to be around 0.8 billion yen, which means that fiscal 2020 will see a decline in profit of around 3.0 billion yen due to the decrease in “other income and expenses.” If this decline of 3.0 billion yen is excluded from the overall expected decline in profit, the actual decrease in profit will be about 1.6 billion yen.

Q. The effects of the new consolidation through M&A to be implemented next fiscal year are not reflected in the results forecast. Is this understanding correct?

A. Your understanding is correct.

Q. Which segment will be most affected by the COVID 19?

A. The industrial gas segment will be most affected by a decline in profits caused by the COVID 19. The next most affected segment would be the overseas engineering sector (the high-power UPS business and the low-temperature industrial gas equipment business centering on North America) in our “other businesses” segment, followed by the medical business, agriculture & food products business and seawater business.

Q. How do you think the impact of the COVID 19 differs from the impacts of the collapse of Lehman Brothers and emergencies such as the Great East Japan Earthquake?

A. For the impact of the COVID 19, we cannot predict “when the pandemic will subside,” and there is also the possibility of the second and third waves of the spread of infection. Therefore, results were estimated based on the assumption that, in fiscal 2020, the voluntary restraint of economic activities will be relaxed in and after the second quarter, and that the situation gradually moves towards normalization over the period to the end of the fiscal year 2020, and will have almost returned to normal at the beginning of the fiscal year 2021.

Q. What were the measures taken to cope with the COVID 19?

A. In principle, we implemented telecommuting and reduced the number of employees who were coming to the office to around 70 percent. Even now, after the state of emergency declaration was lifted, we encourage staggered commuting, while limiting the number of employees who come to work. We are also carrying out initiatives such as installing a solution device at the head office, which is capable of measuring body temperature every morning in a non-contact manner. We will continue to make efforts to prevent the spread of the infection. At the same time, by taking advantage of this change in the business environment, we will pursue work style improvement based on telecommuting by setting up an internal organization that promotes business reform utilizing data and IT.

■ About industrial gas business

Q. Please tell us about the current situation of, and outlook for, the on-site gas supply service to blast furnaces.

A. Two blast furnaces are currently shut down, one in the Kashima area the other in the Wakayama area, where we provide gas supply services. The shutdown in the Kokura area was accelerated for about two months, and the shutdown in the Muroran area associated with the blast furnace repair work was also moved up by about one month. Given these circumstances, the expected impact on our business will be a year-on-year decline in sales of around 20 percent (about 3.6 billion yen) during the first half of the current year.

Q. Which sectors in the industrial gas business other than the blast-furnace gas sector are being significantly impacted by the COVID 19?

A. One is the gas lorry/cylinder supply business in India. Due to the impact of the lockdown, the plants of our industrial gas customers are currently suspended. On-site gas supply service to blast furnaces continues its operation, and therefore the impact on results is not expected to be very significant.

The other is the stagnation in domestic automotive-related industries. Since automotive-related industries have a broad range of supporting industries, we expect that there will be impacts of a decline in gas demand.

Q. How much have the most recent shipping volumes fallen?

A. On a sales basis, the shipping volume has been negatively affected by around 5 percent (compared with the same period of the previous year).

■ About medical business

Q. Assuming that businesses for hospitals will not return to normal immediately, is it possible to achieve this fiscal year's forecast of operating profit (9.2 billion yen)?

A. Currently, negative impacts the COVID 19 has on our medical business are larger than positive impacts, and we forecast a decline in profit in the medical business as a whole.

Amid this situation, however, the effects of production facility replacement and cost reduction efforts are expected to emerge in the injection needle and dental businesses, and the effects of productivity improvement in the hygiene product business are also expected to manifest themselves. We also believe that there will be an increase in demand for hospital facility construction for securing infectious disease control spaces, as well as demand for equipment related to these construction projects, although these projects require lead times.

■ About agriculture & food products business

Q. How is the composition ratio of products for commercial use and for consumer use in business sectors that are affected by the impact of the COVID 19?

A. About 70 percent of sales come from the sale of products for commercial use from the ham & delicatessen sector and the farm products and food processing sector in the sub-segment of "farm products and food processing."

■ About seawater business

Q. Is the construction of the No. 2 Ako power station progressing as scheduled?

A. It is advancing as scheduled. The plant is scheduled to start its operation in October 2020.

■ About other businesses

Q. The results forecast for fiscal year 2020 shows a decline in operating profit of 2.6 billion yen in the other businesses segment. What are the reasons for this decline?

A. Equipment inspection costs incurred by a periodical inspection scheduled to be carried out at the Hofu power plant for the first time since the start of its operation in July last year will have an impact on revenue. The overseas engineering business (the high-power UPS business and low-temperature industrial gas equipment business in North America) will be affected by the stagnation of economic activity in the major markets of Singapore, Europe and North America.

■ About the M&A strategy

Q. What do you think about the future M&A strategy?

A. Compared to previous fiscal years, we plan to reduce investment in M&A this fiscal year. However, M&A continues to be the pillar of our group's growth strategy. For the time being, we will implement M&A by rigorously selecting candidate projects that contribute to our company's growth.

Q. The consolidated statement of financial position for fiscal year 2019 shows an increase in the "goodwill" and "intangible fixed asset." What are the main factors for the increase?

A. The majority of the increase is attributed to the M&A of businesses in India. The high-power UPS business and other projects are also included. Individual amounts have not been disclosed.

End of Q&A summary