Full-year Financial Results for Fiscal Year Ended March 31, 2023

Q&A Summary of Conference Call for Analysts and Institutional Investors

Date:	Wednesday, May 10, 2023 19:00 - 20:10 (Explanation: 30 minutes, Q&A: 40 minutes)	
Format of the meeting:	Conference call	
Presenters:	Takashi Imai:	Senior Managing Executive Officer Corporate Strategy Center
	Koichi Nakai:	Executive Officer, General Manager Corporate Communications Office

■ FY2023 full-year results

Q: You have announced your full-year targets. Are there any seasonal differences between the first half and second half in each segment? If so, what are they?

A: Overall, results tend to be stronger in the second half. From a full-year perspective, in the second half of the year there is a higher percentage of sales in energy solutions when demand for LP gas and kerosene increases in the winter, and in Digital & Industry and Health & Safety, where facility construction projects and equipment sales increase at the end of the fiscal year.

<By business>

■ Digital & Industry

Q: What is the impact of the soaring power costs in FY2022 and your forecast for FY2023?

A: Regarding the impact of the rising power costs in FY2022, we advanced price revisions. While the difference in timing of the application of the revised prices for some products continued to have an impact, this was covered by the revised prices of other products. The overall impact is a decrease in operating profit of as little as 500 million yen.

As for FY2023, electric power companies began to announce basic rate increases in April. In response to these moves, we started to revise prices again on February 1, 2023.

Regarding the increase of profit in Digital & Industry, the revision of prices that were not revised in FY2022 and the increase of profits attributed to the price revisions implemented in FY2022 are expected to contribute greatly.

Q: In light of the operating profit for the fourth quarter (January to March) of FY2022 being approx. 9.0 billion yen, I have the impression that the FY2023 full-year target of 33.6 billion yen (up 4.6 billion yen from the previous fiscal year) is conservative. What makes this target appropriate?

A: In the industrial gas business, equipment construction and similar projects tend to be concentrated in the fourth quarter. In addition, our evaluation is that demand for gas from the manufacturing industry as a whole will not increase greatly from FY2022. This is why we have set the operating profit target for FY2023 at 33.6 billion yen.

The major factor for the increase will be the effect of the price revisions. The key point in achieving the target will be price management including the cost of logistics, containers, and electricity.

■ Health & Safety

Q: What will the major factors be in the increase of profit in FY2023?

A: We expect that the revision of the prices of medical gases, hospital facility construction, and gas-based fire extinguishing systems for data centers will continue to enable steady growth. We are also proceeding with the revision of construction-related prices in response to the rise in raw materials prices. In addition, in the aerosol business which is a part of the Consumer Health business, demand related to cosmetics began to recover in the second half of FY2022. This is expected to contribute to the FY2023 results.

■ Agriculture & Foods

Q: You expect profit to increase in FY2023. Will this be a result of the improvement of the business environment?

A: We do not expect the business environment, including expenses, to improve significantly.

The major factors for the increase in profit will be the expansion of sales channels and the improvement of business efficiency in the agricultural sector through collaborations with VEGETECH Co., Ltd. and Delica Foods Holdings Co., Ltd., as well as the recovery of sales in the beverage sector resulting from the alleviation of energy costs and the recovery of the movement of people.

■ Other Businesses

Q: You forecast much larger growth in operating profit than in revenue in FY2023. What are main factors for this?

A: Major factors for the profit increase are as follows.

- Electric power business: The negative impact of the the deconsolidation of the Hofu power plant will be mitigated.
  At the Onahama power plant, the impact of expenses including marine transportation fees will be mitigated compared to FY2022.
- Seawater business: An increase in profit resulting from the revision of the price of salt for business use will contribute to profit.
  In the power generation business, the impact of costs including marine transportation fees will be mitigated, and in addition, a new biomass power plant (in Fukuoka) will begin operating (planned in October 2023).
- Industrial gas business in North America: A recovery from the impact of supply chain disruptions, including the stagnation of production attributed to delays in the procurement of materials, will be achieved.
  The effects of new consolidation through an M&A activity involving a gas dealer will also contribute to the situation.
- Power supply system (UPS) business: Progress will be made in the recovery from the construction delays and the initiatives revising prices in response to the rise in costs of steel and other materials. One-time costs, including expenses for the closure of business sites, were posted in FY2022, and we expect an increase attributed to absence of these costs.

Q: In the electric power business, you were significantly affected by the increase in the cost of PKS and marine transportation in FY2022. What is the forecast for FY2023?

A: In FY2022, profit from the electric power business decreased by slightly more than 6.0 billion yen from the previous fiscal year. This is attributed to an increase in the cost of fuels for power generation (PKS and wood pellets), an increase in marine transportation fees (including demurrage at Onahama Port) and a problem that occurred at the Onahama power plant in the first quarter.

In FY2023, marine transportation expenses are expected to subside compared to the previous year. However, we believe it will be difficult to restore the electric power business as a whole to profitability within the current fiscal year because the prices of fuels for power generation (PKS and wood pellets) have remained high, and in addition, the demurrage at Onahama Port is expected to continue to have an impact.

■ **Effect of new consolidation**

Q: What were the results for FY2022? What is the outlook for FY2023?

A: In FY2022, the effects of new consolidation were approx. 14.5 billion yen in revenue. Regarding operating profit, its affect on the operating margin was approx. 10%. To break it down, the major newly consolidated companies are Hokuei Co., Ltd., which engages in metal processing in Hokkaido, Plus Co., Ltd., which operates farmer's markets in the Kansai area, and an industrial gas dealer in North America that we acquired. Hokuei Co., Ltd. and Plus Co., Ltd. joined the Group through M&A activities in FY2021. The difference in consolidated business periods of two companies under which their business results were included in consolidated results contributed to our overall performance.

Looking at our FY2023 targets, the effects of new consolidation on targets are slightly more than 30% of the revenue increase (+75.0 billion yen) and slightly more than 20% of the profit increase (+10.0 billion yen).

■ **Other income (expenses)**

Q: What were the temporary factors in FY2022?

A: The total amount of other income (expenses) including temporary factors was 10.0 billion yen (up 6.2 billion yen from the previous year). The year-on-year difference of 6.2 billion yen is attributed to proceeds from the sale of the old office building site in the city of Sapporo and income related to the transfer of shares of AWEP Yamaguchi which was operating the Hofu power plant.

■ **Business profit**

**Q: I have the impression that business profit needs to increase significantly in FY2023.
What is your view?**

A: Factors for the increase in business profit are an increase in profit resulting from the revision of the prices of industrial gases, salt for business use, and other products and the recovery of sales of carbon dioxide (including dry ice), as well as the effects of new consolidation through M&A activities and the mitigation of the impact of the expenses of the Onahama power plant.

Other income (expenses) is expected to be at a normal level due to the absence of the large income related to the sale of land and the transfer of shares of the Hofu power plant which were posted in FY2022.

■ **Shareholder returns**

Q: Do you intend to increase shareholder returns in the future?

A: We understand that we are in a phase where we need to invest in growth domains, such as overseas industrial gases and electronics. Therefore, we will increase profit on an absolute level and return profit to our shareholders while maintaining the current dividend payout ratio.

End of Q&A summary