

Third Quarter of Fiscal Year 2022
Q&A Summary of Conference Call for Analysts and Institutional Investors

Date : Wednesday, February 8, 2023 17:00 -18:00 (Explanation: 30 minutes, Q&A: 30 minutes)

Format of the meeting : Conference call

Presenters : Masato Machida : Representative Director Executive Vice President,

In Charge of Corporate Strategy Center

Koichi Nakai : Executive Officer, General Manager

Corporate Communications Office

■ Full-year results

Q : I have the impression that the 67% progress ratio in the third quarter towards the achievement of the full-year target (operating profit of 62 billion yen) is low in comparison to the same period of the previous year. You have not changed the full-year target. How will you achieve it?

A : We plan to post a profit related to the transfer of shares of Air Water & Energia Power Yamaguchi Corporation (currently Energia Power Yamaguchi Corporation; hereinafter, “AWEP Yamaguchi”) in the fourth quarter as a reconciling item, which is not included in the full-year plan (as of the time of announcement on November 9, 2022). In addition, the performance of the Health & Safety segment in the business environment has been very strong and is expected to remain strong for some time.

<By business>

■ Digital & Industry

Q : You expect profit growth in the fourth quarter. What is the background behind this? Profit in the Digital & Industry segment has been growing steadily. Do you expect it to continue growing going forward?

A : Operating profit in the fourth quarter is expected to increase 2.4 billion yen year on year.

In the Overseas & Engineering business, the industrial gas business in India, in particular, is likely to see year-on-year growth in profit given an increase in the unit sales price of gas, which is linked to rising consumer prices.

There are no concerns about a significant slowdown in sales in the Electronics business in the fourth quarter due to the backlog of orders that has been maintained at a certain level, despite a decrease in the number of new orders as a result of a decline in demand in the equipment and materials markets. Demand in the gas market also remains steady.

In the Industrial Gases business, an inability to revise prices despite the rapid increase of

electricity costs in the fourth quarter of FY2021 resulted in reduced profit. However, we have been revising the price in the fiscal year under review and implementing further prices revision since February, and this is expected to result in an improvement.

We expect profit in the Digital & Industry segment to grow steadily thanks to our efforts to increase the profitability of the local gas business and because of an increase in the composition ratio of high-profitability businesses such as industrial gas in India and electronics in the portfolio.

■ Energy solutions

Q : Operating profit increased in the third quarter from the second quarter. What are the factors contributing to this? (Operating profit +1.0 billion yen)

A : It is the result of the seasonality of the LP gas business. There is an increase in demand for LP gas and kerosene in the third quarter, which is the beginning of winter. The contrast between this and summer is the main cause of the profit growth.

■ Health & Safety

Q : The profitability of the Health & Safety segment increased. Which units contributed to the overall results in the nine months?

A : Generally, the performance of the medical-related business has been strong.

By unit, sales of medical oxygen and home oxygen therapy in the Medical Products business have remained strong since the beginning of the COVID-19 pandemic. The recovery of the number of surgeries at hospitals, which had decreased due to the pandemic, and growing demand for COVID-19 treatments such as high flow therapy and home treatment resulted in an increase in sales volume. Sales of dental products such as denture materials also increased in response to the expansion of insurance coverage for CAD/CAM crowns.

In addition, new orders for hospital supply processing and distribution (SPD) and sterilization services have been rising steadily in the medical service business in response to growing demand for outsourced hospital operations due to labor shortages at clinical sites in addition to an increase in awareness of infection control triggered by COVID-19. In these conditions, we have made progress in our efforts to increase profitability, including price revisions.

In the Safety Services business, projects such as operating room renovation work and gas-based fire extinguishing systems for data centers have increased. At the same time, the growth in results in the nine months was somewhat limited due to factors such as the low level of local governments' replacement of fire engines due to the delayed delivery of trucks in the business of

respiratory equipment for disaster control.

In the Consumer Health business, the volume of orders received recovered significantly despite the impact of an increase in the cost of raw materials for aerosol and injection needles. Regarding injection needles, overseas demand for special needles such as the mainstay cosmetic needles and dental needles, in addition to needles for COVID-19 vaccination, began to recover. Among the aerosol products, demand for aerosol products used for the human body such as spray sunscreens is trending toward recovery.

■Other businesses

Q : Operating profit increased in the third quarter from the second quarter. What are the factors contributing to this? (Operating profit +0.8 billion yen)

Additionally, what will conditions be like in the fourth quarter?

A : In the third quarter, operating profit increased from the second quarter as a result of progress in the recovery of the High Power UPS business, progress in the revision of the price of salt for business use at Nihonkaisui Co., Ltd., and growth in the urban infrastructure business (e.g., water treatment facility business).

Operating profit in the fourth quarter is projected to decrease 600 million yen year on year. In comparison to the same period of the previous year, the power business of Nihonkaisui will be affected substantially by an increase in the cost of woody biomass fuel and marine transportation. However, this will be offset by other businesses to a certain degree.

Businesses expected to achieve a year-on-year growth of profit are as follows:

- Logistics: Progress in profit increased in contract food distribution
- Nihonkaisui Co., Ltd.: Prices of salt for business use were revised (a second price revision in the fiscal year under review has been implemented since October 2022)
- High Power UPS: Recovery of the business environment particularly in Singapore and other Southeast Asian countries

Q : You explained that the result of the woody biomass power generation business in the nine months was a significant year-on-year decrease in profit. What is the size of this decrease in profit?

What is the forecast for the cost of purchasing woody biomass fuel and the cost of marine transportation, demurrage, etc. for the fourth quarter and after?

A : Excluding Nihonkaisui's power generation business, the nine-month results indicated an approximately 1.7 billion yen decrease in profit (down 4.8 billion yen year on year).

The cost of purchasing woody biomass fuel and the cost of marine transportation are beginning to decrease 10% to 20% from their cost at the peak, and we are expecting a gradual easing of the negative effect of the rising costs in comparison to the third quarter.

While we project another decrease in the cost of fuel and marine transportation from the next fiscal year, we will continue to monitor market conditions. As for the demurrage at Onahama Port in Fukushima Prefecture, unloading congestion continues due to the construction of an offshore wind farm in the nearby area. We assume that the progress of the restoration of Soma Port will ease congestion in FY2024.

Q : What is the current position of the woody biomass power generation business within your company? Is there a risk of impairment?

A : The power generation business in Hofu, Yamaguchi Prefecture, was detached from the business portfolio of the Group on January 18, 2023. The steep rise in the cost of purchasing woody biomass fuel and marine transportation has been easing moderately from the peak time and the impact is expected to gradually decrease. Because the electricity sales price is guaranteed by the FIT (feed-in tariff for renewable energy) system and it is a business that generates stable revenue under normal conditions, we recognize at this point that the impairment risk will be very limited when the demurrage at Onahama Port substantially decreases in the future.

Q : What is the financial contribution of the sale of AWEP Yamaguchi to profit? What expenses have been posted for making AWEP Onahama a wholly owned subsidiary, if any?

A : We expect to post a profit related to the transfer of shares of AWEP Yamaguchi in the fourth quarter. While we expected a negative impact on the reconciling item of operating profit in the full-year plan (at the time of the announcement on November 9, 2022), we have recently revised the reconciling item of operating profit upward due to the projected posting of profit. There are no additional expenses for the acquisition of the shares of AWEP Onahama.

End of Q&A summary