Full-year Financial Results for Fiscal Year Ended March 31, 2024
Q&A Summary of Conference Call for Analysts and Institutional Investors

Date: Friday, May 9, 2024 19:00 - 20:05 (Explanation: 30 minutes, Q&A: 35 minutes)
Format of the meeting: Conference call
Presenters: Ryosuke Matsubayashi: President and Representative Director, COO
Takashi Imai: Senior Managing Executive Officer, Corporate Strategy Center
Aya Uesugi: Executive Officer, General Manager, Corporate Communications Office

■ Business policy

Q：It seems your management perspectives have changed, for example the expansion of your overseas business and raising of target ROE. What kinds of discussions have been held internally on this?

Ａ：While the company expects to achieve stable growth domestically, we recognize that the industrial gas business, which is our founding business and an area in which we especially excel, will be a significant future driver of growth overseas, and we are pursuing business expansion with this in mind.
We believe the current business portfolio is well suited to generating stable revenue. Domestically we will work to further strengthen our earning capabilities, while overseas we will lay the foundations for the industrial gas business while also looking at product lines other than industrial gas and expanding businesses that can be implemented overseas.

■ Personnel expenses

Q：It appears that some labor-intensive businesses are rising personnel expenses and other expenses to train globally-minded human resources. What is your approach to this? Please touch on the 2024 logistics problem in conjunction with your response.

Ａ：We plan on offsetting personnel expenses by working on DX, improved productivity at plants and labor-saving efforts.
Regarding the 2024 logistics problem, we have already been taking action in anticipation of this, including the securing of in-house drivers, and we will not be significantly affected.

■ M&A investment and capital investment

Q：Please tell us about your M&A investment plans for FY2024. In addition, you announced a major year-on-year increase in capital investment for FY2024 totaling 94 billion yen (up 20.7 billion yen). Therefore please also talk about your stance on financial leverage.

Ａ：In FY2023 we invested 42.4 billion yen in M&A activities. For FY2024 we are earmarking roughly 30 billion yen for these investments.
Regarding financial leverage, we intend to control our balance sheets to stay within a net D/E ratio of 0.8 - 1.0 times, which is the target set out in our Medium-term Management Plan. However, as M&A investments depend on the specific deals, things may not always go as planned, but we still intend to control financial leverage.

<By business>

■ Digital & Industry

Q：What were the effects of industrial gas price revisions in FY2023, and how is the outlook for FY2024? Additionally, what is the progress on price revisions started from April of FY2024?

Ａ：Most of the profit gains in the Digital & Industry segment in FY2023 (an increase of 7.4 billion yen year on year) were the effects of price revisions. However, in FY2024, we do not expect to see any significant effects from price revisions. As the price revisions we began implementing in April 2024 have only just began, we are currently not in a position to share information about their progress.

Q：In FY2024 you forecast operating profit of 38 billion yen, an increase of 4.4 billion yen from the previous fiscal year. What are the main factors behind this increase?

Ａ：In FY2024, we will continue to improve the terms of trade, and from the second half of the year we expect profit to increase due to an expanding electronics business including peripheral equipment, driven by a recovery in the semiconductor market. We will offset rising costs with price revisions, but for FY2024 we have not incorporated the effects from price revisions as a major positive factor on profit.

Q：It seems that the semiconductor-related business has entered a new phase with demand for new semiconductor plants expanding, for example. To what degree has this started to contribute to revenue?

Ａ：We believe that semiconductor-related demand will make definite contributions to revenue in the future. The supply of gas at semiconductor plants mainly involves the on-site supply of nitrogen, and we believe this will make it possible to secure a high profit margin, even by the standards of our gas business. Especially in places like Kyushu, we have secured several projects due to the construction of semiconductor-related plants taking place, and we recognize this as a promising field for the future.

In addition, within our diversified business portfolio, not only the direct supply of gas to semiconductor plants but also other peripheral demand associated with those plants, such as logistics and chemicals, are becoming factors that contribute to revenue.

■ Other Businesses

Q：What are the main factors behind your FY2024 forecast for operating profit (up 2.5 billion yen year on year)?

Ａ：The main positive factors on profit are as follows.

・North America: American Gas Products, which was newly consolidated for a half of FY2023, will make full-year contributions in FY2024
・India: A liquefied gas manufacturing plant in Chennai will enter service (October 2024)
・High output UPS (uninterruptible power supply): Increased sales, mainly for data centers
・Logistics: Increased handling volume for agricultural produce and chassis transport backed by cooperation of four companies

Q：In September 2023 you secured a major project from the India-based SAIL. How is the pace at which you are securing projects in India?

Ａ：Our hope is to secure one or two projects a year, but even the SAIL project has required a certain amount of time from initial business inquiry to order receipt. As the way the bidding process unfolds depends on different circumstances for each project, it is difficult to give a concrete answer, but we have been fielding a considerable number of business inquiries.

[Reference] Release dated September 22, 2023
Contract Awarded for On-site Gas Supply to Durgapur Steel Plant of SAIL, a State-Owned Steelmaker of India

<Other>

■ Adjustments (Segment)

Q：What are the reasons for the reconciliation (segment) of -2.1 billion yen in FY2023, representing a 7.8 billion yen decline in operating profit? In addition, what factors were behind the 3.9 billion yen reconciliation that took 1.8 billion yen in operating profit for the first nine months of FY2023 (April to December) down to -2.1 billion yen in the fourth quarter (January to March)?

A：The decline in profit from FY2022 to FY2023 occurred because one-time revenue from the sale of land and transfer of the Hofu Power Plant (Yamaguchi Prefecture) in FY2022 was recorded under adjustments.

The main reason for the negative reconciliation in the fourth quarter of FY2023 was inter-segment reconciliations for asset tax accounting purposes.

As we employ IFRS accounting standards, we are required to bulk record asset taxes for an entire year in the fourth quarter. Up until the third quarter, the asset tax recognized in each segment is recorded as a negative expense (profit) to the value of the reconciliation amount, and an overall accounting reconciliation is made. As these canceled amounts are recorded in the fourth quarter as a reconciliation, the size of the decline is greater.

* Mainly the elimination of inter-segment transactions and head office profit or loss not attributable to reportable segments are recorded under adjustments.

End of Q&A summary