

Third Quarter of Fiscal Year 2023
Q&A Summary of Conference Call for Analysts and Institutional Investors

Date: Friday, February 9, 2024 17:00 - 18:05 (Explanation: 30 minutes, Q&A: 35 minutes)
 Format of the meeting: Conference call
 Presenters: Ryosuke Matsubayashi: Corporate Director, Senior Managing, COO
 Takashi Imai: Senior Managing Executive Officer, Corporate Strategy Center
 Koichi Nakai: Executive Officer, General Manager, Corporate Communications Office

■ **Full-year results**

Q : The business performance improved significantly from the second quarter to the third quarter. How was your progress in achieving the full-year plan and what are the strengths and weaknesses of each segment?

Full-year plan: Revenue of 1,080 billion yen and operating profit of 72 billion yen

A : The progress of both revenue and operating profit in the third quarter was 69% of the full-year plan.

We carefully selected M&A investments, which are expected to fall below the initial plan (64 billion yen). Consequently, the effect of new consolidation through M&A may change from our initial assumption (approx. 30% of revenue growth and approx. 20% of profit growth).

By segment

Digital & Industry	As in the third quarter, the effect of the revision of the price of industrial gas will continue to emerge. The segment is expected to remained strong in the fourth quarter despite a delay in the recovery of the semiconductor market, due in part to a recovery from the carbonic acid gas problem that arose in the same period of the previous year.
Energy solutions	While business in the first half of the fiscal year was affected by inventory valuation due to a fall in the CP price, no particularly negative factors are found from the third quarter. In addition, the sales volume of LNG containers having a 100% share of the domestic market is expected to grow.
Health & Safety	The segment is affected by the absence of demand related to COVID-19 and the business environment is harsh. Meanwhile, sales of aerosol products remained strong thanks to disaster control construction and a recovery in human mobility. The effect of price revision in Consumer Health is expected to appear in stages in addition to a recovery in sales of dentist materials.
Agriculture & Foods	This segment is expected to remain strong from the third quarter given a downward trend in the cost of energy to operate the factory in the beverage business and the elimination of the effect of egg shortages for confectionery.
Other	The strong performance is expected to continue based on factors such as the North American industrial gas business, growth in sales of high-output UPS, the effect of price revisions of commercial-use salt of Nihonkaisui Co., Ltd., and the new operation of Kanda Power Plant (Fukuoka Prefecture).

■ **Effect of new consolidation through M&A**

Q : What are the effects of the new consolidation through M&A?

*** First three quarters of FY2023 (April - December) and forecast for the fourth quarter (January - March)**

A : Revenue in the first three quarters totaled approximately 10 billion yen and operating profit was 500 million to 1 billion yen.

We expect that the contribution of both revenue and operating profit in the fourth quarter will be at the same level as those in the first three quarters after incorporating the performance of American Gas Products.

■ **Medium-Term Management Plan**

Q : The final year in the current Medium-Term Management Plan (terrAWell30 1st stage) is FY2024.

Have your ideas, including your financial targets, changed in any way?

A : We have made no change to our growth plan, namely to thoroughly bolster our earnings strength in Japan and continue to invest in industrial gas businesses in North America and India.

Meanwhile, the business environment has changed considerably from the time we developed the Medium-Term Plan due to factors including a surge in energy cost, exchange rate fluctuations, and a drastic decrease in demand for semiconductors. Amid this, we have sold the biomass and coal co-fired power generation business (Yamaguchi Prefecture) and revised prices in response to the impact.

In FY2024, we will examine our targets by assessing changes in our business environment while considering operating profit of 100 billion yen to be a target we must reach in the future.

<By business>

■ **Price revision**

Q : What are your ideas and the background of the price revision for industrial and medical gases, which was announced in the press release dated February 8?

A : The new price revision announced this time applies to shipments on April 1 and will not be included in the results for FY2023. While conditions vary depending on the type of gas, we plan to revise prices to ensure levels appropriate for costs incurred and value provided in response to changes in our business environment, including industrial structure and costs.

Background of price revision

The cost of procuring carbonic acid gas is rising. This is partly due to an increase in the cost of in-house transportation and imports from other countries as a result of unpredictable facility problems, the prolonged period of regular maintenance, or other factors on the side of raw material sources. For helium, it is due to the major maintenance of the helium plant that began in 2023.

Prices of separation gases (oxygen, nitrogen, and argon) have changed since FY2022 in response to a rise in various costs such as power expenses.

The cost of transporting industrial gases is rising, not only in the short term such as 2024, but in the medium term. We will revise prices by taking these factors into consideration.

■ **Digital & Industry**

Q : What are the reasons for the profit growth of 5.2 billion yen in the industrial gas business indicated in the briefing material (P.8)?

A : Slightly less than 80% (approx. 4 billion yen) of the profit growth is attributable to the price revision of industrial gases. In addition, factors such as a recovery of carbonic acid gas affected in the same period of the previous fiscal year and an increase in the productivity of onsite supply contributed to the profit growth.

■ **Health & Safety**

Q : The safety services business tends to have its revenue concentrated in the fourth quarter (January - March) due to its seasonality. What is the outlook?

A : Construction of hospital facilities and data center disaster countermeasures have been steady. Moreover, sales volumes of breathing apparatuses for fire-fighting have recovered from the decrease in the previous year, which was caused by the non-delivery of truck parts for fire engines.

■ Agriculture & Foods

Q : What is the likelihood of achieving the full-year targets? What are the concerns, if any, such as unseasonable weather?

A : Operating profit had reached 6.7 billion yen by the third quarter, progressing toward the target of 7.2 billion yen. There is no particular factor to be concerned about in FY2023. We are smoothly shifting to contract manufacturing of beverages in addition to the removal of the impact of egg shortages in the confectionery business. Moreover, sales of fruit and vegetables and the market for farm-fresh products are strong thanks to a recovery in human mobility. Demand for food processing such as grated daikon has also recovered substantially in a year. This trend is expected to continue in the fourth quarter (January - March).

■ Global & Engineering

Q : The Results of the Global & Engineering have significantly improved year on year. What are the factors?

* Year-on-year comparison

first three quarters (April - December) revenue up 15.2 billion yen, operating profit up 0.9 billion yen

Third quarter (September - December) revenue up 5.6 billion yen, operating profit up 0.3 billion yen

A : In the North American industrial gas business, the effect of new consolidation, including Phoenix (industrial gas distributor) in Arizona, contributed to growth. Sales of industrial gas-related apparatuses, the manufacturing of which had been stagnant in the same period of the previous fiscal year, remained strong thanks to the recovery.

In the high output UPS business, construction of large data centers in Southeast Asia backed by the expansion of generative AI reflects demand growth in addition to a recovery in construction that was delayed due to the impact of COVID-19 in the previous year. This trend is expected to continue in the fourth quarter and beyond.

■ Electric power (Onahama Power Plant)

Q : The business was severely affected by a rise in energy cost in FY2022. How was the situation in FY2023? Also, what is the current situation of the cost of purchasing fuels?

A : The electric power business was already profitable at the third quarter stage. The cost impact has diminished due to a current fall in the cost of marine transportation and measures taken to ease demurrage.

However, the cost environment will not continue to improve from the fourth quarter; rather, the current conditions are expected to remain.

End of Q&A summary