First Quarter of Fiscal Year 2023

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

Date:	Thursday, August 3, 2023 17:00 - 18:10 (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

■Full-year results

Q: How was the progress on your internal targets for the first quarter?

A: Targets were exceeded in Agriculture & Foods, where orders for beverages including convenience store private brand products were strong, and targets were also exceeded in the electric power business, where the cost of overseas transportation was trending downward and the impact of transportation costs was minimized through effective measures addressing demurrage.

On the other hand, targets were not reached in segments including Digital & Industry, which saw a decrease in the sales volume of dry ice due to shortage of raw material sources attributed mainly to the earthquake that occurred in May, and in Health & Safety, where COVID-19-related demand declined due to the reclassification of COVID-19 as a class 5 infectious disease.

Q: Could you break down the temporary negative factors in the first quarter? What is your forecast regarding the factors in the second quarter?

A: The breakdown of the major temporary factors in the first quarter is as follows.

- Impact of the exclusion of the subsidiary operating the Hofu power plant from the scope of consolidation (year-on-year decrease in earnings): -0.7 billion yen
- Impact of the shortage of carbonic acid gas raw material sources: -0.4 billion yen
- Impact of market price fluctuations on LP gas inventory valuation: -0.3 billion yen
- Posting of upfront expenses for M&A activities in North America: -0.3 billion yen

Among the above factors, the shortage of carbonic acid gas raw material sources was resolved in the Kanto area in the first quarter. In addition, the effects from other negative factors were limited to the first quarter. The new consolidation through M&A activities in North America will begin to have an effect in the second quarter.

Q: How will the M&A activities effect the full-year targets?

A: Regarding the full-year targets, we expect the new consolidation through M&A activities to contribute to slightly more than 20% of total year-on-year profit growth. M&A activities are progressing as planned. Specifically, projects other than the one in Arizona, USA that we announced in the news release dated today are also progressing.

<By business>

■Digital & Industry

Q: Regarding the revision of industrial gas prices, I have the impression that the effects of the revisions are difficult to see in the first-quarter results. How has this progressed? Also, I believe that in the future the cost of electricity will be lower than the initial forecast. What is your view on the prices of industrial gases?

A: The cost of electricity rose further because the major electric power companies increased their basic fees in April 2023. However, there has been significant progress in the third price revision that we began in February. In addition, the price revision we began in FY2022 has begun to steadily take effect and it has contributed to a more than 1.0 billion yen year-on-year increase in operating profit in the first quarter.

In the overall Digital & Industry segment, however, the effect of the revision of industrial gas prices has been difficult to see due to the impact of the shortage of crude carbonic acid gas, a weak market for phthalic anhydride in the functional materials business reflecting the slowdown of the petrochemical market, and a decline in sales of naphthoquinone for agricultural chemicals and precision polishing pads.

The cost of electricity is expected to continue to trend downward in the future. We are revising prices in response to the increases of various costs, including not only the cost of electricity but also the cost of logistics and personnel expenses. Therefore, we will uncompromisingly manage prices.

Q: Regarding on-site gas supply for large semiconductor manufacturers, I believe that another company will be the supplier in the project in Hokkaido. What is the current situation?

A: There was an announcement that another company will supply gas in the project in Hokkaido. However, we have manufacturing bases for various gases, including hydrogen and carbonic acid gas, in Hokkaido. In addition to supplying gases, we also deal in special chemical materials and basic chemicals related to semiconductor manufacturing, among others. We believe that there are business opportunities in supplying products related to electronics not only to semiconductor manufacturers but also to related companies entering peripheral domains.

Further, major semiconductor manufacturers to which we already supply gases have continued to invest aggressively to increase their production capacity. We will be proactively involved in new investment projects as they emerge in the future.

Q: The functional materials business is the major negative factor. How long will it continue to impact you negatively?

A: We expect the negative impact to continue until at least the first half, although it depends on the future market environment.

■Health & Safety

Q: What are the major factors for the decreases in revenue and profit in Health & Safety?
***Revenue: -1.5 billion yen, Operating profit: -0.4 billion yen**

A: Revenue was positively affected by the solid performance of the safety services business and the revision of medical gas prices in the medical products business. However, the termination of some supply processing and distribution (SPD, the management of logistics related to goods in hospitals) contracts in the medical service business had an impact of around 2.0 billion yen, resulting in overall revenue declining 1.5 billion yen.

Operating profit was affected by the termination of contracts for the leasing of oxygen concentrators to local governments in the medical products business and by a decline in sales of hygiene materials and other products in the consumer health business, because demand related to COVID-19 has subsided.

■Other businesses

Q: What is the situation of your business in India?

A: Demand has remained highly brisk, and the industrial gas manufacturing plant has continued to run at full capacity.

Because manufacturing capacity is limited, operating profit was on par with the previous year.

Q: I have a question about your overseas expansion. What is the situation regarding the inquiries into industrial gases in North America and high-power uninterruptible power supplies (UPSs)?

A: In the industrial gas-related field in North America, demand for decarbonized products, including equipment related to carbonic acid gas, liquefied hydrogen tanks and trailers, has remained strong. In the previous fiscal year, production remained stagnant because the procurement of parts and components did not go well due to supply chain disruptions. However, the disruptions were resolved in the current fiscal year.

Regarding high-power UPSs, we did not see a significant improvement in Europe. In Asia, however, a trend towards recovery is apparent, and the order backlog has returned to a level that is nearly twice as high as the previous year. While data center construction has been brisk in Japan, overseas countries as a whole are still affected by the conditions of the semiconductor market. We expect the markets in those countries to revitalize next year and in the future.

Q: How significant do you expect the recovery of the biomass power generation business will be compared to FY2022 (the previous fiscal year)?

A: The Onahama power plant, which was in the red in the previous fiscal year, moved back into the black in the first quarter. Regarding the performance of the Onahama power plant (excluding improvements attributed to exclusion of the Hofu power plant from the scope of consolidation), we expect a year-on-year improvement of around 1.0 billion yen in the plan for the fiscal year. As of the first quarter, our progress in the minimization of marine transportation and demurrage costs was greater than forecast. Therefore, we expect to step further toward progress in our improvement there.

End of Q&A summary