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

Date: Thursday, November 9, 2023 19:00 - 20:10 (Explanation: 30 minutes, Q&A: 40 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 : You have left the full-year plan unchanged. What is the background to this and what is your approach to achieving the plan?

A: Although the first half results did not meet the plan, on a non-consolidated basis, operating profit for the second quarter was 17.1 billion yen, a significant increase of 4.2 billion yen from the same period last year. Uncertainties are expected to continue in the third quarter and beyond, including a delay in the recovery of the semiconductor market and the outlook for overseas economies. However, compared to the same period last year, when we saw a difficult environment in terms of resource prices and other costs, we believe that we can maintain a steady trend of profit growth. As a consequence, we have left our full-year plan unchanged. In addition, the effect from the new consolidation of American Gas Products, a helium gas supply company, Phoenix Welding Supply, an industrial gas distributor, and Marushin Seika, fresh produce intermediate wholesaler, are expected to contribute approximately 1.5 billion yen to operating profit in the second half. Ltd. We also aim to achieve the plan through a thorough review of the business and continued efforts to further reduce cost of sales, revise prices, and cut costs.

Q: Please tell us about the first-half results and full-year plan for M&A investments.

A: In the first half of the year, we invested more than 30 billion yen in M&A. The initial plan was 64 billion yen, but due to the careful selection of investment projects, the full-year plan is expected to be about 15 billion yen lower than the initial plan.

＜By business＞

■Digital & Industry

Q: What is the background behind the increase in the profit level of operating profit from the first quarter to the second quarter?
Also, what is your view from the second to the third quarter?
***First quarter (April-June): 5.3 billion yen, second quarter (July-September): 8.2 billion yen**

A: There is no significant difference in the extent of the price revision effect itself between the first and second quarters. In the first quarter, however, there was a large year-on-year decline in functional materials and the impact of a shortage of carbon dioxide gas raw materials, which made it difficult to see the effect of the price revision on the segment's overall performance. The profit level in the second quarter rose significantly as these effects began to ease. From the third quarter onward, we expect business performance to continue on an expansionary trend, as power costs are likely to decline while the effects of price revisions remain.

Q: How effective was the price revision for domestic industrial gas? What is your outlook for the second half of the year and beyond?

A: In the first half of the year, there was a price revision effect of over 2 billion yen compared to the same period of the previous year, and we expect a similar level in the second half of the year.

Q: In order to achieve the full-year plan, further profit growth is required in the second half of the year. Please tell us the major factor for the growth.

A: Electricity cost effects will ease from the first half to the second half of the year, and price revisions will also contribute as in the first half. In addition, the carbon dioxide gas business, which was affected by equipment trouble in the second half of FY2022, will recover. The functional materials business also showed an easing of the negative impact from the first quarter to the second quarter. In addition, we will strive to increase earnings through cost cutting and other steps based on a comprehensive review of our business, including a review of low-profit projects and control of selling, general and administrative (SG&A) expenses.

■Other businesses

Q: What is the background behind the increase in the profit level of operating income from the first quarter to the second quarter?
Do you expect this trend to continue in the third quarter and beyond?
***First quarter (April-June): 0.8 billion yen, second quarter (July-September): 3.1 billion yen**

A: The increase of over 2 billion yen from the first quarter to the second quarter was due to Global Engineering (approximately 60% of the increase) and NIHON KAISUI (approximately 20% of the increase).

(1) Global & Engineering

The high-power UPS business will emerge from the sluggish situation it had been experiencing up to the previous fiscal year, when the progress of project projects stagnated due to the impact of COVID-19. The Company also achieved a significant recovery with the acquisition of large new project projects and demand for overhaul of existing facilities. The recovery in business performance is expected to continue in the second half of the fiscal year.

(2) NIHON KAISUI

The effect of the price revision of commercial salt contributed to the increase in earnings in the first half of the year. Although the price of coal used to produce commercial salt began to decline in the fourth quarter of FY2022, the benefit of the price decline did not materialize until the second quarter, as the company used fuel inventory prior to the price decline in the first quarter. Coal prices are expected to decline in the third quarter and beyond, which is expected to have a positive effect on earnings. The Kanda Power Plant in the electric power business, which was originally slated to start operation in October, was able to commence in August and has been contributing to our business performance since the second quarter. However, its profit contribution is insignificant because the two months of the advance were spent on spot procurement of fuel for power generation. The contribution to the business performance is expected to be fully realized from the third quarter onward.

Q: You mentioned that you aim to achieve sales of 100 billion yen each in the U.S. and India by FY2030. What is your policy for the business expansion?

A: For India, the main growth driver will be the expansion of on-site gas supply to the steel industry. In addition to this, we will meet the demand for gas in the surrounding area by installing our own plants in the surrounding areas. Currently, the liquefied gas produced by our group is almost sold out, and we are constructing a new in-house plant in Chennai to meet the strong demand. Regarding M&A, if there are good deals, we will invest in them, but our impression is that the number of deals that are currently eligible is limited. In North America, we will proceed with both on-site gas supply and merchant sales, such as liquefied gas sales. Meanwhile, we will seek to expand the helium business. Regarding hydrogen, we are currently focusing on building a supply chain for mobility through the sale of liquefied hydrogen tanks and other products, and hope to enter the green hydrogen production business in the future once demand has reached a certain level. We will expand our business by combining air-separated gases (oxygen, nitrogen, argon), equipment and engineering, hydrogen and helium, and specialty gases.

Q: How much do you expect the newly received order for a new plant for SAIL's Durgapur Steel Plant (investment amount: 13.5 billion yen) to contribute to your business performance? Please also tell us how long it has been in operation since October 25, and how long it has been fully operational. Are there any plans to invest in a new plant even before this plant goes on line?

[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

A: We expect that the scale of sales for the new plant for which we have received a new order to be around 6 billion yen per year. The project in question is mainly for on-site supply, and a portion of the gas generated from the project will be sold externally as liquefied gas. On-site supply is assumed to be vertically launched, while external sales, although not vertically launched, are expected to reach full capacity in a relatively short period of time due to strong gas demand.

Another key factor in whether new plant investments will be made before the start of operations depends on the extent to which plant construction can be handled concurrently. With our current engineering structure, we believe we can handle two units per year simultaneously on the scale of on-site plants for steel. We will obtain orders as much as possible while monitoring the capacity of such engineering systems.

■ Sustainability

Q: What is your approach to the investment profitability of the TOPICS "Initiatives to Help Customers Decarbonize" in the financial results presentation (p. 32)?

A: We operate our domestic biomethane business for customers who recognize the value of clean methane. Rather than replacing all energy used with biomethane, it is envisioned that it will be mixed with existing LNG fuel and other fuels. We plan to invest 60 billion yen over 10 years and target a business scale of 20 billion yen by FY2030. If we can form that scale of business, we believe it could be a sufficiently profitable business for a 60 billion yen investment.

End of Q&A summary