Summary of Questions and Answers on Management Policy Briefing

Date: Tuesday, November 30, 2021 13:30 - 15:00 (Explanation: 45 minutes, Q&A: 45 minutes)
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Presenters: Kikuo Toyoda, Chairman and Representative Director, Chief Executive Officer
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■Regarding business policy

Q: How have you achieved business growth through "group management based on rodent dynamics?" Also give details of the corporate management structure.

A: Thus far, we have achieved business growth through "group management based on rodent dynamics," but we are currently focusing on the grouping together and integration of subsidiaries and affiliates. We believe that combining our businesses and companies will allow us to fully utilize our management resources, including our diverse technologies and human resources and business sites. And we believe that new synergies will be created in the process. We define synergies not only as higher profits but also as the creation of new businesses.

Q: How do you intend to utilize ROIC in the management of businesses that are facing a deteriorating business environment due to changes in the external environment? I imagine you will also need to shed unprofitable businesses in order to evolve as a corporate group. What are your views on this?

A: Our view is that if businesses acquired through M&A fail to produce results within three years, we will have to either integrate them with other businesses or sell them off. We have almost never sold off businesses in the past. However, we intend to consider doing so in the future depending on the circumstances in each case.

Q: What is your view on conglomerate discounts?

A: We intend to fully utilize our management resources including our diverse businesses, technologies and human resources and demonstrate the true value of a conglomerate. Especially when it comes to human resources, we believe it is important to accumulate and visualize human resource data through initiatives such as the establishment of the Group Human Resource Bank and to place the right people in the right positions.

Q: Looking ahead to 2030, what will the portfolio weights of the four business fields be?

A: We project that, by 2030, "Global Environment" (Green Energy, Digital & Industry), which covers industry-type business fields, will account for around 40% of sales, and "Wellness" (Healthcare & Safety, Agriculture & Foods), which covers lifestyle-type business fields, will account for around 60% of sales.

■ Regarding finance policy

Q: In the past, ROE has been around 10%, I think. What is the target ROE going forward? And what growth rate do you aim to achieve whilst maintaining this level of ROE?

A: Our basic policy is to achieve growth through investment. We intend to increase our ability to generate operating cash flow through higher profit margins, with an eye toward investing in growth for the future. Also when making investment decisions, we intend to generate high returns through the rigorous selection of projects. We will specify the level of ROE we aim to achieve in the future in the next Mid-Term Management Plan.

Q: What is the background to the investment standard of "IRR of at least 8%" and the financial indicators "ratio of equity attributable to owners of parent to total assets: 35 - 40% : Net D/E ratio: 0.75 -1.2x."

A: We set the investment standard as "IRR of at least 8%" in view of our WACC. However, for overseas projects, we will take country risk into consideration and set IRR of 12% or higher as the standard. We also intend to raise investment funds by increasing the asset turnover rate, shrinking assets and suchlike. Meanwhile, we set "ratio of equity attributable to owners of parent to total assets: 35 - 40% : Net D/E ratio: 0.75 -1.2x" as financial indicators until 2030 from the viewpoint of continuation of aggressive investment and financial stability.

■Regarding regional operating companies

Q: It is a year since you integrated and reorganized your regional operating companies from eight into three. What has changed as a result of transition to the new structure?

A: Over the past year, our regional operating companies have become able to conduct business operations more independently. Japan's local regions have good growth potential and we believe that, going forward, the growth of our domestic business will hinge on how we revitalize regional business. We plan to contribute to local communities by effectively using more than 800 business locations across Japan to develop new businesses in line with regional characteristics and needs, like the agricultural business Air Water Hokkaido is currently involved in.

Q: What are your views on keeping the prices of products and services, including gas, at reasonable levels in rural areas when raw material and fuel prices rise?

A: The situation varies from region to region, but in Hokkaido, for example, the selling prices of products are much the same in urban areas such as Sapporo and in rural areas. The needs of customers and the role expected of us vary from region to region. We aim to communicate effectively with local stakeholders, provide products and services which meet their needs, and keep the prices we charge in exchange for this at a reasonable level.

Q: Why is the operating profit margin of Air Water Hokkaido low compared with other regional operating companies? Do you plan to improve this low profit margin through DX and other initiatives?

A: Air Water Hokkaido's operating profit margin is low compared with other regional operating companies because the energy business which consists in the sale of LP gas accounts for a large proportion of sales. In the LP gas business, we face two challenges, namely that it is difficult to differentiate our products from those of our competitors and that selling, general and administrative expenses, especially labor costs, are high. We intend to improve profit margins by using DX to save labor in areas such as delivery and meter readings and by allocating the human resources freed up through labor savings to new businesses such as agriculture and processing.

■Regarding overseas expansion

Q: Looking ahead to 2030, how do you view growth potential in India? Do you plan to implement a VSU strategy, as in your operations in Japan?

A: India is expected to triple its crude steel production by 2030 and we believe that onsite gas supply business for steel works will also expand dramatically as a result. India does not have a road infrastructure comparable to Japan's and the local production of gas for local consumption is the norm. Under such circumstances, we believe that determining how to build a gas production and supply infrastructure/network similar to our VSUs will be crucial.

Q: Which business fields do you intend to invest in overseas?

A: Currently, we are expanding the industrial gas business and the engineering business, mainly in India and the United States. To expand business overseas, we need to be able to provide solutions through a combination of businesses in each of the areas we operate, we intend to first solidify the foundations in the industrial gas business and engineering sector and then use this as a foothold to expand into other business sectors.

■ Medical business

Q: Give details of the current status and future outlook of the medical business.

A: We expect that the existing business which focuses on acute-phase treatment including medical facilities and medical devices will not grow substantially in the future and we believe that need to further expand our wide-ranging business field. Firstly, working out of the Kento Innovation Park, which is currently under construction, we plan to collaborate with the National Cerebral and Cardiovascular Center on various demonstration projections, for example, utilizing our functional food and oral care technologies from a preventive medicine perspective and developing technologies related to remote care.

■Regarding new business development

Q: You have been leading the way conducting demonstration experiments for biogas, etc. in the Green Energy field. What is your business strategy in this field?

A: We are involved in the green energy business, utilizing waste timber and other waste generated by local communities. On a standalone basis, this is not cost effective but we are seeking optimization through the use of trigeneration systems which supply electricity, CO2 and heat. In the future, we intend to develop the green energy business in our own unique way, according to regional characteristics, for example, offering not only tri-generation systems but also quatro-generation systems which supply fertilizer as well.

■ Other Businesses

Q: Why did you change your head office registration from Hokkaido to Osaka?

A: Given that our substantial head office functions were located in Osaka, we changed our head office registration from Sapporo to Osaka to align registration with the actual situation. Since 2019 when we changed the head office registration was almost the 20th anniversary of the foundation of Air Water and was also the year when the Heisei era came to an end and a new era began, we thought this was perfect as a milestone. Going forward, we intend to further strengthen our presence as a Kansai-based corporate group.

End of Q&A summary