

**Summary of Questions and Answers in Telephone Conference on Financial Results for
Third Quarter of Fiscal Year 2021**

Date: Thursday, February 10, 2022 18:00 - 18:45

(Explanation: 20 minutes, Q&A: 25 minutes)

Format of the meeting: Conference call

Presenters: Masato Machida: Representative Director Executive Vice President,
Corporate Management Officer

Kikue Inoue: Executive Officer, Manager of Public & Investor Relations

■ **Industrial gas business**

Q: What is your view on the impact of rising energy costs (electric power) on earnings?

A: In the Telephone Conference on Financial Results for Second Quarter of Fiscal Year 2021, we explained that we expected the negative impact of higher electricity costs on full-year operating profit for fiscal 2021 to be between 500 million yen and 1,000 million yen compared to the previous year. However, first half results were on par with the previous year, while Q3 (Oct.-Dec.) results were affected by a negative impact of 200 million yen. At this point, we are assuming a negative impact short of 1,000 million yen for the full year.

Q: Regarding tanker truck and cylinder gas supply services, you explained that the cumulative results for the first nine months exceeded those of fiscal 2019 before COVID-19. What is status of your ability to pass rising electricity and logistics costs through to customers? Will you have to work on this going forward?

A: Regarding price pass-through, like other companies in our industry, we are focusing on tanker truck and cylinder gas supply services. We have been working on the revision of prices for carbon dioxide gas and helium for some time. We have been advancing initiatives for air separation gases (oxygen, nitrogen, and argon) since January. However, the effect of the price pass-through of air separation gases on the full-year financial results for fiscal 2021 is limited, and the full-scale effect is expected to emerge in the next fiscal year. In addition to air separation gases, carbon dioxide gas and helium, we are also working on price pass-through for rare gases, hydrogen, acetylene, ethylene, welding wire, etc. We believe that we will be able to cover the cost increase that cannot be fully covered by price pass-through through strong sales of electronics-related equipment, including heat control equipment for semiconductor manufacturing equipment at Nihon Dennetsu.

Q: Please tell me about the status of industries that are likely to be affected by the reduction in automobile-related production.

A: Due to the very broad base of automotive-related industries, although it is expected that reduced automobile production will impact regional tanker truck and cylinder gas supply, manufacturing industries such as electronic components, construction machinery, and chemicals continue to be strong. In addition, the electronics-related industry is expected to continue to be steady, so we expect the impact will be offset.

■ **Chemical business**

Q: Please explain the factors behind the strong performance of the chemical business.

A: In addition to the recovery in the product market, the effects of the restructuring of the production system across the entire business contributed to the results. Moreover, sales of naphthoquinone for agricultural chemicals and electronic materials were also strong overall.

Q: How much of an integration effect do you expect from Air Water Performance Chemicals Inc., which was established on October 1? Since you have not revised the full-year plan, Q4 (January-March) looks weak. What is your outlook for Q4?

A: Favorable sales of organic acid products and strong sales of naphthoquinone are expected to continue in Q4. For the full year of fiscal 2021, integration costs are expected to be booked ahead of integration effects, and most of these costs will be booked in Q4, so Q4 is expected to be almost the same level as the same period last year.

■ **Medical business**

Q: Medical business tends to show a seasonal bias toward Q4 every year. What is your outlook for Q4, including the effect of the spread of the omicron variant on business performance?

A: There are concerns that the spread of the omicron variant may delay the construction of hospital facilities, but we do not expect this to have a positive or negative impact on our overall business. As for Q4, the usual trend of concentrated posting of revenue will remain unchanged, and we expect the results to be par with those of the same period last year.

Q: Q3 results struck me as favorable, please tell me about the factors behind this.

A: Home medical care, hospital facilities, medical treatment services, medical gas, and other (hospital facilities construction in Singapore, syringes for vaccination and dental materials) were the main factors for the strong performance. Meanwhile, sales of hygiene products, which enjoyed extremely high levels of special demand in the previous fiscal year, declined year on year due to a rebound.

■ **Agriculture and food products business**

Q: What factors are contributing to the improvement of the profitability of the agriculture and food products business?

Are there any special factors impacting the business?

A: Both revenue and profit increased due to the continuation of the trend up to Q2 and the successful expansion of new sales channels for commercialized products, as well as the recovery of demand for food products for commercial use. Special factors in Q3 include a gain on sale of land by a subsidiary, and the results of Plus Co., Ltd., which operates Produce Direct Market Yottette and was newly consolidated in Q3.

Q: Were the gain on sale of land by a subsidiary and the effect of new consolidation included in the plan?

A: The gain on sale of land and the effect of new consolidation were included in the plan.

Q: What is the outlook for Q4?

A: Although we are concerned about the impact of the extension of the quasi-emergency measures to prevent COVID-19 due to the spread of the omicron variant, we expect to achieve results in line with our full-year forecast thanks to the effect of the new consolidation of Plus Co., Ltd. and the recovery of demand in the ham and deli areas.

■ **Logistics business**

Q: I understand that you are affected by the impact of rising diesel oil prices on costs. What is the situation, including the progress in price pass-through?

A: Operating profit increased by 300 million yen year on year in the first nine-month results, overcoming the impact of higher diesel oil prices. In Q4, we expect to achieve results in line with the full-year forecast due to the acquisition of new contracts for wide-area transportation for online sales and new chassis transport shipments, as well as the effect of the new consolidation of Repro Work Holdings Co., Ltd.

Regarding price pass-through associated with the increase in costs, we have been passing on price increases, mainly through 3PL, as appropriate.

Q: What is the annual profit of Repro Work Holdings Co., Ltd.?

A: Annual operating profit of the company is short of 500 million yen. Demand for medical waste treatment has increased due to the COVID-19 pandemic, and demand has been higher than initially expected.

■ **Other businesses**

Q: I get the impression that there seems to be a high bar for other businesses to clear, with operating profit of 3,000 million yen in Q4. What is your outlook for Q4?

A: Although high targets have been set, the Onahama biomass power plant is expected to start operations, sales of cryogenic equipment in the North American and industrial gas engineering businesses are expected to increase, and electronics-related businesses (O-rings, information and electronics materials) are expected to perform well. On the other hand, the high-power UPS (Uninterrupted Power Supply System) business is experiencing delays in construction projects, especially in Southeast Asia, due to the COVID-19 pandemic.

Q: What is the outlook for the high-power UPS business in the next fiscal year?

A: We recognize that high-power UPS is a business with very high potential, such as for data centers and semiconductors. We also have a backlog of orders, and we believe that once the COVID-19 situation calms down, we will be able to steadily increase our numbers in this business.

■ **Adjustments**

Q: What is the background behind the large adjustments posted in Q4?

A: Under FIRS (International Financial Reporting Standards), annual asset taxes must be recorded in a lump sum. Since the Company records a lump sum under adjustments in Q4, a large sum is posted in Q4 under adjustments.

End of Q&A summary