First Quarter of Fiscal Year 2022

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

Date：Thursday, August 4, 2022 19:00 - 20:10 (Explanation: 25 minutes, Q&A: 45 minutes)		
Format of the meeting：Conference call		
Presenters：	Masato Machida：	Representative Director Executive Vice President, In Charge of Corporate Strategy Center
	Koichi Nakai：	Executive Officer, Corporate Communication General Manager Office of Corporate Communications
	Hiroshi Komatsu：	IR General Manager Office of Corporate Communications Financial Strategy General Manager Office of Financial Strategy

■ Full-year results

Q: A low level of progress seems to have been made in the first quarter in relation to the forecast results for the full year. How will your business results develop as the year goes on?

A: The main factor that gives an impression of low-level progress is the increase in marine transportation costs in the electric power business. We recognize that excluding the electric power business, we made progress close to our internal target figures in Q1.

We expect costs to continue to rise in the future, but all of our businesses have already implemented price revision initiatives during Q1, and while there will be lingering effects in some businesses, overall we feel that we are making steady progress. From Q2 onwards, the impact on the electric power business will continue as we cannot pass on increased costs in sales prices due to the FIT scheme, but in other business fields we will gradually start to see the effects of price revisions. At the same time, we will make companywide efforts to implement thorough price revisions and rationalize costs to deal with costs that are expected to rise further in the future.

Another reason is that our full-year forecast incorporates the effects of new M&A activities which are biased toward the second half of the year.

■ Effects of rising costs

Q: In the first quarter, to what extent did rising prices have companywide, and to what extent did you hit back by passing those price hikes on?

A: The impact of rising costs, how we set prices and the progress of those efforts vary by business. For that reason, we cannot give an explanation that applies to the entire company.

■ Effect of new consolidation

Q: What was the effect of new consolidation on the Q1 results?

A: Overall, the effect of new consolidation was 4.5 billion yen on sales revenue, and around 10% of that sales revenue on operating profit.

The revenue contributions of the main newly consolidated companies are as follows.

Segment	Company name	Sales Revenue (April to June)
Digital & Industry	HOKUEI Co., Ltd.	Approx. 1.5 billion yen
Agriculture & Foods	PLUS Co., Ltd.	Approx. 2.0 billion yen

<By business>

■ Digital & Industry

Q: What were the main factors behind the profit decline in Digital & Industry (decline of 1.1 billion yen year on year)?

A: There was an impact from the results of an Indian subsidiary being excluded due to a joint venture being terminated in July last year. In addition, around the same time last year demand for medical-use oxygen spiked due to the spread of Delta variant COVID-19 infections in India, which drove up revenue. On-site contractual changes also had an impact, but since we plan to recoup those amounts in the second quarter, there will be no impact in the first half as a whole. Profit declined in Q1 primarily due to these one-off factors.

Q: What is the status of industrial gas price revisions to deal with rising electricity costs, and what is the future outlook?

A: Regarding price revisions to the gas supplied using tank trucks and cylinders, we began full-scale efforts from April this year, and those activities are still ongoing. In the first quarter, the effects of rising electricity costs and price revisions appeared at different times, and some of the impact remains.

Additionally, as we foresee further electricity cost increases from the second quarter onward, we have implemented a second round of price revisions starting with shipments on July 15. In the second quarter, the effects of the price revisions worked on since the first quarter will also start to appear, and we expect this to ease the impact of rising costs.

Q: What are the factors behind the scope of the price revisions for industrial gas from July 15, which are between 10% and over 30%.

A: The products subject to the price revisions include various gases with varied manufacturing methods such as carbon dioxide gas and hydrogen in addition to air separation gases (oxygen, nitrogen, argon). In addition, the targets of the price revision included some gas-related materials in addition to industrial gas.

Q: The electronics business has been performing strongly, but are there any signs of a slowdown in demand for electronic substrates and similar goods?

A: On the demand side conditions are very strong, and orders for semiconductor fabrication equipment in particular have increased. At this point, we are not aware of signs that demand will slow down.

Q: Would it be correct to understand that growth in profit is limited in relation to increased revenue in the electronics business?

A: On the cost side, since the special chemicals supplied to semiconductor manufacturers are procured from overseas, forex effects can exert downward pressure on profits, but we have made progress in changing to US dollar-denominated transactions and expect the impact to disappear from the second quarter onwards.

■ Energy solutions

Q: What were the main factors behind the profit decline in Energy Solutions (decline of 1 billion yen year on year)? What is the breakdown of the decline?

A: Around half of the decline in profit is due to the unscheduled shutdown of the Onahama Power Plant due to plant trouble. The remaining half is due to increased marine transportation costs of palm kernel shells (PKS) that serve as biomass fuel. Also note that roughly half of the marine transportation costs are due to demurrage fees incurred due to congestion at Onahama Port.

■ Health & Safety

Q: It appears that consumer health has experienced sluggish growth under Health & Safety. What factors were at play here, and what is the future outlook?

A: In consumer health, we were particularly affected by rising costs in the areas of aerosols and hygiene products.

For aerosols, costs have risen for things like the can materials that are filled with the product, and we are currently proceeding fully with price revisions. Regarding hygiene products, we have been impacted by rising costs for things like cotton yarn, and we are also proceeding with price revisions to address this.

Additionally on the demand side, at the same time last year there was strong consigned manufacturing of insecticides and plastic model paints against a backdrop of stay-at-home demand, as well as strong demand for infection control products for hospitals in the area of hygiene products. In the first quarter of this year, there was a decline due to the absence of that level of demand.

Also note that the demand environment in these fields could change in the future, depending on the status of the COVID-19 pandemic.

■ **Agriculture & Foods**

Q: Was there an impact on performance in Agriculture & Foods due to bad weather?

A: In the previous fiscal year we were affected by a poor potato crop due to drought in Hokkaido, but this year we expect to see a recovery from those effects.

In addition, two years ago we established a new vegetable processing site in Kyushu, and have made progress in continually developing contract farms. By diversifying the production areas of vegetable ingredients, we are working to mitigate the impact that bad weather has on our business.

■ **Other businesses**

Q: What are the main factors behind the profit decline in Other businesses (800 million yen year on year)?

A: As with Energy Solutions, Nihonkaisui Co., Ltd. runs a wood biomass power generation business, and was impacted by the rise in marine transportation costs for PKS. In addition, the company is also a manufacturer of commercial salt, and was also impacted by the rising price of coal used in the salt manufacturing process. Revisions have been made to salt prices, but some impact remains. In the North American industrial gas business, some materials for low-temperature equipment are imported from China, and delayed procurement due to supply chain stagnation has taken a toll. Additionally, in the high power UPS business, delays in the progress of projects due to restrictions on activity in response to the COVID-19 pandemic, particularly in Southeast Asia, have had an effect.

Q: Regarding the price revisions for commercial salt from Nihonkaisui Co., Ltd., do you observe any business practices such as only making price revisions once a year?

A: We do not observe any such business practices. We make comprehensive judgments about price revisions in light of the impact of rising costs and other factors.

Q: Regarding the North American industrial gas business and high power UPS business, how do you expect to see a recovery from the second quarter onwards?

A: As the main factor behind the decline in profit in the North American industrial gas business is delays in procurement of parts and materials, we expect that situation to be resolved at a certain time. In addition, in North America, as there is strong demand for liquefied hydrogen tanks and other hydrogen-related equipment as well as carbon dioxide-related applications, we expect a steady recovery once those factors have been eliminated.

Regarding the high power UPS business, data centers are the main customers, and demand is rising globally. If delays in construction are eased, we expect business results in the high power UPS business to recover throughout the second half of the year.

End of Q&A summary