

**First Quarter of Fiscal Year 2021**  
**Q&A Summary of Conference Call for Analysts and Institutional Investors**

Date: Thursday, August 5, 2021 18:00 - 18:50

(Explanation: 20 minutes, Q&A: 30 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

■ **Revision to financial forecast**

**Q: What is the thinking behind the financial forecast after the revision?**

**Does it just reflect the rise in the first half? Or have you revised the forecast for the second half as well?**

A: The rise in the first quarter is incorporated into the portion for the first half, while the initial plan for the second half is retained.

An accumulation of structural improvements that began with the COVID-19 outbreak led to financial results exceeding projections.

**Q: Following the upward revision, what is your outlook for free cash flow for the current fiscal year?**

A: For the first quarter, it stood at 1.7 billion yen. However, since we are planning to carry out a merger and acquisition in the second half, we have so far kept the free cash flow forecast for fiscal year 2021 unchanged from the initial figure of minus 19.3 billion yen.

**Q: What is your policy on measures for shareholder returns?**

**I think you have room to increase dividends. What will you do?**

A: We will not change our dividend policy, with a standard payout ratio of 30%.

Basically, we determine the amount of dividend on the basis of interim and full-year results. After the half-year results are confirmed, we will forecast the full-year results and announce the dividend amount.

■ **Industrial gas business**

**Q: The profitability of the industrial gas business has improved. What are the main reasons for this?**

A: One factor was that a high level of operation was maintained in gas supply to electronics applications. Another factor was the strength of the India business. These are the main reasons. In addition, domestic gas supply with tanker trucks and cylinders continued to rally. As a whole, the business is turning around.

**Q: What is your view on the impact of the soaring cost of energy, including electric power?**

A: For the first quarter, it pushed results up by 0.2 billion yen from the same period a year earlier. Meanwhile, the full-year forecast incorporates the expected rise in electric power expenses. In light of current increases in crude oil and LNG prices, we expect that it will have a negative impact in the second half. Even so, our business for electronics application remains strong. We expect our overall results to sufficiently absorb the impact.

**Q: While the business is turning around, profit for the second quarter is forecast to be equivalent to the level for the first quarter. What is behind this?**

A: We have taken into consideration a flattening of demand for medical gas in India in addition to the soaring electric power expenses.

**Q: What is the state of your overseas business?**

A: In India, in response to a sharp resurgence in COVID-19 cases, we partially ceased shipments for industrial applications and continued to supply medical oxygen amid a tight demand-supply situation. As a result, sales and profit expanded. From the first to second quarters, COVID-19 cases slowed and demand for medical oxygen is returning to the usual level.

**Q: You have revised your operating profit forecast upward by 1.3 billion yen. Is this due to factors in Japan or outside the country?**

A: Including equipment construction, the ratio of business in Japan to overseas business is approximately 2:1.

#### ■ Chemical business

**Q: What are the factors for the change between results for the fourth quarter of the previous fiscal year and for the first quarter of the current fiscal year and between the results for the first quarter and the forecast for the second quarter of the current fiscal year?**

A: On the whole, business related to electronics materials grew considerably on the strength of bullish semiconductor demand.

Factors for the profit increase from the fourth quarter of the previous fiscal year to the first quarter of the current one include an improvement in the markets for phthalic anhydride and other basic chemicals for Kawasaki Kasei Chemicals and rallying sales of naphthoquinone.

As for comparison between operating profit for the first quarter and its forecast for the second quarter of the current fiscal year, part of the sales of naphthoquinone and electronics materials was moved up to the first quarter, and expenses for the establishment and integration of a new company will be recorded for the second quarter. Operating profit for the second quarter will therefore be lower than for the first quarter.

The full-year cost of integration and reorganization in the chemical business for fiscal 2021 is expected to be around 200 million yen.

#### ■ Medical business

**Q: The medical business showed a turnaround. Specifically what businesses did well?**

A: For the first quarter, the hospital facility business and the medical gas business, mainly supplying gas, were strong.

Injection needles also recorded higher revenue and operating profit than in the year-ago period. Sales of injection needles are increasing in Japan and overseas.

#### ■ Agriculture and food products business

**Q: Results demonstrated a remarkable recovery. Which businesses showed strength?**

A: The volume of beverages manufactured on contract increased and we recorded a particularly strong revenue improvement in the sweets business.

In addition, sales of delicatessen items for consumers, farm products and processed food items increased year on year.

**Q: Do food products, farm products and processed food items for consumers make a positive contribution to profit?**

A: Our food products business was originally strong in high value-added food products for businesses, namely for use at hotels and restaurant chains. We sell these frozen food items to general consumers in order to expand sales channels. In our product portfolio consisting of items for businesses and those for consumers, we are gradually shifting the focus to items for consumers in step with changing market conditions. That has a positive effect on profit.

**Q: You explained that you were working on structural reform. What effect per year do you expect from this?**

A: We invite you to take note of the point that the ratio of operating profit to revenue is rising for our business overall. We will continue our efforts to increase the operating profit margin.

#### ■ Logistics business

**Q: What effect do you think will be produced if the diesel oil price continues to rise in the future? Can it be offset by increasing the operation ratio of logistical warehouses? What impact will it have on the 3PL business?**

A: In terms of general logistics, it is anticipated that an increase in transport volume will result in a high level of operation maintained at our own logistical centers and that it will absorb the impact of rising diesel oil prices on business results. For the 3PL business, we will negotiate with customers at the time of contract renewal.

#### ■ Other businesses

**Q: What is the progress in the biomass power generation business?**

A: Woody biomass power plants are in operation at Hofu in Yamaguchi Prefecture, at Iwaki in Fukushima Prefecture and at Ako in Hyogo Prefecture. These three plants are expected to generate an annual total revenue of 30 billion yen and an annual total operating profit of 5 billion yen. The three plants are all operating smoothly. The progress for the first quarter was as planned.

■ **Reorganization of subsidiaries**

**Q: You explained that you will decrease the number of subsidiaries under the current mid-term management plan. What progress has been made?**

A: As of the end of fiscal year 2018, when we adopted the current mid-term management plan, we had 263 group companies. After the integration and reorganization conducted in fiscal years 2019 and 2020, we decreased that number by 56. This figure will be further decreased by 23 in fiscal 2021, merely through the integration and reorganization projects that had already been confirmed as of the beginning of the fiscal year. It is possible that other group companies may be added.

End of Q&A summary