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

Date: Friday, November 5, 2021 18:00 - 19:00 (Explanation: 25 minutes, Q&A: 35 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: We are assuming that the impact of the rising electric power costs will be approximately 500 million yen greater in terms of operating profit for fiscal 2021 compared with the level in the previous year. The disclosed plan reflects the impact and earnings are in line with the assumption for the time being.

Q: With respect to your business in India, please describe the effect of the dissolution of the joint venture with Ellenbarrie and what business policy you will apply.

A: By ensuring that the business is centrally promoted by AIR WATER INDIA, a wholly owned subsidiary, we were able to facilitate business development more actively than ever.

Ellenbarrie provided tanker truck and cylinder gas supply services mainly in the eastern part of India. Going forward, we will expand tanker truck and cylinder gas supply services across India while simultaneously increasing on-site gas supply services for steel production. In addition, we will cultivate demand for application fields, among medical, foods, and other products, in ways that best suit the Indian market with a starting point on the supply of industrial gases.

Q: Is it correct to understand that the adjustment amount exceeded the forecast in the first half due to the dissolution of the joint venture business in India?
Going forward, are you going to improve the engineering system as well in India?

A: The adjustment amount surpassed the plan by around 1.1 billion yen chiefly because revenue in "other business" was posted in conjunction with the dissolution of the joint venture in India.
Moving forward, we will strengthen the local engineering system by building on the industrial gas business that we have been reinforcing.

Q: Are you working on passing cost increases on to industrial gas prices?

A: We will continue to work on the issue along with the rising logistics expense. Prices for carbon dioxide gas and helium reflect such price pass-through ahead of those for other gases.

Q: Please describe the ratio of sales and operating profit with respect to your strong business in the electronics market.

A: In the industrial gas-related business, the electronics market accounts for approximately 18% and 25% in terms of operating profit, respectively. Since our business for the electronics market includes not only the supply of gases but devices for semiconductor manufacturing equipment, among other products, operating profit ratio is at the higher 10% range.

■ Medical business

Q: Please provide an update on demand for facility construction.
What is your future outlook?

A: There were positive effects because sales from hospital facility maintenance and inspection services, which were originally planned to be posted in the fourth quarter of the previous fiscal year, were carried over to the current fiscal year. In addition, the number of repair work projects is recovering to the pre-COVID-19 level and the number orders is significantly larger than the year-ago level.
With respect to disaster prevention equipment, orders for gas-based fire extinguishing equipment from data centers are rising.

■ Agriculture and food products business

Q: Please describe the impacts of business structural reform, in quantitative terms in possible.

A: Demand recovered and revenue increased mainly in the beverage and confectionary sectors, resulting in year-on-year rises of 3.4 billion yen and 1.3 billion yen in revenue and operating profit, respectively, in the agriculture and food products business overall.

In particular, a range of initiatives including productivity improvement in the confectionary sector contributed to a significant improvement in revenue.

Q: For the beverage business, you explained that the cutting-edge plant in Hokkaido was in full operation. Please describe operation rate levels you are expecting in the second half.

A: Gold-Pak Co., Ltd., which is an affiliate that operates the beverage business, excels at producing tea and vegetable drinks. The company has been working to increase the production of plant milk drinks as well recently. Given these circumstances, we are expecting that, without production being significantly concentrated in summer, high operation rates will continue in the second half and beyond.

■ Seawater business

Q: Please provide an update on the business of magnesia for electromagnetic steel plates.

A: Our market share of magnesia for directional electromagnetic steel plates is approximately 90% in Japan and exceeds 40% overseas.

In Japan, there was a movement to reduce the production of directional electromagnetic steel plates due to the impact of a significant rise in the production of non-directional magnetic steel plates used for the motors of electric vehicles, among other items. This caused a slight decrease in the shipping volume of magnesia for electromagnetic steel plates; however, it did not have a significant impact.

Overseas, shipments to China decreased due to the U.S.- China trade friction, while those to Europe increased, reflecting a rise in demand for high-efficiency transformers due to the eco-design directive.

■ Overseas business

Q:Please provide an update and future outlook with respect to the high power uninterrupted power supply system (UPS) business.

A: Both sales and profit are expected to recover in the second half. Even so, we are not forecasting a recovery to the fiscal 2019 level by the end of the current fiscal year, given the lingering impact of the delayed construction of data centers due to the pandemic, particularly in Southeast Asia.

On the other hand, with projects for the construction of data centers coming up in Taiwan, Southeast Asia and China, it is expected that the number of new inquiries will increase in the second half and beyond.

■ Selling, general and administrative expense

Q: What initiatives were implemented for selling, general and administrative expenses which did not rise despite increased sales in the first half?

A: Given the COVID-19 pandemic, we introduced online conferences and cloud-based operations, and by doing so, reduced business trip expenses. We also adopted work-from-home, a program which we had launched as a countermeasure against COVID-19, now introduced it as a permanent system this October while proceeding with workstyles reforms from the perspective of productivity improvement.

In the first half, we succeeded in raising gross profit ratio approximately 1% year on year while simultaneously lowering selling, general and administrative expenses approximately 1%, thereby generating synergies that contributed to an improvement in revenue overall.

■ M&A activities

Q: Were there any effects from new consolidation in the results for the first half?

A: There were no effects from new consolidation in the results for the first half.

■ Capital investment and depreciation

Q: There seems to be a delay in the progress in capital investment in the first half against the full-year plan. Is the progress in line with the projection?

A: There is no change in the initial full-year capital investment plan in which 63.0 billion yen is expected to be invested. Capital expenditures for the first half came to approximately 20.0 billion yen in the first half and were almost according to the plan.

Looking ahead to the second half and beyond, we expect that there will be an increase in capital investments in on-site gas plants for the electronics market.

Q: Do you have an intention to review the full-year plan for deprecation, which increased approximately 2.5 billion yen year on year?

A: There is no change in the initial 42.0 billion yen for depreciation in the capital investment plan for the full year.

End of Q&A summary