

Financial Results for the Second Quarter of Fiscal Year Ending March 31, 2021
Q&A Summary of Conference Call for Analysts and Institutional Investors

Date:	Thursday, November 12, 2020 18:00 – 18:55 (Explanation: 25 minutes, Q&A: 30 minutes)		
Format of the meeting:	Conference call		
Presenters:	Kiyoshi Shirai	:	President and Representative Director
	Masato Machida	:	Representative Director Executive Vice President, Corporate Management Officer
	Kikue Inoue	:	Executive Officer, Manager of Public & Investor Relations

■ Overall results

Q: Please tell us the composition ratio of your electronics-related businesses and their products to the company's entire businesses. Please also tell us the main details of those businesses by segment.

A: The revenue and operating profit of our electronics-related businesses accounts for 13 percent and 16.5 percent, respectively, of our fiscal year 2020 revised results forecast (Revenue of 820 billion yen and operating profit of 50 billion yen). Their main business activities include gas supply services and sales of related equipment for electronics applications in the industrial gas business segment, sales of electronics materials and precision polishing pads in the chemical business segment and the high-power UPS (Uninterrupted Power-supply System)-related business and O-ring business in our other businesses segment.

■ About industrial gas business

Q: In the upwardly revised second-half forecast, how do you expect the business environment to evolve and what factors are expected to contribute to profitability (compared to the results of the previous fiscal year)?

A: Domestically, our on-site gas supply services to blast furnaces will continue to be impacted by the shutdown of blast furnaces in the second half. However, thanks the rapid recovery in automobile-related sectors, our gas supply services via tanker lorries and cylinders are expected to remain on a par with the previous year's level. We also expect an increase in sales of our materials and equipment for electronics applications. Although the degree of effect is not as strong as in the first half, the lower electricity costs will also have a positive impact on the second half compared to the previous year.

For our businesses in India, we expect that the FA expenses associated with M&A posted in the previous fiscal year will dissipate, industrial gas sales will expand backed by robust steel demand, and profit will increase thanks to the strong sales of medical oxygen.

■ About medical business

Q: How much did infection control products contribute to the first half results? Please tell us future prospects for the installation of additional ICUs and the supply of zoning products.

A: Compared to the results of the previous year, contribution of infection control products (including products of Kawamoto Corporation and Ci Medical Co., Ltd.) to revenue and operating profit of this year's first half results grew 2.4 billion yen and 900 million yen, respectively. The demand is expected to continue in the second half as well.

Because of lead times of 1.5 to 3 years required for large-scale hospital facility construction projects such as ICU enhancements, the positive impacts of the projects on the fiscal year 2020 results are limited; however, there is currently a strong inquiry for products including simple negative pressure devices, a remote diagnostics support system "NOALON," and ultraviolet irradiation disinfection devices, which will contribute to the second half results.

■ About agriculture and food business

Q: What factors are responsible for the decrease in revenue and increase in profit (compared to the same period of the previous fiscal year) for the second quarter non-consolidated results (July - September)?

A: In our farm products and food processing business, sales of our commercial-use ham and frozen food was sluggish. On the other hand, the results of our beverage business on a non-consolidated basis were almost on a par with the same period of the previous year, thanks to the strong performance of vegetable drinks and vegetable milk drinks despite the impact of the voluntary ban on leaving home. Also, the sweets sector made progress in improving earnings, which significantly contributed to the results.

■ About logistics business

Q: Please tell us the reasons for the upward revision in the revised forecast.

A: In addition to the strong performance of food logistics for supermarkets in our 3 PL business driven by stay-at-home demand, improvements in the operations of logistics centers in Atsugi and Kita-Kanto steadily contributed to the results. KATSURA TSUSHO Co. Ltd., which we acquired through M&A in April this year, has strength in food logistics in the western Japan region and will achieve higher than initially expected growth. The strong performance of the truck body manufacturing and cost improvement due to the fall in diesel fuel prices will contribute to profit.

■ About other businesses

Q: What are the reasons for the downward revisions to revenue and upward revisions to operating profit in the revised forecast?

A: The downward revisions to revenue are due to the stagnation in construction demand at our construction-related subsidiary based in Kita-Kyushu and a decline in our high-power UPS business and overseas engineering business in the U.S. caused by the impact of COVID-19. Operating profit will increase, as the strong sales of our high-margin alcohol-based sterilizers will offset a decrease in contract manufacturing of OEM products including cosmetics. We also expect an increase in profit due to projected strong growth in our O-ring and information electronics materials businesses in addition to cost reduction effects as a result of work-style reform.

■ Integration and reorganization of regional business companies

Q: Please tell us the objectives and effects of the integration and reorganization of the regional business companies which took effect on October 1.

A: We integrated the system, which previously consisted of eight companies throughout Japan, into a system consisting of three companies based in western and eastern Japan and in Hokkaido, by unifying the three companies in western Japan and the four in eastern Japan. The three companies will strive to further improve profitability in Japan so that each of them will become a one-hundred billion yen company in early stages. Before the reorganization, the regional business companies had been organizationally positioned under each Company, such as industrial gas, medical and energy. However, as a result of the integration and reorganization, these regional business companies have been positioned on an equal footing with the Companies and will develop businesses other than industrial gas, medical and energy beyond the boundaries of the Companies to respond to regional needs.

Q: In addition to the goal of being thoroughly community-based and independent that was set for the former regional business system, there is another goal of offering more products and creating synergies in the future. Is this understanding correct?

A: That is correct.

■ About the parent-subsidary listing with Kawamoto Corporation

Q: The performance of Kawamoto Corporation has been strong, and the failure to reflect minority shareholders' interest in earnings may be an issue. What do you think of the dissolution of the parent-subsidary listing?

A: Our basic position is that we are currently not considering any particular dissolution of the parent-subsidary listing. With respect to the terms and conditions of transaction with Kawamoto Corporation, we have adopted an approach that takes into account the protection of minority shareholders' interest.

End of Q&A summary