IR Meeting on Financial Results for FY2024 Q2: Questions and Answers

[Date]	October 31, 2024	
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	Reiji Morooka	Representative Director, Senior Managing Executive Officer, Chief Financial Officer
	Yoshiyasu Fuse	Corporate Officer, Head of Accounting Controlling Dept.
	Yoshinori Takayama	Corporate Officer, Head of Investor Relations Dept.

<Questioner 1>
Regarding the interpretation of the buffer, should it be considered an expectation for performance improvement, or should it be assessed as a risk for individual businesses? For the second half of FY2024, risks of delayed performance recovery are anticipated in the tubular products business in North America, construction equipment rental business, and agribusiness. Additionally, concerning the slurry pipeline damage in Ambatovy project, how should we view the relationship between the buffer and the risk of future performance decline?

<Morooka>
The buffer we have set is not tied to any specific projects, despite concerns stemming from the four major impairments in FY2023. While we have revised our full-year forecasts for the tubular products business in North America, agribusiness, and construction equipment rental business to more realistic levels, we anticipate a certain recovery in the second half. This buffer is a precaution against uncertainties such as delayed recoveries. Additionally, our full-year forecast assumes the privatization of T-Gaia, though there is a possibility it may not be realized in FY2024. Regarding Ambatovy, while we have written down all long-term investments, some loans with different statuses remain, and future cash flow conditions could impact our profits. Considering these factors, we have set a buffer of 20.0 billion yen as we enter the second half.

<Ueno>
When consolidating our full-year forecast, we observed strong figures for the second half, leading us to maintain our full-year outlook, incorporating a buffer. Please understand that there are businesses with growth potential in the second half.
Regarding Ambatovy, we have completed the equipment replacement for the utility plant issue occurred at the end of December 2023. However, at the end of September, the slurry pipeline was damaged. This occurred just as we were preparing for its replacement, indicating faster-than-expected wear. We will proceed the replacement. Currently, we have replaced the damaged section, conducted hydro tests, and resumed slurry flow while controlling pressure. Although we have written

down the book value to zero, there are still loans amounting to approximately 4.5 billion yen. We cannot eliminate the possibility of cash shortages as operations continue, especially since nickel prices have not risen as expected. Injecting cash to maintain operations could potentially lead to impairments. We will keep considering all options to identify the best policy for all related stakeholders, while stabilizing our current production.

<Questioner 1>
Thank you for the clear disclosure in the presentation P.2. The primary focus is on how growth businesses will build up in FY2025 and beyond, excluding one-off profits and losses. This time, Diverse Urban Development Group has exceeded initial profit forecasts, achieving larger-than-usual profits. We need to understand if similar profit levels can be expected FY2025 and how these growth businesses will develop organically. Additionally, with current investment returns at 4 billion yen, there is a concern about the potential for profit growth in FY2025 from an inorganic perspective. Please share the areas where you feel confident about the accumulation of growth businesses at this point.

<Ueno>
Excluding one-off profits and losses, our full-year forecast for FY2024 is 510.0 billion yen. As noted on the right side of P.2, we expect significant contributions from our main growth businesses: leasing, real estate, agribusiness, and energy solutions. In real estate, we plan to increase assets and accelerate turnover to enhance profitability, leveraging our strengths to drive revenue growth in the coming years. Similarly, we anticipate continued growth in leasing by expanding our asset base. Conversely, our tubular products business and construction equipment business in North America are currently facing challenges. However, we expect the tubular products business to recover with market improvements, and the construction equipment business to rebound as inventory issues are resolved. In agribusiness, adverse weather in South America has impacted crop protection sales, but we foresee improved conditions and increased sales of seeds, fertilizers, and crop protection during the upcoming demand season.
Regarding investments, we have a robust pipeline of projects in areas where we have strong capabilities, and we are committed to executing these investments effectively.

<Takayama>
To supplement P.2, the arrows within the yellow box on the right side indicate the changes between the full-year results for FY2023 and the full-year forecast for FY2024. As noted in the supplementary slide on P.36, the agribusiness is expected to see a profit increase of 4.0 billion yen, from 6.0 billion yen in FY2023 to a forecasted 10.0 billion yen in FY2024. However, this is still behind the initial forecast for FY2024, as explained by Ueno, and we are aiming for recovery in the second half.

<Questioner 2>
Regarding the construction equipment business, despite its strong performance and significant investments in previous years, it is currently experiencing a slowdown. How do you view the future of the construction equipment market, and what are your thoughts on investment opportunities? Additionally, the IPP/IWPP business has been revised upwards. Based on this year's performance, can we expect continued growth in the coming fiscal years?

<Morooka>
The construction equipment rental business in the U.S. performed well until the latter half of FY2023, with a favorable market environment. We even faced challenges in expanding our rental assets due to high demand. However, the growth in the non-residential construction market has slowed. While sales have increased due to asset expansion, the growth is not as significant as anticipated. Additionally, the expansion of our branch network has led to higher upfront costs, and the depreciation burden from increased assets has compressed margins. If U.S. interest rates decrease, we expect some market recovery. We are also addressing inventory surpluses and cost increases to improve performance in the second half. Besides North America, we are engaged in the construction equipment rental business in Asia, where performance has exceeded acquisition plans. We view the challenges in the U.S. market as specific issues and remain committed to growth in the construction equipment sector. Furthermore, we are expanding our construction equipment distributor business in the U.S. and Canada, and as noted in P.3, we have invested in BIA Group, a distributor with strengths in large-scale markets such as infrastructure and mining in Africa. By leveraging our product support expertise from Canada, we aim to enhance BIA Group's corporate value. We will continue to expand these initiatives.

<Fuse>
The IPP/IWPP business is now disclosed by region, with the primary driver of the upward revision in the Energy Transformation Business Group being the Asian businesses. This is partly due to the Van Phong project in Vietnam, which started in early 2024. Initially, we had factored in a reduction in equity income due to a partial stake sale, but the likelihood of this sale occurring in FY2025 or later has increased, leading us to assume 100% ownership for FY2024. Additionally, the depreciation of the yen and cost reduction efforts have contributed to the upward revision. Excluding one-time profits, the group's performance is expected to be 39.0 billion yen for the second half compared with 55.0 billion yen for the first half, reflecting a slight decline. This is due to the fading impact of yen depreciation in the Asian businesses and lower utilization rates from scheduled maintenance in individual projects. In Europe, we also anticipate a slight decline in the second half due to the seasonality of offshore wind revenues and the absence of asset sale gains recorded in the first half. The EPC business also benefited from one-time gains in Q1 due to cost adjustments. Considering these one-time gains, the group's underlying performance is estimated to be around 80.0 to 85.0

billion yen for the full year. We will refine our outlook for the next fiscal years, but the base level has slightly increased from our initial expectations.

<Takayama>
To clarify, the IPP/IWPP business model does not grow organically unless we add new projects. Our investments in renewable energy under the previous mid-term management plan will start contributing to profits from FY2027 onwards. Therefore, in terms of profit accumulation, the impact will not be substantial until FY2026.

<Questioner 2>
Thank you for the disclosure of investment, asset replacement, and profit contributions on P.3. This transparency should reflect new president and CEO, Mr. Ueno's efforts to improve management awareness. How do you perceive the impact of Mr. Ueno's changes in management awareness on the company?

<Ueno>
In my discussions with investors, I noticed common questions, and P.3 addresses these shared inquiries. It was created to clearly explain the outcomes of our investments. Internally, there were concerns that a 4.0 billion yen profit contribution might seem small or misleading given it's only been six months. However, as our mid-term management plan has just begun, we expect profits to accumulate, with the 4.0 billion yen in FY2026 projected to grow further in the next mid-term management plan. The aim is to address as many of your questions as possible.
Internally, we have made changes to delegate authority and restructure management council. The idea of enhancing our strengths and competitive advantages is gaining traction within the company, boosting our investment appetite in growth businesses. Increased transparency is also raising awareness within the organization.

<Questioner 3>
Your strengths in real estate and infrastructure businesses require asset accumulation, but the expectations for both value and efficiency have not been fully met. Are there any specific initiatives or strategies being implemented internally to enhance ROE, such as accelerating asset turnover?

<Morooka>
The efficiency of businesses holding assets such as real estate and infrastructure hinges on improving ROIC. While it is challenging to discuss the turnover period of individual real estate projects at the management council level, the need to enhance ROIC is a constant topic in strategic discussions. Consequently, we frequently adjust strategies within SBUs.
In real estate, we are mindful of the varying risks across domestic and overseas areas and are

implementing mechanisms to generate revenue without holding assets. This approach aims to create value and accelerate the cycle, thereby improving ROIC. Based on these efforts, we are discussing increasing the capital investment in real estate beyond the initial plan, balancing efficiency considerations. Although the specifics vary by business, efficiency remains a critical focus in our discussions.

<Ueno>
For example, in real estate, domestic ROIC is low while overseas ROIC is high, but overseas investments also carry higher risks. Therefore, balancing risk and return is crucial. Domestic real estate exceeds WACC and has strengths, so we are discussing increasing investment while improving asset turnover.
Ultimately, we aim to optimize asset replacement to ensure all projects are high-quality. For instance, there are still pending projects like telecommunications in Ethiopia and Myanmar or parking businesses in Northern Europe. As these projects are resolved, internal competition for cash will increase, making ROIC a key metric. Improving ROIC from low to high levels will enhance ROE. As mentioned earlier, high ROIC projects come with higher risks, so we need to balance this while ensuring good projects are efficiently cycled.

<Questioner 3>
It has incurred losses in high-risk countries such as Ambatovy and the Ethiopian telecommunications business. Reflecting on past mid-term management plans, are there any new measures or strategies in place to maintain project quality, such as regular loss processing, instead of accumulating risks and facing significant impairments later?

<Ueno>
There are various factors behind the underperformance of certain businesses. For example, some projects may have been isolated ventures, or geopolitical risks may have materialized, as seen in Ethiopia and Myanmar. To manage geopolitical risks, we enhance risk management by verifying risk hedging measures such as insurance for each project. Simultaneously, we must consider the overall portfolio balance, assessing how many high-country-risk projects we undertake. It is crucial to manage the portfolio balance and oversee it from a high-level perspective.

<Questioner 4>
Regarding the recovery of businesses that struggled in the first half, the agribusiness was affected by weather conditions. However, the tubular business, which was expected to recover from the second half of FY2023, seems to be delayed by about a year. This time, you are also assuming a recovery. Could you provide insights into the background and signs of recovery in the second half, including on-the-ground activities?

Additionally, there have been mentions of inventory surpluses in the construction equipment rental business, and it seems that conditions are still deteriorating for various manufacturers. Are there any signs of change or recovery in this sector?

<Fuse>
Initially, we anticipated a gradual recovery in the tubular business from early 2024. However, this recovery has been delayed due to a continued decline in rig counts and low steel pipe market prices, prompting us to revise our full-year forecast. Currently, we assume that rig counts will remain at current levels in the second half, and we expect tubular market prices to recover from the beginning of 2025. Signs of market reversal include reduced import volumes, increased capacity utilization at domestic mills, and some mills announcing price hikes.
For the construction equipment rental business, while market factors play a role, we are also steering towards more efficient management. In the U.S. construction equipment rental sector, we anticipate recovery through measures such as improving unit prices and reducing costs.

<Questioner 4>
Given the overall weakening market conditions in the general trading sector, there are widespread concerns about the upcoming FY2025. Despite your company's initial projection of ¥600.0 billion for the FY2025, growth businesses are reportedly progressing well, and new investment projects are emerging. Could you please share the CEO's perspective on the confidence and outlook for profit growth in FY2025?

<Ueno>
Our mid-term management plan outlines a linear growth trajectory towards ¥650.0 billion from FY2024 to FY2026. While some groups may fall short of their initial targets, others are expected to exceed them. Overall, we anticipate near-linear growth by FY2025. Our portfolio is designed to be resilient to market fluctuations, minimizing negative impacts. We plan to actively invest in high-growth sectors such as media, real estate, and healthcare, which are less affected by market conditions. We are confident in achieving ¥600.0 billion by FY2025.

<Questioner 5>
Could you provide the outlook for the second half of FY2024 for the Media & Digital and Lifestyle Business, given their low progress rate in the first half? Additionally, when do you anticipate the recovery of Fyffes' melon business?

<Fuse>
Regarding Media & Digital, the Ethiopian telecommunications business experienced a temporary forex loss in the first half, which will reduce equity losses in the second half. Additionally, other key

businesses like SCSK are expected to see increased profits in the second half of the year.
For Lifestyle Business, despite temporary losses in Fyffes' winter melon business due to reduced demand and adverse weather, the banana and pineapple businesses are performing well and are expected to continue generating higher profits in the second half. The melon business is also projected to return to normal profitability in the second half, leading to significant improvement.
In Retail, Summit supermarkets are anticipated to see profit increases during the year-end sales season.
Healthcare is expected to benefit from seasonal factors, with higher sales of flu-related medications in the winter, and additional profit contributions from roll-ups.

<Questioner 6>
Considering the ongoing consolidation and rationalization among North American shale companies, it is plausible that rig counts may decline rather than remain stable. Given that rig counts are flat while crude oil production is reaching record highs, should we adopt a more cautious outlook on the market environment? What is the company's perspective on this matter?

<Ueno>
I have been in the tubular business for 30 years, with extensive involvement in the North American market. Industry consolidation has been ongoing, leading to customer-side efficiency improvements and technological advancements. Despite stable rig counts, the amount of tubular used per rig has significantly increased. Historically, the U.S. tubular industry has protected domestic manufacturers through anti-dumping measures, but recent imports have disrupted the market. Future policies, including anti-dumping measures, will depend on presidential decisions and require close monitoring.
Our company has moved away from managing inventory risks and recording valuation losses. Over the past 3-4 years, we have increased our hedging ratio, providing some downside protection while aiming for upside potential.

<Questioner 7>
Despite concerns about the economic outlook, the Mineral Resource Group has revised its performance forecasts upwards. How does the company internally evaluate the current profit levels of this group?

<Ueno>
The Mineral Resource Group plans to focus its investments on selected commodities. Drawing from past experiences with both impaired and successfully divested businesses, we are analyzing future demand structures. With the rise of AI and data centers, we anticipate a stable increase in copper demand. Our investment in the Quebrada Blanca 2 copper mine in Chile is progressing, and we expect to ramp up production towards profitability. Despite a fire incident, our aluminum smelting

operations in Malaysia are recovering, and we are exploring new opportunities, anticipating a rise in aluminum prices. We aim to grow the Group by strategically narrowing our focus.

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