



Yokogawa Electric Corporation

Financial Results Briefing for the Fiscal Year Ended March 2023

May 9, 2023

Event Summary

[Company Name]	Yokogawa Electric Corporation	
[Company ID]	6841-QCODE	
[Event Language]	JPN	
[Event Type]	Earnings Announcement	
[Event Name]	Financial Results Briefing for the Fiscal Year Ended March 2023	
[Fiscal Period]	FY2022 Annual	
[Date]	May 9, 2023	
[Number of Pages]	41	
[Time]	17:30 – 18:35 (Total: 65 minutes, Presentation: 25 minutes, Q&A: 40 minutes)	
[Venue]	Zoom Webinars	
[Number of Speakers]	2	
	Hitoshi Nara	President and Chief Executive Officer
	Michiko Nakajima	Vice President, Head of Accounting and Treasury Headquarters

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Key Points

■ FY22 results: Sales and operating income were up

- **Summary:** Orders increased significantly. Sales also increased
Operating income increased due to an increase in sales and the impact of fluctuations in exchange rates and other factors
Profit attributable to owners of parent increased
- **Segments:** **Control:** Sales and operating income were up
excluding the impact of exchange rates, orders increased 13.4% and sales increased 7.5% year on year
Measuring instruments: Sales and operating income were up
New businesses and others: Sales declined, and the operating loss shrunk
- **Regions:** Strong in the Middle East and Africa, Central and South America, India, and North America. Solid in Japan and China
- **Subsegments:** The energy & sustainability and materials businesses were both strong
- **Industries:** The upstream and downstream sectors and the chemicals industry were all strong

■ FY22 year-end dividend : No change (¥17, as originally planned)

■ FY23 earnings forecast : A year-on-year increase in sales and operating income

■ FY23 annual dividend forecast :

- Same as the previous year
- Implement shareholder returns by acquisition of own shares(up to ¥20.0 billion)

* From FY21, as a result of revising the Group's internal management classification, the life innovation business that was previously included in the test and measurement business segment has been reclassified into the industrial automation and control business segment.
In addition, the name of the reportable segment previously known as the test and measurement business has been changed to the measuring instruments business. Moreover, segment information for FY20 has been presented based on the changed classification.
* The name of the reportable segment previously known as "aviation and other businesses" has been changed to "new businesses and others" since FY22 following the transfer of the aviation equipment business.

Nakajima: This is Nakajima, and I would like to explain our financial results and forecast.

Your handout, page 4, contains the key points of this issue. We will explain this content on the next and subsequent pages.

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Summary of FY22 Results (year on year comparison)

- ◆ Orders increased significantly. (excluding the impact of exchange rates: +12.6% year on year)
- ◆ Sales also increased. (excluding the impact of exchange rates: +6.7%)
- ◆ Operating income increased due to an increase in sales and the impact of fluctuations in exchange rates and other factors. (excluding the impact of exchange rates: -0.8%)

(Billion ¥)

	FY21	FY22	Difference	Growth rate	Impact of exchange rate
Orders	420.5	518.4	+97.9	+23.3%	+45.0
Sales	389.9	456.5	+66.6	+17.1%	+40.3
Operating income	30.7	44.4	+13.7	+44.8%	+14.0
ROS(%)	7.9	9.7	+1.9pt	—	—
Ordinary income	35.7	48.6	+12.9	+36.0%	+15.1
Profit attributable to owners of parent	21.3	38.9	+17.7	+82.9%	+14.4
Exchange rate	US\$1= ¥112.94	¥136.12	+23.18	—	—

<Reference: Comparison with forecast >

	FY22 2/7 forecast	Difference
Orders	516.0	+2.4
Sales	442.5	+14.0
Operating income	38.5	+5.9
ROS(%)	8.7	+1.0pt
Ordinary income	39.5	+9.1
Profit attributable to owners of parent	26.0	+12.9
Exchange rate	US\$1= ¥135.00	+1.12

Page 5 is a summary of financial results.

Orders were totaled JPY518.4 billion, a YoY increase of JPY97.9 billion, or 12.6%, excluding the impact of the foreign exchange rate. Net sales were JPY456.5 billion, a YoY increase of 6.7%, excluding the impact of the foreign exchange rate. Sales, which had been delayed, made significant progress during the three months of Q4.

Operating income increased by JPY13.7 billion from the last year to JPY44.4 billion.

Profit attributable to owners of parent increased by JPY17.7 billion to JPY38.9 billion.

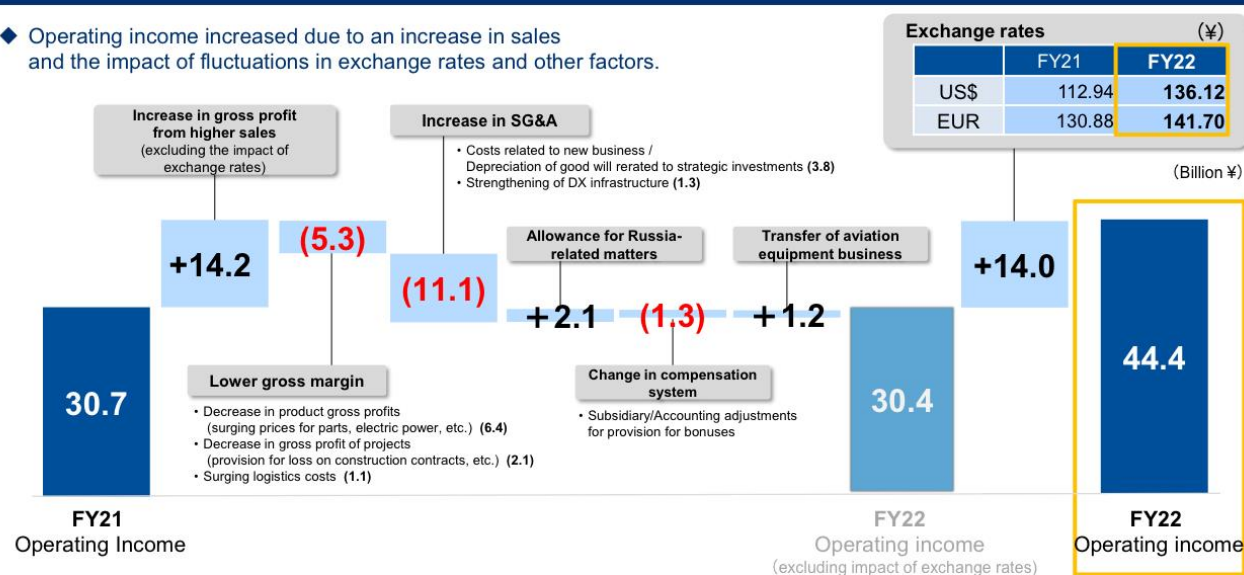
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Analysis of Operating Income (year on year comparison)

- ◆ Operating income increased due to an increase in sales and the impact of fluctuations in exchange rates and other factors.



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The next page 6 is an analysis of changes in operating income.

Operating income decreased by JPY0.2 billion from JPY30.7 billion in FY21, the last year, excluding the impact of foreign exchange rate fluctuations, and remained almost flat. While gross profit increased by JPY14.2 billion due to the increase in sales, the gross margin deteriorated by JPY -5.3 billion. SG&A expenses increased by JPY10.3 billion due to special factors (allowance for Russia-related matters and change in compensation system, etc.) In addition, the improvement effect from the transfer of aviation equipment business pushed up the sales by JPY1.2 billion.

As we have explained in our past financial results briefings, the gross margin has been affected by multiple factors, such as surging prices for parts, electric power, decrease in gross profit of projects, and surging logistics costs, etc. However, if we take a look at the Q4 three-month period, we see that the main businesses, although slightly, have begun to improve compared to the previous year. Selling price increases have been realized and fixed costs as a percentage of sales have decreased due to increased sales.

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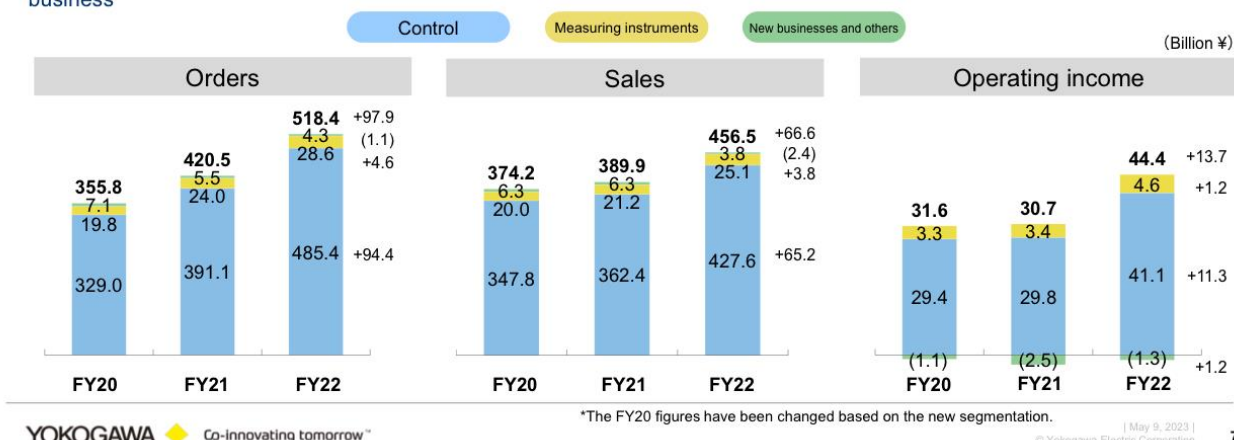
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Comparison for Orders, Sales, and Operating Income by Segment

◆ **Control:** Orders increased significantly. Sales also increased.
(excluding the impact of exchange rates, orders increased 13.4% and sales increased 7.5% year on year.)
Operating income increased due to an increase in sales and the impact of fluctuations in exchange rates and other factors.
(excluding the impact of exchange rates: -¥0.6 billion, -2.1%.)

◆ **Measuring instruments:** Orders and sales were strong. Operating income were up.

◆ **New businesses and others:** Sales declined, and the operating loss shrunk due to the transfer of the aviation equipment business



Page 7 shows orders, sales, and operating income by segment.

First, for the control segment in blue color. Orders received were plus JPY94.4 billion from FY21, the last year, or 13.4% growth, excluding the impact of foreign exchange rate fluctuations. Sales were plus JPY65.2 billion, which was weak compared to orders received, but sales rose significantly during the three months of Q4 and grew by 7.5%, excluding the impact of foreign exchange rate fluctuations. Operating income improved by only JPY11.3 billion, partly due to the deteriorated gross profit margin, as explained earlier.

Next is the measuring instruments in yellow color. Orders received were plus JPY4.6 billion from FY21, the last year, or 9.2% growth excluding the impact of foreign exchange rate fluctuations. Sales increased by JPY3.8 billion, or 8.2% growth excluding the impact of foreign exchange rate fluctuations. Operating income increased by JPY1.2 billion.

Last is the new businesses and others in green color. Both orders received and sales decreased due to the transfer of the aviation equipment business. Operating income improved by JPY1.2 billion, mainly due to the elimination of losses in the transfer of the aviation equipment business.

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Control Segment Orders and Sales by Region

- ◆ Orders were strong throughout the year in the Middle East and Africa, Central and South America, India, and North America although there is the perception that this cycle of large orders is coming to an end. Japan and China were solid.
- ◆ Orders: +¥52.3 billion, +13.4% (excluding impact of exchange rates)
Sales: +¥27.3 billion, +7.5% (excluding impact of exchange rates)

Orders	FY21 (A)	FY22 (B)	Difference (B-A)	Sales	FY21 (A)	FY22 (B)	Difference (B-A)
Japan	120.2	134.0	+13.8	Japan	109.4	116.0	+6.6
Asia	134.0	168.0	+34.0	Asia	125.7	153.8	+28.1
(Southeast Asia, Far East)	59.7	71.0	+11.3	(Southeast Asia, Far East)	56.7	68.5	+11.8
(China)	59.1	76.1	+17.0	(China)	54.6	66.8	+12.2
(India)	15.2	20.9	+5.7	(India)	14.4	18.5	+4.1
Europe and CIS	42.1	46.4	+4.3	Europe and CIS	43.2	42.4	(0.8)
Middle East and Africa	51.7	71.4	+19.7	Middle East and Africa	43.2	59.9	+16.7
North America	31.8	47.3	+15.5	North America	30.2	40.7	+10.5
Central and South America	11.3	18.3	+7.0	Central and South America	10.7	14.8	+4.1
Outside Japan	270.9	351.4	+80.5	Outside Japan	253.0	311.6	+58.6
Consolidated	391.1	485.4	+94.4	Consolidated	362.4	427.6	+65.2
Exchange rate USD1\$ =	¥112.94	¥136.12	+23.18	Exchange rate USD1\$ =	¥112.94	¥136.12	+23.18

(Billion ¥)

Page 8 shows orders and sales by region for the control segment.

Although the figures include the positive effect of foreign exchange rates, but the situation is strong in many regions.

Excluding the impact of foreign exchange rate fluctuations, orders in North America, South America, India, and other regions grew at a high rate of more than 20%. In the Middle East, although there is the perception that this cycle of large orders is coming to an end, the region grew by slightly less than 20% for the year as a whole.

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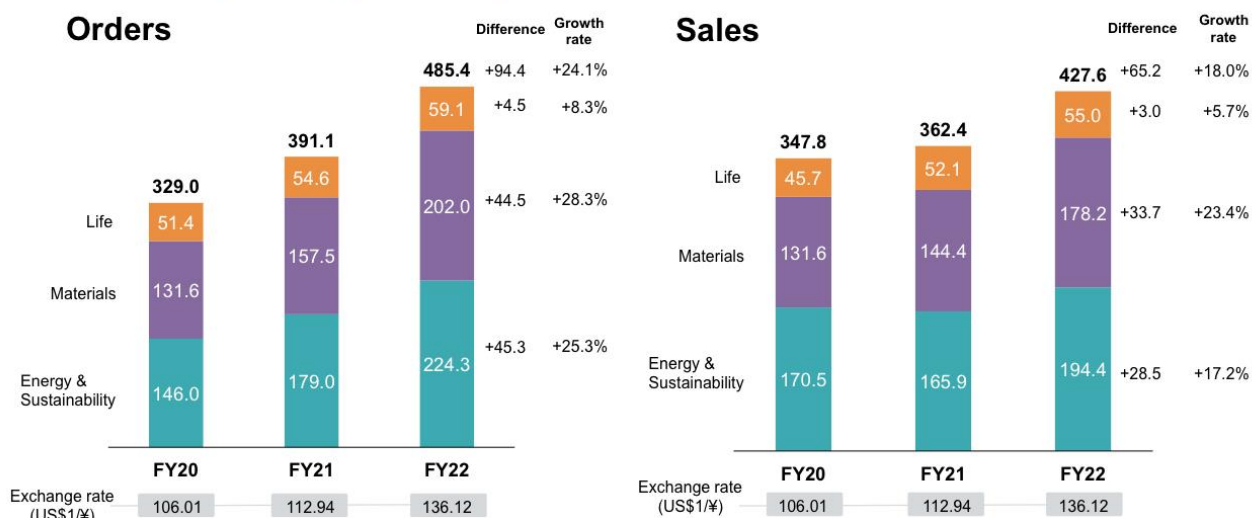
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Orders and Sales by Control Subsegment

◆ Orders were strong in the energy & sustainability and materials businesses.

(Billion ¥)



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Page 9, this is the orders and sales by the control subsegment.

From the bottom, the three industry segments are energy and sustainability, materials, and life.

The graph on the left shows orders. First, energy and sustainability increased by JPY45.3 billion from FY21, the last year, or by 12.8% excluding the impact of foreign exchange rate fluctuations. Although there was a slowdown in Q4 because the resumption and ordering of large orders that had been suspended as a result of COVID-19 came to an end, we recognize that the base market environment continues to be favorable.

In addition, the Upstream sector grew by 31%, excluding the impact of foreign exchange rate fluctuations, the Downstream sector grew by 8%, and the Renewable energy related grew by 46%.

The materials segment increased by JPY44.5 billion from FY21, the last year, or 18.9% excluding the effect of exchange rates. In addition, orders to the Chemical industry grew by 17% excluding the impact of foreign exchange rate fluctuations. Orders to the iron & steel and battery industries also remained solid.

Lastly, the life segment is up JPY4.5 billion from FY21, the last year, or 3.6% excluding the impact of foreign exchange rate fluctuations.

The graph on the right is sales, which is showing up later than orders, so I will skip over the individual explanations.

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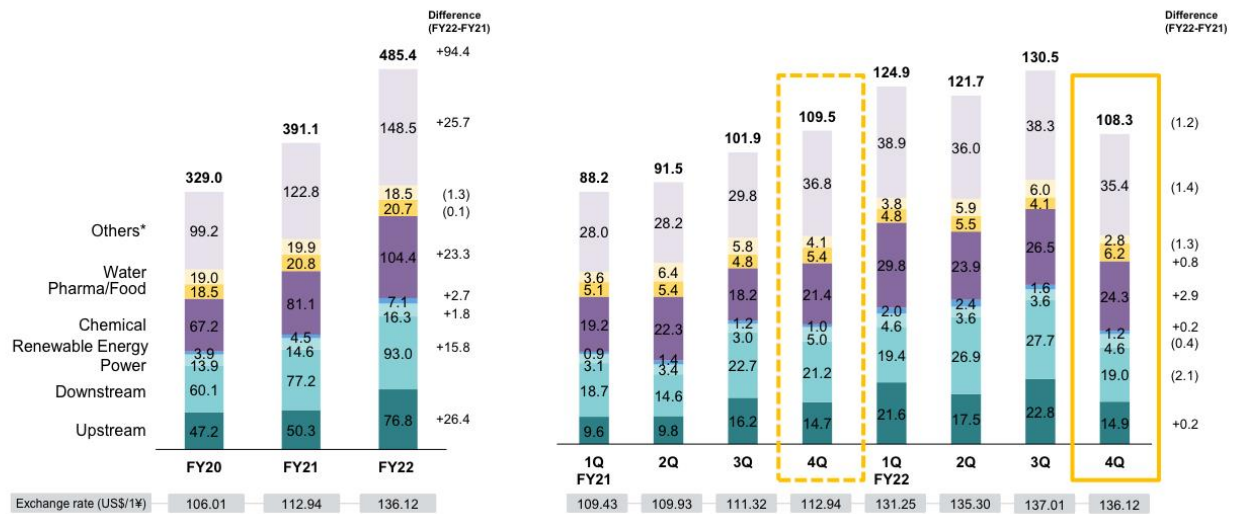
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Orders by Industry in Control Segment

◆ The upstream and downstream sectors and the chemicals industry were all strong.

(Billion ¥)



*Electrical & electronics, iron & steel, pulp & paper, etc.

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Page 10 is the orders by industry in the control segment.

I will skip the explanation, but the graph on the right shows the quarterly trend.

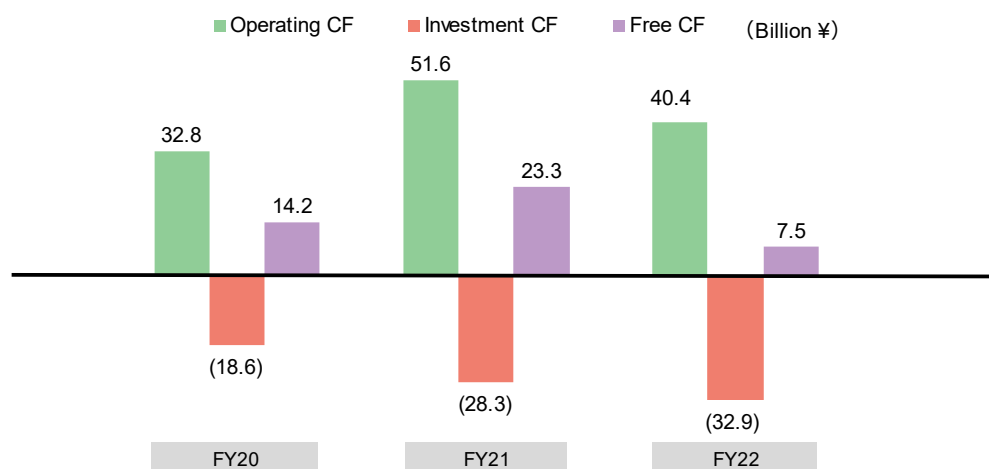
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Trend of Cash Flow



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FY23 Forecast

- ◆ Orders are expected to decline due to the expected low growth of the global economy, a perception that the surge in large orders following the ending of the COVID-19 pandemic may be coming to an end, the prospect of slowing investment in the materials industry, and other factors.
- ◆ Growth in sales and operating income is expected to be limited due to continued difficulties in procuring semiconductors and other parts for production as well as goods for projects.

	FY22	FY23 forecast	Year on year difference	Growth rate	(Billion ¥)
	(A)	(B)	(B-A)	(B/A-1)	
Orders	518.4	490.0	(28.4)	(5.5%)	
Sales	456.5	470.0	+13.5	+3.0%	
Operating income	44.4	48.0	+3.6	+8.1%	
ROS(%)	9.7%	10.2%	+0.5pt	—	
Ordinary income	48.6	49.0	+0.4	+0.8%	
Profit before income taxes	49.8	65.5	+15.7	+31.5%	
Tax, etc.	10.9	21.5	+10.6	+97.6%	
Profit attributable to owners of parent	38.9	44.0	+5.1	+13.1%	
EPS(¥)	145.81	164.84*	+19.03	—	
Exchange rate US\$1=	¥136.12	¥130.00	(6.12)	—	

■ Variable factors

- An economic slowdown and worsening conditions in the financial environment due to inflation and monetary tightening
- Changes in the market that impact the procurement of semiconductors and other parts for production as well as goods for projects
- Cost increases for parts, energy, labor, etc.
- Increased geopolitical risks and resulting supply chain impacts

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* The Company has resolved to acquire of own shares.
 "EPS (yen)" in the FY23 forecast does not consider the impact of the acquisition of own shares.
 Therefore, it may change depending on the status of future acquisition of own shares.
 For information on the acquisition of own shares, please refer page 17.

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Page 12 is the forecast for FY23.

Orders are expected to total JPY490 billion, down JPY28.4 billion from FY22. We expect low growth of the global economy, and as I mentioned earlier, there is a perception that the surge in large orders following the ending of the COVID-19 pandemic may be coming to an end. In addition, given the expected slowdown in investment in the materials industry and other factors, we have assumed -3.2%, excluding the impact of foreign exchange rate fluctuations.

Sales are expected to be JPY470 billion, up JPY13.5 billion from FY22, or 5.3% growth, excluding the impact of foreign exchange rate fluctuations.

Operating income is expected to be JPY48 billion, up JPY3.6 billion from FY22.

Profit attributable to owners of parent is expected to be JPY44 billion, up JPY5.1 billion.

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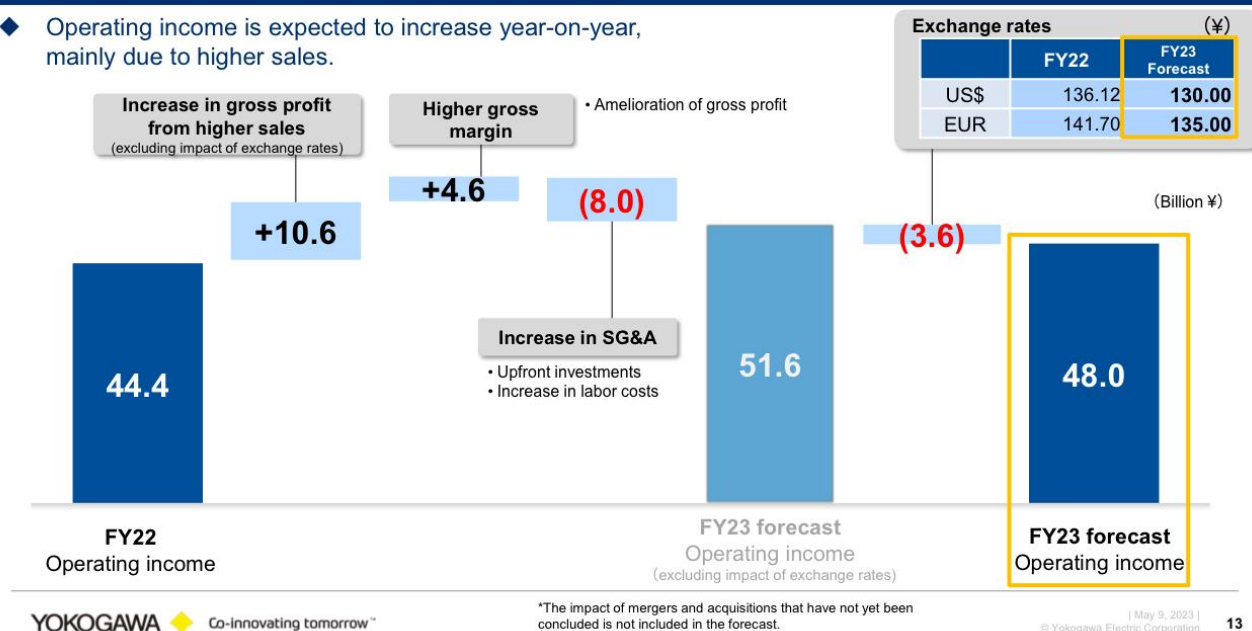
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Factors Accounting for Increase/Decrease in FY23 Operating Income

- Operating income is expected to increase year-on-year, mainly due to higher sales.



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Page 13 is an analysis of changes in operating income.

Compared to the operating income of JPY44.4 billion in FY22, gross profit will increase JPY10.6 billion due to increased sales, and gross margin will improve JPY4.6 billion. SG&A expenses are expected to increase by JPY8 billion, mainly due to an increase in amortization of goodwill and other expenses associated with M&A executed in FY22, an increase in SG&A expenses of acquired companies, upfront investment costs, and higher personnel costs.

This is followed on page 14 by segment, on page 15 by region of the control segment, and on page 16 by control subsegment, but I will skip over the individual explanations.

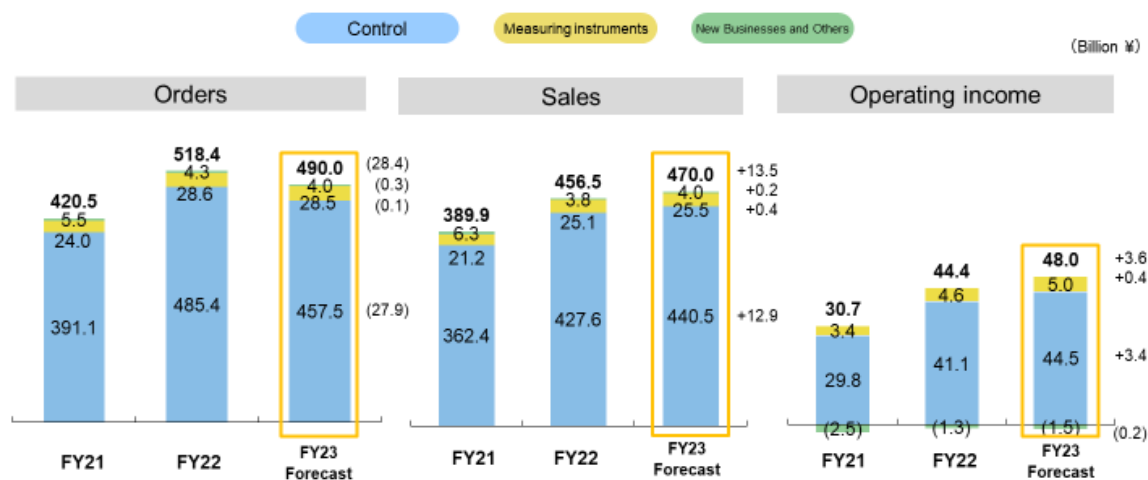
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FY23 Forecast for Orders, Sales, and Operating Income by Segment



* New Businesses and Others: The figures for FY21 show the results of Aviation and other businesses.

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FY23 Forecast for Control Orders and Sales by Region

(Billion ¥)

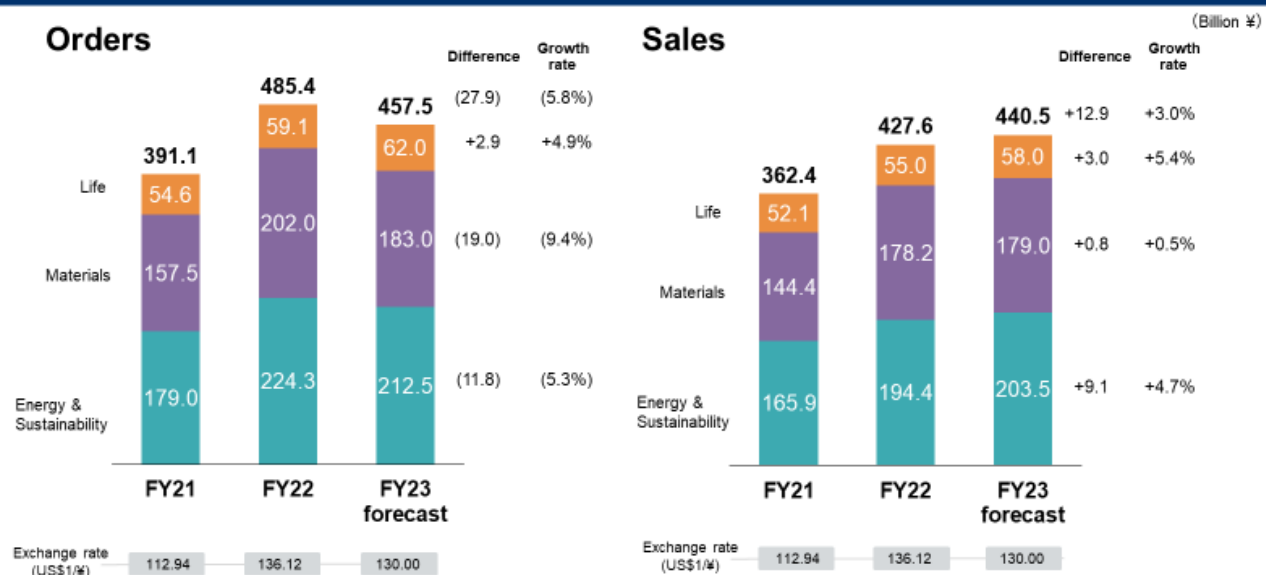
Orders	FY22 (A)	FY23 (B)	Difference (B-A)	Sales	FY22 (A)	FY23 (B)	Difference (B-A)
Japan	134.0	125.0	(9.0)	Japan	116.0	122.0	+6.0
Asia	168.0	160.5	(7.5)	Asia	153.8	153.6	(0.2)
(Southeast Asia, Far East)	71.0	69.5	(1.5)	(Southeast Asia, Far East)	68.5	68.5	+0.0
(China)	76.1	72.0	(4.1)	(China)	66.8	67.0	+0.2
(India)	20.9	19.0	(1.9)	(India)	18.5	18.0	(0.5)
Europe and CIS	46.4	42.0	(4.4)	Europe and CIS	42.4	43.0	+0.6
Middle East and Africa	71.4	67.0	(4.4)	Middle East and Africa	59.9	64.0	+4.1
North America	47.3	47.0	(0.3)	North America	40.7	43.0	+2.3
Central and South America	18.3	16.0	(2.3)	Central and South America	14.8	15.0	+0.2
Outside Japan	351.4	332.5	(18.9)	Outside Japan	311.6	318.5	+6.9
Consolidated	485.4	457.5	(27.9)	Consolidated	427.6	440.5	+12.9
Exchange rate US\$1 =	¥136.12	¥130.00	(6.12)	Exchange rate US\$1 =	¥136.12	¥130.00	(6.12)

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FY23 Forecast for Orders and Sales by Control Subsegment



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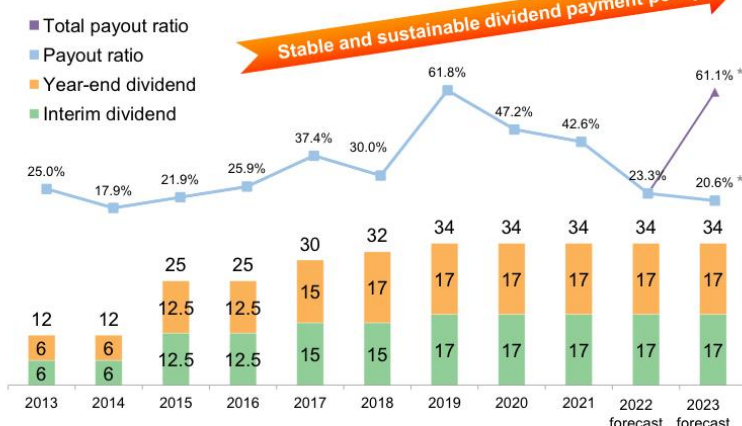
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Dividend

- ◆ The FY23 annual dividend will be the same as the previous year.
- ◆ Resolved to acquire of own shares (up to ¥20.0 billion)

<Dividend>



<Acquisition of own shares>

Implement shareholder returns
by acquisition of own shares



Up to ¥20.0 billion
through open-market purchases
(acquisition period: from May 22, 2023,
through December 29, 2023)

* "Total payout ratio and Payout ratio" in the graph of Dividend does not consider the impact of the acquisition of own shares. Therefore, it may change depending on the status of future acquisition of own shares.

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Page 17 is the shareholder returns.

For FY22, we plan to pay a year-end dividend of JPY17 per share, for an annual dividend of JPY34 per share, as previously disclosed. For FY23, we forecast the same amount as in FY22, JPY34 per year.

In addition, as indicated on the right, the Board of Directors today resolved to shareholder returns through acquire of own shares amounting to JPY20 billion.

As disclosed in February, a large sale of investment securities is planned. We are also making steady progress toward the operating cash flow targets outlined in our medium-term plan, Accelerate Growth 2023. Even with this acquisition of own shares, we will be able to maintain a good financial base to make the strategic investments of JPY70 billion that we have outlined in our mid-term business plan. The total payout ratio, including the acquisition of own shares, is planned to be 61.1%.

That is all from me. Thank you very much.

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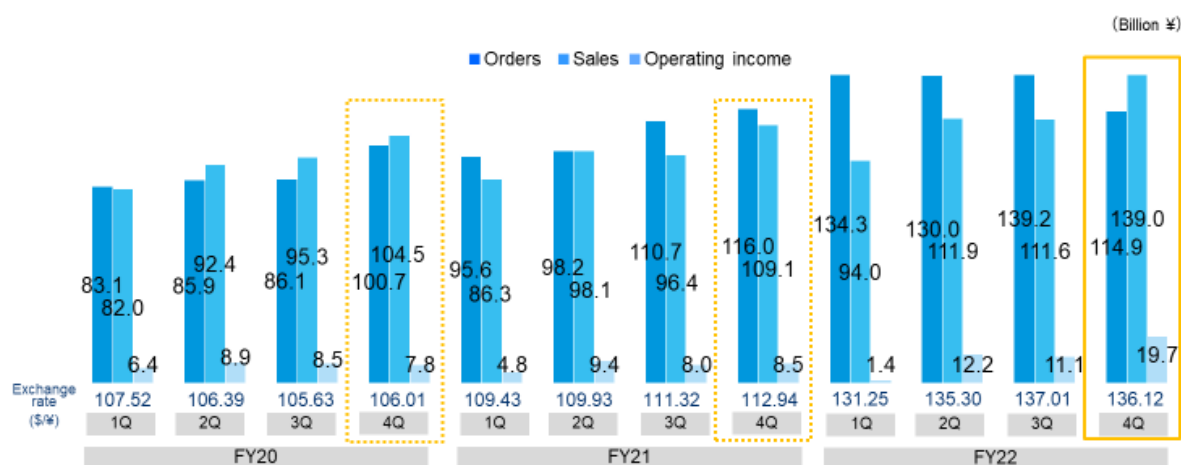
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Appendix: Quarterly Financial Results

- ◆ Sales and operating income tend to be higher in 2Q and 4Q, especially in the Japanese control segment.



Appendix: Non-operating /Extraordinary Income and Expenses

(Billion ¥)

	FY21	FY22
Operating income	30.7	44.4
Non-operating income	7.5	8.0
Non-operating expenses	2.5	3.8
Ordinary income	35.7	48.6
Extraordinary income	0.1	2.4
Extraordinary expenses	5.7	1.2
Income before tax	30.1	49.8
Tax, etc.	8.8	10.9
Profit attributable to owners of parent	21.3	38.9
(Effective tax rate)	21.4%	15.8%

【Extraordinary income】

FY22: Gain on sale of non-current assets ¥0.5 billion
Gain on sale of investment securities ¥0.8 billion
Marginal gains on phased acquisitions ¥1.1 billion

【Extraordinary expenses】

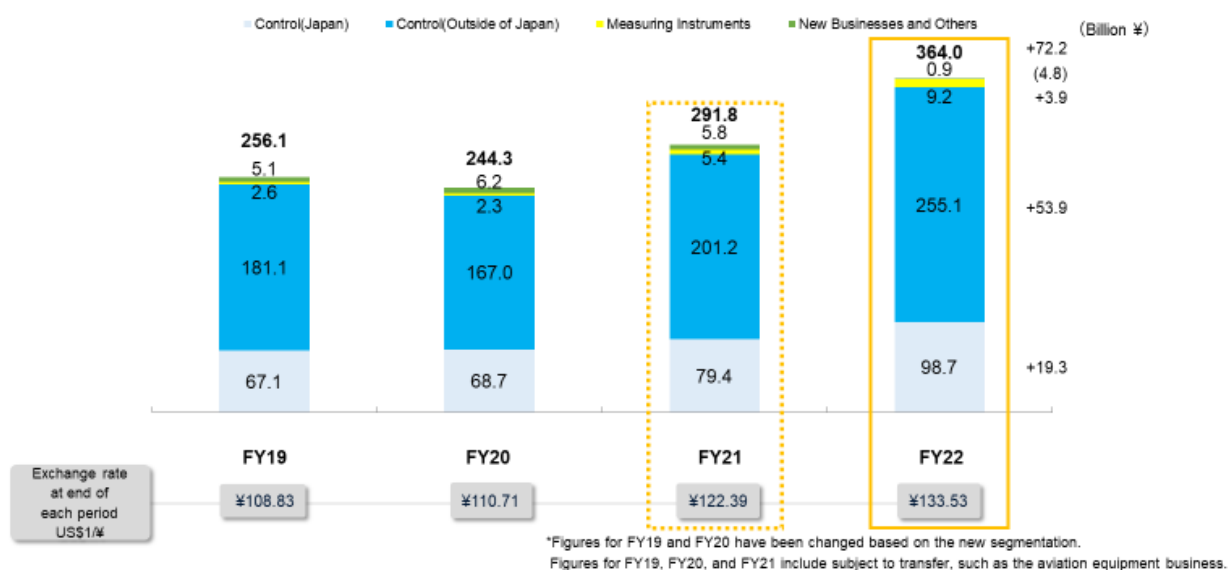
FY21: Impairment loss ¥1.4 billion
Loss on valuation of investment securities ¥1.8 billion
Business restructuring expenses ¥2.1 billion

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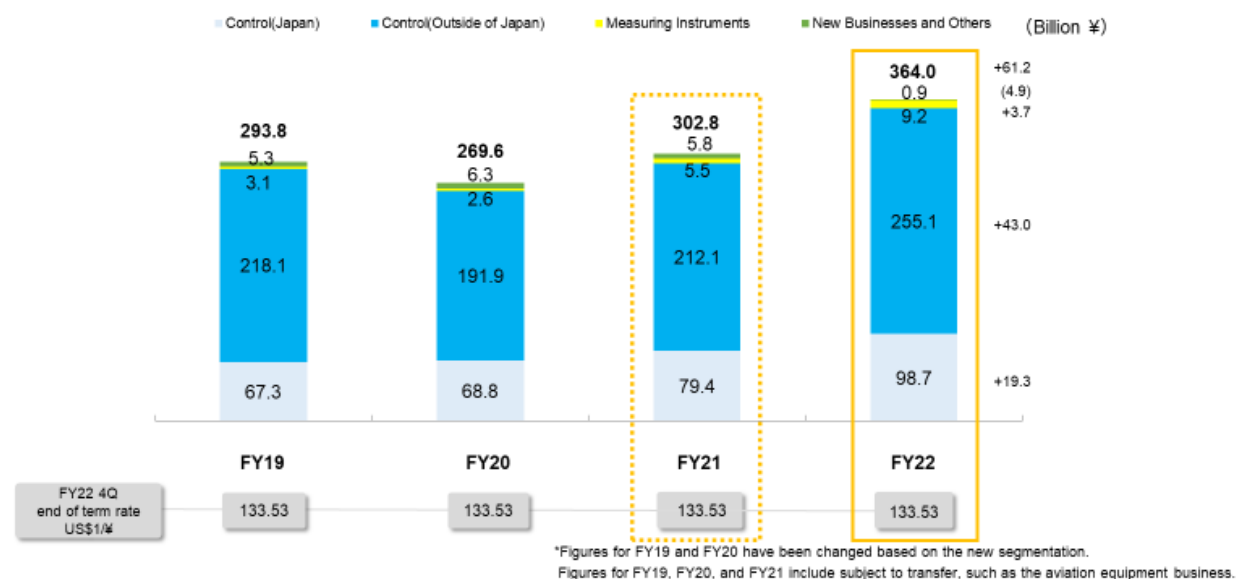
Appendix: Order Backlog Trend by Segment



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Appendix: Order Backlog Trend by Segment (using FY22 4Q end of term rate)



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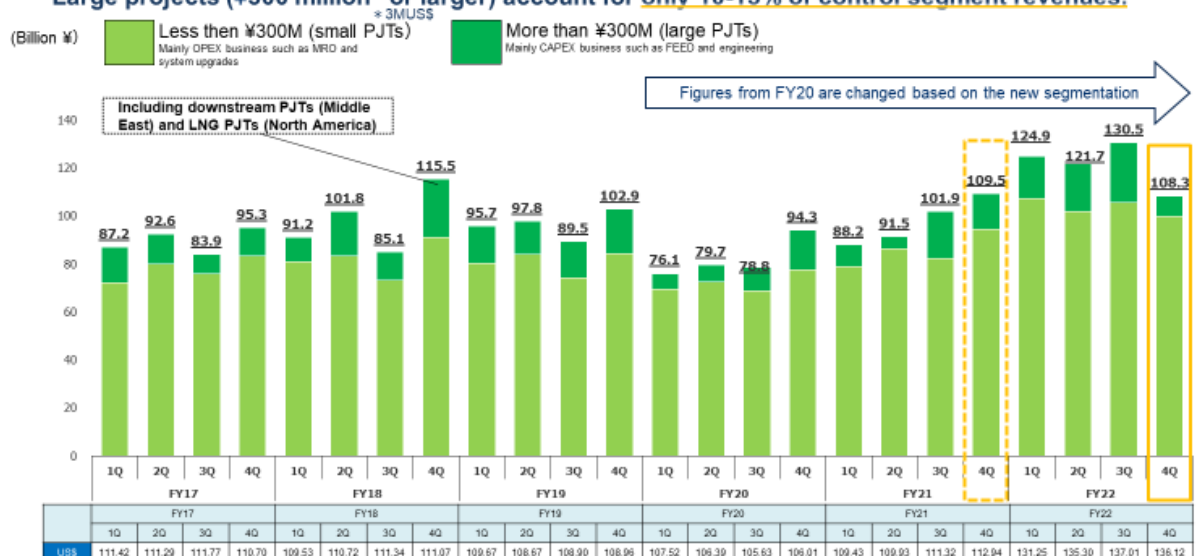
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Appendix: Control Segment Order Trend by Project Size

Large projects (¥300 million* or larger) account for only 10-15% of control segment revenues.

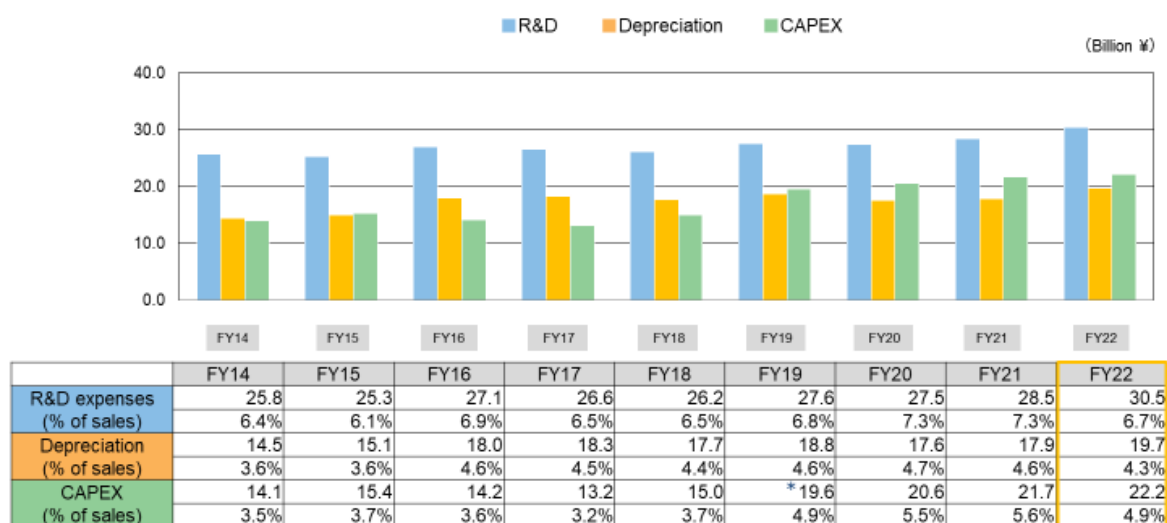


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Appendix: Trend of R&D Expenses, Depreciation, and CAPEX



*The Group's consolidated subsidiaries outside Japan have adopted IFRS 16 (Leases) from FY19.

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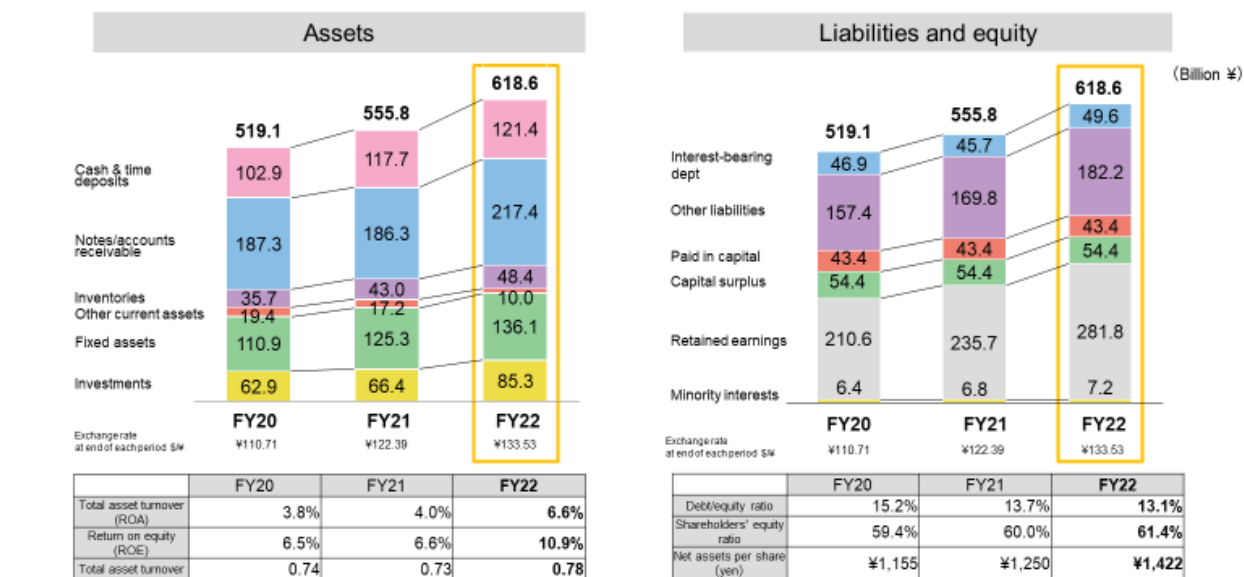
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Appendix: Trend of Balance Sheet



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Appendix: Trend of Stock Price



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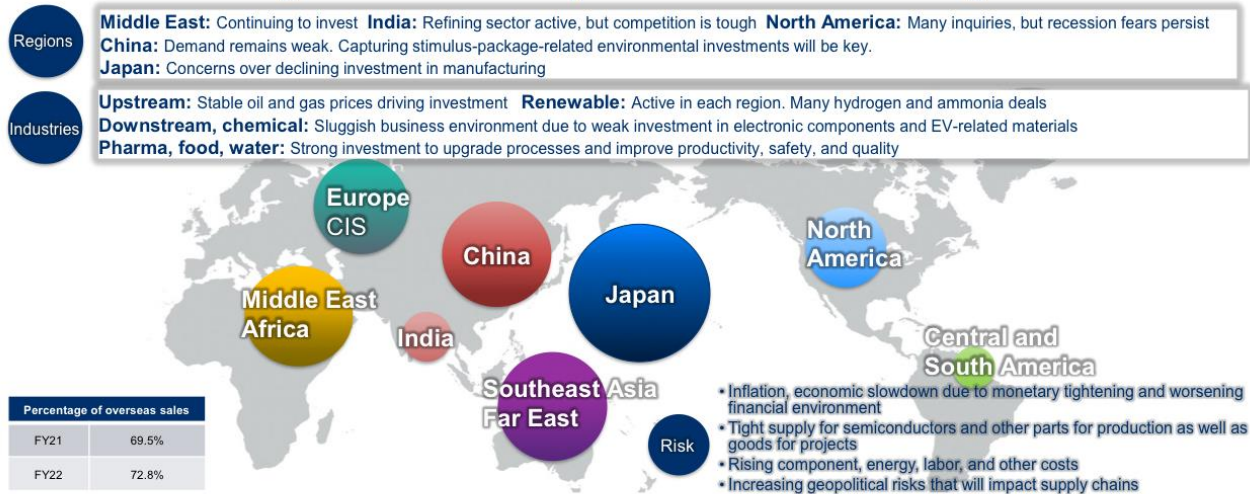
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Understanding Our Business Environment

Although prospects for investment by our customers remain strong in the medium to long term, increasing economic uncertainty raises concerns about slowing demand.



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Nara: This is Nara. I would like to explain our perception of the current situation and the outlook for the future. Overall, we are aware that customers' willingness to invest for sustainable growth in energy, environment, and DX-related businesses with a long-term perspective remains strong and healthy.

However, with the prolonged conflict in Ukraine, soaring raw-material prices, ongoing global inflation, and rising geopolitical tensions, the international situation and the global economy remain uncertain, the global economy as a whole is expected to grow at a low rate, and our customer's business environment is deteriorating, leading to concerns about declining demand in the near term.

In addition, the tight supply and demand for production parts, including project procurement goods, as well as the rising costs of materials, energy, and employment, continue to pose challenges. We will work tirelessly to address various business environment risks and improve management resilience.

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Control Subsegment Growth

Steady growth by expanding opportunities through industry-wide collaboration Aiming to achieve FY23 forecast and further growth

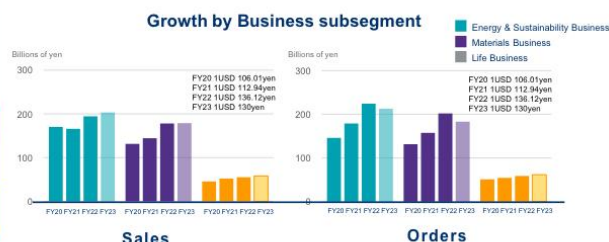
Focus Activities

Energy & Sustainability : Comprehending customers' energy transition and carbon neutrality needs and expanding our business through co-creation with them
Materials : The ability to co-innovate solutions is constantly improving, leading to business growth.
Life : Steady growth by building business infrastructure and enhancing collaboration. Increased inquiries from overseas

	Sales growth *2			(Reference) Order growth *2		
	CAGR (FY20-FY22)		AG2023 Target	CAGR (FY20-FY23)		AG2023 Target
	Actual	Forecast *1		Actual	Forecast *1	
Energy & Sustainability Business	6.8% (▲1.6%)	6.1% (0.9%)	4% or more	23.9% (14.3%)	13.3% (7.8%)	9% or more
Materials business	16.4% (9.6%)	10.8% (7.4%)	3% or more	23.9% (16.9%)	11.6% (8.1%)	6% or more
Life Business	9.7% (6.0%)	8.3% (6.5%)	16% or more	7.2% (4.0%)	6.4% (4.8%)	16% or more

*1: FY23 Earnings Forecast Achieved

*2: Figures in parentheses are organic growth excluding foreign exchange



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This shows order and sales growth for the three subsegments of the control segment: The Energy & Sustainability business, Materials business, and Life business.

Each business segment continues to grow by expanding capabilities, business scope, and customer reach through collaboration within its industry organization. Each business segment is working to achieve the goals of the medium-term management plan while accelerating their respective focus activities.

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Accelerate Growth 2023: 4 Basic Strategies



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Next, I would like to focus on some key points regarding the review of our medium-term management plan, Accelerate Growth 2023.

These are the four basic strategies for achieving the targets set in the medium-term management plan, Accelerate Growth 2023, are follows.

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Accelerate Growth 2023 Review of Four Basic Strategies

1

Implement IA2IA & Smart manufacturing and transform value provision

Expansion of value provided

- Move IA2IA concept to the implementation phase
- Expand the scope of smart manufacturing solutions provided for customers

- ✓ Expansion of value provision is taking form, actual results are being achieved, and external expectations are rising.
- ✓ Accelerating the scaling up of business is a challenge.

Outcomes

◆ Steady progress in IA2IA/smart manufacturing business development initiatives

- Number of new solutions released by IA2IA/smart manufacturing business

	FY21	FY22	FY23
Actual	50	50	
Target			150 cases
- Number of orders received for IA2IA/smart manufacturing business

FY21 results:	195
FY22 results:	160

 Number of orders **remained steady**
 Size of individual orders showed an upward trend.

◆ Increasing number of projects involving integrated operations and inter-system integration, with broad proposition of value

- Increase in number of orders for MAC/MAIC*1 projects requiring high-level project execution and integration capabilities
- Ongoing Inter-Industry Collaboration Study Project for the Realization of a Carbon-Neutral Industrial Complex
- FKDPP*2, an autonomous control AI algorithm, took the highest honor in the Japan Industrial Technology Awards

*1 Main automation contractor / Main automation and information contractor
 *2 Factorial Kernel Dynamic Policy Programming

Challenges and Activities

Establish recurring/subsorption and other new business models and accelerate scaling up of business

- Strengthen the quality and quantity of human resources to promote DX and IT/OT convergence to customers.
 Example) Employees acquired S.I.R.I.*3 certification for promotion of business*4
- Develop solution providers and nurture solution provider mindset
 Example) Establishment of global training center in Singapore*4
- Strengthen communication and KPI monitoring with regional offices
- Accelerate Yokogawa Digital Corporation's business by responding to the many inquiries that it receives

*3 The Smart Industry Readiness Index was created by the Singapore Economic Development Board in partnership with a network of leading technology companies, consultancy firms, industries, and academics. It assesses the digital readiness level based on the three core elements of Industry 4.0: Process, Technology, and Organization.
 *4 For more information, see slide#12 Optimize internal operations and transform mindsets.

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For the first of our four basic strategies, “Implement IA2IA and Smart Manufacturing, and transform value provision”

The outcomes, we have steadily advanced our efforts to develop IA2IA/Smart Manufacturing as a business, and concrete examples and results have emerged. In addition, we have created a positive cycle in which customers consult with our company for solutions to their issues, and we realize that customers look forward to our company.

On the other hand, establishing new business models such as recycling/subsorption and business expansion is challenging. We have been implementing various practices to establish new and different business models. For these practices to take root and scale up as a business, we will accelerate human resource development and initiatives at each regional office and Yokogawa Digital.

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AI Solutions for Industrial Autonomy (IA2IA)

Leading the way forward with AI solutions for industrial autonomy that contribute to customers' ESG and sustainability efforts

In a field test, an autonomous control AI stably operated in a distillation column at an ENEOS Materials' chemical plant for one year, a great step toward commercialization.

Stable operation

Reduced environmental impact

Quality & cost reduction

Lightened workload & improved safety



- Proprietary autonomous control AI FKDPP^{*1} technology has succeeded in controlling a process that previously could not be automated and had necessitated manual control.
- In comparison to manual control, steam consumption and CO₂ emissions^{*2} were reduced **approx. 40%**
- Achieved one year of continuous stable operation and **officially adopted** for use at customer site
- Launch of consulting services by Yokogawa Digital that utilize this knowledge and experience
- Received **the Prime Minister's Award** at this year's Japan Industrial Technology Awards



ENEOS Materials chemical plant



Awards ceremony^{*3} (Credit: Nikkan Kogyo Shimbun)

^{*1} Factorial Kernel Dynamic Policy Programming

^{*2} In comparison to the amount of steam previously used to maintain the liquid level and the corresponding amount of CO₂ emissions

^{*3} From left: Vice Minister Yanagi of the Ministry of Education, Culture, Sports, Science and Technology; Yokogawa Electric Corporation President Nara; Yokogawa Digital Corporation President Kanokogi; Vice President Ota of Nara Institute of Science and Technology

A wide range of Yokogawa AI Solutions

- ▶ AI plant operation support solution to learn and replicate operations performed by experienced operators [Yokogawa Solution Services/NTT Communications]
- ▶ An expanding portfolio of products, software, and platforms for a wide variety of industries

For details, please visit the Yokogawa website: [Industrial AI, Building Next-Gen Autonomous Operations](#) | Yokogawa Electric Corporation

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In our efforts toward IA2IA, we have seen significant results in AI technology solutions. We conducted a field test with ENEOS Materials Inc. Our reinforcement learning AI stably controlled the customer's chemical plant and demonstrated high performance for about a year.

For the first time in the world, our AI successfully performed autonomous control where existing control methods could not be applied and where operators frequently performed manual control on a 24-hours basis. The system was officially adopted for use by the customer in March of this year. In this case, the quality and liquid level of the distillate in the distillation column of a chemical plant needed to be maintained at an appropriate level while maximizing the use of waste heat as a heat source under the influence of changes in outside temperature. Under these complex conditions, we were able to stabilize quality, reduce costs, and lower environmental impact, and we succeeded in achieving stable operation for a year without a single problem.

Developed jointly by our company and the Nara Institute of Science and Technology, this technology received the Prime Minister's Award, the highest honor, at the 52nd Annual Japan Industrial Technology Awards sponsored by the Nikkan Kogyo Shimbun Co. We are proud of this very prestigious award, which recognizes research, development, and practical technologies that have made outstanding contributions to industrial and social development, such as the Tokyo Sky Tree construction project, the Mirai fuel cell vehicle, and the Fugaku supercomputer.

Our efforts toward industrial Autonomy and IA2IA have produced results that our customers can benefit from. We will continue to lead the way in industrial autonomy while pursuing business growth that contributes to our customers' ESG and sustainability management efforts.

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Accelerate Growth 2023 Review of Four Basic Strategies

2

Strengthen industry responsiveness and expand cross-industry business

Expansion of value provided

- Provide new value to customers who are making the shift to being integrated energy companies
- Expand other industry and cross-industry business

- ✓ Materials business - Accelerate overseas growth through expansion of customer networks.
- ✓ Slight delay in growth of the Life Business. Establishing the strong foundation needed for growth of this business.

Outcomes

◆ Orders received in focus industries



◆ M&A and alliances to grow focus industries

- Acquired Dublix, a provider of optimization technologies for waste-to-energy and biomass power plants
- Otsuka Chemical and Yokogawa Electric launched SynCrest Inc., a JV targeting the Contract Research, Development and Manufacturing Organization (CRDMO) business

◆ Increased orders for hydrogen, ammonia, and renewable fuel projects that will contribute towards carbon neutrality

◆ Increased orders for advanced water solutions (seawater desalination and reclaimed water)

Challenges and Activities

Growth of the Life business, particularly in overseas markets

- Taking advantage of our Japan market expertise, building a strong foundation for the existing pharma, food, and water businesses and accelerating growth overseas
- Pursuit of M&A deals and alliances, particularly in the life science and pharma fields, to strengthen our business platforms and portfolio

Examples) Upskilling overseas personnel at Global Training Center

- Strengthen support from Japan for overseas operations (caravan activities, etc.)
- More customer demonstrations (building of special sites, **organizational strengthening**)
- Use of digital marketing (webinars, etc.)

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Regarding the second of the four basic strategy, “strengthen industry responsiveness and expand cross-industry business”, As an outcome, each of the three subsegments of the control business -Energy & Sustainability, Materials, and Life is seeing growth while strengthening our capabilities and expanding our business domain.

On the other hand, the challenge is Life’s business growth, especially overseas. However, there is a slight delay in business growth relative to the medium-term management plan partly due to the difficulty of M&A, alliances, and securing human resources. We have made progress in strengthening our business base and are growing steadily.

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Accelerate Growth 2023 Review of Four Basic Strategies

3

Ensure profitability and sound growth

Profitability and growth in value provision

- Aggregate knowledge and improve efficiency with large projects
- Focus resources on product groups that deliver high value
- Generate profits from software and engineering

Outcomes

- Improvement of efficiency in product development by shifting resources and resolving difficulties in procuring production parts



Reduction of maintenance man-hours in product development

- Implementation of initiatives to improve efficiency in project delivery and services

- Improved the efficiency and optimized delivery process through use of remote engineering in cloud and virtual environments
- Maximized utilization of GDC^{*1} by developing resource management infrastructure, etc.
- Completion of system integration for all global service sites^{*2}

^{*1} Global Delivery Center

^{*2} Through introduction of Yokogawa's ServAir after-sales service core business system

- Cost reduction in project procurement: approx. 2 billion yen (FY21and FY22)
Improved efficiency and reduced costs in global procurement process

- Steady implementation of countermeasures to address rising costs
- Progress is being made in building a business process and system for operational excellence, which is the key to improving profitability in the medium to long term. We have drawn up an overall picture of what we wish to achieve and will accelerate our efforts.

Challenges and Activities

- Difficulty in procuring manufacturing parts and goods for projects, and rising prices
 - Continue to negotiate, expand suppliers, use alternative parts, design changes, etc.
 - Ongoing selling price optimization initiatives

- Accelerate infrastructure development to globally improve operational efficiency

- Reform organizational structure
- Unify HR management systems and improve HR system infrastructure
- Standardize business processes and improve process connectivity, and make major changes to information infrastructure
- Develop infrastructure to improve customer experience

- Reduce CCC

- Through persistent effort, change local business customs and long-standing habits
- Continue PDCA for improvement



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Regarding the third basic strategy, ensuring profitability and sound growth, the business environment continues to be difficult due to factors such as the current difficulty in procuring parts for production and goods for projects and rising prices. Although the road to improving profitability is a hardship, and we are taking all countermeasures to enhance profitability.

In addition, as shown here, we are building the business infrastructures of the Group as a whole for operational excellence, which is the key to improving profitability in the medium to long term. We have an overall picture of what we aim to achieve and will accelerate our efforts.

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Accelerate Growth 2023 Review of Four Basic Strategies

4

Optimize internal operations and transform mindsets

Strengthening the corporate base

- Strengthen strategic planning functions
- Cultivate a corporate and organizational culture that encourages entrepreneurial spirit
- Strengthen internal DX and transform business models
- Transform skills and improve engagement

Outcomes

◆ Internal DX efforts

- Steady progress in global efforts to digitalize business processes
- Achieved FY23 digital process ratio^{*1} target ahead of schedule



◆ Progress in efforts to transform the skills and mindset of human resources

- Increased number of DX human resources in IT sector
- Progress in training S.I.R.I.^{*2} certified personnel to lead IA2IA/smart manufacturing
- Established a global training center
- Development of solution proposers is making good progress.



- ✓ The importance of skills transformation and mindset change is well recognized. Every initiative is moving forward.
- ✓ Creating an organization that enables collaboration and optimization across various borders, and a system that enables each employee to grow by fully understanding what is required of them in the future (Global HR Transformation Project)
- ✓ Accelerating efforts to move into the implementation phase an HR strategy that is aligned with management strategy

Challenges and Activities

◆ Accelerate efforts to move into the implementation an HR strategy that is aligned with management strategy

- Integrate global HR systems, processes, and databases to create a "best person for the right job" platform across the organization.
 - Define the quality and quantity of HR required to meet future needs and align this with business strategy.
 - In alignment with business strategy, train personnel to work in DX, solution proposal, and other areas, and strengthen recruiting.
- Example) Enhance educational opportunities for all Group employees through Yokogawa-University. Strengthen development of business leaders (e.g., global training centers).

^{*1} Digital process ratio: Ratio of the number of processes utilizing global digitalized platforms to the total number of processes defined for each business process
^{*2} The Smart Industry Readiness Index was created by the Singapore Economic Development Board in partnership with a network of leading technology companies, consultancy firms, industries, and academics. It assesses the digital readiness level based on the three core elements of Industry 4.0: Process, Technology, and Organization.

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Regarding the fourth basic strategy, optimize internal operations and transform mindsets, the importance of skill transformation and mindset change is well recognized throughout the Group. The results shown here are just one example, but both the Group as a whole and individual organizations are actively working on their own initiatives.

In addition, we are currently working on the Global HR Transformation Project to create an organization that enables collaboration and optimization across various borders, and a system that enables each employee to grow by fully understanding what is required of them in the future. In parallel with developing a global infrastructure, our future theme is developing and implementing a HR strategy aligned with the business strategy to be implemented on this infrastructure.

Still, through hard work of implementation and sincere discussion, we are gradually beginning to see the whole picture and would like to accelerate our efforts with even greater focus.

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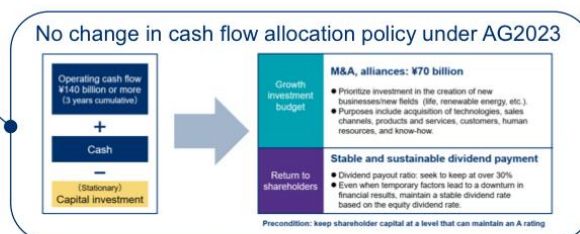
AG2023 Growth Investment

Steadily execute growth investments to enhance and maximize corporate value over the mid to long term.

- Growth investment budget: 70 billion yen
- AG2023 progress: 24.3 billion yen
- FY22 results: 12.1 billion yen

Key results of FY22

- Acquisition of Dublix Technology ApS (May 2022)
The addition of Dublix's combustion control and boiler performance enhancement solutions to Yokogawa's lineup enables the provision of solutions that make both WTE and biomass power plants more efficient and profitable.
- Acquisition of Fluence Analytics, Inc. (Jan. 2023)
Fluence Analytics is a global leader in polymerization^{*} reaction monitoring and control. Combining Fluence Analytics' technology with Yokogawa's industry know-how will enable us to work with our customers to digitalize and autonomize processes in the polymer and biopharma industries.
- SynCrest Inc. established (Mar. 2023)
A joint venture that will engage in research, development, and manufacturing in the promising field of middle-molecular pharmaceuticals as a Contract Research, Development and Manufacturing Organization (CRDMO).



* The combination of small molecules, called monomers, to form larger molecules (polymers)

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Regarding the AG2023 growth investment status, our policy remains unchanged. Yokogawa aims to maximize shareholder value from a medium- to long-term perspective by increasing corporate value over the medium to long-term while achieving a TSR that exceeds the cost of equity.

To this end, Yokogawa prioritizes allocating its own funds and generated cash flow to growth investments aimed at maximizing corporate value and actively works to improve shareholder returns while securing a certain level of the financial foundation. The acquisition of treasury stock disclosed today is part of this effort.

The growth investment limit in this mid-term management plan is set at 70 billion yen, and the cumulative growth investment over the first two years of AG2023 was 24.3 billion yen. The FY22 results amounted to 12.1 billion yen, and as shown here, are representative examples. We are promoting investments that contribute to business growth, mainly in the renewable energy and life business fields.

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AG2023 Management Indicators

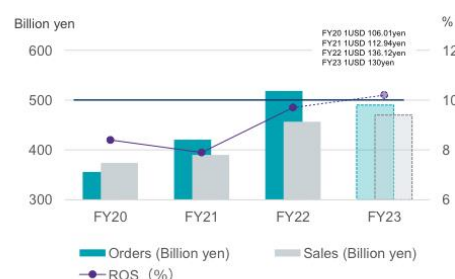
Although we faced a challenging business environment that has included repeated waves of COVID-19 outbreaks, the conflict in Ukraine, tight supply of semiconductors and other parts for production as well as goods for projects, energy cost increases, and inflation,

We achieved growing both sales and earnings in FY22.

To achieve our goals,

We will continue to do our best in the final year of the AG2023 plan

	AG2023 Target	FY22 Results	FY23 Forecast
Order growth	8 ~ 10% per year *FY20 to FY23	20.7% per year *FY20 to FY22	11.3% per year *FY20 to FY23
Sales growth	4 ~ 6% per year *FY20 to FY23	10.5% per year *FY20 to FY22	7.9% per year *FY20 to FY23
ROS	10% (FY23)	9.7%	10.2%
EPS growth	16 ~ 18% per year *FY20 to FY23	42.3% per year *FY20 to FY22	31.8% per year ** *FY20 to FY23
ROE	10% (FY23)	10.9%	11.1% **
Operating cash flow	¥140B or more (3 years cumulative)	¥92B (2 years cumulative)	¥140B (3 years cumulative)
	AG2023 exchange rate (1USD): 105 yen	FY22 average exchange rate (1USD): 136.12yen	FY23 forecast exchange rate (1USD): 130yen



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** The Company has resolved to acquire of own shares.
 EPS growth and ROE in the FY23 forecast does not consider the impact of the acquisition of own shares.
 Therefore, it may change depending on the status of future acquisition of own shares.
 For information on the acquisition of own shares, please refer to page 17 of the financial results briefing material
 Financial Results for the Fiscal Year 2022.

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Management indicators incorporating FY22 results and FY23 forecasts are shown here.

In FY22, we have been faced with a challenging business environment, including repeated waves of COVID-19 outbreaks, such as the Shanghai lockdown, the prolonged conflict in Russia and Ukraine, tight supply of semiconductors and other parts for production and goods for projects as well as energy cost increases and inflation. Still, we were able to increase sales and income while overcoming these difficulties and seizing opportunities.

With this, we are on track to achieve the AG2023 management targets. FY23 is the final year of our medium-term management plan. To achieve our goals, we will continue to do our best in the final year of the AG2023 plan.

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Managing from an ESG perspective



It is ESG management that underpins the foundation of our business.

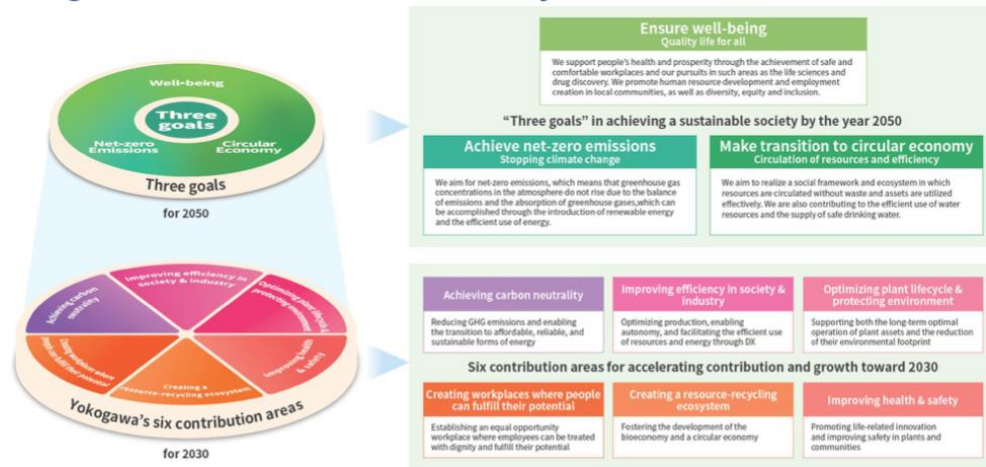
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Sustainability Strategy

Through our business, we solve the issues of our customers' businesses and make a significant contribution to society and the environment.



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Through our business, we aim to we solve the issues of our customers' businesses and make a significant contribution to society and the environment.

As shown here, Yokogawa has established three goals of sustainability to achieve the social vision we aim for by 2050 through our business activities. We have established six areas of contribution to achieve the three goals.

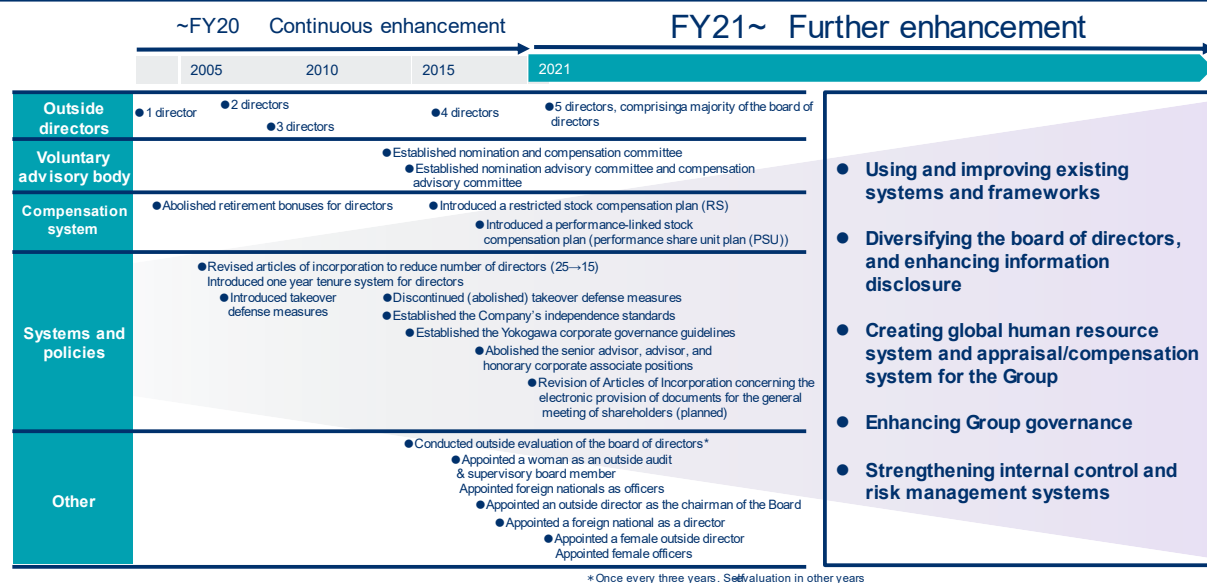
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Further enhancement of corporate governance



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Toward the Achievement of the AG2023 Targets

In a rapidly changing business environment, we are **implementing the AG2023 strategies with a sense of urgency and accelerating efforts to achieve our targets.**

- ✓ Leveraging Yokogawa's strengths to drive **further growth and development**
- ✓ Achieving **high profitability** by expanding the value that we provide and improving productivity
- ✓ With a long-term perspective, **expanding our business in non-energy industries** and contributing to the realization of a sustainable society

Accelerate Growth 2023

Finally, I would like to explain how we will achieve AG2023.

The business environment continues to change dramatically, but there is no wavering in our direction. Yokogawa remains steadfast in its direction. We will continue to make every effort to achieve our AG2023 goals.

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Yokogawa's Purpose

**Utilizing our ability to measure and connect,
we fulfill our responsibilities for the future of
our planet.**

Measuring represents Yokogawa's origin as a company. We measure things, grasp and analyze their state, and add value through the information that is derived. *Connecting* refers to how Yokogawa not only combines valuable information, but also builds trusted relationships with customers in various industries and brings together businesses and industries, giving resonance to the value that we create.

Our ability to measure and connect is a core competence that Yokogawa must never lose. We wish to use this strength to find solutions to various social issues and create a future where humanity and planet Earth can co-exist in symbiotic harmony. This aspiration is expressed in our commitment to *fulfill our responsibilities for the future of our planet*.

Last, but not least, Under Yokogawa's purpose, which is "utilizing our ability to measure and connect, we fulfill our responsibilities for the future of our planet." we will work as one.

This is my explanation. Thank you very much.

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Question & Answer

[Q]: Regarding the analysis of operating income on page 6 of the document, I would like to know the reasons why the operating income results exceeded the Company's forecast. The increase in revenue was expected to be positive JPY8.7 billion from the previous year, but actually exceeded the forecast by JPY5.5 billion to JPY14.2 billion.

Also, the gross margin worsened by only JPY5.3 billion when it was originally estimated to worsen by JPY6.2 billion. If you exclude factors shown here (product gross profits, gross profit of project, and surging logistics costs), there should be about JPY4.3 billion positive. I would like to confirm whether JPY4.3 billion is due to the selling price increase, and if so, why can you exceed the original forecast?

After all, it seems that there was no need for you to revise downward three months ago. Please explain what the difference was in the end compared to the forecast that was revised three months ago.

[A]: Regarding variances between FY22 result and FY22 forecast, there are two factors.

First, sales slowed down considerably from Q2 to Q3 compared to our estimates. In particular, the timing of the delivery of procured / resale goods for projects was often off, and, therefore, we decided downward revision at 3QE. However, in terms of project delivery in the Q4, with internal efforts in procurement and operations, especially project sales increased and contributed to the improvement in gross profit.

Second, sales grew considerably in Q4 due to the price increase, leading to an improvement or increase in gross profit.

[Q]: In the FY23 forecast on page 13 of the document, the gross margin improvement is expected to be JPY4.6 billion from the previous year. Is this mainly due to the contribution of the selling price increase?

[A]: Yes, the effect of the selling price increase has just started to emerge from FY22 Q4. For FY23, we are considering such effects, especially those related to products, and have included them in the forecast.

[Q]: Please tell us about the acquisition of own shares. Your company had not previously conducted a share buyback. Did you decide to do so this time because you happened to sell a large amount of investment securities, thereby generating cash? Or can we expect the continuous acquisition of own shares to improve sustainable capital efficiency? I would like to know if there are any changes to the shareholder returns policy.

[A]: Our shareholder returns policy has not changed. As we have set a growth investment budget of 70 billion yen, we intend to actively shareholder returns while continuing to invest to increase and maximize corporate value over the medium to long term.

Although we will sell the investment securities, we still have a stable cash environment, so we acquired the own shares this time as a way of returning profits to our shareholders.

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[Q]: About your sales forecast for FY23, can you tell us the growth rate of sales excluding foreign exchange? You mentioned that procurement of parts and materials is still difficult, but I believe the orders' backlog is increasing. I would like to know the background of this sales increase and whether there are still various risks to be considered.

[A]: Excluding the impact of exchange rate, sales for FY23 are projected to grow by 5.3% from FY22. As mentioned in the section on "variable factors" on the lower right of page 12, the supply situation for parts including semiconductors used in our business, such as industrial use, has not eased that much. Although the situation is expected to improve during FY23, we do not expect to expand production significantly.

The 5.3% increase incorporates the improvement in the price increase effect and the growth in the project side.

[Q]: Please tell us about the price increase. I would like to know if you are planning to take such actions as raising selling prices again to meet rising costs. Also, will the effect of the price increase to FY22 be reflected

[A]: Regarding selling price increases, we are currently negotiating with customers on a factual basis for raw materials and components we purchase. Naturally, we will continue to negotiate sales prices with customers centered on products for parts and materials that will affect our costs.

[Q]: You say that you will negotiate price increases with your customers focusing on the products, but is it safe to assume that your company's pricing power is also strong enough for projects such as CAPEX?

[A]: It is hard to speak comprehensively about the situation for all CAPEX projects. We do our best to negotiate price increases for CAPEX projects that are already under contract, but it is challenging to get our customers to agree. Therefore, we will deal with each project on a case-by-case basis.

[Q]: Please share with us the growth rate of orders in the control business for FY23 excluding the impact of exchange rates, and the breakdown of the three subsegments. In FY22, your orders increased significantly because of the impact due to the impact of pent-up demand after COVID-19 and advance orders against long lead time due to parts shortages. So we expected that FY23 orders would decrease significantly from the previous year due to the reaction to the reversal, but looking at your forecast, it does not seem to be that much of a decrease.

Also please tell us if the customer's inquiry is increasing steadily in the future.

[A]: FY23 orders will be negative 3.2% excluding the impact of exchange rates from the previous year. Of that, negative 3.4% is with respect to control business. Let me put this in terms of the three control subsegments. The Energy & sustainability business is expected to be negative 2.7% from the previous year due to the peak out in pent-up demand of large projects after COVID-19. Regarding the Materials business, the forecast is negative 7.5% from the previous year, taking into account the slowdown in materials-related investment. On the other hand, the Life business is positive 7.6% from the previous year.

In terms of customer investment trends, we especially expect the materials business to decline. The chemical industry is a very large part of Yokogawa's business, both in terms of sales and profits. Looking at the current

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trends of the chemical industry, the capacity utilization rates are low, and in fact, the investment environment is negative for our main customers in the chemical industry, so we expect a decline, at least in H1.

The majority of our clients believe that H2 will begin to grow gradually as the business and economic environment improves.

In conclusion, we believe that the investment environment is still quite harsh in H1. The business environment will start to recover a little around H2, and we hope to increase orders. There are differences in the situation depending on the region and industry, but we will work on it while monitoring trends.

[Q]: Emerson acquired National Instruments for about JPY1 trillion, and I think they are scaling up with large acquisitions, as is typical of US companies. I would like to ask you about area and stance you are looking for in M&A, as you still have growth investment budget left to do so.

Also, please tell us about the results you have achieved through various alliances and M&A.

[A]: We have a long and short list, and we are examining the investment projects with great frequency. The areas of investment are renewable energy and also life business-related areas. We're looking to capture technology and customer channels.

A typical example of FY22 is shown on page 38 of the document. Fluence Analytics is an area that will enhance our traditional IA business. It has solutions for improving the quality of polymerization reactions and for actual operations in the fields of the polymer and biopharma industries. Also, SynCrest Inc, established with Otsuka Chemical, is in the life Business Area. Another area is not mentioned in the document, we are engaged in M&A with ERP-related business partners in the DX field. We are constantly searching for the DX field as a target.

[Q]: Please tell us more about AI Solutions for ENEOS Materials' chemical plant on page 34 of the document. Regarding your solution for proprietary autonomous control AI FKDPP, you explained it could reduce steam consumption and CO₂ approx. 40%. Do other companies offer similar solutions? To what extent is this differentiating factor good for your business?

[A]: We think it is remarkable that we achieved continuous stable operation for one year with our proprietary autonomous control AI FKDPP technology. Even if we fully used the advanced control called PID control and APC, which we have been using in our control system DCS, it was an extremely difficult area to control, as human intervention was required for manual operation about once every 15 minutes because there are various changes in environmental conditions or temperature conditions. We have already received inquiries about this globally.

This is not a general-purpose AI, but it is specialized for the process industry. Currently, many of our customers' plants are still controlled by experienced operators, so we believe this is one of our business opportunities.

[Q]: Can you quantify how much this business can contribute to improving gross margin in the future?

[A]: Now, it isn't easy to give a general quantitative answer as to the business impact or profit or what kind of contribution it makes, but I believe that it creates significant value for our customers. We can achieve very

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stable control, which will not only improve controllability but also stabilize quality and shorten delivery time. Also, steam consumption and CO2 approx. 40% means significant reduction in energy consumption.

In the case of the large-scale plant, operating costs of billions of dollars are moving in a single day, but we can achieve significant profit improvement by introducing our AI Solutions. Based on the case study with ENEOS Materials, we would like to build a business model to receive compensation commensurate with the value we provide to our customers.

[Q]: Is it possible to introduce this AI Solutions in plants that use other companies' DCSs?

[A]: Yes. There is no dependence on our control system, and there is no problem with other companies' systems.

[Q]: I would like to ask you about the background behind the FY22 sales performance that exceeded your forecast. Although your forecast based on the procurement environment would be challenging, did you actually mean that the lead time has improved?

[A]: Although sales have finally exceeded our initial projections, it does not mean that the procurement lead time has improved significantly. In the large project sales, which are POC (percentage of completion) type sales, we were able to achieve our sales turnover based on internal efforts in the process, such as procurement of goods and engineering.

[Q]: Could you give us a little more detail about the analysis of the change in FY23 operating income forecast on page 13 of the document?

[A]: As for the effects of the measures to selling price increase of product-related, although the effect was included in FY22 orders, however a large portion of it was not reflected in FY22 sales. By realizing the benefits of this and continuing to raise prices, we expect to achieve an improvement in operating income of more than 5 billion yen in FY23, of which more than 3 billion yen is expected to come from gross margin improvement.

Also, we expect a double-digit improvement in the gross profit margin through productivity improvement measures for global procurement of goods, et cetera, which are being implemented as part of AG2023 measures. While it is difficult to raise the prices on contracts already signed, we expect an overall profit to improve in FY23 by replacement to the contracted project taking into account cost increase. Although it won't be easy to raise prices on projects that have already been contracted, we expect overall earnings to improve in FY23 as a result of an increase in the proportion of projects that reflect cost increases. In addition, as sales increase, the ratio of fixed costs to cost of goods will naturally decrease, resulting in an improvement in the gross margin.

[Q]: You always set aside a reserve for provision for loss on construction in advance, but how much do you expect to have in your new forecast?

[A]: As for the project that we are taking orders on strategically, the forecast is slightly less than FY22, but I hope you can see that we have factored in about the same level.

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[Q]: I know this is a bit early question, but if sales for the next fiscal year, FY24, were to be JPY470 billion, the same as FY23, how much would you increase profits by that cost reduction? I ask this because I am concerned that you will make it harder to draw a sales growth scenario because the timing of orders begins to decline quite early. I have heard similar situations from other companies.

Even if sales growth slows down, can you still increase operating income above the FY23 forecast of 48 billion yen by reducing costs? You may want to spend more people, goods, and money on new customers in various fields, so it will not be easy to reduce costs.

[A]: It isn't easy to answer your question. In terms of cost reduction, we have been working on productivity improvement, procurement cost reduction, logistics, and shared services as part of AG2023, so we will continue to reduce costs while making firm efforts in these areas. However, it is difficult to express this in digital numbers. This is not a story that ends in a single year, and we will continue to work on cost reduction in the future.

You are concerned about sales, but our business opportunities are definitely increasing. The point of sales is the orders in the same period. Therefore, if lead times continue at the current pace, it is expected to be relatively difficult. We are aiming to achieve the sales forecast for the current fiscal year while gradually improving our lead time.

[Q] You are forecasting a decline in the Materials business orders. Specifically, in what industries? Is it correct to understand that because of the poor business climate, capital investment in the materials industry is likely to shrink?

The other thing is not so much about materials, but more about energy. Due to rising interest rates and problems with small- and medium-sized banks in the US, financing seems not available, or the cost is becoming unreasonable, making it difficult to submit FIDs for projects. Are you seeing such a change on your side?

[A]: The reason for the slight drop in the Materials business, as you mentioned, is that it reflects the business climate where investment in chemicals is quite tight and is being held back by customers.

In the EV field, we have been getting a lot of work in the mining field over the last year or two, so we would like to accelerate our activities by focusing on areas where mining is active and broadening our base. In a sense, as our industry has broadened, we will be able to focus our activities with a little more vigor. However, as you mentioned earlier, there have been some concerns about mining-related investments. I have also heard from some customers who are reviewing their investments due to the rising cost of raw materials and interest rates.

On the energy-related, rather than stopping plans because of interest rates, there is a trend in Europe to take another look at LNG, which is relatively clean, whereas before, it was only renewables. In FY22, we received a large number of orders for LNG, and we believe that there is still a solid investment in such areas, even in Europe, and that the pace of investment in renewable energy will continue to accelerate. We are concerned about interest rates and other issues, but there are solid projects in this area and, we are committed to working in this area.

[END]

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