



Yokogawa Electric Corporation

Q3 Financial Results Briefing for the Fiscal Year Ending March 2024

February 6, 2024

Event Summary

[Company Name]	Yokogawa Electric Corporation	
[Company ID]	6841-QCODE	
[Event Language]	JPN	
[Event Type]	Earnings Announcement	
[Event Name]	Q3 Financial Results Briefing for the Fiscal Year Ending March 2024	
[Fiscal Period]	FY2023 Q3	
[Date]	February 6, 2024	
[Number of Pages]	19	
[Time]	17:30 – 18:15 (Total: 45 minutes, Presentation: 12 minutes, Q&A: 33 minutes)	
[Venue]	Webcast	
[Number of Speakers]	1 Michiko Nakajima	Vice President, Head of Accounting and Treasury Headquarters

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Presentation

Key Points

■ FY23 3Q results: Sales and operating income were up

- Summary:

- Orders decreased.
- Sales were up mainly due to an improved procurement environment for production parts and project-procured products, the effect of price hike measures, recording sales of large-scale projects ordered after COVID-19, and the impact of foreign exchange fluctuations.
- Operating income was up mainly due to an increase in the gross profit margin with an increase in sales.
- Profit attributable to owners of parent increased.

- Segments:

Control: Sales and operating income were up

(excluding the impact of exchange rates, orders decreased 4.9% and sales increased 19.7% year on year).

Measuring instruments: Sales and operating income were up.

New businesses and others: Sales and operating were almost the same level as the previous fiscal year.

■ FY23 earnings forecasts: Upward revision

■ Dividend forecasts: Dividend increase revision

Nakajima: The key points of the Q3 financial results are listed on page 4 of the materials. I will explain this the following pages.

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Summary of FY23 1Q-3Q Results (1Q-3Q year on year comparison)

- ◆ Orders decreased (excluding the impact of exchange rates: -¥23.1 billion, -5.7%).
- ◆ Sales were up due to an improved procurement environment for production parts and project-procured products, the effect of price hike measures, recording sales of large-scale projects ordered after COVID-19, and the impact of foreign exchange fluctuations (excluding the impact of exchange rates: +¥65.1 billion, +20.5%).
- ◆ Operating income was up mainly due to an increase in the gross profit margin with an increase in sales (excluding the impact of exchange rates: +¥30.5 billion).
- ◆ Profit attributable to owners of parent increased (excluding the impact of exchange rates: +¥32.8 billion).

	FY22 1Q-3Q	FY23 1Q-3Q	Difference	Growth rate	Impact of exchange rate	(Billion ¥)
Orders	403.5	390.7	(12.8)	(3.2%)	+10.3	
Sales	317.5	393.1	+75.6	+23.8%	+10.6	
Operating income	24.7	58.4	+33.6	+135.9%	+3.2	
ROS(%)	7.8	14.9	+7.1pt	—	—	
Ordinary income	26.8	61.0	+34.2	+127.7%	+3.2	
Profit attributable to owners of parent	16.9	52.1	+35.3	+209.2%	+2.4	
Exchange rate	US\$1=	¥143.78	+6.77	—	—	

Page 5 shows summary of the financial results.

Orders received were JPY390.7 billion, a decrease of JPY23.1 billion from the previous year, or 5.7%, excluding the impact of foreign exchange rates. This was mainly a reaction to the energy-related large orders received in Q3 of the last fiscal year.

Sales were JPY393.1 billion, a significant increase of JPY65.1 billion or 20.5% from the previous year, excluding the impact of foreign exchange rates. The sales growth rate remained almost the same as in Q2 as the backlog of orders continued to boost sales due to an improved procurement environment for parts and other items.

Operating income was JPY58.4 billion, up JPY33.6 billion from the previous year, and net income was JPY52.1 billion, up JPY35.3 billion from the previous year.

There were no special events in Q3 with respect to operating income and below. The increase in operating income and the gain on sales of investment securities recorded in Q1 contributed to the increase in net income for the period.

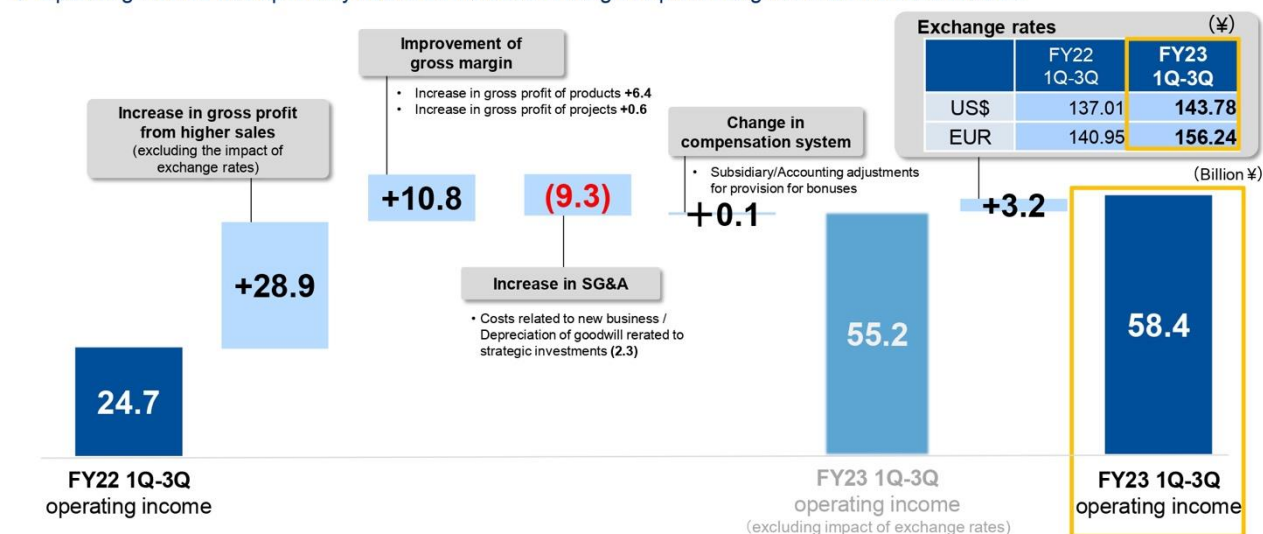
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Analysis of Operating Income (1Q-3Q year on year comparison)

◆ Operating income was up mainly due to an increase in the gross profit margin with an increase in sales.



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Page 6 shows the analysis of operating income.

The increase was JPY30.5 billion from JPY24.7 billion in FY2022, excluding the impact of exchange rates. In addition to the JPY28.9 billion increase in gross profit from higher sales, a JPY10.8 billion improvement of gross margin made a significant contribution.

As for the breakdown of the improvement of gross margin, the increase in gross profit of products was JPY6.4 billion, and the increase in gross profit of projects was JPY0.6 billion. In terms of gross profit of products, the improvement effects have appeared by a decrease in the fixed cost ratio due to an increase in the production utilization ratio from H1, and the elimination of inventories of parts that were purchased at premium market prices due to the parts crunch beginning in Q3. In terms of gross profit of projects, in H1, sales of projects with low gross margin were concentrated, resulting in a negative balance of JPY1 billion. However, Q3 saw a turnaround to a positive balance due to the absence of orders for strategic projects that would have resulted in construction losses and the concentration of sales of projects with high gross margin. In addition, the effect of the price increase measure for products have also contributed significantly to the improvement in gross margin.

SG&A expenses increased by JPY9.3 billion YoY. The increase is due to new business-related expenses, amortization of goodwill from strategic investments, higher sales commissions and activity expenses due to increased sales, and labor cost inflation. However, this increase is within the range of the earnings forecast.

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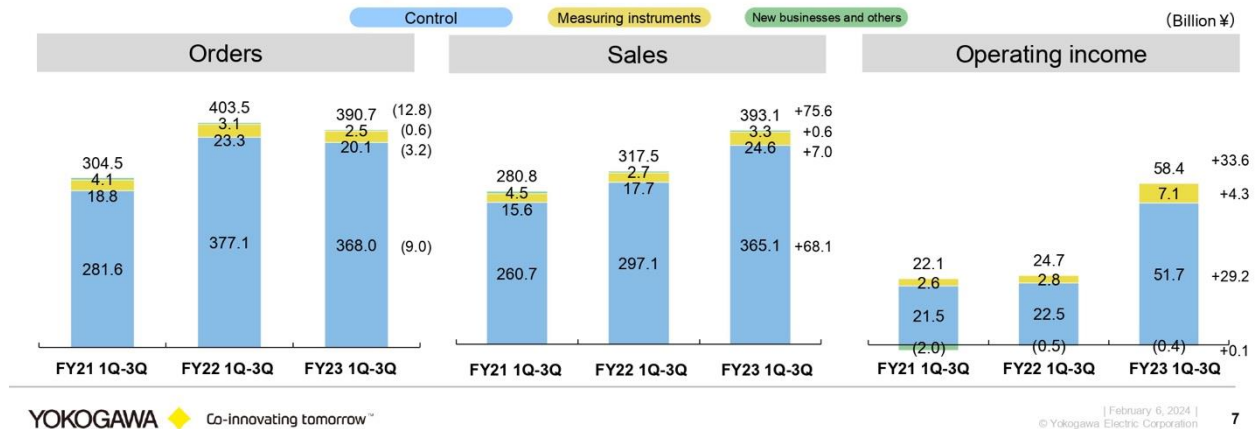
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Comparison for Orders, Sales, and Operating Income by Segment

- ◆ **Control:** Orders decreased. Sales were up mainly due to an improved procurement environment for production parts and project-procured products, the effect of price hike measures, recording sales of large-scale projects ordered after COVID-19, and the impact of foreign exchange fluctuations (excluding the impact of exchange rates, orders decreased ¥18.6 billion, a 4.9% decline, and sales increased ¥58.4 billion, 19.7% increase). Operating income was up mainly due to an increase in the gross profit margin with an increase in sales (excluding the impact of exchange rates: +¥26.6 billion).
- ◆ **Measuring instruments:** Orders decreased. Sales were up mainly due to an improved procurement environment for production parts. Operating income was up mainly due to the increase in sales and the accompanying rise in the gross profit margin.
- ◆ **New businesses and others:** Sales and operating were almost the same level as the previous fiscal year.



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

The first is the Control business in blue color. Orders received decreased JPY9.0 billion from the previous year, or 4.9%, excluding the impact of foreign exchange rates. Sales increased significantly by JPY68.1 billion from the previous year, or 19.7%, excluding the impact of exchange rates. Operating income increased by JPY29.2 billion from the previous year. The reasons for the increase or the decrease overlap with those of the entire company, which I explained earlier, so I will omit them.

Next is the Measuring Instrument business in yellow color. Orders received decreased by JPY3.2 billion from the previous year, or 16.3%, excluding the impact of foreign exchange rates. In addition to a reaction to the strong performance in H1 of last year, our analysis indicates that customers have adjusted their prior orders due to improved production lead time. However, compared to H1, the decrease was smaller. Sales increased by JPY7 billion from the previous year, or 35.1%, excluding the impact of foreign exchange rates. This is due to the progress in the order backlog as a result of the improvement in production lead time, as mentioned earlier. Operating income increased by JPY4.3 billion from the previous year.

The last is the New Business and Others business in green color. There is no significant change from the previous.

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Orders and Sales by Region in Control Segment

- ◆ Orders remained strong in India, the Middle East, and Africa, but slowed in China.
- ◆ Orders: -¥18.6 billion, -4.9% (excluding the impact of exchange rates);
sales: +¥58.4 billion, +19.7% (excluding the impact of exchange rates)

(Billion ¥)

Orders	FY22 1Q-3Q (A)	FY23 1Q-3Q (B)	Difference (B-A)	Sales	FY22 1Q-3Q (A)	FY23 1Q-3Q (B)	Difference (B-A)
Japan	93.1	90.8	(2.3)	Japan	78.6	89.8	+11.2
Asia	135.2	133.5	(1.8)	Asia	110.8	129.3	+18.5
(Southeast Asia, Far East)	55.8	60.5	+4.7	(Southeast Asia, Far East)	49.3	54.9	+5.6
(China)	61.1	50.2	(10.9)	(China)	48.8	56.5	+7.7
(India)	18.3	22.8	+4.5	(India)	12.7	17.8	+5.2
Europe and CIS	35.6	33.8	(1.8)	Europe and CIS	30.6	36.5	+5.9
Middle East and Africa	60.4	62.3	+1.9	Middle East and Africa	38.3	59.1	+20.8
North America	35.7	33.3	(2.5)	North America	28.6	36.5	+7.9
Central and South America	17.0	14.4	(2.6)	Central and South America	10.2	13.9	+3.7
Outside Japan	284.0	277.3	(6.7)	Outside Japan	218.4	275.3	+56.9
Consolidated	377.1	368.0	(9.0)	Consolidated	297.1	365.1	+68.1
Exchange rate USD1\$ =	¥137.01	¥143.78	+6.77	Exchange rate USD1\$ =	¥137.01	¥143.78	+6.77

Page 8 shows orders and sales by region in the Control business.

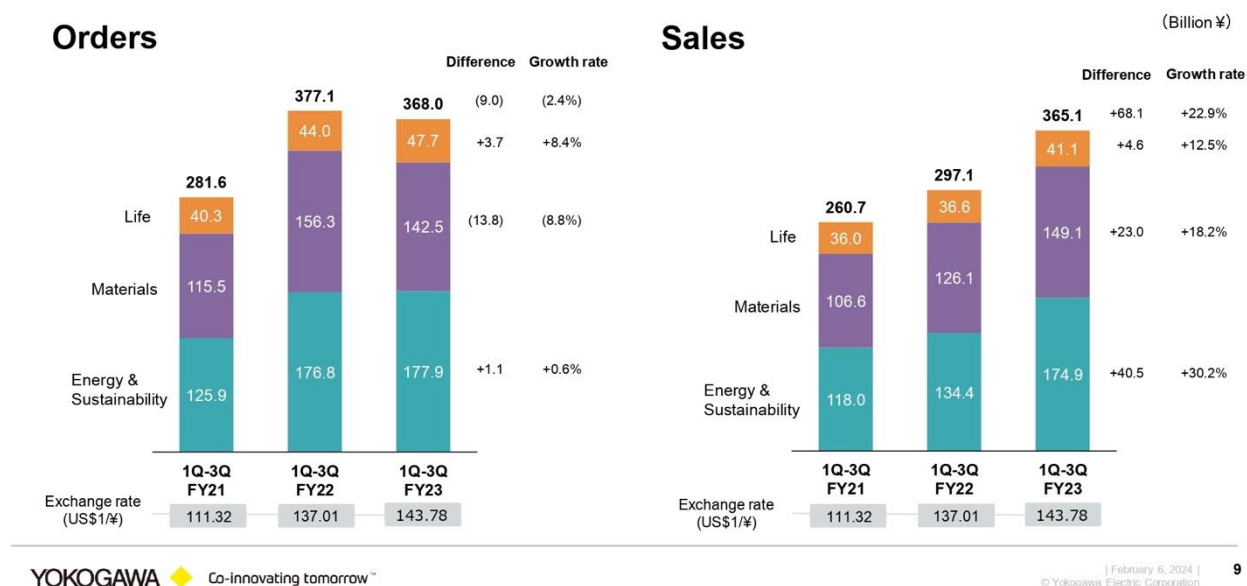
As noted at the beginning, orders continue to be strong in India, the Middle East and Africa. On the other hand, a sense of slowdown in China has become apparent in the Q3.

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Orders and Sales by Control Subsegment



Page 9 shows orders and sales by the Control sub-segment.

The graph shows three sub-segments from the bottom: Energy & Sustainability business, Materials business, and Life business.

As for the order on the left side graph, Energy & Sustainability business increased by JPY1.1 billion from the previous year, or a decrease of 2.3%, excluding the impact of foreign exchange rates. Materials business in purple decreased by JPY13.8 billion from the previous year, or 11.1%, excluding the impact of foreign exchange rates. Life business in orange increased by JPY3.7 billion from the previous year, or 6.1%, excluding the impact of foreign exchange rates.

The graph on the right, which shows sales, has been showing up in the figures late in the orders, so I will skip the individual explanations.

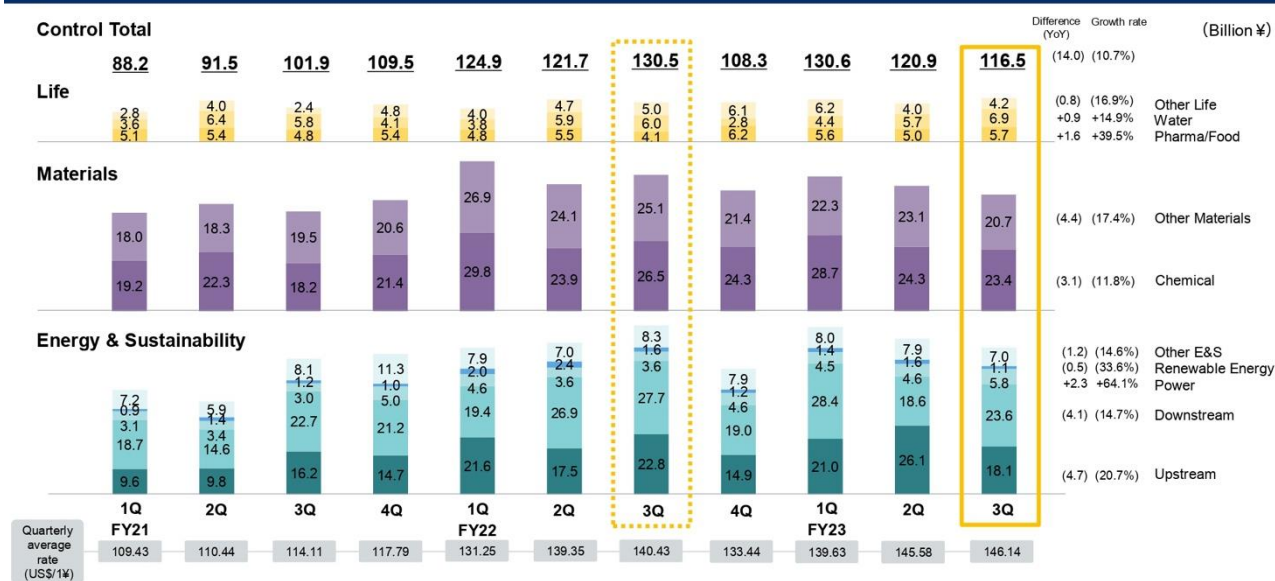
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Orders by Industry in Control Segment



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Page 10 shows the quarterly trend of these three industry segments, broken down by industry segment. I will add a little more here, including current trends.

Energy and Sustainability business, the bottom part in blue, you can see in the yellow dotted line that orders were quite high in Q3 of last year. Conversely, there were relatively few large orders in Q3 of this fiscal year, resulting in a decrease from the previous year. The total amount of orders received in this segment fluctuates considerably quarterly, depending on the timing of acceptance of large orders. Although the current situation may appear a little weak due to such factors, base orders have remained stable. We are not aware of any deterioration in the trend, as we have a large order expected in Q4.

Next, Materials business in purple in the middle. The adjustment phase is more protracted than we had expected at the beginning of the year, and the current economic slowdown in China has led to a slight deterioration in the figures. We have a relatively high proportion of Materials business in China among our overseas affiliates, and this has affected the figures here. However, we have some relatively large projects already in the pipeline for Q4, and we hope to somehow turn the tide of recovery in Q4.

The last is Life business in yellow. The performance of the Life business is at a strong level for Q3, as the food, pharmaceutical, and water markets are all firm, and it received a concentration of relatively large orders.

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FY23 Forecast (change from November 7, 2023)

	FY22 (A)	FY23 forecast Nov. 7 (B)	FY23 forecast Feb. 6 (C)	Forecast difference (C-B)	Year on year difference (C-A)	Growth rate (C/A-1)	(Billion ¥)
Orders	518.4	517.0	520.0	+3.0	+1.6	+0.3%	
Sales	456.5	512.0	520.0	+8.0	+63.5	+13.9%	
Operating income	44.4	63.0	70.0	+7.0	+25.6	+57.6%	
ROS(%)	9.7	12.3	13.5	+1.2pt	+3.8pt	—	
Ordinary income	48.6	64.0	71.0	+7.0	+22.4	+46.1%	
Profit before income taxes	49.8	74.5	81.5	+7.0	+31.7	+63.7%	
Tax, etc.	10.9	26.5	27.0	+0.5	+16.1	+148.2%	
Profit attributable to owners of parent	38.9	48.0	54.5	+6.5	+15.6	+40.0%	
EPS(¥)	145.81	182.41	207.47	+25.06	+61.66	—	
Exchange rate	US\$1=	¥136.12	¥140.00	+0.00	+3.88	—	

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Page 11 shows the forecast for the year. We have raised our earnings forecast based on the results up to Q3, the order pipeline, the order backlog, and so on. As for the revised amounts, orders increased by JPY3 billion, sales increased by JPY8 billion, operating income increased by JPY7 billion, and net income increased by JPY6.5 billion.

The foreign exchange forecast is unchanged from the previous forecast of JPY140 per dollar. If it remains at the current level, it may settle around JPY144, but we do not adjust the exchange forecast in JPY1 increments.

After page 12, page 12 shows the YoY change in operating income reflecting the current forecast, page 13 shows the forecast of orders, sales and operating income by segment, page 14 shows the forecast for Control orders and sales by region, and page 15 shows the forecast of orders and sales by Control subsegment.

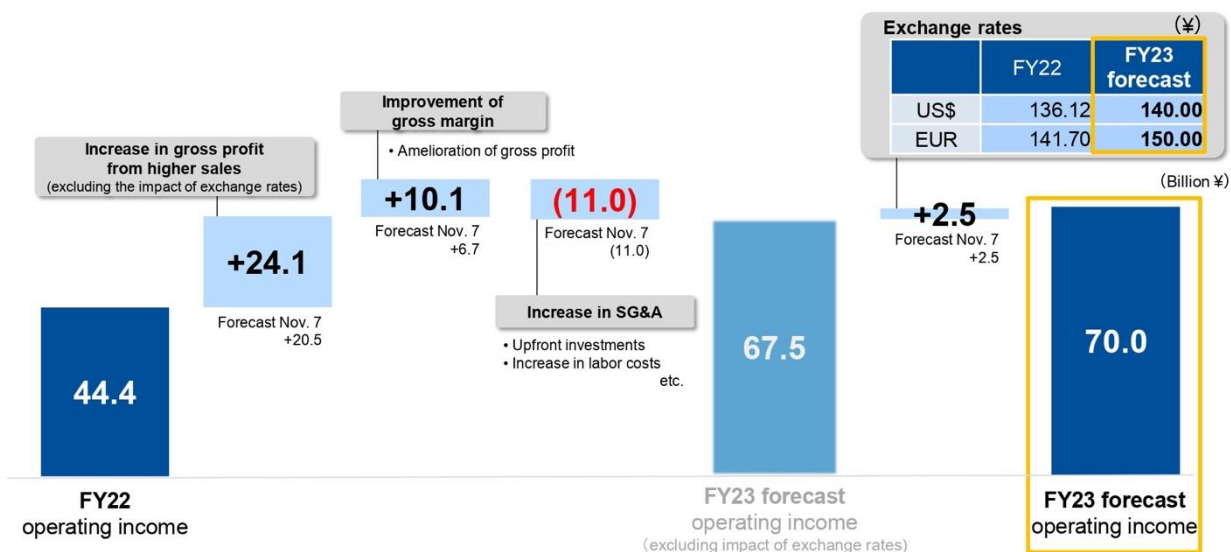
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Factors Accounting for Increase / Decrease in FY23 Operating Income (change from November 7, 2023)



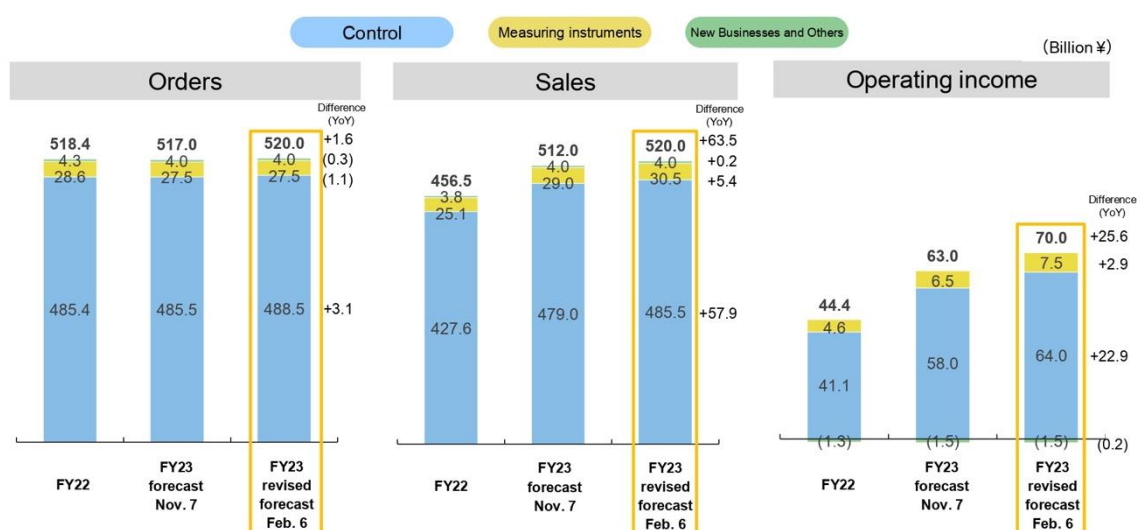
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*The impact of mergers and acquisitions that have not yet been concluded is not included in the forecast.

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FY23 Forecast for Orders, Sales and Operating Income by Segment (change from November 7, 2023)



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FY23 Forecast for Control Orders and Sales by Region (change from November 7, 2023)

(Billion ¥)

Orders	FY22 (A)	FY23 (B)	Difference (B-A)	Sales	FY22 (A)	FY23 (B)	Difference (B-A)
Japan	134.0	128.0	(6.0)	Japan	116.0	124.5	+8.5
Asia	168.0	168.5	+0.5	Asia	153.8	169.5	+15.7
(Southeast Asia, Far East)	71.0	73.0	+2.0	(Southeast Asia, Far East)	68.5	72.5	+4.0
(China)	76.1	70.5	(5.6)	(China)	66.8	74.0	+7.2
(India)	20.9	25.0	+4.1	(India)	18.5	23.0	+4.5
Europe and CIS	46.4	46.0	(0.4)	Europe and CIS	42.4	46.5	+4.1
Middle East and Africa	71.4	76.0	+4.6	Middle East and Africa	59.9	77.0	+17.1
North America	47.3	52.0	+4.7	North America	40.7	49.5	+8.8
Central and South America	18.3	18.0	(0.3)	Central and South America	14.8	18.5	+3.7
Outside Japan	351.4	360.5	+9.1	Outside Japan	311.6	361.0	+49.4
Consolidated	485.4	488.5	+3.1	Consolidated	427.6	485.5	+57.9
Exchange rate US\$1 =	¥136.12	¥140.00	+3.88	Exchange rate US\$1 =	¥136.12	¥140.00	+3.88

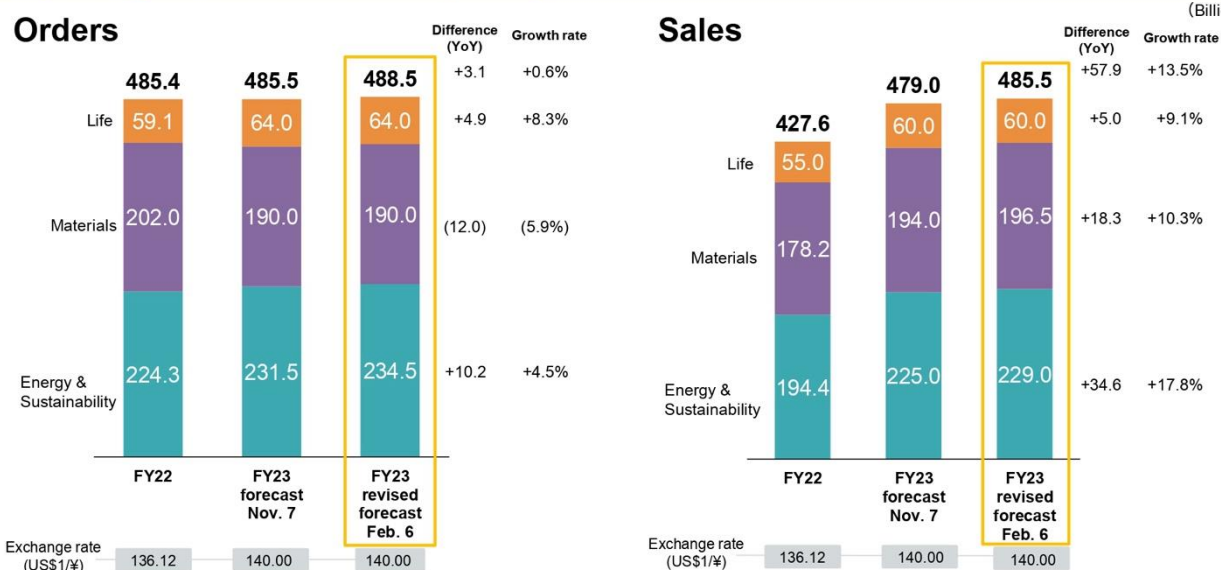
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FY23 Forecast for Orders and Sales by Control Subsegment (change from November 7, 2023)

(Billion ¥)



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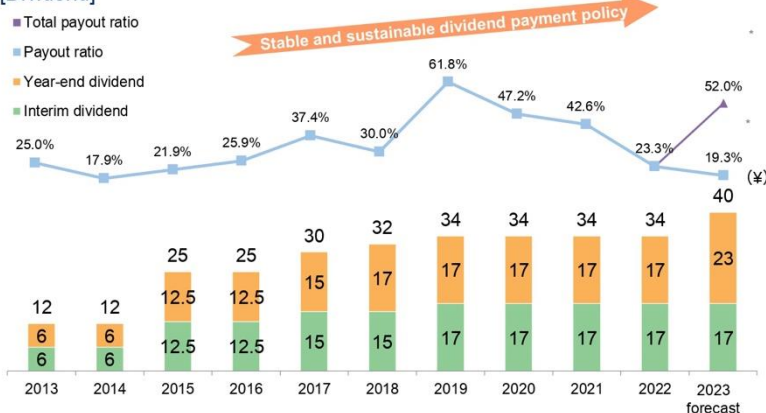
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Dividend (change from November 7, 2023)

- ◆ FY23 dividend forecast: increase
Year-end dividend forecast: ¥17 to ¥23.
Annual dividend: ¥34 to ¥40.

[Dividend]



[Acquisition of own shares]

- Total number of acquired shares: 6,776,300 shares
- Total price of acquired shares : ¥17.9 billion
- (Maximum: ¥20.0 billion)

Ended December 29, 2023

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Lastly, page 16 shows the dividend. We have revised our dividend forecast based on the revised earnings forecast. Specifically, the year-end dividend will be increased by JPY6 from JPY17 to JPY23 per share, resulting in the full-year dividend forecast to JPY40 from JPY34 per share.

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Question & Answer

[Q]: Let me ask if there has been any change in your business environment for the Control business or the environment for orders compared to three months ago. The reason for the 10% or more drop in orders in Q3 compared to the same period of the previous year is that the previous year's level was high, but looking at the materials on page 23, it seems that small orders also fell gradually in Q1, Q2, and Q3, with the Q3 figures falling below JPY100 billion. Also, I think the numbers were weak in December. Should we take this as a sign that the environment for orders is starting to deteriorate a bit, or should we look at it as a lull in the Q3 since there was talk of large orders coming back in again in Q4?

In addition, will you be able to increase orders further compared to the current fiscal year? If you have any comments to offer currently, please tell us.

[A]: Regarding the changes in the business and orders environment compared with the previous three months, and their impact on the figures for Q3, the slowdown in the Materials business has been slightly prolonged. We have been anticipating the adjustment phase in the materials industry since the beginning of this fiscal year. Moreover, the economic slowdown in China has had an impact on our figures in Q3, as we have heard from the FAs industry quite early on. We hope these effects will not spread too much regionally and that the bottom will be reached, but we will have to wait and see what happens including in the Q4. As for trends, the big one is in this change.

By region, in North America, our customers' appetite for investment remains strong, but some of them are waiting to see a better timing of investment decisions, seeing the interest rates in the future. Therefore, we have mentioned at the beginning of 8 page on the materials that the North America was strong up to Q2, but we have removed that part at this time, and we believe that there has been a slight change in the market trends over the last three months.

As for orders for the next fiscal year, it is difficult to say what the numbers will be, but we believe that the Materials business will bottom out in Q4 or early next fiscal year. On the other hand, as I mentioned earlier, China is an area of concern, and we will carefully assess the situation and reflect it in our earnings forecast scheduled to be announced in May.

[Q]: You mentioned before that the pipeline of large orders will be a little richer next fiscal year than this fiscal year and that you can see more of them. Has anything changed there?

[A]: With two months to go, there is no major change in the situation, although some orders seem to be coming in ahead of schedule, while others seem to be slipping to next fiscal year. In the remaining months between now and the next earnings forecast, we will watch and assess the certainty of orders.

[Q]: Please tell us about the breakdown of the operating margin of the Control business and how sustainable it is.

[A]: When we compare the last fiscal year and H1, there are some special factors, so it is difficult to explain especially the project type of business. I wish I could explain it as clearly as possible by separating it into the product and the project type business.

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As for the product, in Q3, there is the improvement of gross margin that the elimination of inventories of marketable parts that were purchased at a premium due to the parts crunch, and this is expected to continue. Besides, continuing from H1, the gross margin was improved because of the decrease in the fixed cost ratio due to an increase in the production utilization ratio. However, we are proceeding to clear order backlogs at a considerable pace in accordance with the elimination of production lead time, we think that the improvement of gross margin due to decrease in the fixed cost ratio due to the increase with the production utilization ratio will be slightly reduced.

The project type business has been profitable in Q3 due to special factors. In H1, sales for lower gross margin were concentrated, but in Q3, sales for good gross margin were concentrated. The other is a strategic project that we are going to take strategically even if it is in the red with posting a provision for the construction losses, but in fact, we have not posted such a provision for the past three months because of the order timing. We would like to win strategic projects in Q4. In addition, given the earnings situation, for which we have raised our earnings forecast upward, we would like to secure further amounts of strategic projects that will push down the profitability ratio in Q4 compared to Q3.

[Q]: I calculate that the operating margin of the Control business will fall to about 10% in the Q4 forecast. Should we consider this level as the actual value?

[A]: In the revised earnings forecast, the assumption of JPY140 per year for the exchange rate has been unchanged, so I think the profit margin for Q4 may have look too low. Regarding foreign exchange sensitivity, orders and sales are JPY2.5 billion, and operating income is JPY600 million. The impact of foreign exchange rates is mainly in the Control business, so if you can compensate for this, we believe the profit margin could be higher.

On the other hand, the expected securing orders for strategic projects and modest production utilization ratio will be factors that will push down the profit margin in Q4 compared with Q3.

[Q]: I understand that you have revised your earnings forecast upward by JPY3 billion for orders, JPY8 billion for sales, and JPY7 billion for operating income. Can you comment on how much each of these actually exceeded each of your original assumptions in Q3?

[A]: I don't have a three-month breakdown of Q3 on hand, so I will talk about the cumulative total of 9 months; orders were slightly above our assumption. Sales have exceeded our expectations by about the sum of the previous upward revision (announced on November 7) and the current upward revision.

As for the gross margin, I mentioned special factors boosted that, it is also in excess of the internal plan. As for SG&A expenses were almost at the planned level.

[Q]: So, the upward revision this time basically takes into account the upswing by Q3, and Q4 forecast has not changed that much from the previous forecast?

[A]: We are making the earnings forecast to see how far we can achieve from now on, rather than calculated figures for the 4Q by subtracting the 3Q results from the initial plan for the year while reflecting the figures up to the Q3 results.

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[Q]: Please tell us your thinking on sales for the next fiscal year. When I talked to you after H1 of the fiscal year, you said that this fiscal year's sales, mainly product sales, increased by about JPY 20 billion because the order backlogs which accumulated due to the supply chain constraints have now been resolved by an improved procurement environment for production parts. Also, you said that you hope to increase sales in the next fiscal year on a basis excluding this special factor. Can you tell us about the current situation and whether the outlook has changed?

[A]: The boost in this year's sales by improving the production lead times will be around JPY20 billion, and the situation has not changed from three months ago.

Regarding the sales for next fiscal year, we still have to wait and see the situation in China, as I mentioned earlier, and the timing of the bottoming out of the materials industry in general. However, while the situation in the materials industry is challenging, orders in the Energy & Sustainability business have remained strong this fiscal year. It depends on how many orders we will be able to secure by March and how we secure the volume of the order backlog at the beginning of the fiscal year, but as far as I can tell at this point, we will manage to be able to grow.

[Q]: Has there been any change in your thinking that you would like to increase sales in the next fiscal year on a basis that excludes the special factors that boosted sales of JPY20 billion?

[A]: At this point, we believe that we will be able to grow sales by steadily increasing new orders and selling the orders backlogs that we have accumulated this fiscal year.

[Q]: Regarding profitability for the current fiscal year, the operating margin has been rising, but please tell us how many special factors are included.

[A]: Regarding the gross profit, we have boosted sales by about JPY20 billion without necessarily increasing fixed costs, so I think this is a special factor in this year in the sense of the improvement.

It is difficult to say exactly as the specific figure varies depending on the comparison point, but the impact has been considerable. As for Q4, since the production utilization ratio increased considerably Q4 of the last year, so the gross margin for the full year is actually in the range of JPY5 billion to JPY10 billion.

In addition, as for the effect of the price increase, I do not think that it will necessarily improve at this pace compared to the previous year. The effect of price increase in the next fiscal year will be slightly low compared to the current fiscal year because the effect of boosting sales of JPY20 billion will disappear. However, there will continue to be upward pressure on SG&A expenses and wages, so we will continue raising prices firmly. So, the effect of the price increase is not just a special factor only this year.

[Q]: Your company is always quite humble, so I feel that you don't often tell us in detail that profitability is improving, but on the other hand, I have a feeling that on the market side, they want to know where the profit margin actually is.

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Now, for example, if we subtract the figures of JPY5 billion – JPY10 billion, which is the special factor that is driving up the gross profit margin for the current fiscal year, which you just explained, from the current earnings forecast, the operating margin of the Control business will be about 11%. I know that profit margin 10% is the target for the medium-term business plan, but is it correct to think that your profitability level have been raised a little in the Company? Please let us know if there is anything you can tell us about that.

[A]: We are still in the final year of the medium-term business plan, so it would be premature to make a specific review before it is completed. So, I will only tell you what I can say at this time. When we formulated the medium-term business plan, we had set the exchange rate at JPY105 to the dollar as our medium-term business plan. From that point on, the effect of exchange rate fluctuations has been considerable, and we are looking internally to see how much we have grown based on JPY105, but it is difficult to appeal to this point.

On the other hand, we have been working steadily to improve cost of logistics or procurement for global project, and we have achieved results. However, while we have been implementing measures, there has been considerable upward pressure on unit costs over the past three years. Under these circumstances, we are still analyzing whether or not we have grown when we calculate figures on the JPY105 basis.

[Q]: In the current medium-term business plan, you have been working on a variety of initiatives, including DX activities, but have your customers recognized them as their added value? Also Is it profitable as a business?

Since your profit margin is improving now, please give me any comments whether the profitability of DX activities, etc. are factors in profit improvement.

[A]: There are new initiatives in the DX activities, both from the customer's perspective and ours. However, in terms of profitability, PoC-type contracts are the leading, ones, so the effect on the current situation is not necessarily that great.

As a person who is in a position to provide explanations to you, I think it is important to explain clearly how we think this will affect the future not now, but in three years, five years, or even ten years. I apologize for not being able to provide a proper explanation today, but I will work to strengthen my explanations.

[Q]: Regarding the analysis of operating income on page 6, please tell us how much impact the effects of price increase measure for products.

[A]: Regarding the effect of the price increase, as I explained earlier, it is divided into an increase in gross profit from higher sales and an improvement in gross margin. The total effect of the nine-month period is approximately JPY6-7 billion. The increase in gross profit effect was less than JPY3 billion, and the improvement of gross margin effect was less than JPY4 billion.

[Q]: Can you also give us a breakdown of your plans for the full year on page 12 of the materials?

[A]: We have factored in the effects of the price increase measures, including the impact of an increase in gross profit from higher sales and improved gross margin, totaling JPY8 billion for the year. We are looking at an improvement of about JPY3 billion plus from our assumption at the beginning of the year.

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Other areas that have been factored into the gross margin improvement include the elimination of the impact of the premium cost of marketable products, which has been in effect since Q3. The upward revision of sales also reflects a slight increase in productivity improvement measures, such as the effects of global procurement of projects, which will boost the overall figures.

[Q]: You mentioned that you are going to be a little more aggressive in taking strategic orders, but is there a budget increase in this area?

[A]: It can affect our sales activities, so please bear with me on the numbers. We have doubled our quota from what we were looking at the beginning of the year, and I hope we can secure strategic projects. We are now in the process of finalizing our activities.

[Q]: You said that you have almost doubled the budget for strategic projects, but are these figures factored into your earnings forecast?

[A]: Yes. You mentioned that the gross margin in Q4 might be a little low, but the forecast includes strategic projects, only the deficit, not the increase or decrease in orders.

[Q]: I would like to ask you about your view of sales and orders in Q4. Sales forecasts seem to decline a bit from Q3, but will the digestion of orders backlog not continue at a similar pace as in the 3Q?

Also, regarding orders, when you explained earlier about Q4, I think it was mentioned that you are planning to receive large orders as well. Can you tell us if all of these orders are included in the order forecast?

[A]: Regarding sales, we expect that the order backlog will be eliminated by the end of Q4. On the other hand, as for orders, it is difficult to answer whether all the orders are included, since there is a certainty of receiving orders, but we have factored in a level at which we believe we will be able to obtain this amount of orders.

[Q]: Regarding the Materials business, China is a major concern, but other than that, I think the comment was that we may see a bottoming out in Q4. What kind of regions and industries should you expect to return early?

[A]: In 2021, we have reorganized our Control business into these three segments, Energy & Sustainability, Materials, and Life. Outside Japan, Energy & Sustainability business accounting for a large percentage of our overseas business, and we are also operating our Materials business and Life business in a way that allow them to grow on a global scale. Although there is a certain amount of overseas sales of Materials business, compared to Energy & Sustainability business, the domestic sales ratio is considerably higher. As for product sales, China also accounts for a high percentage of total sales, I would first like to point out that improvements in industry and region will not directly affect the overall figures. In that sense, the relatively large items we mentioned in Q4 are mainly in the domestic market.

By industry sectors in Materials business, we have seen a bottoming out in transactions related to electrical and electronics and semiconductors. On the other hand, those supplying materials to them are still in the early stages of their development. There are both positive and negative factors, but we are aware of the fact that the slowdown in China may slow the recovery of materials in Japan and ASEAN countries.

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[Q]: Regarding energy and sustainability, I think that Q2 was about how upstream is going well and downstream is slowing down, could you tell me trend in Q3?

You explained earlier that the trend in small-lot orders is firm, could you please tell us what you are referring to as firm in term of regions, customer business, products, etc.?

[A]: One of the characteristics of the current fiscal year, especially from Q2 onward, is that the firmness of the global upstream and downstream markets is not so much a function of which region is firm, but rather the fact that the firmness varies from region to region. For example, the OPEC's concerted production cut has led to a slight weakening of upstream in Middle East, but this has had an indirect positive impact upstream investment in North America, for example, and so the situation is quite mixed.

[END]

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