Financial Results Briefing – Q&A Session

(Fiscal Year Ending December 2026, 2nd Quarter)

[Presenter]

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Questioner① [Q]: I have three questions.First, I believe you revised your forecast on page 13. Since the forecast has been revised upward by JPY3 billion, excluding foreign exchange effects, could you please review for us again what factors—whether demand or the effects of structural reforms—performed better than expected compared to three months ago?

Ishimaru [A]: As you pointed out, the foreign exchange impact amounted to JPY6 billion. The remaining items, as shown on page 13, are primarily attributed to changes in sales and SG&A expenses.

As we mentioned earlier when discussing each segment, the impact of changes in sales is essentially that we are increasing sales through our own internal efforts. In that sense, there are things we've been doing on our own initiative and through our own efforts.

In particular, in terms of initiatives, in addition to expanding sales, we have implemented price adjustments for our main product models, as well as for drive technologies, gear reducers, injection molding machines, and other such products; these price adjustments have also contributed to further growth.

On the other hand, while SG&A expenses are having a slight downward effect, this is due to expenses such as sales promotion costs.

Therefore, overall, we would appreciate it if you could understand that the changes in sales figures reflect measures we are implementing through our own efforts.

Questioner① [Q]: I have a question regarding industrial machinery. Although demand for some models has been slow to recover, you are maintaining your company plan by offsetting this with sales of other models.

I believe there were also some major projects for image sensors, so if those were to decline, what kind of demand could offset that? Or maybe you had a cancellation from China and offset it with something else?

What goes out and what comes in to create this balance? Can you go over industrial machinery?

Ishimaru [A]: I think you'll find the information on page 30 of the reference materials easier to understand than what's on this page. On this page, while orders, sales, and profits are all [Inaudible], essentially breaking even, if you look at the details, you'll see that, as you pointed out, both orders and sales have declined, particularly in material solutions and semiconductor manufacturing equipment.

As we mentioned during the Q2 financial results announcement, the main factor is that we received a large cancellation, causing the results to fall significantly below expectations. Other than that, orders in the medical sector are slightly off schedule, but this is due to timing differences, such as whether or not a major order comes in, which is why the schedule is off.

On the other hand, metal processing and Plastics machinery are expected to increase. In metal processing solutions, blades—specifically, Sumiju Precision Forging's blades—are performing quite well and are expected to exceed projections.

In addition, the Japanese market for injection molding machines has been relatively strong—or rather, including sales to China, this segment has been strong—so we are projecting a slight increase.

Questioner① [Q]: Finally, about my third question, you presented your medium-term targets on page 22, setting a target ROE of 10% for FY2029. I personally think this is a positive development, as the target itself has been raised from the previous target of 6% or higher.

On the other hand, though, I think it might be difficult to rely solely on profit growth, and I believe you'll have to make significant cuts to make it work.

Could you please elaborate on how you plan to implement structural reforms, specifically, what adjustments you'll make on the denominator side of the ROE calculation, and provide further details on the reliability of this target of a 10% ROE?

Watanabe [A]: Originally, at the start of the current medium-term management plan, the goal was to achieve an ROE of around 10% during the plan period. However, due to profitability concerns, we have not yet achieved that goal.

As we reaffirm our goal of achieving a 10% ROE, one key focus in our next medium-term plan will be to strengthen our efforts to increase the proportion of businesses that are highly profitable and have high capital efficiency. In addition, as part of the portfolio transformation we are currently undertaking, while we have already announced specific measures such as downsizing and divestitures, we plan to accelerate these efforts going forward. In that sense, I think one key point will be to reduce the overall denominator as we reduce total invested capital.

However, if we are able to approach an ROE level of 10% or higher, we are already considering that, once profitability recovers, we will seek an appropriate level for shareholders' equity as well.

If we can see a slightly more concrete financial structure as part of the formulation of the next medium-term plan, I think that, from our perspective, we will likely consider such matters as we explore policies regarding the capital side, the denominator, of the equation.

Questioner② [Q]: My first question concerns the construction equipment, or rather, the profits of construction. I believe profits for Q2 alone were around JPY10 billion, but on the other hand, the new budget for H2 is set at JPY10 billion. My first question is to ask for an explanation of this discrepancy.

Watanabe [A]: Thank you. So, are you asking about the numbers for H1 and H2 within the logistics & construction segment?

Questioner② [Q]: That's right. The number currently displayed on the screen is 12.8, but since I think profit for Q1 was only about JPY2 billion, I assume that means you probably earned about JPY10 billion in Q2. Wasn't there a clearer diagram? There isn't one for Q1, is there?

So, this is a minor point, but to put it simply, the logistics division was also a factor in the increase in the full-year budget this time. I assume this is because sales of hydraulic excavators in Europe and the US, and Link-Belt products in the US are performing well, so when I compare the profit levels for H2 to those of Q2, I wondered if the H2 figures might be a bit low. I wonder if you have any secrets.

Ishimaru [A]: Looking at the LC segment for Q1 and Q2, we expect profits to come in significantly higher than expected, at around JPY8 billion. The reason for this is that sales of Hydraulic excavators performed quite well.

In addition, in Q2, while it's not exactly a "secret," there was a special factor: namely, the refund of US tariffs. Since this is having a significant effect, it means that Q2 is at a fairly high level.

In addition—and although this is slightly off-topic—when looking at the balance between H1 and H2, we anticipate that in the LC segment, profits in H2 will be significantly lower than in H1, even though sales are expected to remain roughly the same.

On the one hand, for construction machinery, in addition to the elimination of the special tariff refund I just mentioned, costs will increase slightly; on the other hand, in H1—though this isn't specific to Q1 or Q2—sales of highly profitable industrial crane projects were concentrated to a significant extent.

As a result, H1 saw a significant increase, and while H2 is expected to follow a similar trend, our projections for that period are still somewhat conservative at this stage.

Questioner② [Q]: By the way, to what extent will the tariff refund impact H2? Will it amount to JPY2 billion to JPY3 billion?

Ishimaru [A]: It's roughly JPY2 billion, but for H1, not H2.

Questioner② [Q]: Does that mean most of it was recorded in Q2?

Ishimaru [A]: That's right.

Questioner② [Q]: Just one more thing. This is on a completely different topic, but it's about industrial cranes and shipbuilding cranes. I don't think this is the first time production capacity targets and the like have been explicitly stated.

I wonder if there really is demand. I understand the goal of doubling or tripling capacity by 2030, but I can't help feeling a vague sense of unease about whether shipbuilders have actually committed to buying them. What do you think?

Watanabe [A]: We don't have any firm, definitive predictions regarding that matter either. However, based on inquiries from various shipbuilders and a consideration of the requirements for construction capacity, this is the figure we've arrived at.

It's true that it's not yet entirely clear whether it will be a jib crane or a Goliath crane, or whether the shipbuilding company is considering some other investment besides a crane. However, after taking into account all the inquiries and requests for quotes we've received, I think it's fair to say this is roughly the figure we're looking at, and I hope you'll understand this as our own estimate.

Questioner③ [Q]: I'd also like to ask about the efforts to strengthen the industrial crane business. I understand that demand is expected in the shipbuilding industry, but I believe jib cranes are also used in other industries.

I'd also like to ask whether this is essentially intended to increase production capacity for the shipbuilding industry. Also, if you have any information regarding the investment amount or timing, could you please share it with me?

Watanabe [A]: While jib cranes are certainly used in settings other than shipyards, the reason we specifically mention them here is that many shipyards already have a large number of jib cranes in operation, and the demand for their replacement or upgrading to larger models is quite concrete.

So, in that sense, if our customers, the shipyards, were to invest, while Goliath cranes, which span the dry dock, are in a sense a niche application, we recognize that there is significant demand for jib cranes, including from small and medium-sized companies.

Questioner③ [Q]: If you have anything to say about the investment amount or timing, please share it.

Watanabe [A]: As for the timing and amount of investment, while vague figures, such as an investment of JPY350 billion, were mentioned last year in the context of the shipbuilding industry's revitalization, the reality is that it is still unclear exactly how much of that will be allocated to the crane sector.

So, while this is related to the previous question, it's important to note that our understanding of this matter is based on inferences drawn from the information we've gathered through discussions with our customers.

Also, considering the government's target of doubling shipbuilding capacity, which is set for 2035, if we take that into account, the cranes need to be completed about one or two years in advance in terms of delivery schedules; otherwise, the actual shipbuilding capacity will not increase. Therefore, it is our understanding that shipbuilding companies are currently reviewing their investment plans in line with this overall schedule.

Questioner④ [Q]: Regarding the expansion of industrial cranes at the Ehime Saijo Plant and the Niihama Plant, could you please share the president's views on the government's plan to double the current targets outlined in its roadmap, or rather, how he interprets the government's stance on this matter?

Watanabe [A]: I understand that both our customers and the shipbuilding industry are taking this government policy seriously. Specifically, we have received various inquiries regarding matters such as delivery schedules for shipyard cranes and estimated investment amounts.

In that sense, given that our company holds an extremely high market share for large cranes and bears a responsibility to ensure their supply, we intend to do everything we can to respond to this government initiative.

Questioner④ [Q]: Also, regarding the "capacity and demand" section in the upper right, which covers the period from 2025 to 2032, demand is expected to rise steadily until around 2028. To ensure we can meet that demand by around 2029, could you please share any specific projections regarding construction? In other words, by when we expect to be able to meet this demand?

Watanabe [A]: As illustrated here, we plan to increase our production capacity by 2030 through investments in certain factories as well as our own investments. Therefore, this graph illustrates how we plan to strengthen our systems in various ways, with a target of FY2029 and FY2030.

Questioner⑤ [Q]: You have just presented the FY2029 targets from your medium-term plan. However, given that the corresponding FY2026 targets, which had been revised in the previous review, are likely to fall short, I would like to ask two questions: how do you plan to achieve an 8% ROIC in FY2029, and if possible, what level do you anticipate the WACC will be at the current time or by FY2029?

Watanabe [A]: As for the WACC, we actually estimate it to be just under 6% at present. However, given the current upward trend in interest rates and the cost of the returns expected by shareholders, we anticipate that this rate will continue to rise; therefore, our current baseline assumption is a range of 6% to 8%.

In that sense, we are currently setting a target of achieving an ROIC that would allow us to secure a spread of at least 2% above a hypothetical 6% rate.

Questioner⑤ [Q]: Could you please share any specific areas you've focused on or plan to address to achieve the 8% target?

Watanabe [A]: This may be a repetition of what I've already explained, but we are considering a strategy to clarify our driver businesses and increase their share of our operations.

Looking at the segments here—drive technologies, advanced technologies, and cranes—while drive technologies did experience a temporary decline in profitability, a clear trend toward recovery has now emerged.

Furthermore, we believe that each of these businesses is highly profitable and can be expected to deliver strong ROIC results. We believe that by effectively managing these growth drivers, we will further strengthen the Group's profitability and raise the overall ROIC.

To reiterate, as part of the ongoing portfolio transformation we are currently undertaking, we will actively work to reduce capital employed, and there is a possibility that we will continue to spin off or carve out additional businesses in the future.

In addition, regarding major business segments that have recently seen a slight decline in profitability—such as plastics machinery and excavators—we are considering reducing capital investment going forward, with a focus on concentrating our efforts on our areas of strength. With that in mind, we are looking to further improve our overall ROIC.

Questioner⑥ [Q]: I'd like to ask about the impact of geopolitical risks. Given the current situation in the Middle East and elsewhere, which is extremely difficult to predict, and factors such as the weak yen and rising interest rates, I believe we are seeing increases in the costs of raw materials, energy, logistics, and labor.

Among these factors contributing to the cost increase, I would like to ask which ones you consider to be more serious or of greater concern now compared to the beginning of the fiscal year. I would also appreciate it if you could tell us what measures you plan to take, taking into account the reasons and background behind this situation.

Ishimaru [A]: Among the geopolitical risks you mentioned, the situation in the Middle East is expected to lead, particularly in the near term, to cost increases, such as higher fuel and transportation costs.

Furthermore, on a slightly more granular note—and this has been a topic of public discussion in terms of procurement difficulties—items such as paint and thinner are being given considerable consideration. In this area as well, procurement hasn't come to a complete halt, but we're currently in a situation where we're securing supplies for the immediate future while simultaneously working on the next steps.

On the other hand, as for the ultimate cost impact, particularly including fuel and transportation costs in H1, we estimate at this stage that there will likely be downward pressure of around JPY1 billion.

Questioner⑦ [Q]: The first question concerns the key points of the medium-term plan you have presented. As the president mentioned earlier, the Company is essentially saying that this isn't about expanding on that scale, but I'd like to know what kind of sales figures you have in mind in that context.

The reason I'm asking this is that I believe this fiscal year's sales will be just over JPY1 trillion, and if you aim for a 10% operating margin, I think that would result in operating profit of roughly JPY100 billion. Based on that, I believe the net profit for the former is roughly JPY70 billion.

In that case, assuming an ROE of 10%, the required level of equity capital would be roughly JPY700 billion, so it appears that you have already reached that level.

I believe the reasoning is that, if the Company does not expand its business operations from this point forward, its current level of equity is already sufficient. It appears that, during the next three-year medium-term plan period, the Company will generally use all profits generated to reduce equity through measures such as share buybacks, so I would like to confirm whether this assumption is correct.

I'd also like to ask: regarding the point you mentioned here about reducing invested capital, I'd like to confirm whether that basically includes things like withdrawing from businesses or carve-outs. Regarding this matter, I'd like to know if there are any specific preferences, such as wanting to get it done as soon as possible, in terms of timing.

Finally, what I'd like to ask about here is the timing of the medium-term plan announcement. Please also let us know whether this announcement is scheduled to coincide with the release of the final financial results, or whether—given factors such as the timing of the general meeting—you plan to release it earlier without being bound by such timing.

Watanabe [A]: As for our initial estimates of sales volume and other factors, we're actually running various simulations to determine the likely scale.

However, what I'd like to emphasize here is that, although we've internally acknowledged this as a point for reflection even in the current medium-term plan, some businesses became too fixated on absolute figures and ultimately fell into the mindset that profit margins could not be improved without securing sales or volume to generate profits.

As a result, we've been hit hard by changes in demand, and the negative aspects have become quite significant. Therefore, we will prioritize quality, specifically profitability and efficiency, moving forward.

Ideally, we should present this once we have more specific figures, but for now, we are considering a strategy of balancing growth—for example, by expanding the driver businesses we've outlined here—with a reduction in sales or capital investment in businesses that have low capital efficiency or where we are not the best owner.

Therefore, rather than aiming for the kind of significant growth and sales increases across the board as we had planned in the past, I'd like to work out the specifics of how we can structure our finances based on the assumption of moderate overall sales growth or stability.

As you say, if we continue on this path, we could indeed end up as a company that has no choice but to return accumulated profits to shareholders. However, that is not our intention. Our underlying strategy is to use the clarification of our driver businesses as a starting point to actively proceed with the restructuring of our assets and operations, and in the next phase, we plan to make significant growth investments in the businesses we retain.

As was mentioned in a question a little while ago, in that sense, once we start to see a certain level of profitability or similar indicators, I think we'll need to consider managing our operations while aiming to reduce the capital base, the denominator, or by utilizing interest-bearing debt to fund investments.

As for the so-called carve-out issue, we are, of course, considering various options, and we will continue to review our business operations just as we did under the current medium-term management plan. Therefore, please be aware that there is certainly a possibility that such measures may be implemented.

However, I would appreciate it if you could understand that, regarding the timing, we will begin work on each individual project as soon as the details are finalized.

Questioner⑦ [Q]: Finally, I would like to ask about the timing of the medium-term plan announcement.

Watanabe [A]: As for the timing of the medium-term plan announcement, the official announcement is scheduled for the fiscal year-end earnings release in early February of next year, and we plan to provide a detailed explanation at that time.

Questioner⑦ [Q]: This is the second major question, and it will be the last one. I'd like to ask about this year's revised guidance.

If we do the math, it appears the Company is aiming for operating profit of roughly JPY30 billion in H2. Since this is roughly on par with the profit and operating profit levels from H2 of last year, it seems that even excluding factors such as the tariff refunds mentioned earlier in H1, profits are likely up by about 60% YoY.

Given the current business environment, it might seem at first glance that there could still be room for the results to exceed expectations in H2.

Since there are likely some fluctuations between business segments, I would appreciate it if you could also explain where you are focusing your conservative estimates for H2. If there are areas where you are taking a slightly more aggressive approach, please share those details as well.

Ishimaru [A]: As you pointed out, in terms of the balance between H1 and H2, H2 is, in a sense, quite conservative, particularly in terms of profits.

To explain in more detail, particularly by segment, the mechatronics segment is seeing sales increases while profits remain at the same level. One reason for this is that, particularly in H2, we may be forced to slightly cut costs due to advanced technologies; as a result, even though sales will increase slightly, our profit levels will actually decrease.

As for the industrial machinery segment, since both sales and profits are increasing, we expect sales to continue rising steadily. In particular, for H2, we anticipate an uptick as the effects of the structural reforms we are implementing in Europe begin to materialize.

On the other hand, as discussed at the beginning, profits at logistics & construction are expected to decline in H2. This is because, as you pointed out, including the fact that the tariff-related issues occurred in H1, a significant number of profitable projects were completed during H1.

Finally, the energy & lifeline segment has seen a decline in terms of overall balance across orders, sales, and profits. Furthermore, while we expect to consolidate operating profit significantly in H2, one factor to note is that profit from the turbine business, which we transferred, will drop off completely in H2. One point is that orders, sales, and profits are all declining.

Another factor is that this segment primarily consists of large-scale projects, such as water treatment and power plants, which generated significant sales on a project-by-project basis during H1.

Once sales are realized, everything, including contingency funds, is settled, resulting in a very high profit margin. On the other hand, since H2 is still in the planning stage, we naturally cannot factor those figures in at this point; therefore, we are taking a conservative approach in our projections.

[END]