Financial Results Briefing – Q&A Session

(Fiscal Year Ending December 2026, 3rd Quarter)

[Presenter]
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Questioner① [Q]: There are three points. First, I'd like to ask about the results for this reporting period. Regarding orders, you received semiconductor orders that had previously been canceled, with additional orders on top of those, giving the impression of strong demand. The mechatronics segment's operating profit margin also did not decline from Q2 to Q3. I believe the initial assumption was that the profit margin would decline from H1 to H2, but that hasn't happened. The industrial machinery segment's profit margin improved from 3% in Q2 to around 7% in Q3, if my calculations are correct. Could you explain where performance exceeded or fell short of expectations, particularly regarding orders and profit margins?

Ishimaru [A]: Regarding orders, performance has been solid across virtually all segments relative to our internal expectations. However, in logistics and construction, there has been a slight delay, particularly with regard to major projects related to material handling systems. We'll make up for that in Q4, but there has been a slight shift in timing.
Profits across all segments have improved beyond our expectations. Specifically, in addition to an increase in sales, there are positive effects resulting from structural reforms. We are also moving forward with price adjustments in certain businesses, particularly those involving mass production, and we believe this is contributing to the improvement in our performance.

Questioner① [Q]: Second, I'd like to ask about the Q4 operating profit plan.
For example, in the mechatronics segment, the assumption is that the profit margin will fall from 9% in Q3 to 7.4% in Q4. In the industrial machinery segment, the cumulative margin of 4% through Q3 is expected to drop to 2% in Q4, with profit amounts falling accordingly QoQ. What is the rationale behind the assumption that profit margins will deteriorate QoQ across all business segments? Could you explain the Q4 outlook for each business, including whether you are taking a conservative view to account for various risks?

Ishimaru [A]: As you pointed out, we expect Q4 results to be slightly lower than our performance to date. There are some special factors at play. Primarily, in our mass production businesses, such as mechatronics and logistics and construction, there are certain models for which special expenses are incurred only in Q4. In addition, various provisions are factored into our projections.
Consequently, for certain models in the mechatronics, industrial machinery, and logistics and construction segments, we anticipate slightly weaker performance in Q4 due to costs and provisions.
In our so-called one-off project and equipment businesses, centered around E&L, we anticipate that sales in Q4 will decline slightly. Profitability also varies considerably depending on individual construction projects and machinery.
We have recognized sales from a number of highly profitable projects so far, but expect fewer such projects in Q4, which is why the projected figures are slightly lower.

Questioner① [Q]: Third, I'd like to ask about the semiconductor-related business. You have renamed the materials solutions business unit as the semiconductor equipment group. What does this mean? Is this simply a name change, or is the positioning of semiconductors within your company changing?

Ishimaru [A]: The semiconductor equipment group remains within the industrial machinery segment. As we explained during our previous Q2 results announcement, in discussing the outlook for the medium-term management plan, our semiconductor equipment business is facing some challenges. We intend to focus on and expand this business, so we have singled out this area to review our internal organizational structure, including responsibilities, and changed its name accordingly.

Questioner② [Q]: I would like to ask two questions about industrial machinery.
First, regarding the factors contributing to the increase in profits compared to the same period last year, you mentioned sales and improvements in profitability. Could you explain what proportion each factor contributes to the overall profit increase?

Ishimaru [A]: Industrial machinery is showing a significant improvement toward profitability. The biggest contributor is plastic machinery. In Japan, the voluntary retirement program offered as part of structural reforms has led to a reduction in fixed costs.
In addition, we have been phasing out unprofitable models and asking our customers to accept modest price increases. As a result, our profitability has improved significantly.
Our plastic machinery business also has a significant presence in Europe, where we have begun implementing structural reforms. However, the European market has seen a sharper decline than we had anticipated. While the situation has improved, we are still only halfway there. As explained, we plan to implement additional structural reforms.
Another area that has shown improvement is the semiconductor business. While it hasn't yet fully recovered, volumes are increasing. As part of structural reforms, we have also been making improvements by reviewing fixed costs. We have not undertaken much in the way of workforce reductions.

Questioner② [Q]: To summarize, is it correct to say that the improvement in profitability from structural reforms in plastic machinery comes first, followed by increasing sales, including sales of semiconductor manufacturing equipment?

Ishimaru [A]: That's correct.

Questioner② [Q]: Second, regarding semiconductor manufacturing equipment, orders have increased significantly. Could you tell us about the current status of customer inquiries and how you anticipate demand trends from next fiscal year onward?

Ishimaru [A]: There are two main types of semiconductor manufacturing equipment: ion implanters and laser annealing equipment. Ion implanters are larger in scale and are our main products. Although the market has been extremely challenging, we've recently seen some movement among our customers, particularly in China, and as a result, we've been receiving a significant number of orders.
In the power semiconductor market, where our company has particular strengths, we believe that recovery has not yet begun. China is therefore the factor behind the improvement.
Laser annealing equipment has been relatively steady. While our main customers are in the power semiconductor sector, we have also received some inquiries from customers in the memory sector, and activity has been gradually increasing.

Questioner② [Q]: Do you expect the current rate of order growth to continue from next fiscal year onward, or do you expect orders to remain at the current level next fiscal year?

Ishimaru [A]: As for next fiscal year, we currently expect further improvement. China, where we have particular strengths, appears relatively solid, but it is still unclear when the power semiconductor sector will start to pick up. In any case, our assessment is that orders are not likely to fall.

Questioner③ [Q]: Regarding the JPY7 billion extraordinary loss, you mentioned structural reforms for injection molding machines in Europe, the voluntary retirement program in Japan, and the turbine business. Could you explain the amount of each item and whether it contributed to gains or losses?

Ishimaru [A]: The gain was from the sale of securities. Please refer to the Q1 results for this item.
The losses include the voluntary retirement program in Japan, which we mentioned in Q2. In addition, a new item is the cost related to the restructuring of the European plastic machinery business.
Another factor is the loss from the sale of shares in the turbine business, which was also reported in Q2.
The figures previously disclosed are just over JPY2 billion for the voluntary retirement program and approximately JPY4 billion for the loss on the sale of an affiliated company, Shin Nippon Machinery.

Questioner③ [Q]: For Q3 alone, does this consist of JPY2 billion in Europe and the loss on the sale of the turbine business?

Ishimaru [A]: Yes, that's right. Q3 consists of losses in Europe and a loss on the sale of Shin Nippon Machinery.

Questioner③ [Q]: Regarding injection molding machines in Europe, you are implementing additional structural reforms because the market has declined more sharply than expected. Did these expenses arise from workforce reductions, or did you recognize JPY2 billion in estimated costs?

Ishimaru [A]: This relates to workforce reductions. The process is currently underway, and the loss includes provisions.

Questioner③ [Q]: Finally, although we may need to wait for the medium-term management plan in January or February for details, have any decisions been made regarding the European injection molding machine business, including the business the Demag business? Does this involve selling the entire business, or is it limited to structural reforms?

Ishimaru [A]: At this point, it is limited to structural reforms. In addition to the reforms already implemented once, we are undertaking another fairly large-scale initiative in Q3, with the intention of continuing the business thereafter.

Questioner④ [Q]: I'd like to ask about orders for advanced technologies in mechatronics. The cryocooler business has been performing very well, with various applications such as semiconductors and MRI. Could you explain the background to the very strong orders, the contracts involved, and the sustainability of this demand?

Ishimaru [A]: Semiconductor-related products are driving orders. Cryopumps are a major contributor, along with vacuum robots, which are also semiconductor-related. Demand for both is very strong, and orders have been increasing.

Looking ahead, there is uncertainty over whether growth will continue uninterrupted, but we basically expect growth in line with the expansion of the semiconductor market.

Questioner④ [Q]: What proportion is currently semiconductor-related? You could use the order intake of approximately JPY74 billion as the basis.

Ishimaru [A]: The figures change quite a bit depending on whether service operations, or the aftermarket, are included, but currently I'd say it is about 60% to 70%.

Questioner④ [Q]: Previously, you said it was about 40%.

Ishimaru [A]: There are also cryocoolers for medical applications and research purposes, so the semiconductor-related proportion was not previously that large. However, it has now increased considerably.

Questioner④ [Q]: Profitability is strong in this area, isn't it?

Ishimaru [A]: Yes, that's right. Profitability is quite strong, especially when including our aftermarket and service businesses.

Questioner④ [Q]: You mentioned that semiconductor manufacturing equipment includes vacuum robots. How should we view the respective proportions of semiconductor manufacturing equipment itself and vacuum robots?

Ishimaru [A]: The vacuum robot business is performing well, but its figures are still very small. Our main products, cryopumps, account for almost all of the total.

Questioner⑤ [Q]: Regarding ion implanters in the industrial machinery segment, subtracting the Q3 results from the plan makes Q4 orders look relatively conservative. Orders were JPY15 billion in Q3, compared with a plan of JPY3.4 billion for Q4.
If the ion implanter business recovers cyclically from next fiscal year onward, could the industrial machinery segment once again aim for a profit margin of just under 10%, as in the fiscal years ending December 2024 or December 2023?
Ion implanters were the main driver then, but this time structural reforms have also progressed in Europe. Even if growth in ion implanters is not as strong as before, I thought that this margin might be achievable if the recovery in orders continues from Q4 onward. Does this still seem like a high hurdle?

Ishimaru [A]: Regarding Q4, there is considerable variation in the process from customer inquiries to orders for semiconductor equipment. When orders do come in, they tend to be large orders for multiple units. This makes them somewhat difficult to predict, so we are taking a conservative view.
Looking ahead, we will ultimately aim for high profit margins, as you mentioned. However, as explained in Q2 and earlier today, our products have some concentration in particular markets and regions. By addressing this and expanding through cross-selling and similar initiatives, we believe we can aim for business expansion and improved profit margins.

Questioner⑥ [Q]: Let me ask one question.
Regarding cybersecurity, cyberattacks on companies are becoming increasingly severe, leading to incidents such as data breaches and business disruptions. Could you share your perspective on this situation, your company's countermeasures, and your top priorities?

Ishimaru [A]: As you pointed out, we recognize that there is a significant risk. Our ICT division works extensively on security as well as the use of AI and digital transformation in development. We recognize the risks and work to block threats on a daily basis. As of now, we are not aware of any major incidents.

Questioner⑥ [Q]: As a follow-up, generative AI is also being misused for cyberattacks. What efforts do you believe companies themselves need to make to curb this trend?

Ishimaru [A]: It is difficult to curb this trend, but our first priority is to block anything suspicious and prevent it from entering. Beyond cyberattacks, there are also cases in which external access causes problems on a daily basis.
We have documented our internal response procedures, and the ICT division leads efforts to resolve issues while blocking access. Our approach is to prevent threats from entering in the first place and, if they do enter, immediately block them and close off access.

[END]