

Condensed Transcript of Q&A Session Regarding Results Briefing for the Year Ended March 31, 2023 (May 2, 2023)

Presenter

Masayoshi Fujimoto, Representative Director, President & CEO

Makoto Shibuya, Managing Executive Officer, CFO

First Questioner

Q. Please tell us about the growth strategy investment and their earnings contributions on page 7 and 8 of presentation materials. The original three-year plan of ¥330 billion was revised upward to ¥500 billion, and this increase in investment is so large.

While in Medium-Term Management Plan (MTP) 2023, the contributions to earnings over the three years will be ¥20 billion from the original of ¥25 billion. I think that the earnings contributions from the new investments will probably occur after the MTP2023. I would like to ask you to convey the idea that you are going to invest this ¥500 billion.

A. Fujimoto, CEO:

Regarding the earnings, we have achieved ROI on the investment of around 10%, although we initially set a target of 7% to 8%.

In that sense, there is off-shore wind power generation business in Taiwan that has unfortunately taken an impairment this time, and this is largely due to the delay in the construction period related to COVID-19 pandemic. The impairment loss was taken because of the expected cost increase, but excluding this, the ROI forecast is about 10%. This time, we are going to raise the investment to ¥500 billion, and as for risk management, we will be as careful as ever. The first year's earnings will be about 4% to 5%, but we believe that we can aim for 10% in about three years.

Q. About cash flow on page 10, investment has increased to ¥500 billion, but the current plan is to have a positive core cash flow over MTP2023. You originally planned to be positive on a cumulative basis over the six years of MTP2020 and MTP2023, so the reality is that even during these three years if you have minus, I think the plan is still on track. What do you think about the use of the cash flow?

A. Fujimoto, CEO:

There is a surplus cash flow. We have about ¥56 billion left in investment capacity, and we do not have a definite answer as to how we will use it. However, because of these facts, we were able to determine some cash flow earlier this time, so we announced earlier that we would purchase ¥30 billion or 10 million shares of treasury stock. We would like to aim for a PBR of one time while watching the effects of such

things.

Second Questioner

Q. Regarding earnings contributions, on page 8, the assumption is that it will fall quite a bit in MTP2023 compared to MTP2020. I would like to know what the contents are. Also, can I assume that impairment loss of off-shore wind power generation business in Taiwan is not included in this?

A. Fujimoto, CEO:

One of the reasons that the contributions to earnings from MTP2023 has declined compared to MTP2020 is the coking coal business in Australia, in which we invested in MTP2020. The underground mining is lagging behind, and the yield will be 1.5 million tons in FY2022, and 1.8 million tons in FY2023. In addition, royalty fees and labor costs have been rising, which has reduced profitability, and this is the largest part. Off-shore wind power generation business in Taiwan is not included in the list.

Q. I understood the contribution in MTP2020 was from the Gregory Crinum. However what investment in MTP2017 attributed to the drop in MTP2023?

A. Shibuya, CFO:

There were gains in FY2022 from selling domestic solar power generation businesses.

Q. About the forecast for FY2023 on page 4. In this section, there are various detailed disclosures, and there is about ¥7.5 billion included in the negative figure due to changes in the market environment. Please explain in which areas there are gains and losses or where demands are decreasing.

A. Shibuya, CFO:

The ¥7.5 billion figure is mainly due to the fact that the steel trading company, which had increased profits in FY2022 due to strong performance in Southeast Asia and North America, and we will see a decrease in profits due to the possibility of a slight weakening in North America, and the Chemicals or other business other than energy and resources will see a slight decline in market conditions.

Third Questioner

Q. I would like to ask you to explain a little about two segments. Regarding the Automotive Division, I think it is a more promising segment, so how should we look at this in FY2023? The other is the Retail & Consumer Service Division. Your plan for this fiscal year is to finally reach the ¥10 billion level, but could you please explain whether you are seeing a growth trajectory?

A. Fujimoto, CEO:

With regard to the Automotive Division, in the second half of this fiscal year, we sold Subaru cars in stock in Russia, which kept the deficit at a minimum, but the loss increased a little after the stock ran out. Also in Pakistan and the Philippines, which are dollar-denominated, the profit decreased due to the loss of price competitiveness and a slight decline in sales in dollar terms, where the depreciation of the yen affected.

However, most of the investments that we had expected to be made in the previous fiscal year 2022 will be made at the beginning of FY2023. With this factored in, ¥7 billion is a bit understated. In the retail business, we are seeing contributions to earnings from TRY Inc., and Marine Foods Corporation acquisitions, as well as recovery in the Royal Holdings and JALUX businesses, and we are getting the sense that earnings are beginning to firm up.

Fourth Questioner

Q. About the Metal, Mineral Resources & Recycling Division. In the FY2023 forecast, you mentioned earlier that Gregory will be 1.8 million tons, but in the Q3 results, you said that you had not decided whether to outsource the underground mining or whether you would do it yourself. What is your direction now? Also, I would like to ask for an explanation of the part of the next medium-term plan where earnings are factored in.

A. Fujimoto, CEO:

We were talking about 1.5 million tons in FY2022, and now we are looking at 1.8 million tons in sales volume for FY2023. We are currently discussing the possibility of underground coal mining by Sojitz. In this context, we have received a report that the prospect is that it will be possible to dig the mine in around August or September, but we have not included it in any of the revenues, etc. at this time. We are taking a conservative view in case there is still a possibility of delay.

Q. About PBR. Since a request from the TSE was issued at the end of March, we would appreciate any information you can provide regarding your response to the request, such as the schedule or the consideration for the response.

A. Fujimoto, CEO:

Even before we were told by the TSE, we have been aiming for a PBR of over 1 time in the current MTP2023, and we have been improving our earnings and have set a course for increasing earnings. In this context, we will also implement a ¥30 billion share buyback. I would like to ask you all about these results and what kind of effect they really have, and if not, what will be done next.

Q. I am also in charge of the energy sector, and the most recent mid-term plan announced by Cosmo Energy Holdings, which was well received by the market as a shareholder return policy, sets a cap on the amount of equity capital currently in place, and if it exceeds that amount of equity capital, the excess will be returned 100%. The fact that the company has now quantitatively disclosed the amount of required capital, even if not quantitatively, based on risk buffers for each segment, has been well received by the market, and we are keeping a close eye on whether this trend will continue.

A. Fujimoto, CEO:

As for Sojitz, equity capital has now reached ¥870 billion, but whether we aim for ¥1 trillion or ¥2 trillion like other trading companies, we need to think carefully about this area and whether we can put a cap on it or not.

Fifth Questioner

Q. Please tell us about the share buyback announced this time. The release on the share buyback stated that the decision to buy back shares was based on the core cash flow generated in MTP2020 and the first and second years of MTP2023. So, you decided on ¥30 billion without considering the third year of MTP2023? More to the point, depending on what happens in the third year, will there be additional share buybacks?

A. Fujimoto, CEO:

Regarding share buybacks, originally, we thought that we would consider the amount of the share buyback and implement the buyback after the final year of the MTP2023 was over and the cash flow for the six-year period of MTP2020 and MTP2023 had been finalized. However, we decided to buy back ¥30 billion of our own shares at the end of the second year because we had made progress in replacing assets, and operating cash flow had increased.

For the final year, we would like to consider the cash flow situation at that time and the effect of the share buyback.

Q. In the analysis of earnings growth leading up to FY2023 year end on the presentation materials, there was a figure of ¥7.5 billion for the interest rate impact and non-financial cost. I would like to know more about this.

A. Shibuya, CFO:

We are looking at about ¥5 billion in interest rate impact. The interest rate on the dollar is rising, and we are looking at 5.2% in our plan, but we expect this to raise overall costs by about 0.6% to 0.7%. We have factored this into our plan. Other than that, there have been various cost increases, so I hope you can understand this as an increase in costs.

Sixth Questioner

Q. I was impressed by the strong words of the President that he wants to bring the launch pad of the next medium-term management plan to ¥100 billion units. On the other side, if there is a factor that is hindering you from raising the level of the launch pad, is this a situation in which the scale of this investment, which is ¥250 billion in the third year of MTP2023, does not proceed as expected? Is it more of a risk that the effect of the investment return will be delayed?

A. Fujimoto, CEO:

I think the highest risk here is that the planned investment will be delayed. However, at the moment, we are very conservative about the ¥95 billion for the next fiscal year, so we believe that the ¥100 billion launch pad for the next medium-term management plan is somewhat reasonable.

Shibuya, CFO:

Of the ¥250 billion planned for investment in FY2023, about 50% or a little less than 60% of these projects are in final negotiations or are visible at this point in time. The figure of ¥250 billion is a large figure but we expect that we will do it to a certain extent.

Q. As for the figure of ¥13.5 billion of earnings contributions from MTP2023, I would like to know how much of a sense of scale is included in each segment as a return on new investments, and subtracting the existing business, what were the main factors contributing to the change between FY2022 and FY2023?

A. Fujimoto, CEO:

We do not have detailed figures of the increase or decrease in revenue by division, but the transition in the retail area is mostly coming from new investments, and for the automotive, it is also an investment we will make at the beginning of 2023.

Q. If the Company's foundation for earnings itself is steadily increasing and can establish a foothold at the ¥100 billion mark, then, at that time, will it probably lead to your decision to set the dividend to this ¥130 level as a certain lower limit or to make it progressive? If you have any thoughts on this, please let me know.

A. Fujimoto, CEO:

Regarding the dividend policy, we would like to discuss over the next year, and we will present it in the next medium-term management plan. We would like to determine the next dividend policy while properly accepting such expectations.

Seventh Questioner

Q. I have the impression that the FY2023 forecast of ¥16 billion for the Chemicals Division is quite strong, and I also thought that the fiscal year that has just ended was also strong under the circumstance that methanol market conditions is decreasing. Could you tell us about the background behind why you think you can do well this term?

A. Fujimoto, CEO:

We are also being very conservative here with methanol pricing and such and we have been able to improve the profitability of chemical products by cutting unprofitable businesses and basically offering a variety of proposals. Based on this view, we believe that ¥15 billion is solid, or we can even make ¥16 billion.

Q. On your documents on financial results and presentation materials, there is your statement that gives the impression that there will be a decrease in earnings by ¥6 billion due to investment replacements or a one-time gain or loss. What are your assumptions regarding one-time losses and gains in the net profit of ¥95 billion?

A. Shibuya, CFO:

For example, as a forecast of FY2023 in the Retail & Consumer Service Division, we have shown in the highlights of consolidated financial results that earnings is expected to increase as a result of gains from asset replacement and earnings contributions from investment projects. In the real estate-related area, this Division is replacing its portfolio, and we have factored in a small profit. There is no particularly large impact, but there are some effects.

Earnings due to the replacement of investments means that although we have already replaced these investments, there will be an impact on profit and loss for the period. Rather than continuing this in the future, we are presenting the figure that will fall off from the results of FY2022.