FY2025 First Quarter Earnings Conference held May 15, 2025

Summary of Q&A

Respondents:

Shugo Hosoda	Director, CEO & COO, President, Representative Executive Officer
Tetsuya Fuchida	Executive Officer, CFO

Questioner 1: My first question is regarding your mentioning that changes may occur without notice. Could you elaborate on the future challenges and thinking currently under consideration? A recent article mentioned a desire to grow revenue significantly. How closely is this tied to M&A?

Also, regarding benchmarking against competitors, could you comment on your view of ROE? According to your materials, Competitor A has an ROE of 29%, while EBARA’s is 16%. Although you have achieved the E-Plan 2025 target, is there an ambition to exceed 20%? And is Competitor A your main benchmark?

Hosoda: Our ultimate long-term revenue goal is to grow to about 1.5 to 2 times our current scale over the next 10 years. However, rather than targeting revenue directly, we will prioritize profitability and efficiency to achieve overall optimization.

Operating globally and establishing fundamental management systems for optimization requires certain fixed costs. At our current scale, just under JPY1 trillion, we feel it is not efficient enough nor sufficient for global operations.

Therefore, we aim for a medium- to long-term scale of JPY1.5 to 2 trillion. M&A will be used more strategically than before. Many of our peers in this industry have expanded through inorganic growth, and while we have had goodwill impairments in past M&A, we have gained valuable experience.

As for ROE, whether 16% is high or low depends on the comparison. However, we must be aware that a peer has achieved 29%.

We will consider leverage and other factors and aim to set higher ROE targets in our 10-year vision.

Questioner 1: My second question is about the orders for the Precision Machinery Segment, especially CMP Systems.

In the past consecutive quarters, we have received your comments on the development in terms of projects delayed into the next quarter or fiscal year, or in terms of demand from China and global players. This could mean that the demand was weaker or stronger than it would have been, considering the delay in Q4.

Detailed discernment may be difficult, but I would appreciate it if you could mention whether this JPY41.8 billion is a little weaker than originally assumed.

Fuchida: CMP Systems' Q1 performance exceeded our initial orders, revenue, and operating profit forecast. Some Q2 orders in Asia were pulled forward into Q1, contributing to the strong performance.

Questioner 2: I have three questions.

First, for President Hosoda, on slide 25, can you give hints on which KPIs will be prioritized over the next three years? Is it profitability, ROE, operating profit ratio, or revenue?

Hosoda: We still consider the next three years an investment phase. Ultimately, we expect efficiency and profitability indicators to improve as the business grows. Initially, we will focus on qualitative improvements, which require upfront investment.

The three strategic pillars, Energy, Precision Machinery, and Building Service & Industrial Segments, each have different growth strategies. We will continue investing over the next three years, as we have in the past three.

Returns from current investments are starting to come in, so we aim to maintain a certain level of profitability and efficiency while continuing to invest.

Questioner 2: My second question is to ask for your view on the progress of orders, revenue, and operating profit by segment in Q1 versus the plan.

Fuchida: Orders were generally in line with the plan. Revenue was strong in Energy, while other segments had a slower start. Operating profit was solid across the board.

Question 2: So, operating profit exceeded the plan?

Fuchida: Yes, slightly above plan.

Questioner 2: Were all segments performing evenly, or were there notable differences?

Fuchida: Precision Machinery stood out positively. Other segments were generally in line, with no major deviations.

Questioner 2: My third question concerns U.S. tariffs.

From the prior explanation, I understood that the cost impacts are not included in your plan. Can you expand on the estimated cost increase, and how do you plan to offset it?

Fuchida: Tariff impacts are included in both the H1 and full-year plans. We see the impact as limited, less than JPY2 billion in operating profit. We are considering price adjustments, but no changes to our overall forecast.

Hosoda: To add, most of our businesses operate on a local production-for-local consumption model, so the impact is limited.

Our Energy Segment does a lot of business in the U.S., including factories, and ships its products from there. So, some costs may rise slightly when U.S. factories import parts from Mexico or Canada, but we can mitigate this by sourcing locally, for example.

We export from Japan for Precision Machinery, but the impact is also limited due to Incoterms and other factors.

Questioner 2: One follow-up, is the JPY2 billion impact already factored into the plan, or do you expect to offset it through pricing?

Fuchida: It is already factored in. While we may offset some through pricing, overall, we have included the measures in the plan without making any changes.

It is difficult to discuss price passthroughs in detail. In any case, they would be very limited, within the margin of error, against the overall operating profit of JPY100 billion.

Questioner 3: I have two questions.

My first concern is the share of Precision Machinery orders in China. Last year, it was about 30%, I believe. Has it declined as expected at the beginning of the fiscal year, or is it going better than expected?

Fuchida: Regarding China, the proportion has declined slightly, including the revenue ratio, but it remains stable. Our market share in China has not changed significantly.

Questioner 3: Was the absolute value in line with your initial forecast?

Fuchida: Yes, as expected. The market environment was not as weak as anticipated.

Hosoda: To add, we expected a decline after strong growth last year, but demand remained higher than anticipated. We are maintaining a high level.

Questioner 3: My next question is, there was mention that things are going so smoothly with some CMP equipment that the schedule might be moved up to the second quarter. What is the reason behind this acceleration?"

Fuchida: Foundry applications remain strong, and logic orders are up year-over-year. We are seeing increased inquiries from major global customers. We expected China's demand to decrease somewhat, but China did not decline as much as expected, and other regions are also showing slight growth.

Questioner 4: I have two questions.

First, for President Hosoda, regarding slide 25 and Company A, what explains the difference in operating profit ratio or ROE? Is it product mix, pricing, or business model, like shifting product sales to engineering sales, or how things are being sold? What is your understanding of why there is such a gap? And will you use M&A to close it?

Hosoda: We are studying our benchmarks, but do not have complete visibility of their details.

Considering the factors behind the gap, one factor is scale. JPY0.8 trillion vs. JPY2.5 trillion makes a big difference in fixed cost efficiency.

However, we cannot scale up overnight. I think the only way to solve this is to expand step by step.

We believe we are on par in terms of product competitiveness.

As I mentioned earlier, global management efficiency is an area where we lag. Each site operates independently with their own systems, leading to inefficiencies. Western companies tend to be more optimized. Another factor is the service and support ratio; higher after-sales revenue boosts margins. We have a high service and support ratio, but some of our businesses still have room to grow in this area.

Internalizing standard products and capturing more of their added value could also help.

We will continue analyzing these factors further and work to close the gap.

Questioner 4: As for product competition, I am relieved to hear there is not much difference.

My next question is about Energy results. I am looking at slide 11. As for the delay in orders received, as mentioned in a later section, is it correct to understand that the JPY10 billion delay from H1 to H2 is the delay in Q1 this time?

Also, if it is in the U.S., are business negotiations delayed due to Trump's tariffs? Is it unrelated to the electric power?

Fuchida: Yes, the JPY10 billion downward revision in H1 orders is accurate, but the full-year forecast remains unchanged.

Delays are due to the U.S. tariff policy and inflation, which have slowed large project decisions. There have been no cancellations.

Power-related businesses in Asia and China are performing well.

Questioner 4: Regarding large-scale projects deferred from Q1 to Q3 and beyond, should we understand this as being due to the recent Trump tariffs? Or is it more accurate to say it is unrelated and simply a shift in the customers' investment timelines?

Fuchida: We find that, with the Trump tariffs and their uncertainties, some customers are choosing to hold off on final investment decisions.

We have not received any information indicating cancellations, so we treat this as a timing shift rather than a loss of business.

Questioner 4: For the April-June period, you also have several U.S. projects in the pipeline. Should we be concerned about similar delays in the 2H, or is this purely a company-specific issue?

Fuchida: At this point, we believe it is a company-specific issue.

Questioner 5: One question, orders for Components grew significantly YoY and QoQ in Q1. What is driving this?

Fuchida: Higher factory utilization among customers has driven demand for components like dry vacuum pumps. Increased utilization also boosts overhaul demand, contributing to order growth.

Questioner 5: If we annualize JPY29 billion in Q1 orders, it exceeds the company's plan. In February's results meeting, you said that you were in the stage of slowly growing market share for Components, and the plan was set somewhat low. Was the Q1 performance driven by customer factory utilization or market share gains?

Fuchida: Mainly utilization. There may be some share gains, but utilization is the bigger factor.

Combined Q1 and Q2 orders are expected to total around JPY50 billion, roughly in line with last year's H1.

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