

EBARA CORPORATION Third Quarter of FY2021 Earnings Conference Q&A
Q&A during earnings conference held November 12, 2021

Participant 1: In the latest revision, you have revised orders for the PM Business by JPY30 billion. Could you tell us more details?

I would also like to know about the effect of new products.

Also, the backlog of orders has increased considerably, but in terms of revenue for the next fiscal year, will you be able to increase revenue to the JPY250 billion level?

Hosoda: Forecast orders for CMP is up JPY20 billion and for components up JPY10 billion. As for new products, there is an exhaust system for EUV, but it was not yet included by Q3.

However, we expect that we will be able to include several units in Q4.

As for the next fiscal year, though specific figures are yet to come, we believe that the situation will continue to be favorable, based on the fact that the backlog of orders is increasing.

Participant 1: Operating profit of the PM Business for the full year has not been changed. So, if you subtract the difference, the operating profit margin for Q4 will be 10.7%, which is about 7% lower than in Q3.

I think the usual explanation of a worsening project mix doesn't quite explain the situation. Could you give us your view whether or not there are any other special factors?

Hosoda: This is due to the project mix after all. Looking at all the projects for all the customers, there are projects that are somewhat unprofitable and those are scheduled to be sold in Q4.

We explain it as project mix, and we can't tell you the name of the customers.

Participant 1: In the FMS Business, it is described in the summary of the financial results that petrochemical projects in China are lagging behind due to CO2 emission adjustments and the compressors and turbines business in China is also slowing down.

Please tell us if there is any risk of shortfall in order target in the areas of pumps and compressors in China.

Nagata: The China market as a whole was quite favorable in H1 of the year, but there was a slight slowdown in Q3, which can be seen in both oil and gas and building equipment.

We do not believe that the decline is so great that it will be a downside factor for this fiscal year's performance, and we currently expect that the risk of the shortfall of the full-year forecast will not be that great in China.

General contractors have been experiencing various problems in the building equipment market. I don't think the impact of these problems is significant at this point, but we will be watching closely in the future.

Participant 2: I would like to know about the impact of foreign exchange rates on your business performance. You have revised your full-year forecast from JPY105 to JPY110. Nevertheless, operating profit has not changed. Does that actually mean a downward revision?

Hosoda: We revised the exchange rate from JPY105 to JPY110 for 1 USD. The weaker the yen is, the better it is for our financial results. So, in that sense, if you only look at the impact of the exchange rate, it may be seen as a downward revision. I think it will have an impact of about JPY400 million in operating profit for about 6 months.

We have not changed our operating profit plan this time because we believe that we can absorb the impact of JPY400 million within the fluctuation range of each business.

In that sense, this is the downward revision in real terms as you say. Please understand that when you look at the total amount of impact, it will be absorbed by the fluctuation range in each business.

Participant 3: The first question is about the number of orders received in the PM Business. If I am correct, the order backlog of components and CMPs in Q4 is lower than in Q2 and Q3.

Although there may be room for upturn. Is it better to think that the current order environment will change in the next 3 months, or are you just taking a conservative view?

Hosoda: We are not particularly conservative in our view. We have taken account of orders at the end of December, the annual trend, the past trends of each customer's planned projects, and other factors.

The planned figures are given from the perspective of where the probability is the highest.

Participant 3: Secondly, I have a question about the factor analysis of changes in operating profit in the EP Business.

As you explained in the beginning of the presentation, I think the amount of decrease in profit was largely due to the deteriorating mix.

Looking at the past 3 months, the amount of decrease due to the profitability seems to be large. Should we be concerned that this trend will continue through Q4 or H1 of the next fiscal year? Or should we think that it will only affect this quarter?

Hosoda: In Q3, there were some transitory costs for some projects, so the poor profitability of Q3 was transitory.

However, from a structural standpoint, EPC projects have increased this fiscal year, while operations and maintenance have decreased. Since operations and maintenance are more profitable than EPC, I think that the trend of poor profitability may continue in the next fiscal year.

However, if we look only at Q3, there was a decline in profitability specific to individual projects, so I think it will not continue.

Therefore, there are 2 sides, one that continues and one that does not.

Participant 4: Could you tell us your feeling of what the level of results in Q3 was compared to the internal plan on a company-wide basis?

Hosoda: Although we don't disclose our internal plan, orders were certainly a little ahead of schedule. Therefore, we revised orders for Q4, mainly for the PM Business, but other than that, the results were almost as planned.

Participant 4: The second question is regarding the detail of the FMS Business.

I know that the business is not very profitable seasonally in Q3, but I still feel that the amount of profit itself was a little small.

Also, looking at the factors of increase/decrease in profit for only 3 months, the negative impact of revenue is quite large. However, revenue is probably not actually decreasing that much. I would like you to explain this.

Hosoda: In the FMS Business in Q3, as you are well aware, there are quite a few seasonal factors, and similar to the EP Business, some factors such as the provision for temporary construction losses were seen in Q3. I think the Q3 results were a little low due to such mixed factors.

Participant 4: Is that a fairly large amount? About JPY400 million to JPY500 million?

Hosoda: Yes, such a scale.

Participant 4: Is there concern that the impact of so-called material cost inflation around the world will be seen in the EP and FMS Businesses in the future?

Compressors and turbines in the FMS Business, for example, is a long-term business in particular. This is not only for this fiscal year, but also for the next fiscal year and beyond.

Hosoda: It depends on the business, but we try to be a little conservative from the estimation stage for projects with long lead times.

We also try to include a clause in the purchase order that allows us to review the quote if the price increases. For projects with long lead times in this upswing phase, we are hedging our risks in this way.

Also, for projects with short lead times, we reflect the price fluctuation in the quotation stage and for standard items, we raise the price and pass it on to the price. There is a difference depending on the business.

Participant 4: Both in the EP and FMS Businesses, the negative factors seen in Q3 have little to do with material prices, but it's just transient factors.

Hosoda: I don't say all of them, but I think most of them were transient.

For example, when it comes to price hikes, there is a time lag between the time the material price goes up and the time the price is actually passed on. The time lag has a small impact.

We are taking such measures so that it will not affect our business in the long term.

Participant 5: First, you mentioned that investment in petrochemical plants in China has been favorable in H1 of the year but fell in Q3.

Is this situation just because they invested too much in H1 of the year, making Q3 look a little weak? Or should we judge that the environment for orders is actually deteriorating or is it a seasonal thing, or how should we view the deterioration?

Hosoda: Petrochemicals in China. First of all, the oil and gas business is not seasonal. As China's economy recovered quickly from the coronavirus, the performance in China stood out in Q1 and Q2. This has settled down a little in Q3.

In addition, various constraints in government-supported investments in petrochemicals have begun appearing. In addition, there are various factors, such as power outages, that may not be limited to petrochemicals.

I think that we are starting to see a situation in Q3 that may slow down the momentum a little. However, from an overall perspective, there is no doubt that China is the driving force. So, we need to keep a close eye on that area.

Participant 5: I've heard that the government has been interfering with the trend of capital investment in petrochemicals in Q3, and I've also heard that the situation with electricity has been improving recently. So, I'm wondering if there is any need to be so conservative or not.

Can I take the view that the plan for Q3 was initially weak, so you are just a little more conservative in your plan for Q4?

Hosoda: With regard to petrochemicals, we set our plan based on the timing when specific projects will be launched.

Participant 5: Don't we need to worry too much about external factors such as the recent trend toward environmental friendliness, the need to restart coal production, and the liberalization of electricity?

Hosoda: We are keeping a close eye on those. Rather than thinking on external factors, we made a plan based on concrete projects that we received.

Participant 5: Secondly, I am looking at page 4 of the financial statements. You recently show the changes with arrows.

Last time, in Q2, the result for the compressors and turbines business was downward, but in this Q3, it is facing upward. What is the change in the compressor turbine in this Q3 compared to Q2?

Hosoda: If we compare Q2 and Q3, especially in service and support (S&S), from last year to H1 of this fiscal year, S&S was a little stagnant due to the restrictions on human movement caused by the coronavirus.

In H2 of the current fiscal year, the movement is becoming more active, so I think this is one of the factors.

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