

Question & Answer

Participant 1: First, I would like to ask about the energy company. I believe this is related to the plan for the current fiscal year and the medium term plan. You mentioned that the forecasted JPY5 billion decrease in operating profit for the current fiscal year is due to the decrease in demand for service and support (S&S) and structural reforms. How much impact will those have, respectively? Also, what issues will this structural reform be based on and what will be changed? Can you give us some more details on this?

My guess is that by integrating service locations of compressors and turbines and pumps in the energy company, perhaps you want to grow service and support (S&S) revenue in the pump business as you did in the compressors and turbines business. However, since the product characteristics are different, I think that has been difficult to achieve so far. Will the structural reforms produce synergies? Please explain a little more.

Miyaki: Regarding the first point, the JPY5 billion decrease in profit. As indicated on the slide 17, there are three factors: a lull in strong S&S demand and other one-time expenses, and two restructuring items. Please imagine that each of these three accounts for about one-third of the total.

Regarding the second point, structural reform. In FY2022, operating margin and operating profit were very strong, especially for compressors and turbines. As noted here, we were able to capture the post-COVID demand for S&S. We were able to capture the demand that we had been unable to do S&S for several years due to the COVID-19 pandemic, and the business performed very well. This, combined with the improved profitability through E-Plan 2022, resulted in very good results for both operating margin and operating profit.

One of the issues we recognize is that even without that strong performance, we need to take earnings improvement to the next level.

The other is that, as I have explained, our current market is almost exclusively oil and gas. We expect demand for ethylene and other products to remain firm, especially as the population grows. However, in terms of business strategy, we must make the transition from oil and gas to carbon-free energy in the context of the decarbonization trend. Not only us but our customers are aiming for such a transformation, and we want to work with them and lead it.

There are two challenges: the need to further improve profitability so that high profit margins and profits can remain even without very good conditions, and the aim to develop new products that can capture the new demand associated with the decarbonization trend.

Also, as you mentioned, we have established our service bases close to our customers, and since our petrochemical business was initially centered in Europe and the US, we established service bases there. This trend is now shifting to Asia and the Middle East. We will review service locations according to customer flow.

Furthermore, as you point out, there is still a lot of potential for service in custom pumps. We are looking forward to capturing more S&S demand with our experience and network of compressor turbines and Elliott Group.

Participant 1: The second point is about the Precision Machinery business. The outlook for orders for the current year is a 14% decline in components and a 5% decline in CMPs. There was some talk about CMPs being ordered ahead of schedule, and I also have the impression that the order plan is relatively strong, despite talk of the market slowing down by more than 20%.

Can you give us some more details on this by industry and by region? It is also assumed that orders will be even lower in H2 compared to H1. I know it is hard to tell at this point, but will orders bottom out in the July to September period or the October to December period, and will they recover in the next fiscal year?

Togawa: We expect market conditions to continue to decelerate in the current fiscal year. We expect that situation to continue in 2024 and begin to recover in 2025.

Up to now, we have been working on joint development with our customers under E-Plan 2022. Through those developments, we have been able to enter into processes where we have not been able to receive orders before. As a result, we are receiving fewer orders overall, but we are securing a certain amount of volume.

Difference between orders received in H1 and H2. As I explained at the beginning, there is some talk that market conditions will slow down this fiscal year and then begin to recover around the end of this year. However, our plan is to expect the market recovery to stall in 2024. Therefore, we are planning to receive more orders in H1, reflecting the fact that market conditions will be a little worse and that we cannot yet fully assess market conditions in H2.

Participant 1: Finally, the profit target for the final year of the medium term plan is not clear. However, based on the profitability of each business and the growth rate of revenue, I think that you are assuming a level of revenue of about JPY830 billion to JPY850 billion and an operating profit of about JPY100 billion. Can you please correct me if I am greatly mistaken?

I also have the impression that the profitability of each business is a little low, considering the results of FY2022. Is this largely due to a considerable increase in capital expenditures and other fixed costs? Can you also provide more details about your goals for profitability?

Asami: As I mentioned earlier, we have set a Company-wide three-year revenue CAGR target of 7%. We intend to grow revenue as a company.

On the other hand, we do not yet consider the improvement in profitability to be sufficient. This period is positioned as a time to focus on profitability rather than pursuing revenue, especially in social infrastructure such as the Building Service & Industrial business and the energy business, and to further strengthen the competitiveness of our business while further enhancing our market-in perspective.

In addition to profitability, we position this period as a time to strengthen our business competitiveness beyond 2025 and toward 2030. We will make the necessary investments to optimize production sites, develop in line with new energy transitions, further miniaturize precision products, and meet the demand that will double by 2030.

We will invest both in terms of technological development and in production facilities. During the three years of this medium term plan, we will make solid investments to become more competitive while further improving profitability in this way. In order to properly face the market and gain a competitive edge, we have positioned this period as a time for business managers to carefully consider what needs to be done to grow after 2026, and to make the necessary investments. Profitability may appear to be a bit lower, but we hope you understand that this is due to the necessary investment aimed at 2030.

Participant 2: First, I would like to know about the concept of this medium term plan for the Precision Machinery company. I understand that your company's revenue growth is expected to outpace market growth. I would appreciate it if you could explain, by product, why it is expected to grow.

There was also talk of expanding market share as a basic policy. It would be helpful if you could explain how you plan to increase the market share of your products and which products you plan to grow.

Togawa: E-Plan 2025 is a waypoint to the goals of E-Vision 2030, and we have come up with the plan based on what we think 2025 should look like.

Specifically, the basic idea is to properly grow the CMP and dry pump businesses. In addition to this, we have recently introduced exposure systems using EUV, etc., and we will properly grow our products in this field. There is a trend in sub-fabrication, and the like, to consider the environment, such as the ozone layer, and make semiconductors using products that have the lowest environmental impact, rather than chemicals. We would like to properly develop and expand the areas necessary to achieve environmental load reduction and carbon neutrality.

Participant 2: Another question is also about the Precision Machinery company. Please tell us about the factors behind the increase or decrease in your operating profit forecast. You mentioned earlier about the assumption of order volume. I would like to know what factors have led you to this profit target based on the revenue target.

The fluctuating factor would be the impact of increased revenue, and I believe the plan is to increase R&D expenses as well. Please tell us about the contents of the profit plan, including costs and the product mix of revenue.

Togawa: We have an abundant backlog of orders, so basically, we will produce them properly and make sales. The profit is expected to increase due to higher revenue.

One more thing, in the E-Plan 2025, we would like to improve our management infrastructure, including our supply chain. As for factors contributing to the decrease in profit, labor costs for production increase as sales increase. After all, the competition in technology is fierce, and we are considering increasing the number of developers to support this competition.

Our mission is to realize what our customers want to achieve, so we want to spend development costs and develop properly.

In terms of strengthening the management base, we will invest in management infrastructure such as ERP, which will increase our costs. In addition, we believe that our customers' factory operations will be slightly worse, especially in this fiscal year. Therefore, we do not expect growth in service and support (S&S), such as parts sales and overhauls, to be as large as the growth in revenue. Therefore, we expect the proportion of high-margin services and support to decrease slightly, and we plan for the operating profit margin to be slightly lower than last year.

Participant 2: Please tell us about how you will set priorities on new segments under E-Plan 2025, given the possibilities in the new face-to-face market in the future.

The plan was created on a face-to-face market axis, not a product axis. I believe that some face-to-face markets will see growth, while others will not. As the entire Ebara Group launches new businesses, I would like to know which markets you expect to be promising and how you plan to allocate your company's resources.

For example, will the operating margin of each segment be a factor to consider? Will you look at the ROIC of each segment and decide where to focus your efforts? Please tell us about the possible ways of setting priorities on the new segments.

Asami: I think this is an extremely important point. Ebara's idea is, above all, to continue contributing to society. Of course, we will continue to contribute as a public institution of society in infrastructure. It is important to continue to contribute to society, whether it is precision, energy, or building equipment. First of all, we hope you understand that is what we want to do.

When the external environment changes, many things happen. In order to be able to continue to do what we want to do in accordance with the market we are facing, we aim to keep ROIC management going all the way to ensure that our operating margin and ROIC are well above WACC.

The axis is there. Of course, if profitability were to fall very much below what we were aiming for, we would have to consider countermeasures. The other is energy transitions. We can see the market shrinking, but on the other hand, new markets will emerge. We will invest well while profitability is secured and turn transitions into opportunities.

With regard to new businesses such as hydrogen, it is fundamental to invest aggressively. There are also new businesses, still in the seed stage, but in completely different areas, such as inshore aquaculture. We will also make sure to do the things that Ebara wants to do, such as delivering protein and restoring the oceans.

Of course, the base is to conduct steady business, and then firmly seize opportunities when each business makes a transition. In a business like the Precision Machinery business, where the market is doubling, we have no choice but to keep up with the market, so we will do our best to develop technology and increase production.

We will keep a close eye on ROIC and operating margin as indicators, but we hope you understand that about what we want to do. This may not be a solid explanation, but this is what I am thinking.

Hosoda: On page 23, we have included an image of the evolution of the portfolio. This is the basis of the business portfolio management in the medium term plan.

In terms of the evolution of ROIC management, as a financier, I would like to evolve business portfolio management, considering ROIC and WACC spread as indicators, while of course aiming for what we want to do and what we want to be.

Participant 3: Thank you as always. I have two questions about the Building Service & Industrial segment on page 32 of the E-Plan document, and one about the Precision Machinery on page 40.

First, I would like to ask two questions regarding the Building Service & Industrial business. First, the market-in concept is certainly interesting and easy to talk about, but will those who actually practice it, such as salespeople and service engineers, be able to handle it immediately? Or does it take a little time? There was another discussion about realizing DX for maintenance. We often hear this from other companies and from your company. So, is this business already in a competitive environment? Or is it not yet a competitive environment at all? I would like to ask these two questions first.

Asami: Thank you very much. President Nagata will explain this matter.

Nagata: First of all, you are right about the question of whether our personnel can immediately put the market-in approach into practice. I believe we need to change our mindset quite a bit.

Currently, we are mainly working with agencies, but I don't think that is the way to grasp the real needs of our clients. I believe that we must first strengthen our contacts with customers. We have created a project team and are in the process of conducting some actual pilot tests while considering new sales methods.

In the E-Plan, our goal is to become an organizational entity that can provide solutions, so we will proceed to achieve results during the E-Plan period.

As for DX for maintenance, there are many different solutions available from various sources, not limited to equipment manufacturers, of course. We are very rare in that we handle the major equipment in a building, such as pumps, blowers, and chillers. We believe that we can leverage this position to provide unique solutions that will lead to more labor savings for our customers.

Therefore, we believe that we can differentiate ourselves well against the competition.

Participant 3: The third point is about the Precision Machinery business on page 40 from the medium term plan "E-Plan 2025" presentation material, where some questions were raised earlier. Will the customer base of semiconductor customers change much in this medium term plan? Since the machine has a strength in and used on the front end, I believe that in the past, your customer base was mainly in that area.

Do you expect any new customer segments during the period of the new medium term plan, such as OSAT companies or wafer manufacturers for back-end application, for example?

Togawa: Basically, we consider the main customer base to be wafers and device makers. We believe that the clientele will remain basically the same.

However, CMP and dry pumps are also used by OSAT and wafer manufacturers. OSAT may not use a dry pump, though. So, we would like to work properly on increasing the number of customers.

Asami: It means that the clientele will not change much.

Participant 4: First, I would like to ask you two questions about the cash allocation graph on page 19 from the medium term plan "E-Plan 2025" presentation material. For one thing, there is JPY65 billion for R&D on the left side, but I am a little confused as to the meaning of this being listed on the left side, so I would appreciate an explanation. One more thing, can you tell us if you can, what size we should imagine the whole cash to be?

Hosoda: Thank you very much. Cash flow from operating activities is generally defined as cash flow from operating activities net of research and development expenses. But we want to list the cash flow from operating activities on the cash outside as well, so we're listing development expenses on both sides.

Participant 4: It is about JPY37 billion, right?

Hosoda: Yes.

Participant 4: Do you expect to generate about JPY60 billion in operating cash flow each year for three years? Does R&D add to that?

Hosoda: You are right. We are assuming an operating cash flow of JPY200 billion over the three-year period, with an average operating cash flow of about JPY60 billion to JPY70 billion.

Incidentally, during the three-year period of the previous medium term plan, it was about JPY170 billion, so we have set a target to exceed that amount over the 3-year period.

Participant 4: Also, which amount should we imagine in total?

Hosoda: We do not disclose this information, but the amount for the three years of the previous medium term plan was in the low JPY200 billion range, and we expect it to be a bit higher than that, around JPY300 billion at the maximum. However, we believe that this will vary depending on the actual business situation.

Participant 4: If you use all the money you want to invest in growth and infrastructure shown on the right side, that would be over JPY300 billion, right? So, in that case, does that mean that the amount would be a little more?

Hosoda: The way the business grows will also affect how far we can use debts. Within the discipline of the D/E ratio, how far can E grow and how far can we use D, debts? We believe that the final size will be determined by a comparison of cash outflows, etc.

Participant 4: I understand. Then, in the dividend policy on the right, you mention that buybacks will be implemented in a flexible manner, but it seems unlikely that any unexpected actions will be taken with respect to shareholder returns.

Hosoda: Regarding dividends and shareholder returns, we need to organize the concept of income gains and capital gains. As for income gains, we would like to maintain a dividend payout ratio of 35% or more.

Regarding capital gains, we believe that share buybacks are ultimately an investment in the Company. This will be implemented to maximize capital gains over the medium to long term. We will take a flexible approach, when necessary, based on a comprehensive consideration of which investment will bring more medium- to long-term gains to shareholders compared to other investment targets, the level of equity attributable to owners of the parent, the level of cash on hand, and the current stock price trend.

Participant 4: Also, I would like to ask one more question to Mr. Asami. First of all, you plan to have no profit growth at all this year. You may be aiming for JPY180 billion or JPY100 billion in three years, but on the other hand, profit margins are not planned to increase at all in almost all businesses.

In a nutshell, this may be a story about how you still have a lot to do and a lot of money to spend, so it is time to be a little patient during these three years. But I think that is what you were talking about at the beginning of the previous medium term plan, and I wonder how long that will continue.

On the other hand, since the 2030 target and the 2025 target you have just issued are almost the same, will they remain the same unless the 2030 target is changed? Or is the message that compressors, for example, have had a tailwind for the past few years, but precision, for example, will have a headwind from now on, and yet profit margins can remain flat? I don't know which is the right answer, but in any case, I feel that both the current year's plan and the medium term plan are low.

As some company said yesterday, I believe that employees will not get excited unless they set high goals. I think there is a way to set a goal that is so far out of reach that everyone can inspire each other to push forward. With this plan, there may be an upside at some point. I wonder, however, if the Company is really going to change.

Asami: I think you said the same thing three years ago. I believe our operating margin target for 2019 was 9%, and we set a lower operating margin target of 8.5% for 2022. I remember you asking us if we were going to lower the target.

Compared to the market, I believe, as a business owner, that this is an ambitious goal. Especially for this year, I asked to set relatively high figures for an environment, where there is a possibility of a drop in demand for

semiconductors. As Mr. Miyaki mentioned earlier, demand for compressors and turbines in particular is expected to fall considerably this year in comparison to last year, when it was very strong. I said to raise the targets despite the circumstances.

However, there are things I would like to do as a business manager, and as the Ebara Group, we have many things we would like to do regarding the advancement of management infrastructure, such as ERP.

Therefore, we have come up with these figures with the intention of aiming for this for the Ebara Group as a whole, after considering such things as making a large investment in the hydrogen business. The basic concept of the new medium term plan is to be in a position to increase revenue more rapidly after 2026, while improving profitability.

We are very happy that we were able to increase profitability from 2019 to 2022. On the other hand, we fear that by saying we are aiming for revenue growth here, we are going backwards.

Of course, we will grow our revenue in precision and construction and industry. However, in other businesses as well, I would like to first make them more profitable and then make these three years a period in which we face the market and do what we have to do properly. We hope you will understand that we are giving you these figures with that message in mind.

Our goal of over JPY1 trillion in revenue and 10% ROIC by 2030 has not changed. Looking back at what we have done in the three years of E-Plan 2022, I believe that we are probably more likely to exceed JPY1 trillion than before. However, I do not believe that these three years are the period for me to issue an order to increase revenue, so I have made this plan.

Participant 5: I have two points I would like to make regarding the Precision Machinery business.

First, as someone asked before, your company's revenue CAGR is 15%, while the semiconductor market is expanding at 2% per year. You also explained that there is also sales expansion in processes where you have not been able to receive orders until now. What would be the breakdown of the two factors: the factor of your company's increased market share and the factor on the customer side; for example, the increase in the number of CMP processes? Is the increase in market share a major factor?

Togawa: As I explained earlier, we do a lot of joint development with our customers. I will not mention the specific names of our customers here, but I believe that the result of E-Plan 2022 is that as a result of various developments at customers, we are now able to receive orders for processes for which we had not been able to receive orders before.

Once we receive an order, we get a much better chance to challenge the next generation, so orders are increasing due to such synergistic effects. Therefore, we believe that the biggest reason is that we are now able to receive orders for processes that we had not been able to receive orders for before.

We made the plan in light of our clients' investment plans and the areas where we can and want to take orders.

Participant 5: Your share is considerably increasing. Understood.

The second is the profitability of the Precision Machinery business. You explained that E-Plan 2025 is a phase in which any business invests for growth. If we think in terms of gross profit margin rather than operating profit margin for the Precision Machinery business, is it on the way to improve over the three years? Or is it not expected to improve much compared to, say, 2022?

Togawa: I believe that the gross profit margin must be improved, and I believe that it is on the way to improvement. However, the problem for the current fiscal year is how to overcome the global rise in prices. It may take some time, but we would like to manage our business by really focusing on gross profit margin.

Participant 5: I understand. Is it safe to assume that the gross profit margin of the Precision Machinery business will visibly improve over the next three years?

Togawa: Yes, I think that is something we have to do, and we would like to achieve it somehow.

Asami: In components, we have built a mass production plant for dry vacuum pumps, which has been in full-scale operation since last year and has contributed considerably to improved profitability. Until now, we have been unable to ship as expected due to parts shortages, and we have a full backlog of orders, but once we are able to ship them, both gross profit margins and operating profit margins will increase.

The difficulty, however, is the cost of purchasing parts and materials, as is the case in other businesses. Ebara has also been asked by suppliers to accept higher prices, so there is a struggle. However, profitability must be increased, and we are beginning to see the effects of this. Based on this, we will increase both gross profit margin and operating margin, with the Precision Machinery business aiming for more than 17% by 2025.

Participant 6: I would like to ask about cash allocation on page 19 from the medium term plan “E-Plan 2025” presentation material. Growth investments are planned at JPY180 billion to JPY225 billion. I think it is natural that there is a range, but I would like to ask what factors are planning to cause the range to go up or down. You mentioned that the investment in infrastructure is also between JPY50 billion and JPY80 billion, but what do you see as the reason for the increase or decrease?

Hosoda: First, as described here, growth investment is centered on capital investment, R&D, new businesses, strategic M&A, and the establishment of new business bases, with a focus on the Precision Machinery business. In particular, the amount of investment in the area of new business investment and M&A depends on what kind of targets emerge and the progress made, so this will be a factor in the fluctuation. There are many different visions of what we want to do, with some certainties and some slightly less likely.

Basic investment is a similar concept. We will steadily invest in areas where we have decided to invest. On the other hand, investments in human capital and business infrastructure may vary slightly depending on the situation. Therefore, we hope you understand that there is a range.

Participant 7: Thank you very much today. I have two questions.

First, I think you mentioned earlier the figures for revenue and operating profit for 2025. I'm sorry, I didn't hear that part, so please let me know.

Second, I think I understand the concept of the medium term plan very well from your explanation. Is this year also a year of building a foundation, without much growth in terms of figures? The medium term plan is set under such a concept, I understand, but is it assumed that operating profit will not grow in 2024, too?

Asami: We have not given any specific figures for operating profit or revenue for 2025. The Precision Machinery business will aim for an operating margin target of 17% and a revenue CAGR of 15%. In the Building Service & Industrial business, the goal is to achieve a revenue CAGR of 6%. We mentioned that the Company-wide target is a revenue CAGR of 7%.

Participant 7: Since Company-wide costs and investments will go up, do you assume that the absolute amount of profit will also remain flat this year, next year, and the year after? I got the message that the operating profit margin will decrease, but am I right in understanding that the amount is not expected to increase much

over the next three years? Is it assumed that the first year will be a year of standstill, with a gradual increase in the second and third years?

There is a great deal of uncertainty, but on the other hand, there is also an element of will of the Company, like an investment in growth. In the past, the head of a certain company used the expression "willful resting-place," and I would like to ask whether this year, next year, or the year after that should be considered as such a period.

Asami: As you say, please think of it as a willful resting-place. However, we will increase the revenue CAGR for the Precision Machinery business and the Building Service & Industrial business, so the amount of profit will increase.

Participant 7: I understand. So, it is not that the entire Company invests, so much that it eats it up. Profits will rise to some extent.

Hosoda: All the figures are on page 24 from the medium term plan "E-Plan 2025". Basically, the profit margin target may not change much from the current situation, but we are aiming for a CAGR of 7% or higher for the entire Company. We hope you understand that the top line will go up, and the absolute amount of profit will also go up, even if the profit margin remains the same.

Participant 8: I would like to ask two questions. I would like to venture to ask President Asami about the first point. I believe you mentioned that semiconductor investment will slow down this fiscal year. I think that you are looking at this area somewhat more severely than at the last briefing. What changes in the macro environment in particular have you sensed in preparing this outlook? Also, please tell us if there are any particular areas of concern among the area of semiconductors.

Asami: Regarding semiconductors, as Mr. Togawa explained earlier, I perceive the decline at Ebara to be less than what has been reported in the press. The market share is increasing both in CMP and in components. Especially this year, there is a large backlog of orders, so performance will not fall that much; on the contrary, it will go up. Furthermore, of Ebara's two businesses in the Precision Machinery segment, CMP involves more wiring processes than other equipment. I believe that our current situation is due to the strength of our ability to receive orders even after a three-month to six-month delay.

However, if semiconductors are divided into memory and logic, the proportion of logic is larger at Ebara. The decline for logic is slower than for memory, which is currently experiencing a large drop in demand. On the other hand, we have many customers for logic who are willing to make a solid investment, so even if there is a decline compared to last year, I expect it to grow in 2024 and 2025 due to a market share increase.

Participant 8: Second, I would like to discuss the management indicators of the medium term management plan. An analyst also asked a question earlier. The indicators for FY2025 are ROIC of 10%, ROE of 15% or more, and profit margin of 10% or more, with ROIC and profit margin set slightly below the 2022 results. You mentioned a willful resting-place, however, we have three years from now. You mentioned that the profit margin target is more than 10%, but in your mind, how much do you expect to achieve at the maximum?

Asami: It is a little difficult to say that. However, we have achieved ROIC of 11% in 2022, and we would like to go higher than that. However, we have to make investments, which will reduce our profit, so we will strike a balance. After all, money must also be spent well, so the denominator of ROIC will become quite large. We would like to monitor it closely.

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