Ebara Corporation

Results Presentation for Nine Months Ended September 30, 2024

November 14, 2024

Event Summary

[Company Name]	EBARA CORPORATION
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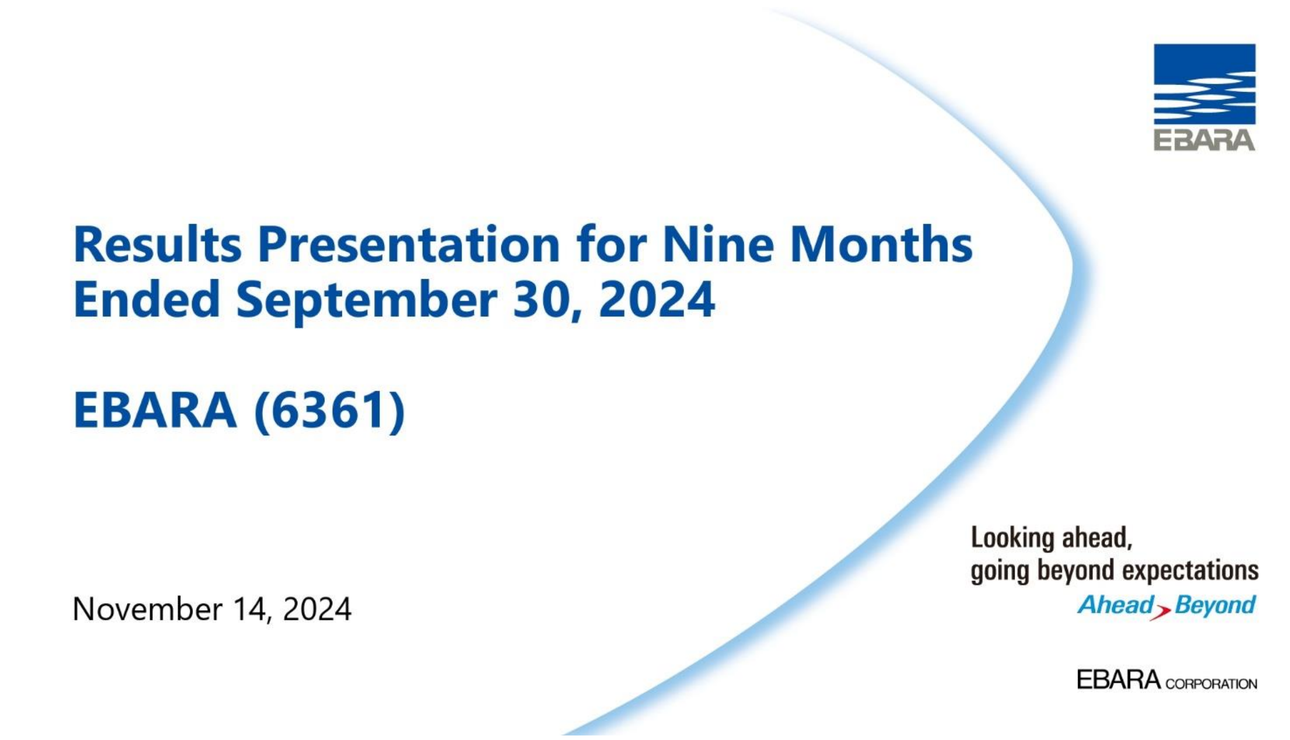
[Event Name]	Results Presentation for Nine Months Ended September 30, 2024
[Fiscal Period]	FY2024 Q3
[Date]	November 14, 2024
[Time]	17:30 – 18:29 (Total: 59 minutes, Presentation: 33 minutes, Q&A: 26 minutes)
[Venue]	Webcast
[Number of Speakers]	2 Shugo Hosoda (Hosoda) — Executive Officer, CFO Akihiro Osaki (Osaki) — Division Executive of Group Public Relations and Finance Division

Presentation



Osaki: Thank you very much for taking time out of your busy schedule to participate in the financial results briefing of Ebara Corporation for the nine months ended September 30, 2024. Now it is time to begin our briefing. Here is our speaker. This is Shugo Hosoda, Executive Officer and CFO.

Hosoda: I am Hosoda. Thank you for joining us today.

Osaki: The moderator for this briefing will be Osaki from the Division Executive of Group Public Relations and Finance Division. Thank you for your cooperation. Today, Hosoda will give an overview of the financial results and then take questions from you. The meeting is scheduled to end at 6:30 PM. Now, Hosoda will begin the explanation.

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■ Abbreviations: FY (Fiscal year, e.g., FY24: fiscal year ending December 31, 2024)/1Q: first quarter figures/1-2Q, 1-3Q, 1-4Q: cumulative total of each quarter indicated
■ Figures in this document are based on IFRS

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Hosoda: I will explain then. Thank you for your continued interest in our financial results and performance. Also, thank you very much for coming at this late hour.

Points of Results

FY24 1-3Q Results

	Results	YoY	
Orders	¥643.6 B.	¥45.2 B. +7.6%	↗
Revenue	¥604.3 B.	¥53.1 B. +9.6%	↗
Operating Profit	¥59.8 B.	¥2.8 B. +5.0%	↗
OP Ratio	9.9%	-0.4pts	

↗ +5% change or more ↘ -5% change or more → less than ±5% change

FY24 Forecast

	Current Plan	YoY		Change vs. Prior Plan*	
Orders	¥865.0 B.	¥44.4 B. +3.0%	→	¥20.0 B. +2.4%	→
Revenue	¥842.0 B.	¥82.6 B. +8.9%	↗	¥15.0 B. +1.8%	→
Operating Profit	¥87.0 B.	¥0.9 B. +1.1%	→	- -	→
OP Ratio	10.3%	-1.0pts		-0.2pts	

*Plan disclosed Aug/14/24

Topics

FY24 1-3Q Results
- ■ Record high 3Q results for Orders, Revenue, and Operating Profit
- ■ Despite impairment loss (¥6.4 billion) on goodwill related to Vansan, a Turkish subsidiary of Building Service & Industrial, overall profit increased compared to the same period last year, driven by higher revenue and improved profitability in Precision Machinery
- ■ Globally customer investment in the semiconductor market is on the rise due to increasing demand for generative AI, despite momentum in the Chinese market stabilizing

FY24 Forecast
- ■ ¥20 billion upward revision for Orders, reflecting progress in Building Service & Industrial and Energy
- ■ ¥15 billion upward revision for Revenue, reflecting progress in Building Service & Industrial and Environmental Solutions
- ■ Operating profit remains unchanged overall, as the impairment loss in Building Service & Industrial was offset by gains in other segments

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I will explain the points of results for the period up to Q3 of the fiscal year ending December 31, 2024. There are three main points that I would like to convey to you through this financial result briefing.

First, regarding the overall view of our consolidated results for Q3, we have achieved positive growth in orders, revenue, operating profit, and profit attributable to owners of parent compared to the same period last year. Historically, this 3Q performance marks the highest in our company's history. Since the beginning of the fiscal year and compared to last year, we have maintained relatively strong financial figures, and we perceive this as a relatively good performance overall.

Secondly, the Company recorded an impairment loss on goodwill related to Vansan, its consolidated subsidiary in Turkey, in the current financial results. Vansan, which became a part of our group through an M&A in 2021, belongs to the Building Service and Industrial Segment. Due to the rapid changes in the business and economic environment in Turkey, including inflation, the depreciation of the Turkish Lira, and the accompanying sharp rise in labor costs, we reviewed our future business plan and found that it deviated from the plan we had assumed at the time of acquisition. As a result, we determined that we could not expect to recover the goodwill.

Consequently, we have recorded an impairment loss of JPY6.4 billion, equivalent to the full amount of goodwill at its current book value, in this quarter's results. Despite this impairment loss, we have achieved the highest performance in our company's history. However, it is important to note that the Building Service and Industrial Segment, experienced a decrease in profit compared to the same period last year.

The third point concerns our perspective on the semiconductor market, which is closely related to our Precision Machinery Segment. Recently, we have observed a slight slowdown in the previously robust Chinese market, which has been driving the semiconductor market.

On the other hand, we are seeing an expansion in investments from global customers outside of China, driven by the growing demand for generative AI. In view of these developments, our Precision Machinery Segment also saw YoY increases in orders, revenue, and operating profit.

These are the key points of this quarter's results. We view the performance of the Building Service and Industrial Segment, which is affected by a one-time goodwill impairment loss, as being on track in terms of progress toward the medium-term plan, as its performance has exceeded last year's level, excluding the impact of the goodwill impairment loss.

Based on these points, we have slightly revised our full-year forecasts. Orders were revised upward by JPY20 billion based on progress in the Building Service & Industrial and Energy Segments. We have also revised our revenue forecast upward by JPY15 billion, considering the progress in the Building Service and Industrial and the Environmental Solutions Segments. Operating profit remains unchanged from the previous forecast, as other segments covered the goodwill impairment loss.

This concludes the overview of this quarter's results.

1. FY24 1-3Q Summary of Results

2. FY24 1-3Q Results by Segment

3. FY24 Forecast

4. Topics

5. Appendix

Consolidated

(billions of yen)	FY23 1-3Q Results a	FY24 1-3Q Results b	YoY Change b-a	YoY Change % (b-a)/a
Orders	598.3	**643.6**	+45.2	+7.6%
Revenue	551.2	**604.3**	+53.1	+9.6%
Operating Profit	56.9	**59.8**	+2.8	+5.0%
OP Ratio	10.3%	**9.9%**	-0.4pts	
Profit Attributable to Owners of Parent	34.9	**41.0**	+6.1	+17.6%
EPS (yen)*1	75.72	**88.87**	+13.15	+17.4%
Exchange Rate*2				
Vs. USD (JPY)	138.02	151.14	+13.12	
Vs. EUR (JPY)	149.52	164.22	+14.70	
Vs. CNY (JPY)	19.62	20.99	+1.37	

*1 Figures reflect the 5-for-1 stock split executed July 1, 2024.
*2 Exchange rates are simple averages of the average rates for each quarter.

Now, let us get into the details. Please turn to page five. This page shows consolidated cumulative results for Q3.

Let me explain on a YoY comparison. Orders increased by JPY45.2 billion YoY and amounted to JPY643.6 billion. Revenue increased by JPY53.1 billion to JPY604.3 billion. Operating profit increased by JPY2.8 billion to JPY59.8 billion. Profit attributable to owners of parent increased by JPY6.1 billion to JPY41 billion. As a result, EPS was JPY88.87, up 17% YoY.

As for the average exchange rate during the period, the yen depreciated YoY against each major currency. The positive impact of foreign exchange on consolidated operating profit increased by about JPY3.5 billion YoY.

1. FY24 1-3Q Summary of Results

Segment

(billions of yen)

		FY23 1-3Q Results	FY24 1-3Q Results	YoY	
				Change	Change %
		a	b	b-a	(b-a)/a
Total	Orders	598.3	**643.6**	+45.2	+7.6%
	Revenue	551.2	**604.3**	+53.1	+9.6%
	Operating Profit	56.9	**59.8**	+2.8	+5.0%
	OP Ratio	10.3%	**9.9%**	-0.4pts	
Building Service & Industrial	Orders	169.3	**184.5**	+15.1	+9.0%
	Revenue	161.8	**172.7**	+10.9	+6.7%
	Operating Profit	10.4	**5.5**	-4.9	-47.0%
	OP Ratio	6.5%	**3.2%**	-3.3pts	
Energy	Orders	173.8	**166.2**	-7.5	-4.4%
	Revenue	118.8	**145.1**	+26.2	+22.1%
	Operating Profit	12.6	**15.3**	+2.6	+21.1%
	OP Ratio	10.6%	**10.6%**	-	
Infrastructure	Orders	43.2	**44.7**	+1.5	+3.5%
	Revenue	37.9	**34.7**	-3.2	-8.5%
	Operating Profit	3.3	**2.3**	-1.0	-30.3%
	OP Ratio	8.9%	**6.8%**	-2.1pts	
Environmental Solutions	Orders	58.2	**63.1**	+4.8	+8.4%
	Revenue	47.0	**59.2**	+12.1	+25.8%
	Operating Profit	3.3	**5.1**	+1.8	+56.3%
	OP Ratio	7.0%	**8.7%**	+1.7pts	
Precision Machinery	Orders	152.7	**184.0**	+31.2	+20.5%
	Revenue	184.5	**191.5**	+7.0	+3.8%
	Operating Profit	27.1	**33.6**	+6.5	+24.0%
	OP Ratio	14.7%	**17.6%**	+2.9pts	
Others, Adjustment	Orders	0.8	**0.8**	-0.0	
	Revenue	0.9	**0.8**	-0.0	
	Operating Profit	0.0	**-2.2**	-2.2	
	OP Ratio	1.7%	**-258.5%**	-260.2pts	

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This is a summary of financial results by segment. Orders, especially in the Precision Machinery Segment, increased significantly YoY, and the Building Service and Industrial Segment also remained strong both in Japan and overseas. Orders in the Environmental Solutions Segment also increased due to orders for large projects. In the Infrastructure Segment, orders increased mainly due to orders for remote monitoring projects for drainage pump stations.

In the Energy Segment, there was no significant change in the market environment compared to the same period last year. However, while large orders were received during the period up to Q3 in the previous fiscal year, such large orders were not received this time, resulting in a decrease in orders YoY.

Overall, as I mentioned earlier, orders increased by JPY45.2 billion YoY.

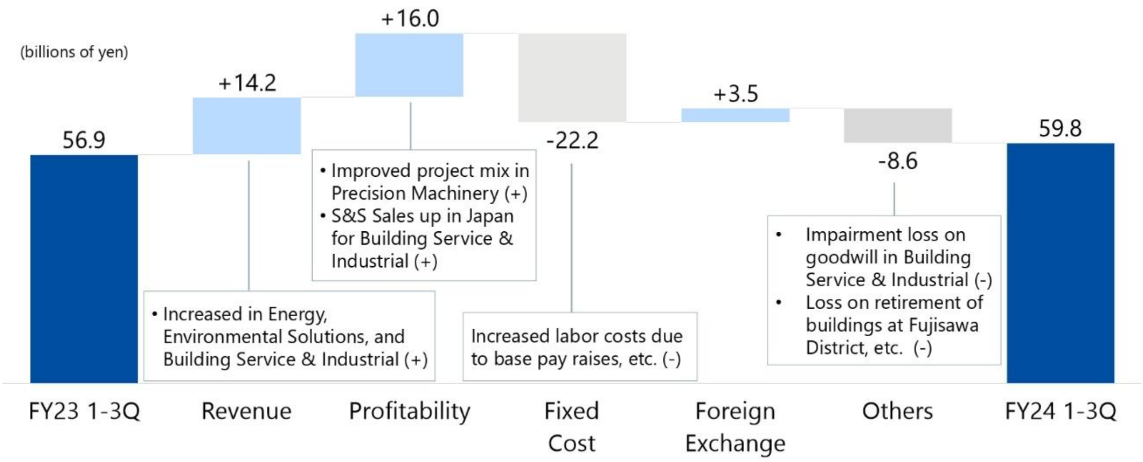
Revenue in the four segments, excluding the Infrastructure Segment, remained steady, increasing by JPY53.1 billion YoY.

Operating profit was driven by the Precision Machinery Segment, and even after reflecting the goodwill impairment, the consolidated result up to Q3 shows an increase of JPY2.8 billion YoY.

1. FY24 1-3Q Summary of Results

Breakdown of Changes in Operating Profit

Increased revenue and profitability improvements exceeded the rise in fixed cost, resulting in higher Operating Profit



This page details the factors contributing to the YoY changes in operating profit.

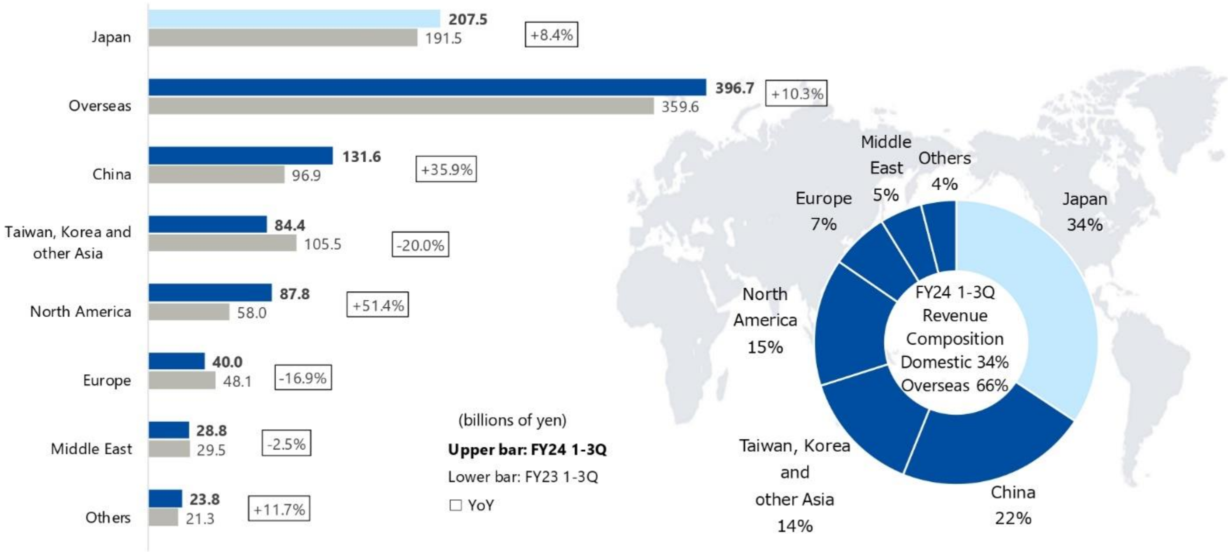
One of the factors for this increase of JPY2.8 billion is that the Energy, Environmental Solutions, and Building Service & Industrial Segments saw revenue growth, resulting in a positive impact of JPY14.2 billion on operating profit. In addition, profitability improvements, mainly in the Precision Machinery and the Building Service and Industrial Segments, contributed an additional JPY16 billion.

On the other hand, fixed costs, including base salary increases and other labor cost rises this fiscal year, resulted in a negative impact of JPY22.2 billion. Additionally, foreign exchange effects contributed a positive impact of JPY3.5 billion. Lastly, other factors, including the impact of goodwill impairment, resulted in a negative impact of JPY8.6 billion.

The resulting operating profit up to Q3 was JPY59.8 billion overall.

1. FY24 1-3Q Summary of Results

Revenue by Region



"Revenue by Region" indicates revenue on the basis of the geographical location where the goods are sold

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This page shows the composition of revenue by region in the period up to Q3.

The dark blue portion of the graph on the right represents overseas sales, while the lighter portion represents domestic sales. The overseas sales ratio this period up to Q3 stands at 66%, which is slightly higher than usual.

The bar graph on the left shows the revenue figures for this Q3 in the upper section and the previous Q3 in the lower section. As you can see, revenue has increased both domestically and overseas. The domestic increase is mainly due to higher revenue in the Building Service and Industrial and Environmental Solutions Segments. When looking at overseas revenue by region, there are areas with increases and decreases. Notably, China and North America have shown significant growth compared to the same period last year.

The largest declines were seen in other parts of Asia, including Taiwan and South Korea. The significant growth in North America is largely due to the impact of the Energy Segment and Building Service & Industrial Segments. Meanwhile, the revenue trends in the Precision Machinery Segment have significantly impacted the figures for China and other parts of Asia.

1. FY24 1-3Q Summary of Results

2. FY24 1-3Q Results by Segment

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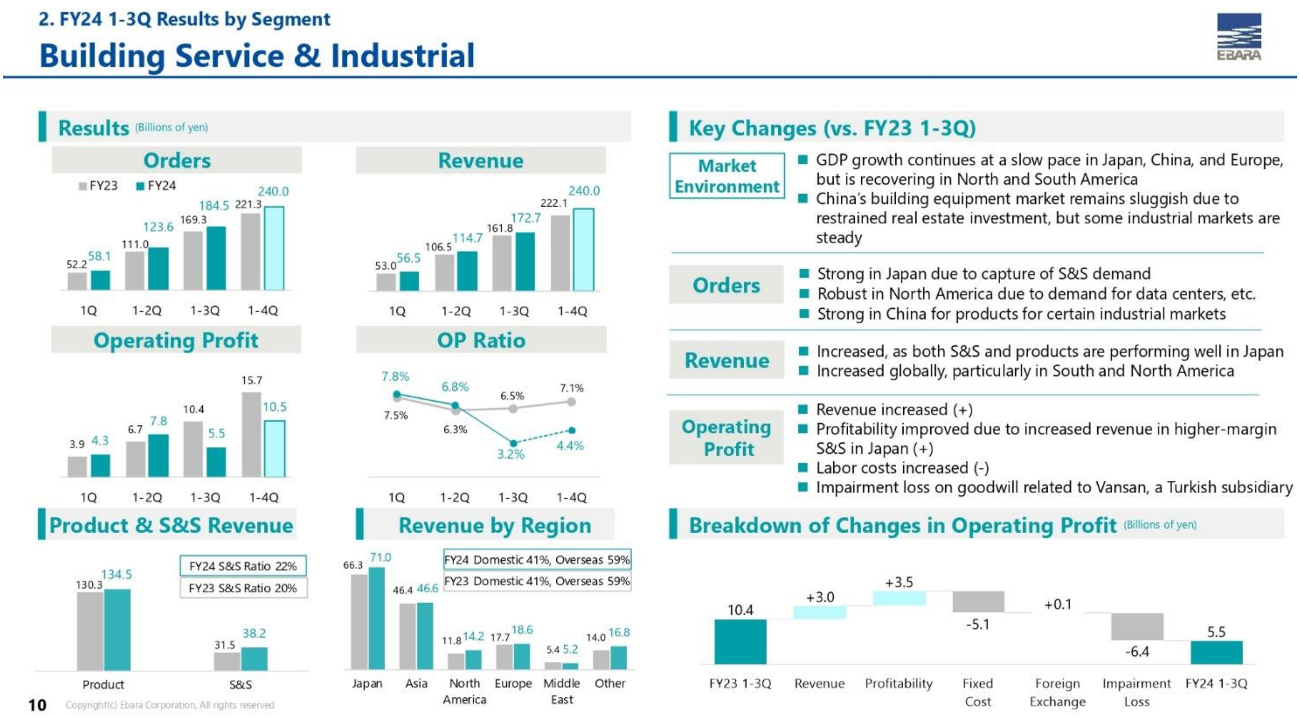


From this point onward, I will explain our performance by segment. Please turn to page 10.

First is the Building Service and Industrial Segment. Although orders and revenue increased YoY, operating profit decreased due to impairment on goodwill.

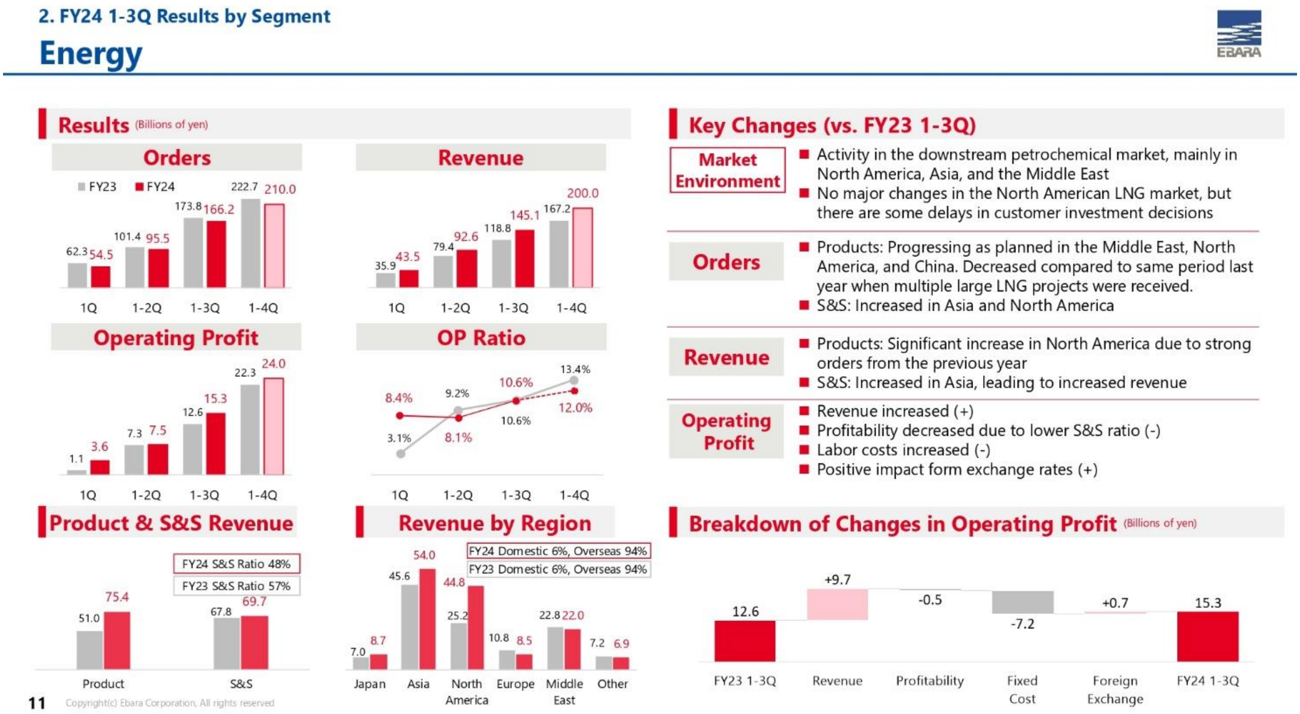
The market environment in this segment is very closely related to GDP growth, and the performance in this segment fluctuates according to GDP growth. In Japan, China, and Europe, GDP growth has been slowing, while North America and South America has seen a recovery. Under such circumstances, one of the reasons for the increase in our orders was that pumps for data centers, in particular, remained strong in North America.

In China, there is a growing demand for energy-saving products for some industrial markets, including the semiconductor and electronics industries, and the demand for pumps for the semiconductor and electronics industries is increasing not only in the Precision Machinery Segment but also in the Building Service and Industrial Segment. As a result, the segment continues to be strong.

The domestic market is also growing, and the success in capturing demand for service support with pumps and chiller products has resulted in an increase in both orders and revenue.

As for operating profit, the effect of increased revenue and an increase in the ratio of highly profitable services and support, as shown in the lower left-hand corner, contributed to improved profitability. On the other hand, profit decreased due to an increase in fixed costs such as labor costs and the impact of impairment loss on goodwill related to Vansan.

Assuming there was no impairment loss for Vansan, the operating profit for Q3 would have been JPY11.9 billion, showing an increase YoY.



Next is the Energy Segment. Orders, as I mentioned earlier, are down YoY, but revenue and operating profit are up.

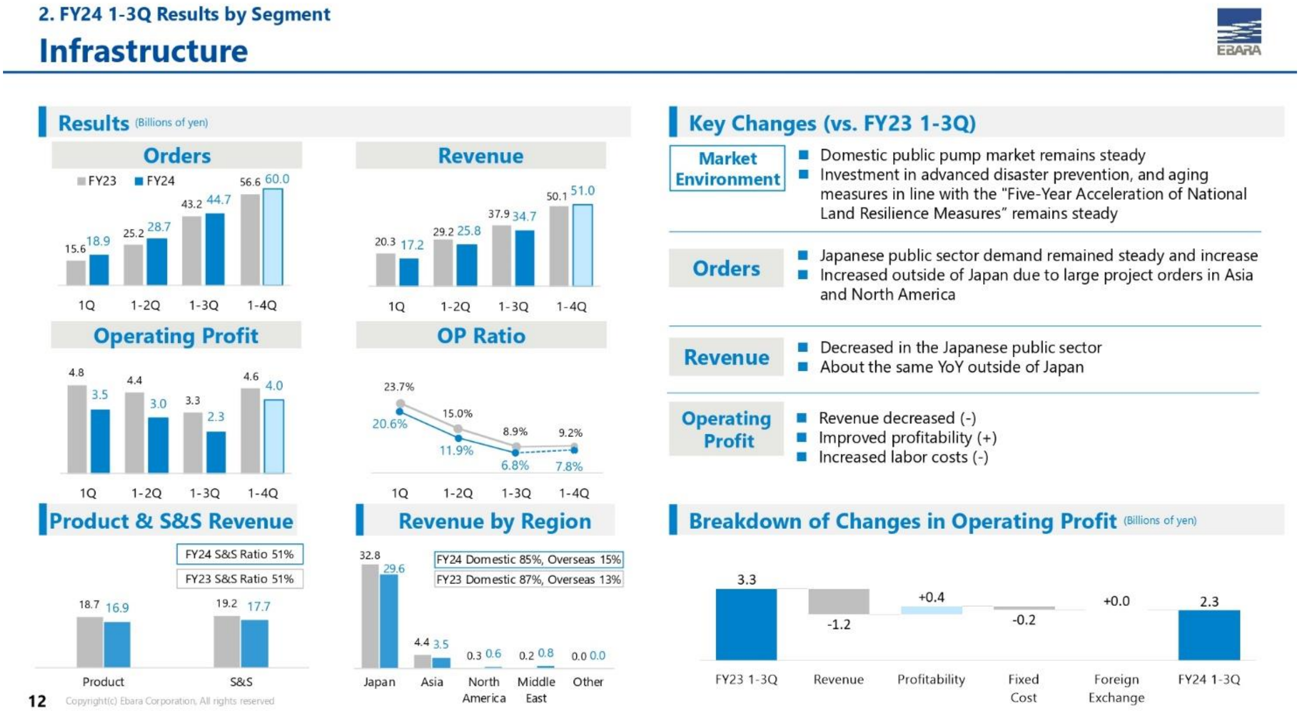
Touching on the market environment first, in the downstream oil and gas market, particularly regarding petrochemical projects, we are seeing activity across North America, Asia, and the Middle East. The market remains vibrant and active.

The LNG market in North America was very active last fiscal year, and there has been no major change in that situation. However, I think customers are keeping a close eye on trends because of political factors and the presidential election. Under such circumstances, customers are somewhat wait-and-see to make their final investment decisions. To date, there have been no major changes in the market environment, but new orders since the beginning of this fiscal year have been a bit low. Now that the presidential election is over, I believe that customers who have been waiting to see what happens will make investment decisions in the future.

On the other hand, while we secured several large projects in the Middle East, North America, and China, there have been no large LNG projects this quarter compared to the same period last year.

In terms of revenue, strong product orders from last year have led to a significant increase in revenue, particularly from North American LNG projects. Although service and support revenue has increased slightly in absolute terms compared to last year, the proportion has decreased due to the higher increase in product sales.

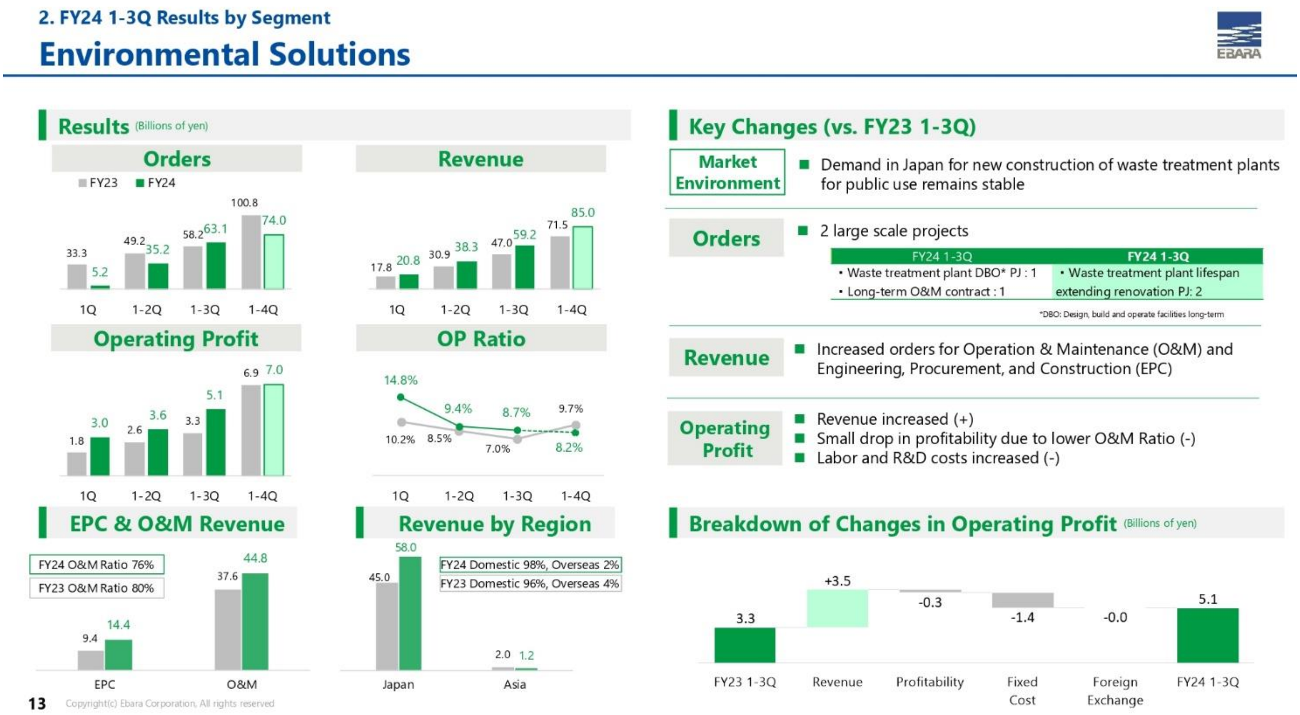
Despite an increase in fixed costs, operating profit has grown because of increased revenue.



Next is the Infrastructure Segment. Orders increased YoY, but revenue and operating profit decreased within the realm of our expectation. In Japan, demand for the renewal and repair of pump facilities has been steady due to the influence of the government's policies such as the Five-Year Acceleration of National Land Resilience Measures, which is now in its fourth year.

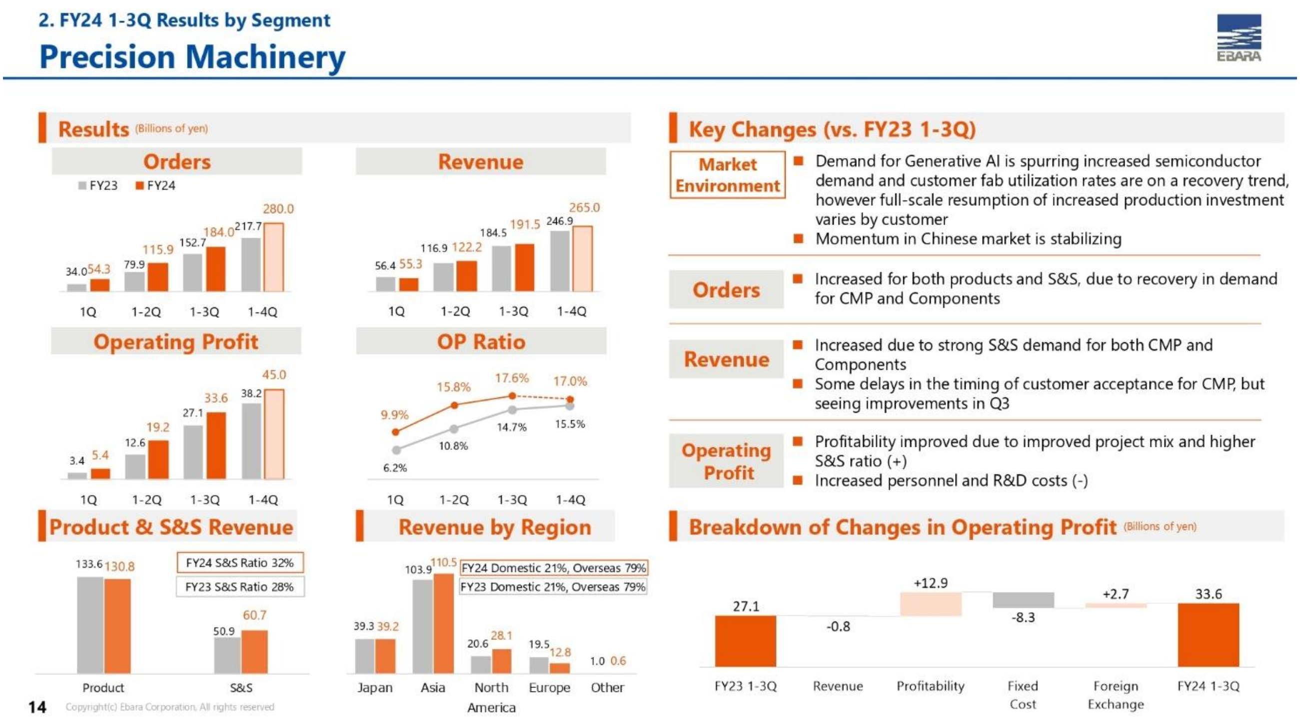
One of the medium-term goals of the Five-Year Acceleration Measures is the development of remote monitoring functions for drainage pump stations, and we received several orders for remote monitoring projects this fiscal year.

Revenue was lower YoY, due to the postponement of construction in ongoing projects. Operating profit also declined YoY, mainly due to lower revenue.



In the Environmental Solutions Segment, orders, revenue, and operating profit all increased compared to the same period of the previous year. Although we anticipated lower order volumes this year due to a lull in EPC orders, we have exceeded expectations by securing two large-scale projects for the extension of waste treatment facilities.

The backlog of orders from last year remains substantial, leading to increased revenue and operating profit from both EPC and O&M activities.



Finally, in the Precision Machinery Segment, orders, revenue, and operating profit all increased YoY.

The semiconductor market, particularly in China, is showing signs of slowing down compared to its previously robust situation. Factory utilization rates improved among other major global customers, and the market as a whole is on a recovery track.

As for whether customers will invest in increased production as a result of the recovery trend, the full-fledged resumption of production investment varies slightly from customer to customer, to be honest, but we can see firsthand that the overall trend is toward recovery. As a result, our order situation has recovered YoY for both CMP systems and components, and orders have increased for both products and S&S.

Revenue has increased in both CMP systems and components, with steady performance in service and support. For CMP systems, there were some delays in the process acceptance tests at customer sites for products shipped from our factories, particularly in the Chinese market. However, acceptance has progressed since Q3.

As a result, operating profit increased as profitability improved due to an improved project mix and an increase in the service and support ratio, which more than covered the increase in fixed costs.

On page 15 are the quarterly trends for orders and revenue in the Precision Machinery Segment for the segment as a whole and for components and CMP systems. Both orders and revenue hit a low in Q1, but have been on a recovery trend through Q3.

Orders have been recovering from Q2 to Q3 as CMP systems have seen a recovery in demand from global customers, and we expect a further recovery in Q4. The JPY71.8 billion in Q4 may be seen as a bit aggressive, but we are currently expecting the possibility of going as high as this level.

As for revenue, we expect to see strong demand for service and support business, such as overhaul of dry vacuum pumps and parts replacement for CMP systems, as customer factory utilization rates improve.

That is all for the explanation of the results up to Q3.

1. FY24 1-3Q Summary of Results

2. FY24 1-3Q Results by Segment

3. FY24 Forecast

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3. FY24 Forecast

Consolidated

Based on progress in Q3, we have revised the plan for orders upward by ¥20 billion and revenue by ¥15 billion, while keeping operating profit unchanged

(billions of yen) Announced date (m/d/y)	FY23 Results a	FY24 P.Plan Aug/14/24 b	FY24 Plan Nov/14/24 c	YoY Change Change c-a	YoY Change Change % (c-a)/a	Change vs. Prior Plan Change c-b	Change vs. Prior Plan Change % (c-b)/b
Orders	820.5	845.0	865.0	+44.4	+3.0%	+20.0	+2.4%
Revenue	759.3	827.0	842.0	+82.6	+8.9%	+15.0	+1.8%
Operating Profit	86.0	87.0	87.0	+0.9	+1.1%	-	-
OP Ratio	11.3%	10.5%	10.3%	-1.0pts	-	-0.2pts	-
Profit Attributable to Owners of Parent	60.2	60.8	60.8	+0.5	+0.9%	-	-
ROIC	12.2%	11.0%	11.0%	-1.2pts			
ROE	15.7%	14.2%	14.2%	-1.5pts			
EPS (yen)*1	130.72	131.68	131.67	+0.95			
Annual Dividend per share (yen)*1	45.8	46.0	46.0	+0.2			
Exchange Rate*2							
Vs. USD (JPY)	140.50	140.00	140.00			-	
Vs. EUR (JPY)	151.90	150.00	150.00			-	
Vs. CNY (JPY)	19.83	19.50	19.50			-	

*1 Figures reflect the 5-for-1 stock split executed July 1, 2024.
*2 Exchange Rate: FY23 exchange rates are simple averages of quarterly average rates; FY24 rates are the assumed exchange rate for the year

I will continue with an explanation of our forecast for the current fiscal year, based on the Q3 results. As I mentioned at the beginning, we have made slight upward revisions to orders and revenue.

As for the business environment, the situation by the end of the current fiscal year will not change significantly from what I have described for each segment so far since we only have about three or two months to go. In this environment, we have raised our full-year forecasts for 2024 by JPY20 billion from the previous forecast for orders and by JPY15 billion for revenue. Operating profit will remain unchanged at JPY87 billion from the previous forecast, although there will be fluctuations among segments.

Other management indicators, the dividend forecast and assumed exchange rates remain unchanged.

3. FY24 Forecast

Segment

(billions of yen) Announced date (m/d/y)		FY23 Results a	FY24 Plan Aug/14/24 b	FY24 Plan Nov/14/24 c	YoY Change: Change c-a	YoY Change: Change % (c-a)/a	Change vs. Prior Plan: Change c-b	Change vs. Prior Plan: Change % (c-b)/b
Total	Orders	820.5	845.0	865.0	+44.4	+3.0%	+20.0	+2.4%
	Revenue	759.3	827.0	842.0	+82.6	+8.9%	+15.0	+1.8%
	Operating Profit	86.0	87.0	87.0	+0.9	+1.1%	-	-
	OP Ratio	11.3%	10.5%	10.3%	-1.0pts		-0.2pts	
Building Service & Industrial	Orders	221.3	230.0	240.0	+18.6	+3.9%	+10.0	+4.3%
	Revenue	222.1	230.0	240.0	+17.8	+3.5%	+10.0	+4.3%
	Operating Profit	15.7	16.5	10.5	-5.2	+4.8%	-6.0	-36.4%
	OP Ratio	7.1%	7.2%	4.4%	-2.7pts		-2.8pts	
Energy	Orders	222.7	200.0	210.0	-12.7	-10.2%	+10.0	+5.0%
	Revenue	167.2	200.0	200.0	+32.7	+19.6%	-	-
	Operating Profit	22.3	20.0	24.0	+1.6	-10.5%	+4.0	+20.0%
	OP Ratio	13.4%	10.0%	12.0%	-1.4pts		+2.0pts	
Infrastructure	Orders	56.6	60.0	60.0	+3.3	+5.9%	-	-
	Revenue	50.1	51.0	51.0	+0.8	+1.6%	-	-
	Operating Profit	4.6	4.0	4.0	-0.6	-13.1%	-	-
	OP Ratio	9.2%	7.8%	7.8%	-1.4pts		-	
Environmental Solutions	Orders	100.8	74.0	74.0	-26.8	-26.6%	-	-
	Revenue	71.5	80.0	85.0	+13.4	+11.8%	+5.0	+6.3%
	Operating Profit	6.9	6.0	7.0	+0.0	-13.5%	+1.0	+16.7%
	OP Ratio	9.7%	7.5%	8.2%	-1.5pts		+0.7pts	
Precision Machinery	Orders	217.7	280.0	280.0	+62.2	+28.6%	-	-
	Revenue	246.9	265.0	265.0	+18.0	+7.3%	-	-
	Operating Profit	38.2	41.5	45.0	+6.7	+8.4%	+3.5	+8.4%
	OP Ratio	15.5%	15.7%	17.0%	+1.5pts		+1.3pts	
Others, Adjustment	Orders	1.1	1.0	1.0	-0.1		-	
	Revenue	1.1	1.0	1.0	-0.1		-	
	Operating Profit	-1.8	-1.0	-3.5	-1.6		-2.5	
	OP Ratio	-156.9%	-100.0%	-350.0%	-193.1pts		-250.0pts	

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This page shows a breakdown of what I just said by segment. The JPY20 billion increase in orders includes an upward revision of JPY10 billion each in the Building Service and Industrial and Energy Segments.

Orders for the Building Service and Industrial Segment are relatively firm both domestically and overseas, resulting in an upward revision of JPY10 billion. The upward revision of JPY10 billion in the Energy Segment is due to an increase in orders in Asia and the Middle East.

We have increased revenue by JPY15 billion, with an upward revision of JPY10 billion in the Building Service and Industrial Segment and JPY5 billion in the Environmental Solution Segment.

The Building Service and Industrial Segment reflects the environment as I mentioned in the explanation of orders. In the Environmental Solutions Segment, the upward revision of JPY5 billion is due to increased revenue in EPC and O&M in Japan.

Operating profit has been revised downward in the Building Service and Industrial Segment due to the goodwill impairment loss of Vansan, but upward in the Energy, Environmental Solutions, and Precision Machinery Segments. As a result, we have not made any changes to the disclosed figures.

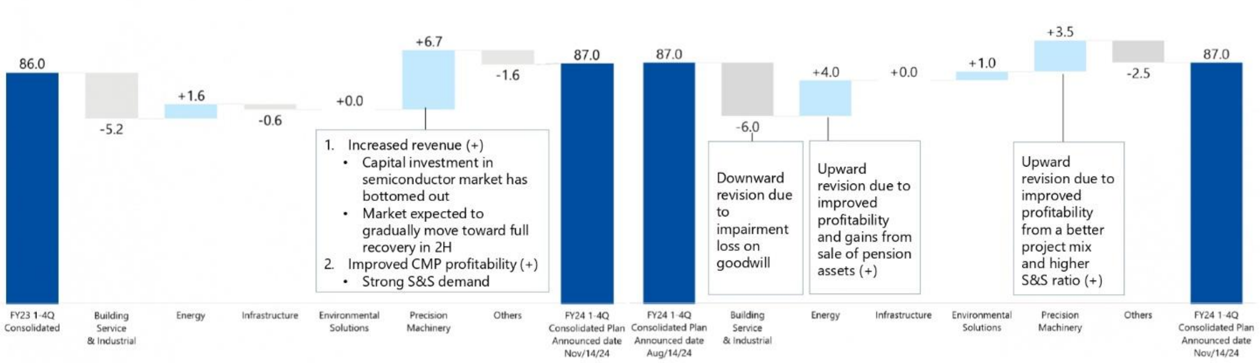
3. FY24 Forecast

Breakdown of Changes in Operating Profit

Upward revisions in the Energy and Precision Machinery Segments will allow us to maintain our overall operating profit forecast at ¥87 billion, despite downward revision for the Building Service & Industrial Segment

Compared to FY23 | **Compared to Prior Plan (Aug/14/24)**

(billions of yen)



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Please see the breakdown of operating profit in the waterfall chart on this slide. The chart on the left shows the factors of profit increase or decrease from the previous fiscal year, and the chart on the right shows the factors of profit increase or decrease from the previously disclosed situation.

As you can see from the chart on the right, the Building Service and Industrial Segment saw an impairment loss on goodwill and the Energy Segment saw an increase. This is due to an improvement in profitability compared to the previous loan situation, as well as the buyout of pension assets at Elliott in the US, in connection with the conversion of its pension plan from defined benefit to defined contribution, which resulted in a larger-than-expected gain on the sale of pension assets. As a result of the buyout, there is an upward revision of operating profit in the Energy Segment, although it is only temporary.

The upward revision of JPY3.5 billion in the Precision Machinery Segment is due to improved profitability, which benefited from an improved project mix and an increase in the service and support sales ratio.

1. FY24 1-3Q Summary of Results
2. FY24 1-3Q Results by Segment
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4. Topics
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4. Topics

Building Service & Industrial Segment Impairment Loss on Goodwill related to Turkish Subsidiary Vansan

- Recognized impairment loss on goodwill related to Vansan of ¥6.4 billion due to changes in the business environment in Turkey and abroad, fully impairing goodwill on the balance sheet
- Economic and geopolitical factors in Turkey and abroad have led to future business plans falling short of the assumptions made at the time of acquisition
- Despite this, Vansan continues to be strategically important due to relatively high operating profit ratio and geographic advantages for business expansion in Europe, Asia, the Middle East, and Africa

Valuation Changes Between Assumptions at Acquisition and Present

- The discount rate used in the present value calculation based on future business plans has increased due to increased country risk
- The economic environment in Turkey has deteriorated due to higher-than-expected inflation and the depreciation of the lira, leading to a downward revision of future business plans
  - Decline in revenue due to the sluggish domestic market in Turkey
  - Decrease in export revenue due to geopolitical factors
  - Lower operating profit ratio caused by rising labor costs

Future Business Development

- Medium-term Revenue Growth Expected
  - The Turkish domestic market is expected to experience high growth rates due to future population increases
  - Will expand from Turkey into neighboring regions such as Europe, Asia, the Middle East, and Africa
    - ✓ Utilize extensive sales channels and proximity to other regions
    - ✓ Deep well motor pumps at competitive pricing are essential for business expansion in emerging markets like Africa and others
  - New synergies, such as cross-selling with group companies, are expected to emerge

Overview of Vansan Acquisition

- Date: Completed April 2021
- Cost: ¥10.7 billion

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That is all for the explanation of the results up to Q3 and the resulting revised forecast.

Now I would like to touch on the recording of impairment losses related to Vansan in Turkey. Over the following two pages, I will provide some background on this and an overview of the Building Service and Industrial Segment, which includes Vansan.

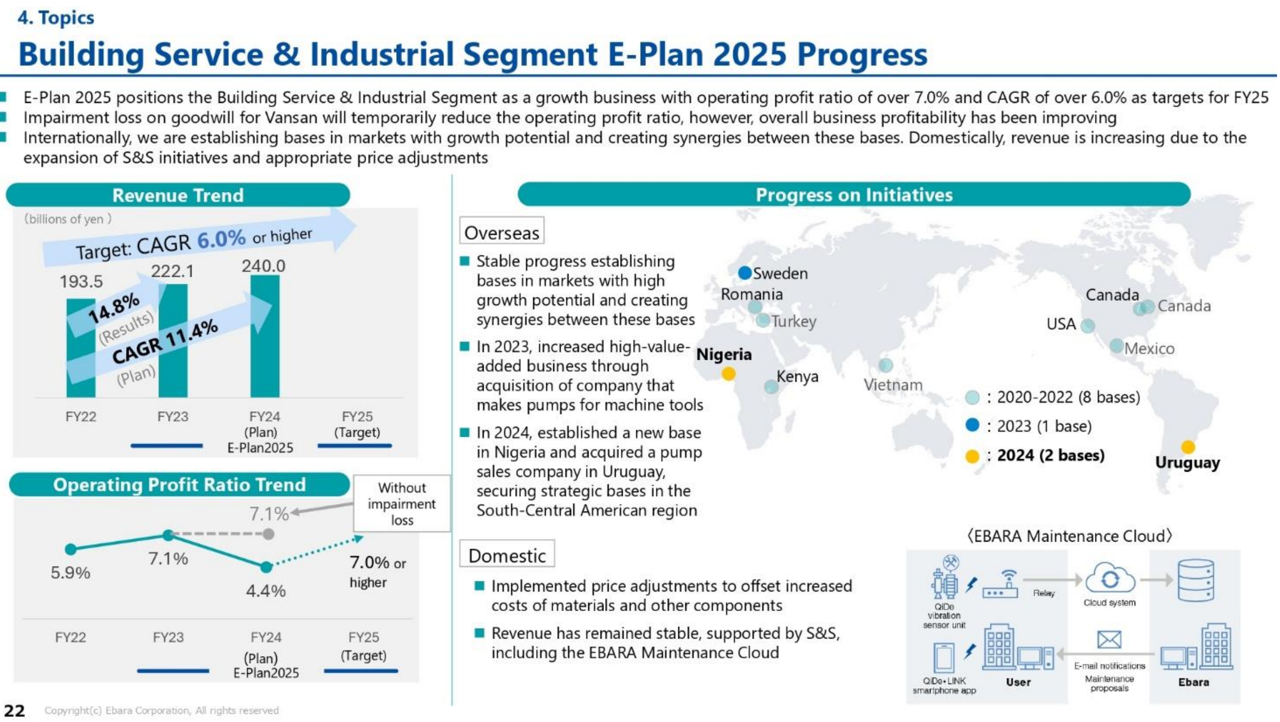
Vansan, acquired in 2021 for JPY10.7 billion, is a consolidated subsidiary known for its high-value deep well motor pumps. We were attracted to Vansan's strategic geographic position in Turkey, which offers unique advantages for expanding our business into Europe, Asia, the Middle East, and Africa. The acquisition was driven by the strategic importance of its production and sales base.

While Vansan’s strategic importance remains unchanged, a gap has emerged from the assumption at the acquisition in the calculation of corporate value based on future business plans, which is the reason for the impairment on goodwill. The corporate value is calculated based on the future business plans and the discount rate used to convert it to present value, or the weighted average cost of capital. The discount rate has increased significantly with the increase in country risk in Turkey, and at one point the discount rate exceeded 50% due to the effects of inflation.

The impairment was also driven by the downward revision of future business plans due to the deteriorating economic environment in Turkey. In the future business plans, it is unlikely to raise as much revenue as originally expected due to the turmoil in the Turkish economy. Also, we are in a situation where we have to revise our past plans due to recent geopolitical and political factors, as they are originally an export-oriented company that exports to the neighboring region such as the Middle East and Russia. Then, as inflation progressed, labor costs soared more than expected, putting pressure on profitability. Such a situation led us to the conclusion that we recorded and recognized an impairment of goodwill in the current financial statements.

Despite this, we remain confident in Turkey’s long-term growth potential and the strategic value of Vansan’s high-value products and geographic position. We will continue to leverage these strengths for global business expansion, although the investment recovery will now be viewed over a longer-term horizon.

This concludes the explanation of the impairment loss for Vansan.



Finally, I would like to explain the status of the entire Building Service and Industrial Segment, including Vansan, from the perspective of the progress of the medium-term management plan.

Although the operating profit ratio will be below the target this fiscal year due to the impairment loss of Vansan, we believe that the ratio will be recovered to some extent in the next fiscal year and thereafter, taking into consideration the fact that the goodwill was fully impaired this time.

In the current medium-term management plan, E-Plan 2025, the Building Service and Industrial Segment is positioned as a growth business, with the goal of achieving an operating profit ratio of at least 7% and CAGR of at least 6% for FY2025, with the aim of expanding business over the next three years.

As explained earlier, profitability and efficiency indicators are expected to decline temporarily due to the goodwill impairment loss, but on the other hand, as shown on the left chart, we understand that the operating profit ratio for the segment as a whole is growing steadily to achieve the quantitative targets for the final year of the medium-term management plan.

In addition, we have been steadily implementing the necessary actions qualitatively and quantitatively. As for the status of the development of our overseas bases, we completed the construction of new facilities at eight bases between 2020 and 2022 during the period of the previous medium-term management plan, and we have added one facility in 2023 and completed new facilities in Nigeria and Uruguay this fiscal year. These facilities will support business expansion in promising markets.

On the other hand, in Japan, revenue is of course growing due to measures to expand service and support. In addition, as a new strategy, we have introduced a new platform called EBARA Maintenance Cloud to remotely monitor the operating status of products at customer sites and are steadily installing sensors on products to achieve constant monitoring.

We are making steady progress in building a foundation to eventually develop a solution business using operation data, and this is the progress of qualitative measures. Despite the impairment loss at Vansan, we view the overall progress of the segment as positive.

That is all from me.

[END]