

Consolidated Financial Results Briefing for the Six Months of FY2022

Main Questions and Answers

November 2, 2021

【 Results for the First Six Months of FY2022 】

Q 1 Please provide details of the business results by segment for the first six months, taking into consideration the business environment.

A 1 Operating profit rose 4.3 billion yen (42.8%) year on year, to 14.3 billion yen, and profit attributable to owners of the parent increased 1.4 billion yen (24.0%), to 7.3 billion yen. Business results mostly returned to pre-COVID levels.

The main factors contributing to the increase in operating profit are as follows.

- The ICT solutions business posted higher operating profit, reflecting the concentration of efforts on developing the solutions business and the remote work environment in addition to operating the infrastructure development business amid solid IT investment by businesses, and strong performances in projects related to network security and storage-related projects.
- In the meat products business, operating profit increased mainly due to the elimination of inventories in the previous fiscal year and higher prices of meat products, although demand from the food service sector was sluggish due to the impact of the declaration of a state of emergency and priority measures to prevent the spread of COVID-19.
- In the steel tubing business, energy demand had declined significantly in the previous fiscal year, but we have seen signs of a rebound in demand for steel tubes in North America, reflecting recovering economies in the United States and Europe, resulting in an increase in operating profit.
- In the aerospace business, operating profit declined because contracts with government agencies were between seasons and the aircraft components business remained sluggish.

In light of these results, we revised our full-year operating profit forecasts for the individual businesses.

Operating profit (Segment margin) / Profit attributable to owners of the parent

	Operating profit			Profit attributable to owners of the parent			(Ref.)FY2022 forecast			
	(Unit : billion yen)	FY2021 2Q results	FY2022 2Q results	Change	FY2021 2Q results	FY2022 2Q results	Change	Operating profit (Original)	Operating profit (Revised)	Profit attributable to owners of the parent
ICT Solution		5.1	6.1	0.9				11.5	12.3	
Mobile		2.0	2.3	0.3				6.5	5.7	
Others		0.3	0.4	0.1				1.2	1.2	
Electronics & Devices		7.5	8.7	1.2	3.5	3.0	(0.5)	19.2	19.2	9.0
Foods		(0.2)	0.1	0.3				0.2	0.2	
Meat products		(0.7)	1.2	2.0				0.8	1.5	
Grain, Oilseeds & Feedstuff		1.3	1.4	0.1				2.5	1.8	
Others		0.0	0.0	0.0				0.0	0.0	
Foods, Meat & Grain		0.3	2.8	2.5	0.8	1.9	1.1	3.5	3.5	2.3
Machine Tools & Industrial Machinery		(0.1)	0.3	0.4				1.4	1.0	
Overseas		(0.2)	0.6	0.8				0.0	0.7	
Energy, Chemical & Others		0.8	0.3	(0.5)				1.7	1.4	
Steel, Materials & Plant		0.5	1.3	0.8	0.9	1.4	0.6	3.1	3.1	2.5
Aerospace		1.3	0.5	(0.8)				0.4	0.6	
Motor Vehicles & Parts		(0.0)	0.5	0.5				1.0	0.8	
Others		0.1	(0.0)	(0.1)				0.0	0.0	
Motor Vehicles & Aerospace		1.3	1.0	(0.4)	0.9	0.6	(0.4)	1.4	1.4	0.9
Others		0.4	0.5	0.1	▲ 0.2	0.4	0.6	0.8	0.8	0.3
Grand total		10.0	14.2	4.3	5.9	7.3	1.4	28.0	28.0	15.0

Q 2	Please explain what "Other finance costs" of 1.58 billion yen consist of.
A 2	This mostly consists of a loss due to the write off of preferred shares in an equity method investee.
	【 FY2022 Forecast 】
Q 3	The rate of progress during the first six months, compared with 50%, or one half, was 50.9% for operating profit and 48.6% for profit attributable to owners of the parent. What is your view on the future outlook?
A 3	<p>We performed well, with rates of progress close to 50% despite factors such as the write-off of preferred shares. Our progress was mostly in line with forecasts.</p> <p>In the ICT solutions business, profit is expected to be posted in the fourth quarter, given that projects for security and network enhancement are building up. Also, in the energy business, we have expectations for kerosene demand in the winter.</p> <p>There are, however, some areas of concern, for example, the machine tools and industrial machinery business will be impacted by delivery delays resulting from semiconductor shortages, supply chain disruptions and overseas travel restrictions, and the recovery of the mobile business also appears slightly weak. Given the high level of uncertainty surrounding the Japanese market, including concerns over a sixth wave going into winter, our full-year forecasts announced at the beginning of the fiscal year remain unchanged. We will keep a close eye on changes in the environment and respond to any changes cautiously.</p>
Q 4	Profit of the mobile business increased slightly year on year. Why was this, given that the number of units sold is considered to be recovering? Also, what is your view on the future outlook, including the impact of the lower online-only rate plan?
A 4	<p>The number of units sold was more than 120% of the level a year earlier, indicating recovery, but is still only 90% of the level two years ago. Revenue growth is slow, reflecting a decrease in COVID support payments from carriers, in addition to a weak recovery in footfall, with some stores seeing footfall halved from two years ago, mainly in urban areas.</p> <p>Supply chain disruptions are causing product shortages of top-selling new models such as the iPhone 13 Pro and the iPhone SE, the most popular handset for business, and this is also impacting sales.</p> <p>Given that the lower online-only rate plan appears to have spread to some extent in urban areas, the downward trend of customer traffic at stores is expected to continue. Therefore, for stores with a large decrease in customer traffic, we are in the process of optimizing the size of the stores (relocating stores and reviewing the number of staff) as a priority issue.</p> <p>Meanwhile, we have also begun accepting new orders as planned in a new business utilizing carrier storefronts. We will strengthen the initiative as a new source of revenue which does not depend on carrier commission.</p>
Q 5	Regarding the steel tubing business in North America, you said that you would aim to achieve a break-even level in the current fiscal year, but it has already posted operating profit of 0.6 billion yen in the second quarter. Can we expect this recovery trend to continue in the full year?

A 5	Due to factors such as concerns over oil shortages and growing fuel demand in the United States, where recovery from the COVID-19 pandemic is fully underway, crude oil prices are rising and rig counts have been on the recovery track since the previous fiscal year. It is certain that the steel tubing sales business is recovering, firmly establishing itself as a profitable business, but the rig count level itself is still only 500 units and we expect that any recovery will remain slow for some time.
【 Investment 】	
Q 6	Please provide details on the progress of investments and the investment outlook for the current fiscal year.
A 6	<p>Multiple projects are underway, and we made the following investments in the first half.</p> <ul style="list-style-type: none"> ● Acquisition of IC test handler business ● Investment in a hexane-free soybean processing company ● Acquisition of all shares of N.S.C. Co., Ltd., a mobile phone sales agent, by Kanematsu Communications Ltd. ● Capital and business alliance with Keyware Solutions Inc. that develops applications and provides IT consulting by Kanematsu Electronics Ltd. ● Additional investment in an equity method investee which manufactures sheet steel products in South Korea ● Acquisition of all shares of Kangawa Shoji Co., Ltd., which is an electronic materials trading company, by Kanematsu Advanced Materials Corp. ● Launch of TW Link, a strategic investment company established for the purpose of promoting adoption of a trade platform across the industry <p>We currently have multiple investment projects in the pipeline in addition to the foregoing and aim to close some of these deals in the course of the current fiscal year.</p>
【 Shareholder returns 】	
Q 7	The dividend payout ratio forecast for the fiscal year ending March 31, 2022 is 33.4%, which is within the range of the target payout ratio of 30~35%. Could the target be raised in the future?
A 7	Our annual dividend forecast for the fiscal year ending March 31, 2022 is 60 yen per share and the payout ratio forecast is 33.4%. Our policy of paying dividends continuously and stably while achieving a balance between investments and shareholder returns remains unchanged, and we will continue to increase the amount of annual dividend by growing profit through the building-up of business investments, etc.
【 Realization of a decarbonized society 】	
Q 8	Please provide details on Kanematsu's initiatives to realize a decarbonized society.

A 8	<p>In June 2021, we expressed our support for the Task Force on Climate-related Financial Disclosure (TCFD) recommendations.</p> <p>We recognize that environmental issues are our corporate responsibility. The Group does not engage in businesses with a high environmental impact, such as the resource business and coal-fired power generation, and our GHG emissions are not very high. However, we will calculate the Group's GHG emissions and develop a specific plan for net zero emissions in the future. We would like to achieve net zero emissions early by utilizing the emissions trading and others, with the aim of realizing carbon neutral and a decarbonized society.</p>
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【 Promotion of DX 】	
Q 9	<p>Future 135 includes "Pursue DX on a groupwide basis" as a priority initiative. What progress have you made on this?</p>
A 9	<p>The Group established the DX Project Office in July this year, with Executive Officers from Kanematsu and Kanematsu Electronics as members. We are currently implementing initiatives such as examination of DX in each business and development of the Group IT environment. We have made advances such as shifting to paperless Management Committee meetings but we intend to go beyond the improvement of actual operations to reform management itself.</p> <p>[Examples of promotion of DX]</p> <ul style="list-style-type: none"> ● Development of HI-MAWARI an electronic decision-making system ● Introduction of Concur, expense report software to automate business expenses ● Launch of the Business Co-Creation Center, a platform for business co-creation ● Launch of AIPENET, an AI-based image inspection service