Consolidated Financial Results Briefing for the First Nine Months of FY2022

Main Questions and Answers

February 4, 2022

	【 Results for the First Nine Months of FY2022 】
Q 1	Please provide the details of the business results by segment for the first nine months, taking into consideration the business environment.
A 1	Operating profit rose 6.5 billion yen (44.9%) year on year, to 21.1 billion yen, and profit attributable to owners of the parent increased 3.5 billion yen (40.6%), to 12.0 billion yen. The profits returned to the level recorded in the fiscal year ended March 31, 2019 before the COVID-19 pandemic.

The main factors contributing to the increase or decline 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.
- The mobile business posted smaller operating profit, mainly due to smaller fee income including smaller COVID monetary assistance to shops during the COVID-19 pandemic, despite a recovery in footfall.
- 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 Operating profit		(Ref.)FY2022 forecast Profit attributable to owners of the parent	
(Unit : billion yen)	FY2022 3Q results	FY2022 3Q results	Change	FY2021 3Q results	FY2022 3Q results	Change	(Original)	(Revised)	(Original)	(Revised)
ICT Solution	6.4	7.5	1.1				12.3	12.3		
Mobile	3.1	2.6	(0.6)				5.7	4.2		
Others	0.4	1.3	0.9				1.2	1.9		
Electronics & Devices	10.0	11.4	1.5	4.7	4.3	(0.5)	19.2	18.4	9.0	7.3
Foods	(0.1)	0.2	0.4				0.2	0.3		
Meat products	(0.7)	1.9	2.6				1.5	2.0		
Grain, Oilseeds & Feedstuff	2.6	2.2	(0.4)				1.8	2.5		
Others	(0.0)	0.0	0.0				0.0	0.0		
Foods, Meat & Grain	1.8	4.3	2.5	1.8	3.1	1.3	3.5	4.8	2.3	3.4
Machine Tools & Industrial Machinery	(0.2)	0.6	0.8				1.0	1.0		
Overseas	(0.5)	1.2	1.6				0.7	1.3		
Energy, Chemical & Others	1.4	1.3	(0.1)				1.4	1.8		
Steel, Materials & Plant	0.8	3.1	2.3	1.3	3.0	1.7	3.1	4.1	2.5	3.7
Aerospace	1.3	0.5	(0.8)				0.6	0.6		
Motor Vehicles & Parts	0.2	0.8	0.5				0.8	1.1		
Others	(0.0)	(0.0)	0.0				0.0	0.0		
Motor Vehicles & Aerispace	1.5	1.3	(0.2)	1.0	1.0	0.0	1.4	1.7	0.9	1.3
Others	0.6	0.9	0.4	(0.2)	0.6	0.8	0.8	1.0	0.3	0.3
Grand Total	14.6	21.1	6.5	8.5	12.0	3.5	28.0	30.0	15.0	16.0

Q 2	Please explain what "Other finance costs" of 1.58 billion 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	Please explain the reason for the upward revision you have made to the full-year forecast.
A 3	Despite some negative factors such as the declining valuation of preferred shares, our results have been strong with the progress rate of operating profit against the original full-year forecast standing at 75% and that of profit attributable to owners of the parent at 80%. We decided to revise the original forecast upward after reviewing the forecast of each segment for the fourth quarter under review, especially the food segment that has already exceeded the initial full-year forecast in the third quarter. Having said that, we expect some businesses to slightly slow down, given uncertainties such as falling fee income in the mobile business and the signs of the market reaching its peak in the meat products business.
Q 4	Operating profit of the mobile business fell year on year. Please explain the reason for the smaller operating profit, given that the number of units sold is considered to be recovering as evidenced by the year-on-year increase in revenue. Also, what is your view on the future outlook, including the impact of semiconductor shortages and the lower online-only rate plan?
A 4	The number of units sold was more than 110% of the level a year earlier, indicating recovery, but is still only 90% of the level two years ago before the spread of COVID-19 infections. Revenue growth is slow, reflecting a decrease in COVID monetary assistance from carriers, in addition to a weak recovery in footfall, with some stores seeing footfall halved from two years ago, mainly in urban areas. Semiconductor shortages and supply chain disruptions are causing product shortages of models popular among businesses. This is also impacting sales and operating profit. 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 stores (relocating stores and reviewing the number of staff) as a priority issue. Meanwhile, we have also begun accepting new orders as planned in a new business utilizing carrier storefronts, which is producing a good result. We will strengthen the initiative as a new source of revenue which does not depend on carrier commission.
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 1.2 billion yen in the third quarter. Can we expect this strong performance to continue for 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 600 units and we expect that the pace of recovery in the business environment will remain slow.

	【 Investment 】
Q 6	Please provide details on the progress of investments and the investment outlook for the current fiscal year.
A 6	Multiple projects are underway, and we made the following investments in the first nine months. ● Acquisition of IC test handler business from Seiko Epson Corporation ● 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 Communication 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 ● Establishment of the second plant in the steel tubing business in North America ● Investment in a general food company that owns dairy product, food processing, and logistics companies in Indonesia We currently have multiple investment projects in the pipeline in addition to the foregoing.
	【 Shareholder returns 】
Q 7	What is the reason for revising your dividend forecast upward?
A 7	We have maintained dividend payments despite the downward trend in profits caused by COVID-19. Following the upward revision to our performance forecast, we have revised our forecast of annual dividend payments in the fiscal year under review upward by 5 yen to 65 yen. This is expected to make our payout ratio 33.9% against the target total payout ratio of 30-35% we set under the medium-term vision, *future 135*. 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	In June 2021, we expressed our support for the Task Force on Climate-related Financial Disclosure (TCFD) recommendations. 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 have begun calculating the Group's GHG emissions and will develop a specific plan for net zero emissions in the future. We would like to achieve net zero emissions early through our emissions reduction efforts and the use of credits we have generated in emissions trading, with the aim of realizing carbon neutrality and a decarbonized society.

	[The Group's initiatives to achieve a decarbonized society] ● Kanematsu and its subsidiary, Datatec Co., Ltd., have agreed to run joint proof of concept (PoC) experiments with PT Pertamina, a state-run oil company in Indonesia, to promote decarbonization and to improve logistics efficiency by improving fuel efficiency of freight trucks. We have already begun providing support and running PoC experiments. ● Kanematsu Petroleum Corp., our subsidiary, has joined the Japan Climate Leaders' Partnership, a group of companies aiming to achieve a sustainable, decarbonized society.
	【 Promotion of DX 】
Q 9	*Future135* includes "Pursue DX on a groupwide basis" as a priority initiative. What progress have you made on this?
A 9	The Group established the DX Project Office in July last 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 improving actual operations to reforming management itself. [Examples of promotion of DX] ● 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 ● Proposal and introduction of DX promotion solutions, such as container platform, at Kanematsu Electronics which has been certified as a business promoting DX ● Development of new businesses at Kanematsu Sustech Corporation using big data on soil accumulated by e-soil, a total soil support system developed by Kanematsu Sustech Corporation, and outside sales of the said system ● Development of industry-specific DX solutions at Kanematsu Communications Ltd. for the manufacturing, construction, retail, healthcare, and aged care industries, in addition to back-office DX solutions