

Overview of Results for FY2020 Main Questions and Answers

	[About Results for FY2020]
Q 1	Please give details of any businesses, etc. impacted by COVID-19 or other changes in the environment during the fourth quarter?
A 1	In the ICT Solutions Business, demand for the construction of virtual desktop environment and other solutions grew as teleworking became more widespread. In the mobile business, the number of store customers decreased due to shorter store opening hours but there were also positives such as improvement in the efficiency of store operations and growth in corporate business. Domestic sales of beef to the food service industry declined due to COVID-19 but sales to mass retailers grew. In the semiconductor and LCD manufacturing equipment business, shipments to China were suspended due to the coronavirus. In the machine tools and industrial machinery business, transactions with Asia declined, reflecting the impact of the drawn-out trade war between the U.S. and China. The oilfield tubing business struggled due to falling crude oil prices.
	[About FY2021 Forecast]
Q 2	Quantify the impact of COVID-19 in the FY2021 forecast. Also explain why the forecast is on a par with FY2020 results despite the current environment.
A 2	We estimate that COVID-19 will have a negative impact of around 3 billion yen on operating profit and around 2 billion yen on profit attributable to owners of parent. However, in the absence of negative factors such as the decline in pet-related transactions and transaction involving aquafeed that occurred in FY2020, and given the projected increase in share of profit of investments accounted for using the equity method due to new investments, we expect that profit attributable to owners of parent will be mostly unchanged year on year.
Q 3	This time, forecasts for each subsegment are not shown. The forecast for the current fiscal year assumes that the current situation will last until June this year but how do you see the business environment overall, both now and post- coronavirus. What are the positive and negative factors?
A 3	<p>Our revenue structure is characterized by the fact that (i) we are not involved in resource-related business and (ii) domestic revenue accounts for around 90% of our total revenue, and we believe that we have considerable downward rigidity even if the current situation persists until June.</p> <p>Negative factors which appear unavoidable in the current environment include the impact of falling crude oil prices in the oilfield tubing business, deceleration which predates the coronavirus in the machine tools and industrial machinery business, and the impact of falling international passenger demand in the aircraft parts business. Meanwhile, in the ICT solutions and mobile business, we expect to see teleworking and growth in telecommunication demand and security demand associated with this although this depends on the resumption of negotiations.</p>

Q 4	What is your view of the ICT solutions business? Give details of the business environment including COVID-19 and its impacts.
A 4	Given the current shift toward teleworking both in terms of workstyle reform and as a means of controlling COVID-19, we believe that there is potential demand due to IT investment by businesses in the medium term. However, there are also cases in which new negotiations will not take place due to the stagnation of business activities caused by COVID-19 and we intend to assess the impact of such developments on our performance in the current fiscal year.
Q 5	What is your view of the mobile business? Give details of the business environment, including the rollout of 5G services and COVID-19, and the impact on future revenue.
A 5	While new demand will be created through the rollout of 5G services and the later-than-initially-planned launch of more affordable new mobile phones during the current fiscal year, we believe that performance will depend on the extent of the impact of shorter shop opening hours and shorter reception opening hours.
Q 6	With oil prices continuing to fall, OPEC+ agreed to cut production. Meanwhile, in North America, the rig count continues to trend down. How do you see the future of the oilfield tubing business?
A 6	In our view, our oilfield tubing business will among those facing the most challenging conditions during the current fiscal year. Aside from falling crude oil prices, if global energy demand does not recover, U.S. crude oil and gas production will decrease, and this is expected to lead to a fall in orders for oilfield tubing.
Q 7	The Foods & Grain segment also appears to be facing various issues such as logistics delays and price volatility due to COVID-19. What is your view?
A 7	The COVID-19 outbreak has not affected overall food demand in Japan and we are not really concerned about demand. In our food, feedstuff and meat products businesses, we will strive to stabilize commercial rights to ensure a stable supply to our customers and support the supply of food in Japan.
Q 8	In FY2020, Kanematsu recorded large impairment losses in some cases. Does Kanematsu currently hold assets which might be impaired in the event of future changes in the environment, such as the continued impact of the coronavirus?
A 8	In FY2020, we posted profit of 14.4 billion yen compared to our forecast, revised in the third quarter, of 15.0 billion yen. The result was slightly lower than the forecast but there were no major impairment losses, etc. As of March 31, 2020, goodwill amounted to around 10 billion yen and intangible assets were around 23 billion yen but, unlike other trading companies, we do not hold property, plant and equipment or other assets such as resource interests which are greatly affected by resource prices, and we believe our risks are limited. Our shareholders' equity to risk assets ratio is stable at the low level of 0.3 and we believe we have an adequate risk buffer.

	[About Return on Invested Capital (ROIC)]
Q 9	This time, a graph showing changes in ROIC as well as ROE was disclosed. What is your ROIC target and the basis for its calculation?
A 9	<p>As an indicator of efficiency for shareholders, we announced a ROE target of 13~15% in our medium-term vision. Assuming we set the consolidated financial leverage target at around 1:1, this means that, as an operational target for achieving target ROE of 13-15%, ROIC needs to be around half this, in other words, 6.5-7.5%. Moving forward, we will strive for group-wide attainment of ROIC by recognizing ROIC of 7% as an internal target and pursuing improvement of ROIC in each business.</p> <p>Unfortunately, in FY2020, due to year-on-year decline in profit, ROIC only reached 5.3% and ROE also reached no more than 11.2%. However, we will continue to pursue capital efficiency by raising employee awareness of efficiency targets and implementing a scrap & build strategy, among other measures.</p>
	[About progress of the medium-term vision “future 135”]
Q10	Under your medium-term vision, you envisage expanding operating profit to around 45 billion yen. However, the result in the second year of the plan was 28.4 billion yen. How will you get closer to the target? Explain your future growth strategy, including business investment plans.
A10	<p>Notwithstanding the COVID-19 crisis, there is currently no change in the basic design of future 135, that is, we aim to increase profit from sales activities from around 25 billion yen at the start to around 45 billion yen through profit growth in existing businesses of around 10 billion yen and profit growth through new business investments of around 10 billion, and we aim for profit attributable to owners of parent of 25 billion yen.</p> <p>Provided the global economy returns to normal from the second half, we plan to implement our planned growth strategies by increasing new business investments while maintaining our current sound financial position.</p>
	[About shareholder returns]
Q11	The total return ratio in FY2020 was 34.8%, exceeding the target range of 25-30%. The payout ratio forecast for FY2021 is also 34.6%. Explain your thinking.

A11	<p>In FY2020, profit attributable to owners of parent decreased around 2 billion yen year on year and yet we decided to leave our year-end dividend unchanged at 30 yen. As a result, the dividend payout ratio almost reached the 35% level. Similarly for FY2021, given that we expect profit attributable to owners of parent to be mostly unchanged year on year due to the elimination of negative factors in the previous fiscal year and the impact of COVID-19 in the current fiscal year, we will leave our full-year dividend forecast unchanged at 60 yen. As a result, the payout ratio will almost reach the 35% level.</p> <p>This is not an upward revision of the target total return ratio. Rather it is based on management's judgment that even if the actual payout ratio is slightly higher than the target range due fluctuation in performance during the unforeseen and unprecedented situation of a global pandemic, Kanematsu will distribute continuous and stable dividends to shareholders.</p> <p>However, when the current fiscal year (FY2021), which marks the third year and turning point of future 135, comes to an end, we will assess the extent of increase in investments and examine whether to review our shareholder return policy, among other measures.</p>
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