

Consolidated Financial Results for the Year ended March 31, 2023 / FAQ

May 9, 2023

【Financial results for the fiscal year ended March 2023】											
Q 1	Please explain an overall picture of Kanematsu's business results by segment for the fiscal year ended March 31, 2023, taking into consideration the business environment.										
A 1	<p>Operating profit rose ¥9.5 billion (32.5%) year on year, to ¥38.9 billion and profit attributable to owners of the parent increased ¥2.6 billion (16.2%), to ¥18.6 billion, both of which were among the historically highest levels. The main factors contributing to the increase or decline in operating profit are as follows.</p> <ul style="list-style-type: none">● The ICT solutions business posted a higher operating profit mainly due to an increase in projects related to security and network and improvements to delivery delays.● In the mobile business, operating profit declined due to a decrease in fee income resulting from the revision of fee terms, in addition to lower sales volume.● In the semiconductor parts and manufacturing equipment business, operating profit increased due to growth in shipments of manufacturing equipment and consumables related to semiconductors and LCD panels supported by the back of robust demand.● Operating profit in the meat products business shrank due to the weak performance resulting from the market setbacks in meat products in general since the summer.● In the feedstuff business, operating profit rose partly due to the improved profitability.● The steel tubing business saw a higher operating profit as energy investments expanded in the U.S. and the prices of steel tubes rose.● In the energy business, operating profit rose on the back of the improving market conditions and sales growth centered on ship fuel sales for ocean-going vessels.● In the motor vehicles and parts business, operating profit declined, as soaring transportation costs put a downward pressure on profits, while demand was in a recovery trend.										
Operating profit (Segment margin) / Profit attributable to owners of the parent											
(Unit : billion yen)		Operating profit			Profit attributable to owners of the parent			(Ref.) FY2024 forecast		(Ref.) FY2024 forecast	
		FY2022	FY2023	Change	FY2022	FY2023	Change	Operating profit		Profit attributable to owners of the parent	
								forecast	YonY change	(Revised)	YonY change
ICT Solution		12.8	14.0	1.2				13.7	(0.3)		
	Mobile	4.3	3.9	(0.4)				4.9	1.0		
	Others	1.9	2.4	0.5				2.9	0.5		
Electronics & Devices		19.1	20.3	1.3	7.9	8.8	0.8	21.5	1.2	14.1	5.3
Foods		(0.1)	(0.0)	0.0				0.8	0.8		
	Meat products	1.7	0.6	(1.1)				2.3	1.7		
	Grain, Oilseeds & Feedstuff	1.9	3.5	1.6				3.8	0.3		
	Others	(0.0)	(0.0)	(0.0)				0.0	0.0		
Foods, Meat & Grain		3.5	4.1	0.5	2.5	2.2	(0.3)	6.9	2.8	2.6	0.4
Machine Tools & Industrial Machinery		1.1	1.6	0.5				2.2	0.6		
	Overseas	1.7	5.5	3.9				3.6	(1.9)		
	Energy, Chemical & Others	1.3	5.2	3.9				3.3	(1.9)		
Steel, Materials & Plant		4.1	12.3	8.3	3.3	6.7	3.4	9.1	(3.2)	4.9	(1.8)
Aerospace		0.4	0.7	0.3				1.2	0.5		
	Motor Vehicles & Parts	1.3	0.7	(0.6)				0.8	0.1		
	Others	(0.0)	0.1	0.1				0.0	(0.1)		
Motor Vehicles & Aerospace		1.7	1.5	(0.2)	1.5	0.8	(0.7)	2.0	0.5	1.2	0.4
Others		1.0	0.7	(0.3)	0.8	0.1	(0.7)	1.0	0.3	0.7	0.6
Grand Total		29.3	38.9	9.5	16.0	18.6	2.6	40.5	1.6	23.5	4.9

	【FY2024 Forecast】
Q 2	You have projected that profit attributable to parents of the owner will grow significantly, exceeding the target you have set (¥20 billion) for the final year of the medium-term vision. What are the factors leading to this projection?
A 2	Although we expect reactions in the steel tubing business and the energy business as their market conditions settle, we factor in growths in other businesses such as the machine tools and industry machinery business, and the aerospace business and the impact of posting 100% of the profits of Kanematsu Electronics Ltd. and Kenematsu Sustech Corporation, which used to belong to non-controlling interests until the fiscal year ended March 31, 2023.
Q 3	The mobile business again posted a fall in its profit. What is your view on the business' future outlook?
A 3	<p>The inventory shortage of main models has almost been resolved, but the number of units sold is not increasing. In addition, fee income shrank mainly as telecommunications carriers began revising their fee terms and conditions from the previous period. These factors led to a smaller profit.</p> <p>In the medium and long term, the closure of mobile phone stores will basically target loss-making stores. At present, we consider its impact on our profit will be insignificant. In urban areas, we expect footfall to continue falling partly due to the spread of online-only plans. We have begun adjusting the size of stores experiencing a large footfall reduction, such as relocating them or reviewing their staff numbers, as a priority issue.</p> <p>While we anticipate the industry environment to remain tough, after a certain degree of store restructuring, we will likely move to a stage where we can secure stable benefits in the retail area. Meanwhile, we are cultivating and developing corporate solutions business in keeping with telecommunications carriers' expansion policy.</p>
Q 4	The steel tubing business in North America performed strongly in the fiscal year ended March 31, 2023. What is your view on the business' future outlook?
A 4	In the fiscal year ended March 31, 2023, the steel tubing business in North America significantly outperformed the projections we had made at the beginning of the fiscal year, partly due to the increase of energy supply capacity in the U.S. While we expect solid demand to continue in the fiscal year ending March 31, 2024, we project the business to slow down slightly compared to the previous fiscal year due to uncertainties such as concerns over economic recession in the U.S.
Q 5	What is the impact of FOREX fluctuations on the Company's business results?
A 5	Their impact on our performance is generally neutral because many of our foreign currency-denominated transactions are for imports mainly in the Foods, Meat & Grain segment, and their foreign exchange risk is mostly hedged using foreign exchange forward contracts and yen prices for their sales. In terms of their impact on our balance sheet, a fluctuation of ¥1 against a US dollar will have an impact of approximately ¥100-200 million on foreign translations in shareholders' equity.

Q 6	What are the direct and indirect impacts of the Russia-Ukraine situation?
A 6	<p>We have reduced our transactions with Russia since we wrote off the claims exposed to Russia's country risk about twenty years ago. There are some projects in progress, which we expect to be covered by trade insurance. Our view therefore is that there is not much direct impact. As for Ukraine, we used to have a representative office there, but it is currently closed, so the impact of the Russia-Ukraine situation is also limited.</p> <p>However, if the end customers in Japan hold off purchasing due to high crude oil or grain prices, there could be an indirect impact of decreasing the trading volume of raw materials.</p>
	【Tender Offers】
Q 7	What is the significance and purpose of the recent simultaneous tender offers for two companies?
A 7	<p>Digital transformation (DX) and green transformation (GX) are priority initiatives in our current medium-term vision, <i>"future 135."</i> We intend to continue positioning them as priority initiatives under the new medium-term vision which is scheduled to start in April 2024. To implement these initiatives, we plan to further enhance our capital relationships with Kanematsu Electronics Ltd., which has strengths in DX, and Kanematsu Sustech Corporation, which has strengths in GX, and to realize integrated Group management.</p> <p>We believe that making these companies our wholly owned subsidiaries will achieve the optimal allocation of management resources as the entire Group, further accelerate our existing initiatives, and facilitate a greater degree of collaboration.</p>
Q 8	You successfully executed tender offers. What are their impacts on your performance in the fiscal year under review (fiscal year ended March 31, 2023) and in the future?
A 8	<p>The tender offers closed in mid-March, so their impact on our consolidated financial results for the fiscal year ending March 31, 2023, was insignificant.</p> <p>In the financial year ending March 31, 2024, we will be able to post 100 percent of profits of the two companies, which have so far been posted in non-controlling interests. In addition, we expect the two companies to further contribute to our financial results through creating synergy in our group.</p> <p>As for their financial impact, we cannot avoid a certain degree of deterioration in financial indicators such as net DER because (1) we have taken out a loan from a financial institution to finance the purchase of shares for the tender offers, and (2) being transactions that made consolidated subsidiaries into wholly owned subsidiaries, the difference between the total purchase price of the tender offers and our non-controlling interests in the target companies was recognized as a fall in capital surplus. However, we expect to improve the financial indicators including net DER through the future growth in profit..</p> <p>Please note that, with respect to our external ratings, both JCR and R&I have released statements that the tender offers would be unlikely to impact our current ratings (A-), although the execution of the tender offers will temporarily exert a financial pressure.</p>

	【Investment】
Q 9	Please tell us the progress you have made in investments during the fiscal year under review.
A 9	<p>Multiple projects were underway. The investment projects we executed during the fiscal year under review were as follows, with the total investment amount of approximately ¥17.0 billion (excluding the tender offers of the two subsidiaries).</p> <ul style="list-style-type: none"> ● Acquisition of a mobile phone sales agency operation company by Kanematsu Communications Ltd. ● Capital and business alliance between Kanematsu Electronics Ltd. and a network security business. ● Investment in a Japanese-style barbeque yakiniku chain company operating in China. ● Investment in a company operating the wholesale business for food/processed meat products and retail business through c-commerce. ● Investment in system integrator company of photo printing systems. ● Investment in the Waseda Innovation Fund. ● Investment in a manufacturing equipment system integrator ● Additional investment in Global Security Experts Inc. by Kanematsu Electronics Ltd. ● Acquisition of Nihon Access, Co., Ltd. by Kanematsu Electronics Ltd. ● Investment in a major food service company, The Monogatari Corporation ● Additional investment in a carbon nanotube maker, CARBON FLY, Inc. ● Investment in an Australian plastic recycling technology venture
Q10	What will be your approach to investments after the tender offers?
A10	<p>We plan to execute growth investments for our sustainable growth after making the listed subsidiaries wholly owned subsidiaries.</p> <p>Our basic approach is to control our investments within our cash flows from operating activities. We will control our financial balance with the target net DER of approximately 1x.</p>
	【Shareholder returns】
Q11	Do you set any upper or lower limit for the annual dividend?
A11	<p>We set our target payout ratio at 30-35% and do not set any specific target figures for our annual dividends. We intend to continue increasing our annual dividend through the growth of profit attributable to owners of the parent under the basic policy of providing continuous and stable dividends.</p> <p>We maintained the same amount of dividend in the fiscal years ended March 31, 2020, and March 31, 2021, despite the downward trend in profits caused by COVID-19.</p>

	【Realization of a decarbonized society】
Q12	Please provide details on Kanematsu's efforts and approach for realizing a decarbonized society.
A12	<p>In June 2021, we expressed our support for the Task Force on Climate-related Financial Disclosures (TCFD) recommendations. We recognize that environmental issues are our corporate responsibility. In June 2022, we launched the Green Transformation (GX) Committee under the officer in charge of promoting GX to engage in environmental business and other initiatives such as renewable energy, emission rights trading, and forest preservation, to move toward decarbonization. The Kanematsu Group does not engage in businesses with a high environmental impact, such as the resources business or coal-fired power generation, and CO₂ emissions from our business activities are at an extremely low level relative to the scale of our businesses. Please refer to this link for the calculation results of the Group's CO₂ emissions disclosed on the official web page. Disclosure based on Recommendations of the TCFD Sustainability KANEMATSU CORPORATION (kanematsu.co.jp)</p> <p>We will aim to achieve carbon neutrality as soon as possible, by 2025. We will reduce CO₂ emissions by switching to renewables; for any remaining emissions that cannot be reduced, we will offset them with the credits generated from our business including converting our contribution to GHS emissions reduction into credits, to achieve carbon neutrality.</p> <p>Furthermore, by accumulating and increasing the contributed emission volume in the future, we aim to become carbon negative at -150,000 t-CO₂ by 2030 and -1,000,000 t-CO₂ by 2050, thereby contributing to GHG emissions reduction in Japan and on a global scale.</p> <p>We responded to the CDP Climate Change 2022 Questionnaire as required of all companies listed on the TSE Prime Market and scored B indicating the Management Level, which was the third highest score level in the eight-level assessment system. (CDP is a non-government organization managed by a charitable organization in the U.K. It operates a global information disclosure system for investors, companies, nations, regions, and cities to manage their own environmental impacts, and evaluates corporate climate change actions.)</p> <p>[The Group's initiatives to achieve a decarbonized society]</p> <ul style="list-style-type: none"> ● Kanematsu KGK Corp., our subsidiary, installed the largest solar power generation system in Vietnam, An Giang Province, in the south of the Country, using a joint crediting mechanism (JCM) designed to promote the use of energy-saving and renewal energy technologies in developing countries. In addition to this project, the Group is executing JCM projects in Indonesia, Saudi Arabia, Thailand, and Vietnam. ● Kanematsu began supporting the promotion of cacao farming in Gorontalo Province, Indonesia from 2011 as an international initiative to promote sustainable forest management in developing countries (REDD+). Through this project, we contribute to the preservation of tropical forests. ● Kanematsu and its subsidiary, Datatec Co., Ltd., have agreed to run joint proof of concept (PoC) experiments with PT Pertamina, a state-owned oil company in Indonesia, to promote decarbonization and to improve logistics efficiency by improving the fuel efficiency of freight trucks. We have already begun providing support to and running PoC experiments. ● Kanematsu Petroleum Corp., our subsidiary, has joined the Japan Climate Leaders' Partnership (JCLP), a

	<p>group of companies aiming to achieve a sustainable, decarbonized society.</p> <ul style="list-style-type: none"> ● Aiming to promote decarbonization of the entire supply chain together with suppliers, we have formed a group-wide GX Accelerator team to collectively propose a variety of solutions that contribute to GHG reduction. We are promoting this initiative in collaboration with Asuene Inc. and The Norinchukin Bank. ● Kanematsu Sustech Corporation's ground stabilizing Eco Wood Pile made of timber received the Minister of the Environment Prize at the 30th Global Environment Awards.
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	【Promotion of DX】
Q13	<i>Future135</i> includes “Pursue DX on a groupwide basis” as a priority initiative. What progress have you made?
A13	<p>The Group established the DX Project Office in July 2021 with the Executive Officers of Kanematsu and Kanematsu Electronics Ltd. as its members. The Project Office is currently working on initiatives such as the examination of DX of each business and the organization of the Group IT environment. It is also working with core Group companies, sharing the initiatives of each company. More specifically, the Project Office is, through individual subcommittees, examining and promoting initiatives such as the use of common IDs throughout the consolidated Group to raise the efficiency of systems management and operation, the development of infrastructure for using the data collected through the promotion of DX, and the sharing of the Group's IT assets to reduce costs and make equal the security level within the Group.</p> <p>[Examples of promotion of DX]</p> <ul style="list-style-type: none"> ● Began rolling out HI-MAWARI, an internal approval system, in the Group and analyzing the accumulated data. ● Introduction of Concur, expense report software to automate settlement of business expenses. ● Operation of a platform for business co-creation, the Business Co-Creation Center <ul style="list-style-type: none"> • Commencement of sales of “AIPENET,” an AI-based image inspection service. • Launch of “FewTap,” a mobile order system for raising order acceptance work efficiency. • Commencement of sales of “KG matoca,” a digital tool to provide services more efficiently to customers waiting to receive services. • Commencement of sales of “KG Ubiregi,” a tablet-based POS system. ● Proposal and introduction of DX promotion solutions, such as a container platform and subscription-type wireless service for companies, at Kanematsu Electronics Ltd. ● Development of new businesses at Kanematsu Sustech Corporation using big data on soil accumulated in 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. ● DX training for employees of Group companies tailored to their organizations and roles. ● Participation in “Beef CREATOR,” a digital media focusing on the beef industry.

	<ul style="list-style-type: none">● Launch of “Oatmeal BUSINESS,” a business media for expanding the oatmeal market in which Kanematsu has the largest import share.
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