

Taikisha Ltd. The Second Quarter of FY2024
Financial Results Briefing for analysts and institutional investors (online conference)
Main Q&A session

Date and time : 14 November 2024, 13:30~14:30

Attendees :

Masashi Osada, President Corporate Officer.

Yasushi Nakajima, Chief Executive, Administrative Management Headquarters.

Masanori Nakagawa, Chief Executive, Corporate Planning Headquarters.

Tadashi Sobue, Chief General Manager, Green Technology System Division.

Yukinori Hamanaka, Chief General Manager, Paint Finishing System Division.

Business environment in the Paint Finishing System

Questioner: In the explanation of the Paint Finishing System, you mentioned that the timing of project delivery is currently in flux. Please tell us a little more detail about such business environment. Is there a risk that project delivery or construction starts will be delayed from the second half of FY2024 onwards due to factors such as sluggish sales volume and production adjustments of automobiles?

Respondent: I explained that the environment surrounding orders received is in flux in some areas, but the situations differ depending on the region.

For example, in China, the current economic downturn has become clear, so investment restraint has been occurring, particularly among Japanese manufacturers, and we are beginning to see a trend toward postponement of projects. On the other hand, in India, many automobile manufacturers urgently need to build up their production capacity, and the situation is progressing well.

We expect an upswing in the second half of FY2024, but there are some areas where this is not the case, and we explained this as one of the risks.

Financial balance and potential for expanding shareholder returns under the Mid-Term Business Plan

Questioner: Regarding cash allocation for the Mid-Term Business Plan, I think you have about 60 billion yen in net cash, but some other companies have a net debt that is almost equal to their net cash.

In the first place, is there any need to have net cash? Also, is there a possibility of allocating this amount to growth investment or shareholder returns? I would like to ask about your thoughts on the current financial balance and potential for expanding shareholder returns under the Mid-Term Business Plan.

Respondent: Many investors have told us that we may hold too much cash. Under the current Mid-Term Business Plan, we intend to maintain our initial plans for dividends and purchase of treasury shares.

We have also been holding repeated discussions, primarily at the Board of Directors Meetings, about management accounting and internal benchmarks, taking your opinions into full consideration. Please wait a little while for us to explain the framework and details.

Some companies have purchased their treasury shares by using their surplus cash, resulting in a temporary rise in their stock prices. However, I believe what you ultimately want is growth investment. Although there are various risks, we will strive to look for areas with growth potential to invest in, using cash effectively.

We are adjusting the financial balance so that, if there is still surplus cash, we can return it through paying dividends and acquiring treasury shares, based on the total return ratio. Please wait for about six months until the start of the next Mid-Term Business Plan.

Upward potential for each business and prospects for profit growth in the next fiscal year and beyond

Questioner: I would like to ask about your overall earnings forecast. First of all, while the Paint Finishing System for FY2024 appears to be quite conservative for the second half, the Green Technology System is expected to improve its performance toward the second half. Considering the business environment, I think both of these businesses could do better than expected. Is there any room for upward revision?

Also, regarding the Mid-Term Business Plan, I would like to know your thoughts on an increase in profit in the next fiscal year and beyond. In particular, I think that the Green Technology System will see a significant increase in sales partly due to some highly profitable projects, so it seems likely that we can expect a large increase in profit for the next fiscal year. What are your thoughts on this view?

Respondent: Regarding the Green Technology System, we roughly estimate net sales of completed construction contracts and SG&A expenses as planned at the end of FY2024. Currently, we do not anticipate an increase in ordinary profit due to stronger net sales of completed construction contracts and a decrease in SG&A expenses.

In addition, with regard to gross profit on completed construction contracts, due to the smaller number of projects to be completed, the profit expansion resulting from additional constructions would be smaller than in the previous fiscal year, and as the extent of improvement is unclear at this point, the forecast has been left unchanged.

We have received orders worth 200 billion yen in FY2024 and as for FY2025, we currently expect an increase in profit, with net sales of completed construction contracts expected to increase for FY2025 and FY2026. I would like to explain those figures in the next Mid-Term Business Plan.

Questioner: You said that the extent of improvement in the gross profit ratio is unclear. However, until the first half of FY2024, things had been going well in line with your earnings forecast. If that trend continues in the second half, is it correct to understand that there is room for an upward swing?

Respondent: I cannot make a clear statement yet, but we are working on improving the profit ratio.

Respondent: Regarding the Paint Finishing System, you asked whether there is any expectation of an upward swing in the second half of FY2024, based on the results of the first half. First of all, one of the things we focused on in the first half was to address overtime work in response to the amendment of the Labor Standards Act.

We have been focusing on front-loading to reduce the workload, specifically through overseas procurement, shifting fabrication of equipment and devices overseas, and more sophisticated modularization. This contributed to our performance, and the results exceeded our initial expectations for the first half.

However, in the first half, we were able to record a significant amount of net sales of completed construction contracts ahead of schedule, so for now, we have left our forecast unchanged, although we hope for this trend to continue into the second half.

Let me explain about the next fiscal year and beyond. One of the factors behind the sluggish profitability in the Paint Finishing System has been the commoditization of technology, particularly

in the process business.

Another major cause was that our business portfolio focused too heavily on automobile manufacturers. Therefore, we are currently working to improve and expand our portfolio, in line with the “five pillars” of our growth strategy that we have already announced.

We believe that we will see the results of this initiative from the next fiscal year onwards, so I expect this will contribute to further improvements in profitability.

Our current stock price

Questioner: As for management that is conscious of capital costs and stock prices, could you please comment on your current stock price? The business environment is very favorable, and we believe you will achieve solid results from the next fiscal year onwards, but compared with the stock prices of other HVAC facilities companies, your stock price currently appears to be somewhat sluggish.

I would like to know how you plan to raise your stock price going forward, including the perspective of capital efficiency.

Respondent: Stock prices are determined in the market. As for that evaluation, I believe that we have been appreciated through properly disclosing what we have been working on, but I also feel that there is still a little room for improvement in disclosure.

However, as stock prices are determined in the market, there is nothing I can comment on.

Timing of start for accepting orders for dry decoration system and comparison with conventional systems

Questioner: Regarding the Paint Finishing System, you mentioned that the demo-line of dry decoration would be completed at the end of this month. Will you actually start receiving orders during the period of this Mid-Term Business Plan? Or will it be several years from now?

Also, please tell us, for example, whether the price of the equipment required to paint the same number of units will be higher or lower compared with conventional painting systems, and please provide us with your perspective on the margin.

Respondent: As for dry decoration, we set up a demo-line at our Technical Center in Zama City, Kanagawa Prefecture and are currently conducting trial runs.

Even at this stage, we have already been requested by not only Japanese automobile manufacturers, but also American automobile manufacturers, to use the demonstration line to conduct dry decoration for their parts, and we have already won several orders for testing for a fee.

After receiving their evaluations, we will make progress toward starting the actual line, hoping to make it possible for dry decoration to contribute to our business performance during the next Mid-Term Business Plan.

As for a cost comparison with conventional wet painting systems, we expect that, with building costs included, the cost for dry decoration will be overwhelmingly lower, since the related equipment will be very compact.

In addition, the dry decoration system will considerably contribute to reducing running costs, as it will eliminate any maintenance costs, which are extremely expensive with the wet painting system.

These effects are recognized as added value. The selling price of the dry decoration system will be set lower than that of conventional wet painting, as it will not sell unless it is cheaper. However, we expect higher profitability than before.

The current state of the Paint Finishing System in Europe and its contribution to business performance in the next fiscal year

Questioner: Regarding the Paint Finishing System, I understand you have re-entered the European market. I would like to know the current status of the business. Also, I would like to ask about whether you expect it to contribute significantly to your business performance from the next fiscal year onwards.

Respondent: As planned, we established our European base in Stuttgart, Germany, and began operations in July.

European automobile manufacturers are also making brisk capital investments, and we have received specific inquiries. In October, a large number of people from automobile manufacturers in Germany came to inspect us in order to evaluate whether we could be a suitable business partner for them.

We successfully passed the technical and management evaluations for the entire Paint Finishing System, and we have received the highest ranking, so we are now proceeding with efforts to receive orders for specific projects.

Still, there is no telling whether we could actually get orders. We are in a serious competition with a German competitor. At this point, we can only say “please look forward to it.”

Strengthening construction capacity in the Mid-Term Business Plan

Questioner: Slide 32 shows quantitative targets in the Mid-Term Business Plan, along with the goals to be achieved in five years. At the time of announcing the plan, I think you said that you would gradually increase both orders-received and net-sales of completed construction contracts.

In reality, there have been some large projects, leading to quite uneven results. I'd like to know what you have been working on to expand sales under this Mid-Term Business Plan. I think that in order to successfully increase sales, it is also necessary to adjust the timing of orders from customers.

To what extent have you been able to improve your construction capabilities during the period of this Mid-Term Business Plan, both through discussions with external parties and through your own efforts, including initiatives in sales activities?

Respondent: Over the past few years, we have gradually increased the number of young employees joining us, and we have also promoted mid-career hiring so that we can handle our mid-term needs. In addition, we have developed human capital, and have built up construction capabilities that allow us to respond to a wide range of projects.

In particular, in recent years, the amount of orders we have received has increased rapidly as projects have become larger. Although we are still developing, I think this is the result of our efforts to educate employees and enhance our workforce.

Questioner: Due to factors such as increased unit prices and larger-scale construction projects, the results have exceeded the figures you initially set out. Is it correct to understand that, also in the next Mid-Term Business Plan, you will proceed along the same lines?

Respondent: That is correct.

《Precaution》

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