Financial Results for Fiscal Year 2021

April 1, 2021 - March 31, 2022

(Q&A)

【Event Summary】

Date	: June 2, 2022	15：00～16：00
Venue	: Webcast	
Speakers	: Toru Kurono	President and COO
	Motoo Ochiai	Senior Managing Director
	Akitaka Tejima	Head of Business Management Division, Director
	Yusuke Kobayashi	Head of Corporate Planning Division, Executive Officer

Some explanations are supplemented and key points are summarized.

Question & Answer

Q: I would like to ask you about the relationship between the rise in raw material prices and price hikes. I think you are looking at a total of JPY3.6 billion as a cost-boosting factor in raw material prices for the preceding fiscal year and the current fiscal year combined.
On the other hand, the effect of the price revision will be JPY1.8 billion for the current fiscal year, starting in July, meaning that you are planning to recover about half the price rises.
Is there a possibility of additional price increases in the future if raw material prices remain high or rise further?
Also, if the current raw material prices were to fall back, would there be a possibility of lowering product prices? Could you please tell us the relationship between raw materials and pricing policy?

Kurono: The negative impact of the surging material prices on profits will be JPY3.6 billion. Furthermore, we believe that the situation is still uncertain due to the Ukrainian crisis and other factors. The effect of the price increases will be JPY1.8 billion, which represents about half the cost increase effect, but the price revision will start in July 2022.
It takes some time for us to deliver products to customers after showing them various estimates, and we expect that the actual prices will reflect 100% of the price revision only in Q3 and later. The price revision is estimated to have a positive effect of approximately JPY1.8 billion. For the next fiscal year ending March 2024, we expect the effect of the price revision to be nearly JPY3 billion.
In addition, we would like to respond to the rising raw material prices through our own cost-reduction activities.
However, as I mentioned earlier, energy prices are rising due to the situation in Ukraine and other factors, so we should consider the price issue as is appropriate, though we are not yet thinking about concrete measures.
If raw material prices fall, we will consider revising product prices as appropriate, although this will be based on other factors.

Q: I would like to ask about the capital policy. I understand that you have decided to set a dividend payout ratio of 100% for the current and next fiscal years. I think it is very unusual for a company to make such a drastic change in its capital policy and dividend payout ratio in the midst of the progress of its medium-term management plan. What is the background to what you have determined?
At the same time, there is a question as to why these two years are the targets. Normally, there are quite a few companies in Japan that increase their dividend payout ratios, but they are likely to raise the target ratios gradually. Why will the payout ratio be 100% for

these two years? Keeping in mind the nuance that it may drop again in the next medium-term plan, I think that this is a rare case, and I would like to confirm your thoughts on that.

Kurono: First of all, as for the background, as I mentioned earlier, NITTO KOGYO's key management indicators are net sales, operating income, and ROE. I also talked about how the 2023 medium-term management plan was progressing smoothly in the first year based on the stable business foundation.
One of the points to trigger our decision was the reaction from investors when we announced the 2023 medium-term management plan. While we have received a fair amount of recognition for our plans about facilities investment, spending for the development of new products, business expansion, and growth, I believe our evaluation in the past year was that our ROE target was too conservative. We view the results of this as being reflected in the stock price.
We chose to be traded on the TSE Prime market from April, and this decision gave us an opportunity to think about what we should be as a publicly listed company. At that time, we decided to optimize our shareholders' equity as we should review the balance between the growth investment and shareholder returns. This is the background related to the timing of our decision.

Tejima: I will answer the question as well. Regarding the announcement during the current medium-term plan, the COVID-19 pandemic had already begun when we formulated and announced the medium-term plan, which meant that we were in a very uncertain situation. I would like to add that the revision was made at this time, one year after the announcement, when various situations were becoming clearer.
I believe your question was why this 100% for the remaining two years. The main focus of this medium-term management plan is to build a foundation for the Company or the Group. As he explained earlier, we believe that it will be after the completion of this medium-term management plan, starting with the next medium-term plan, that our investments will be reflected in the numerator, namely profits.
So, first of all, thankfully, we will generate profits. However, that will affect inevitably the denominator, i.e. equity capital, and our capital adequacy ratio has exceeded 80%.
So, for the remaining two years, we are trying to control the denominator while the numerator is not growing very much. In addition, in order to maintain a balance between growth and capital allocation, we have decided not to increase the amount of capital for the next two years, even as we pursue our capital policy.

Q: I am sure that the dividend policy for the next medium-term plan has not been decided, but considering your business structure, it would be very difficult to blindly increase investment in growth, unless there are M&As and such, and the business structure in which the denominator expands when the Company leaves the situation unchanged. Though the two target years are exceptions, I think it unlikely that you will return to the previous payout ratio of 30% or so. What do you think?

Tejima: We will be taking various measures over the next two years, and will disclose the new dividend payout target when we formulate and announce the next medium-term plan.

Q: Could you please explain the EV charging-related business environment, the competitive situation, and the upside potential and risks involved in expanding the charging system over the medium term?

Kurono: Regarding the EV business environment, we believe that it is very necessary and indispensable to establish EV infrastructure, in short, the power-charging infrastructure, in light of the situation where only EV launches will be allowed after 2035. Therefore, we believe that the EV charging-related business environment in which we are engaged will see a significant increase in demand in the future.
Meanwhile, in terms of the competitive environment, the number of companies developing EV chargers is increasing. However, from the very beginning, when EVs were first introduced, we have had a high share of the regular charger market through collaborations with Toyota Motor-related companies. We believe that our market share and track record will enable us to continue to compete in the future. We are also developing new products that can contribute to energy management, so we believe that our business will continue to grow and our sales will also increase in the future.
As for the spread of EVs, it is a matter of how quickly automakers can produce EVs. Currently, I hear that Toyota dealers are installing quick chargers one after another. As the number of quick chargers increases, the number of regular chargers will also increase, and we expect our chargers to increase in the process of popularization.
We have also entered into a business alliance with ENECHANGE Ltd. ENECHANGE Ltd provides our EV charging infrastructure to customers at no installation cost, and then charges monthly usage fees.
Our chargers and energy management capabilities have been evaluated as excellent, and we have received many orders. We believe that our business will expand in the future.

Q: In terms of the composition of the industry, what kind of position are you aiming for? Do you have any particular areas of focus that you would like to explore?

Kurono: As for the charging infrastructure, quick chargers are installed in places like gas stations, where EVs are recharged, because of course they will not run when the electricity runs out.
We think that regular chargers, not quick chargers, are installed at commercial facilities, corporate parking lots, etc. Also, chargers will also be necessary for households, and we think that outlets type are very strong.
We currently deal with only regular chargers in the middle. Although, in the case of regular chargers, as we presented at the JECA FAIR, one outlet is installed in advance, we believe that the number of people who own two or three EVs will increase by 2035. For that stage, we are developing a new product that we hope will be part of the home, such as a system that charges EV batteries in a rotating manner from a single outlet. In addition, we would like to focus on sales of products in cooperation with ENECHANGE.

Q: For the fiscal year under review and the current fiscal year, you see the negative impact in terms of a worsening product mix. Please tell us about it in more detail.

Kurono: As for the decrease in consolidated operating income due to the change in product mix, the discount rate for distribution boards is slightly higher due to intense competition.
The core source of our profits is still the enclosure business. The enclosure business generates our core profits, but we expect sales in this area to struggle a bit. The reason for this is the current difficulty in procuring various products, including semiconductors. Our enclosures contain the parts that are difficult to procure, such as breakers and relays.
We believe that enclosures will surely rise once those procurement troubles are resolved, but the recovery of procurement difficulties is still slow in the current fiscal year, which is having a negative impact on our business performance. We foresee that the negative impact of the enclosure business will worsen the product mix.

[End]