

Financial Results for the Second Quarter

Fiscal Year 2024

April 1, 2024 - March 31, 2025

(Q&A)

【Event Summary】

Date : November 28, 2024 13 : 00~14 : 00

Venue : Webcast

Speakers : Toru Kurono President and COO

Akitaka Tejima General Manager of Business Management Division,
Managing Director

Yukihiro Taguchi General Manager of General Affairs Department

Some explanations are supplemented and key points are summarized.

Question & Answer

Q: We have two questions. They are somewhat complicated, so I would like to ask them one at a time.

The first question is a bit detailed. Your operating income forecast for H1 of the fiscal year was slightly lower than expected, and the full-year forecast has also been revised downward by about JPY500 million.

There is a downward revision of JPY640 million in the H1 result, but in which business is pushing it down in the manufacturing, construction, and service business, the distribution business, and the electronic parts business?

Looking at the JPY500 million reduction in annual sales alone, it appears that the manufacturing, construction, and service businesses have not changed much, and although we do not know the breakdown, the distribution and electronic parts businesses have lowered their sales.

In summary, operating income declined across all businesses in H1, but you expect this trend will not continue in H2. I wonder if there is no need to factor the negative effects from H1 into the H2 projections, or if it has gotten worse but there is room for recovery? It may get a bit complicated, especially if I go into too much detail, but could you please explain how you calculate the entry and exit of these areas?

Tejima: I think what you are saying is about in the overall performance, like if we recover in H2 after posting a significant negative in H1.

First, in the manufacturing, construction and service business, although there are some product mix issues at NITTO KOGYO Corp., as I explained earlier, project prices have been revised. The project prices, mainly for Cubicle, have improved rather significantly.

In H2 of the year, we expect that Cubicle sales will further increase, and we are forecasting that the manufacturing, construction, and service business will come out a little stronger than in H1 of the year.

The distribution business, which performed poorly in H1 of the year, is beginning to recover in H2 of the year, including the current situation. This is because, for example, some of the products we purchase were procured slightly earlier in H1, anticipating a rise in purchase prices. In H2 of the year, we can then sell them after the price revision.

A similar situation occurred last year. We will have to see if we can make up for the loss in H1 in H2, but we do not think we will make a loss in the distribution business like we did in H1.

I think our biggest concern is the electronic parts business. The recovery has been slow here. There is a sense that the recovery is falling further behind, where it was expected to show a slight recovery in H2 of the year, especially in the appliance sector. So, we will see if the recovery in the area will progress slightly or not.

In terms of your question, we believe that we will be able to recover in H2 of the year in the two businesses.

Q: Okay. Thank you very much.

The other thing is the improvement of project prices. You mentioned Cubicle, but what is the background behind them doing better than expected? Is it sustainable into next fiscal year and beyond? I would appreciate it if you could share the background of it.

Tejima: Regarding the revision of project prices, it has been doing better than expected. This is due in large part, of course, to the sales efforts of our group.

In addition, as we have been saying for a while, if products are not ready after making arrangements for construction, the construction will be canceled due to the lack of products. So, our customers prioritize the product delivery date, and this is becoming more important. Therefore, we believe that the price is obtained by meeting the delivery date and also through our sales efforts.

Q: So, you are saying that if you deliver on time, they will buy it even if it costs a little more.

Tejima: Yes, that's right. As for the overall economy, as I mentioned earlier, I do not think that the market we are in has deteriorated that much. We have been able to stay at a high level, with the fact that we have been able to achieve the same level as in the previous period.

Q: I would like to ask two questions as well, one question at a time.

The first question is on page 23 of the presentation material, under operating increase/decrease factors.

You have made a slight downward revision to marginal profit this time. What is the reason for this? I was a little surprised to see a negative figure in this area, especially since you mentioned that demand is not bad, or perhaps I did not understand it well. Could you comment on the reason for why the marginal profit is negative, as well as its future outlook?

Tejima: The reason for the decline in marginal profit is that the previous year's level was quite high. It is not that it is getting worse, but rather that last year was very good. When you compare it to the previous year to see if the growth will continue, it may look slightly weak, as last year was very good. I think that is the best way to understand the decline.

Q: I think you have also lowered your plan from the beginning of the period.

Tejima: In terms of the reduction from the initial plan, we were looking at a slightly higher top-line plan, and we think it will be on par with the previous year or close to the previous year, but the top line tends to be lower.

We initially had a slightly more optimistic outlook, anticipating greater economic recovery and top-line growth. However, we have adjusted our expectations to align more closely with the current realities and the plan.

Q: Okay. Then, should I have an image that sales will not increase, but will remain flat at a high level for the current and next fiscal years?

Tejima: Yes, that's right. Although we are not sure about the next fiscal year at this time, we believe that the current fiscal year is showing such trends.

Q: Thank you very much.

Second, can you tell me about the new Seto plant and if it quantifies the effect? As background, I would like to confirm if this fiscal year is a preparation period and what effects you can expect to see in the next fiscal year, and how you will incorporate them into your business performance. I wonder if I can expect profitability and profit margins to rise. If you can give me some clues, that would be great.

That is all. Thank you.

Tejima: As for your question about the quantity effect of the Seto plant, we have often been asked and are discussing how to show it to you.

In terms of quantity, I am sorry, but I cannot provide a specific figure.

However, the “Smart Order” system we have recently started implementing at the Seto Plant is designed for freestanding large box enclosures. As Mr. Kurono explained earlier, this is a one-stop shop: once orders are placed, data is transmitted to the production line to complete the product.

As for these freestanding boxes, it has become clear that sales are increasing. There is no doubt that the “Smart Order” is contributing to the number of freestanding boxes. We are seeing an increase in volume, and sales are outpacing expectations. So, some effect has started to be seen.

However, we have implemented this new system at the Seto plant, and there are still some ongoing challenges. I believe it will take a bit more time for the plant to fully contribute to improvements in productivity, volume, and profitability. However, we believe we are making solid progress in the trial-and-error process that started in April of this fiscal year. I apologize for the vague answer, but I hope you can understand that, in a nutshell.

Q: Thank you very much.

[END]