Inabata & Co., Ltd. Financial Results for 1H FY03/25
Online Financial Results Briefing - Summary of Q&A Session

Date and Time: Monday, December 2, 2024, 13:00–14:00

Presenter: President Inabata

[Financial Results]

Q: What factors were behind the 1H FY03/25 results that significantly exceeded the initial forecast?

A (Inabata): Sales exceeded the initial forecast by 3%, while all profit categories surpassed their respective targets by about 30–40%.

This was partly due to one-time factors, such as large machinery sales, measured on a sales value basis, in the Information & Electronics segment. However, the primary driver of the strong performance was likely an increase in the sales weighting of high-margin products and materials in the Information & Electronics segment′s product mix.

In the Plastics segment, two-thirds of sales are generated overseas, with a significant share coming from Southeast Asia. In this region, sales, particularly of office automation-related products, were subject to a series of downward revisions last year due to manufacturers' production adjustments. Still, sales have recovered significantly this fiscal year. This strong performance not only boosted resin sales but also contributed to earnings improvements at our compound business sites in Vietnam and the Philippines, where office automation-related products account for a high portion of sales. These two factors were likely the most significant contributors to 1H results outperforming projections.

Profit attributable to owners of parent in the previous fiscal year benefited from a one-time gain on negative goodwill, but no such factor existed this fiscal year. Meanwhile, we brought forward the sale of strategic shareholdings initially planned for this fiscal year to 1H. As a result of these factors, 1H results significantly surpassed the initial forecast.

Q: You revised the full-year FY03/25 forecast upward. Compared with the 1H results, the 2H outlook appears conservative. Are there any factors that might weigh on 2H performance?

A (Inabata): As mentioned earlier, 1H results benefited from one-time factors. In 2H, in addition to a fallback from the strong 1H results, we anticipate customers of our FPD-related materials in the Information & Electronics segment to enter an inventory adjustment phase in 2H, despite strong sales centered on small and medium-sized products in 1H. We have also received information that all major panel manufacturers plan to cut back operations by about 10–20%, leading us to anticipate a somewhat more challenging business environment in 2H.

In the Plastics segment, performance was exceptionally strong in 1H, particularly in office automation-related areas. However, global demand for office automation-related products is projected to decline gradually. Under these conditions, production in 1H may have been slightly excessive, partly due to a rebound from the previous fiscal year. We expect this to normalize in 2H, and so our 2H projections are slightly conservative. We are also seeing a gradual decline in naphtha prices.

The quantitative targets of the medium-term business plan are based on an assumed exchange rate of JPY145/USD, indicating that the current exchange rate serves as a somewhat positive factor.

[Medium-Term Management Plan]

Q: The performance outlook for 2H FY03/25 and beyond is nearing the second-year (FY03/26) targets of NC2026. Is there a possibility of upward revisions to the FY03/26 and FY03/27 (final year of NC2026) targets?

A (Inabata): We just completed the first six months of a three-year plan, so for now, our priority is achieving the upwardly revised targets for FY03/25.

Looking ahead, as you are aware, there are many uncertainties. In particular, political and policy developments in the United States could create headwinds for our business environment. That said, because some proposed policies, such as imposing tariffs on imports from Mexico, may not necessarily benefit the American people or support economic prosperity, such proposals will likely undergo careful evaluation before implementation. With this in mind, we intend to assess the evolving situation calmly. If necessary, we will consider revising the medium-term plan targets and disclose them when we announce the full-year FY03/25 results, likely around May next year.

Q: Could you explain the sales trends in the environment and energy field, a key focus area in NC2026?

A (Inabata): In the environment and energy-related field, the biomass-related business is progressing steadily as expected, with sales of biomass fuels largely in line with projections.

Regarding the solar power generation-related business, the influx of low-cost panels has significantly impacted European players, leading to considerable challenges and a deteriorating business environment. As a result, some businesses targeting the European market and production facilities are shifting from Europe to the United States. However, these trends have not yet materialized into significant or measurable results. In contrast, we have steadily increased solar power generation materials sales to Asia and India this fiscal year.

The performance of the lithium-ion battery-related business closely mirrors trends in the EV market, where growth has slowed significantly since last year. Current projections suggest further deterioration, prompting us to monitor the situation carefully.

However, from a long-term perspective, we believe the transition to EVs will persist. While the timeline for this transition may be delayed, our view remains unchanged that demand in this area will grow over time.

[Investment and Financing]

Q: The investment amount in 1H FY03/25 appears quite substantial. Is this in line with your plan?

A (Inabata): The three-year investment plan included in NC2026 outlines our capital allocation strategies. We expect to generate operating cash flows of approximately 65 billion yen over the three years, of which 50–60% is earmarked for investments. This corresponds to an investment of roughly 33–39 billion yen over the three years or about 11–13 billion yen annually. In the current fiscal year (FY03/25), we have already invested about 10 billion yen in growth initiatives, which is largely in line with our plan. While the investment amount may fluctuate slightly from projections when opportunities arise, our overall intention is to execute investments under this plan.

[Resin Compound Investment]

Q: What is the impact of consolidating Novacel Co., Ltd., which operates the compounding business, on your sales and operating profit for the full year FY03/25? Could you disclose Novacel's medium- to long-term performance targets? In the previous results briefing, you mentioned that you were considering revamping production facilities in Mexico—are there plans to expand overseas production facilities in the compounding business?

A (Inabata): The consolidation of Novacel has positively impacted profits by several hundred million yen in 1H FY03/25.

We have not disclosed medium- to long-term performance targets for Novacel. Since there is still room for revision, we will examine them carefully and, if possible, disclose them at a later date.

Several overseas production facilities in the compounding business operate at high utilization rates. For instance, in Mexico, utilization rates have increased by over 15% year-on-year, thanks to the country's robust automobile production. However, as mentioned earlier, we must carefully monitor political developments in the United States, as they could affect our production bases in Mexico.

If everything proceeds as expected, we will need to expand our production facilities. However, given the uncertainties in the business environment, we intend to take more time to assess the situation closely before making a decision. For now, we do not have any concrete plans for production facility expansion.