

Main Q&A at Results Briefing for FY2022 (Ended 3/2023)

Below are the main Q&A from the results briefing (held on May 25, 2023) for FY2022.

Q1. Why did you lose the order for the DBO project in the Municipal Solid Waste Treatment Plant Business? Also, what are your thoughts on the risk of losing orders?

A1. Contractor selection is generally carried out based on a comprehensive evaluation (a bidding method in which proposals are evaluated based not only on price but also on non-price elements, such as technical capabilities). We are working on enhancing our proposal capabilities in terms of non-price elements, such as technical capabilities, but our competitors are doing the same, so we fell short on the non-price elements in FY2022 bids. Customer requirements are varied and include, for example, the extent of contribution to the local community, response to disasters, and function as disaster prevention infrastructure. We are analyzing the factors behind our losing bid and are working on enhancing our proposals. As far as the risk of losing orders goes, there is no guarantee, of course, of winning an order because of the nature of the bidding process. However, we are working to provide proposals that more accurately address the needs of our customers with the aim of steadily winning orders.

Q2. About how many personnel are required to increase the number of orders received for municipal solid waste treatment plants? Also, when will you have that system in place? 2028? 2030?

A2. We are currently hiring and training new graduates and mid-career personnel to increase the number of project bids, and hiring is proceeding smoothly. By our estimates, the number of personnel (non-consolidated) we would need to reach the target of 20.0 billion yen in ordinary profit in FY2030 as set forth in Long-Term Vision “Vision 2030” is about 1,200 (1,002 as of March 31, 2023). Considering the training and development period for engineers, construction supervisors, and managers, we hope to have a 1,200-personnel system in place by around 2025 and to be able to increase the number of project bids by around 2028 to 2029 to further build up our orders received.

Q3. Is my understanding correct that you are making steady progress toward the target of 20.0 billion yen in ordinary profit for FY2030, including the costs associated with this investment in human resources?

A3. We believe we are making steady progress, including not only human resources investments but also capital investments, such as the new Harima Factory, which became operational in January 2023.

Q4. Going forward, what possibilities or potential do you see as you increase the number of non-FIT projects in the biomass power generation market?

A4. One thing is the demand for switching from fossil fuels to biomass fuels at plants that supply the required heat and electric power to factories in order to realize a decarbonized society

and reduce electric bills. For example, there is demand for plants that supply heat and power using biomass-based byproducts generated by the mills of timber and paper company customers as fuel. We have received actual orders and believe that it's a promising field. We have also received information about the FIP plans, but we recognize that our customers are currently taking a wait-and-see approach, considering the challenges related to fuel procurement and the fluctuation in electricity rates they face. In any case, even if the number of FIT projects decreases, it is not as though we will not have any non-FIT projects, so we believe we can expect a certain level of orders.

Q5. In regard to shareholder return, what is the approximate total payout ratio? (In FY2022, it was 48.7%, and in FY2023, it's at 46.2% [forecast] with dividends alone.)

A5. There is no change to our policy of providing stable returns. At this time, we have not set a quantitative target for the payout ratio. We expect to achieve our three-year medium-term targets this year, so we plan to increase the dividend. On the other hand, the new medium term management plan starts next fiscal year (FY2024). In light of the TSE's requirement of actions to realize cost of capital and stock price conscious management, we will launch a committee to establish the new medium-term plan this year. The committee will revisit the capital policy and capital efficiency and discuss their disclosure.

Q6. In regard to the FIT scheme, what is the application deadline for biomass power generation under 10 MW, and what is the forecast for orders received? Has there been any last-minute demand?

A6. FIT applications for projects from 2 MW to less than 10 MW were taken until last fiscal year (FY2022). We expect orders for the projects certified by the end of last fiscal year to be placed in the current fiscal year (FY2023). FIT certification is still possible for projects in the category of less than 2 MW.

Q7. Is it correct to say that about half of current profits are from recurring revenue model businesses, as shown in the figure on page 39 of the briefing materials? Also, will the profit contribution by these recurring revenue model businesses increase in the future?

A7. The graph in the figure is for net sales, but your understanding is correct. Recurring revenue model businesses account for about half of overall net sales and profits. We believe the percentage will continue to grow gradually.

Q8. What kind of customers have been ordering biomass power plants over the past few years?

A8. Over the past year or two, there has been a relatively high number of customers that operate lumbering and forestry-related businesses that are knowledgeable about the procurement of biomass fuels. Fewer customers are using mainly imported biomass fuels.

Q9. Why were R&D expenses so much higher than normal? Also, do you expect further increases next year and beyond as you pursue the long-term vision for FY2030?

A9. Expenses are expected to increase significantly, particularly because we are working on various themes to establish decarbonization technologies, such as those for effectively utilizing CO₂ and for solid carbonization, and there are expenses for installing equipment for

experiments and demonstration. It depends on the progress made on each research theme, so we can't say that expenses will increase linearly across the board. However, we are diligently working to achieve our long-term vision.

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