May 31, 2024

TAKUMA Co., Ltd.

Main Q&A at Financial Briefing 2024 for FY2023 (ended 3/2024), held on May 24

Q1. Why is the increase in operating profit in the Domestic Environment and Energy Business in FY2024 not as significant as the decrease in FY2023?

A1. The factors behind the year-on-year increase in FY2024 are that the additional costs related to O&M measures (around ¥1.0 billion) will be eliminated, and there will be an improvement in the EPC project mix (around ¥0.4 billion). Meanwhile, sales in the business are expected to decline by around ¥10.0 billion year on year. The improvement in operating profit will not be as significant due to the impact of this decrease in sales.

Q2. In the 14th Medium-Term Management Plan, you have allocated ¥10.0 billion for M&A and business investments. If that amount is not fully spent, is it possible that this will be used for shareholder returns since it will result in excess cash and deposits?

A2. M&A deals are on the rise in the market. We're actively looking into these deals, too, so we basically plan to put ¥10.0 billion into M&A and business investments combined. If we do not get to ¥10.0 billion with M&A, we're also considering directing it toward growth investments, such as research and development related to decarbonization technologies.

The Japanese government's target for achieving carbon neutrality is 2050. If we calculate backward from there, we can see that it will be necessary to establish the basic technology for CCUS at waste incineration facilities to an extent by 2030. This year, we will conduct a small-scale demonstration test using a customer's facility. We are also looking into constructing a pilot plant for demonstration tests during or after the period of the 15th Medium-Term Management Plan. As this will require a considerable amount of funds, if the investment budget is not fully used during the current medium-term management plan, it may be carried over to the next medium-term management plan.

Q3. The amount of cross-shareholdings to be sold during the 14th Medium-Term Management Plan (¥3.0 billion) is about the same as the actual amount sold during the previous Medium-Term Management Plan (¥2.0 billion). Do you have any plans to sell more cross-shareholdings and use the funds for further purchase of treasury stock?

A3. The ¥3.0 billion in this medium-term management plan is a minimum target. If possible, we hope to sell more than that. The funds from those sales will be applied to shareholder returns, such as dividends and purchase of treasury stock.

Q4. I understand you intend to secure about ¥30.0-40.0 billion in cash and deposits as working capital and a business risk buffer. Is this scale of cash and deposits really necessary, given that the cost of additional measures last fiscal year was only ¥1.0 billion, even with the problem at the waste treatment plant?

A4. Due to the nature of the business model in our plant business, payments come before receipts. In particular, payments from government agencies are often made only once a year, so we believe we must keep two to three months' worth of monthly sales as cash and deposits to avoid running short on funds.

Q5. In the Domestic Environment and Energy Business, gross profit was down ¥2.4 billion in FY2023. Can you give us a breakdown? Also, is this amount about where you expected it to settle at the beginning of the year?

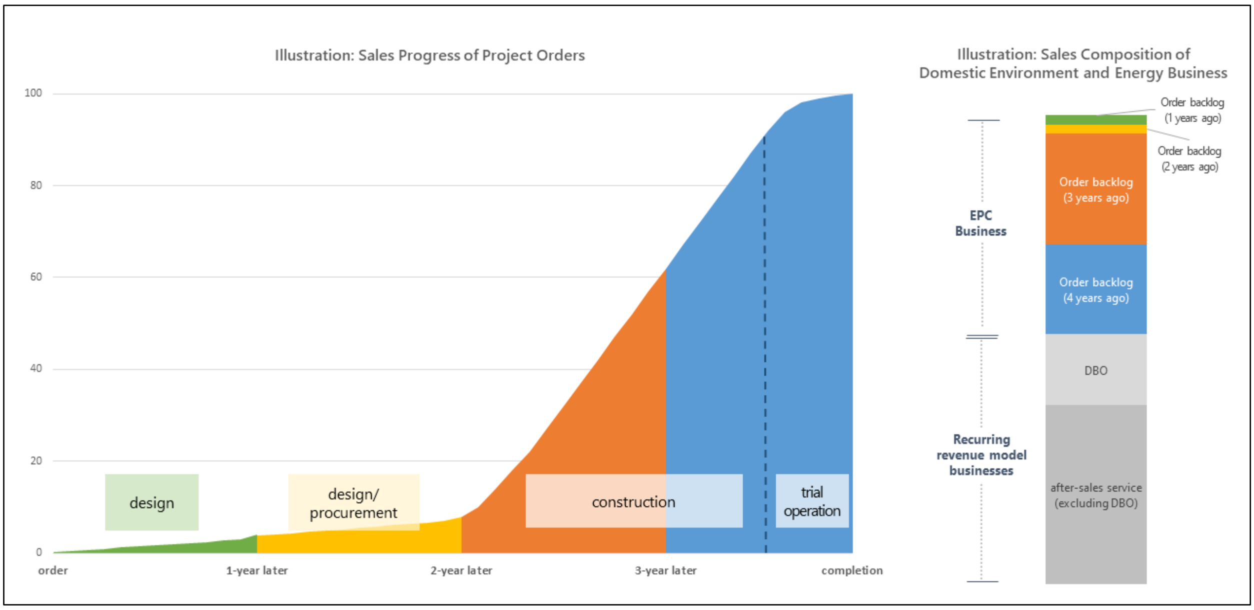
A5. Out of the ¥2.4 billion, ¥0.6 billion was for the depreciation associated with operations at the new Harima Factory, and ¥1 billion was for additional measures related to O&M. The remaining ¥0.8 billion includes both the negative impact of the EPC project mix and, conversely, the profit contribution from increased sales of after-sales services. The EPC project mix was mostly in line with our initial expectations, but there were some energy plant projects for which we were unable to pass on price increases to our customers, which consequently pushed down profit.

Q6. I understand you expect increased profit in FY2024, but don't you need to consider the risk of higher commodity prices?

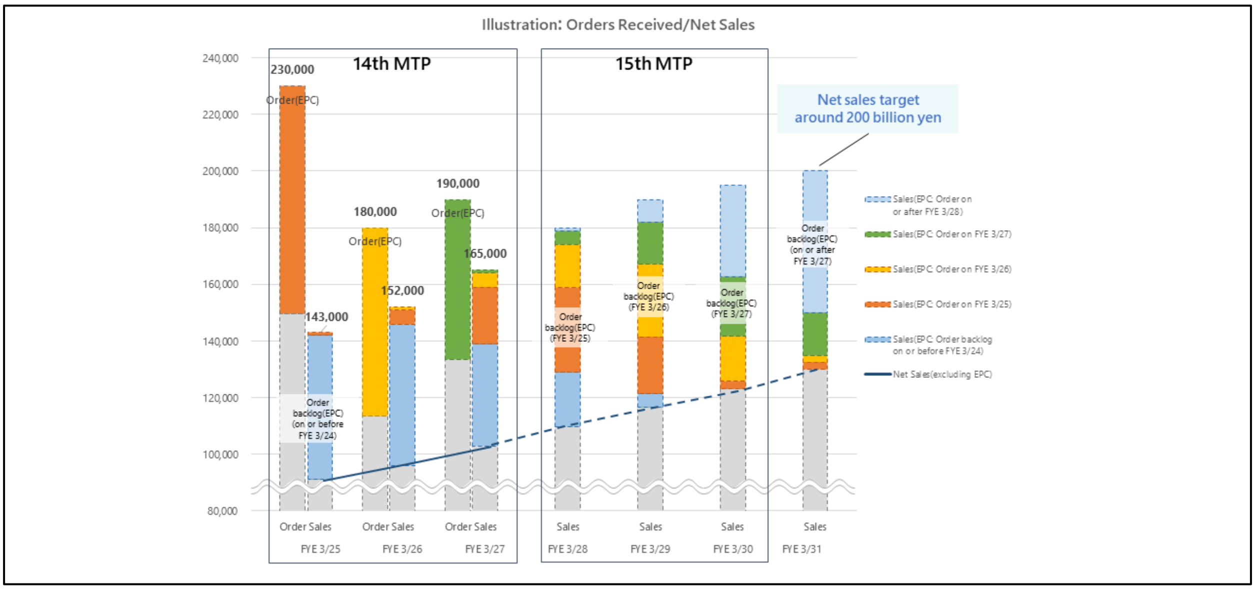
A6. We regularly review this by analyzing cost information, so at this time, we do not consider it a significant risk.

Q7. You said that you will work on establishing a revenue model utilizing recurring revenue model businesses under the 14th Medium-Term Management Plan. Does that mean that even if you were to take orders for EPC at lower prices, you would just need to generate profit from recurring revenue model businesses?

A7. We're not considering taking orders for EPC at lower prices. We have been working on strengthening the management foundation to achieve our ordinary profit target of ¥20.0 billion by FY2030 (ending 3/2031). This includes the hiring of human resources and production equipment updates we carried out under the 13th Medium-Term Management Plan. Based on that, we aim to actively expand orders during the current medium-term management plan and build up our recurring revenue. However, if we are unable to generate profit in EPC, it will make it difficult to achieve the targets in the next medium-term management plan and for FY2030.



I will explain the progress on sales in the EPC Business based on the chart above so it will be easier to understand. When the construction period for a plant is four years, the process from order acceptance to completion can be broken down into design, design/procurement, construction, and construction/trial operation, each lasting one year. If you break that down into the sales composition by year, orders received four years ago (construction/trial operation) and three years ago (construction) account for the majority of sales in the EPC Business in the current fiscal year.



The reason for the ambitious order volume targets of ¥230.0 billion in FY2024, ¥180.0 billion in FY2025, and ¥190.0 billion in FY2026 in the current medium-term management plan is that orders received during these periods will lead to sales in the period of the 15th Medium-Term Management Plan and thereafter. For example, the significant contribution to sales and profits of EPC orders in FY2024, shown in orange in the above chart, will be from FY2026 to FY2028.

So, to answer the original question, we intend to build up our recurring revenue as a strategy to realize our long-term vision while fully utilizing our technological capabilities to generate solid profits in the EPC Business.

Q8. In the 14th Medium-Term Management Plan, what is the reason for the substantial increase in operating profit in the Domestic Environment and Energy Business from FY2025 to FY2026?

A8. As shown in the chart we looked at earlier, we assume that sales will increase starting in FY2026 as a result of vigorous EPC order acceptance in FY2024, leading, in turn, to profit growth. In addition, we have been bringing more mid-career hires on board to expand our resources, so personnel expenses are also relatively higher. From FY2026 onward, this will result in an appropriate workforce size in relation to our sales, so the profit margin will also increase. Furthermore, based on the gradual decrease in depreciation, we are projecting a substantial increase in profit in FY2026 and beyond.

Q9. It seems you are hiring more mid-career employees. Will you be able to achieve your three- and six-year targets for order volume with the number of employees you are currently planning to hire and your production capacity?

A9. We believe that the planned scale will be sufficient to meet our target of ¥200.0 billion in sales for FY2030. On the other hand, considering the growth starting in FY2030, there is a possibility we may increase our mid-career hiring again in a few years.

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