

Financial Results Briefing for the Second Quarter of the Fiscal Year Ending March 31, 2020

November 20, 2019

SEIKA CORPORATION
(TSE Section 1: 8061)

The projections and forward-looking statements contained herein are made or calculated based on the judgment, evaluation, acknowledgement of facts, policy formulation and other deliberation of the management of Seika Corporation in light of information currently available to it.
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Good afternoon, everyone.

My name is Akihiko Sakurai and I am the President of Seika Corporation.

First of all, I would like to express my sincere appreciation to you all for your continued interest in Seika Corporation and for your attendance at today's financial results briefing.

I will now begin the financial results presentation for the first half of the fiscal year ending March 31, 2020.

Contents

1. Summary of Consolidated Financial Results for the Second Quarter of the Fiscal Year Ending March 31, 2020
2. Consolidated Forecast for the Fiscal Year Ending March 31, 2020
3. Medium-Term Management Plan CS2020
4. Eco-Friendly Product Initiatives
5. Shareholder Returns

★ Reference Materials ★



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Today, I would like to make a slide presentation on the following matters:

- Summary of consolidated financial results for the first half of the fiscal year ending March 31, 2020;
- Consolidated forecast for the fiscal year ending March 31, 2020;
- Medium-Term Management Plan CS2020;
- Eco-friendly product initiatives; and
- Shareholder returns.

For information requested by investors, such as performance trend graphs, please refer to the subsequent pages included as reference material.

1. Summary of Consolidated Financial Results for the Second Quarter of the Fiscal Year Ending March 31, 2020



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I will begin by presenting a summary of our consolidated results for the first half of the fiscal year ending March 31, 2020.

Summary of Consolidated Financial Results for the Second Quarter of the Fiscal Year Ending March 31, 2020			
Year-on-year comparison (In million yen)			
	2019/3 2Q Result	2020/3 2Q Result	Change (Y o Y)
Net sales	97,676	62,651	-35.9%
Operating income	860	860	0.0%
Ordinary income	992	986	-0.6%
Profit attributable to owners of parent	837	471	-43.7%

Declines in both sales and income

- ▶ Chemicals and Energy Plant business did not record large deliveries in the period.
- ▶ Profit attributable to owners of parent declined due to the effect of the adjustment such as tax expenses.



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As you can see, the Group posted year-on-year declines in both sales and income.

Net sales were 62.6 billion yen because of the absence of large deliveries in the first half of the current fiscal year, when there had been deliveries of new power generation equipment in the Chemicals and Energy Plant business in the first half of the previous fiscal year.

In addition, operating income of the same level as a year ago was secured due to the strong business performance of subsidiaries, but profit attributable to owners of parent declined year on year, to 471 million yen due to the effect of the adjustment such as tax expenses.

Summary of Consolidated Financial Results for the Second Quarter of the Fiscal Year Ending March 31, 2020				
<Non-consolidated> Differences between initial forecasts and actual results (In million yen)				
<Non-consolidated>	2020/3 2Q Initial forecast	2020/3 2Q Result	Change (YoY)	Change (YoY)
Net sales	58,000	54,655	-3,345	-5.8%
Operating income	550	365	-185	-33.5%
Ordinary income	650	445	-205	-31.5%
Profit	450	291	-159	-35.2%
<Consolidated> Differences between initial forecasts and actual results (In million yen)				
<Consolidated>	2020/3 2Q Initial forecast	2020/3 2Q Result	Change (YoY)	Change (YoY)
Net sales	67,000	62,651	-4,349	-6.5%
Operating income	650	860	+210	+32.4%
Ordinary income	750	986	+236	+31.5%
Profit attributable to owners of parent	350	471	+121	+34.6%

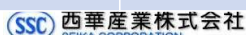


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On page 5, we summarize differences between initial forecasts and actual results.

Summary of Consolidated Financial Results for the Second Quarter of the Fiscal Year Ending March 31, 2020				
Net sales by segment and segment income results				
(In million yen)				
	Net sales		Income	
	2020/3 2Q Result	Change (YoY)	2020/3 2Q Result	Change (YoY)
Power Plant	21,203	-29.6%	833	+1.1%
Chemicals and Energy Plant	14,951	-63.4%	267	-43.5%
Industrial Machinery	20,456	-2.1%	524	-1.1%
Advanced Materials and Measuring Instruments	559	+1.3%	-85	2019/3 2Q result segment loss 230 million yen
Global Business	5,480	+2.9%	172	+61.0%
Total	62,651	-35.9%	1,712	+0.5%



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Net sales and segment income posted by each business are as shown on page 6.

Net sales came to 62.6 billion yen due to the carrying forward of sales of large components for power plants in the Power Plant business to the second half and the absence of deliveries of new large power generation equipment, which had been posted in the previous fiscal year, in the Chemicals and Energy Plant business.

Segment income was 1,712 million yen, remaining nearly unchanged from a year ago, reflecting growth in income at subsidiaries in Europe, Thailand and China in the Global Business which offset a fall in income in the Chemicals and Energy Plant business.

Summary of Consolidated Financial Results for the Second Quarter of the Fiscal Year Ending March 31, 2020				
Amount of orders received and order backlog results by segment				
(In million yen)				
	Amount of orders received		Order backlog	
	2020/3 2Q Result	Change (YoY)	2020/3 2Q Result	Change (YoY)
Power Plant	28,945	+45.7%	37,794	+39.2%
Chemicals and Energy Plant	17,538	-46.2%	65,068	+11.9%
Industrial Machinery	21,890	-2.2%	65,749	+8.2%
Advanced Materials and Measuring Instruments	672	+75.6%	551	-54.7%
Global Business	6,048	+10.3%	3,390	+29.7%
Total	75,095	-7.0%	172,554	+15.1%



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Page 7 shows the amount of orders received and the order backlog for each business.

2. Consolidated Forecast for the Fiscal Year Ending March 31, 2020



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I will now explain our consolidated forecast for the fiscal year ending March 31, 2020 here, and on the next few pages.

Consolidated Forecast for the Fiscal Year Ending March 31, 2020				
(In million yen)				
	2019/3 Result	2020/3 2Q Result	2020/3 Forecast	Change (YoY)
Net sales	157,145	62,651	135,000	-14.0%
Operating income	2,118	860	2,400	+13.3%
Ordinary income	2,418	986	2,700	+11.6%
Profit attributable to owners of parent	1,587	471	1,650	+3.9%
Amount of orders received	150,429	75,095	185,000	+23.0%
Order backlog	160,110	172,554	210,000	+31.2%



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Please turn to page 9.

We expect that results for the fiscal year ending March 31, 2020 will be as follows:

Net sales of 135.0 billion yen;

Operating income of 2.4 billion yen;

Ordinary income of 2.7 billion yen; and

Profit attributable to owners of parent of 1.65 billion yen.

We also expect that the amount of orders received will increase 23% year on year, to 185.0 billion yen and that the order backlog will rise 31% year on year, to 210.0 billion yen.

Consolidated Forecast for the Fiscal Year Ending March 31, 2020						
Net sales by segment and segment income forecasts						
(In billion yen)						
	Net sales			Income		
	2020/3 2Q Result	2020/3 Forecast	Change Forecast (YoY)	2020/3 2Q Result	2020/3 Forecast	Change Forecast (YoY)
Power Plant	21.20	38.5	-19.1%	0.83	1.66	+18.0%
Chemicals and Energy Plant	14.95	34.5	-35.6%	0.26	0.82	+8.3%
Industrial Machinery	20.45	47.0	+10.3%	0.52	1.40	+3.1%
Advanced Materials and Measuring Instruments	0.55	2.0	+32.5%	-0.08	0.07	2019/3 result segment loss 0.17 billion yen
Global Business	5.48	13.0	+12.0%	0.17	0.26	-33.3%
Total	62.65	135.0	-14.1%	1.71	4.21	+12.6%



Please look at page 10.

Here, we summarize our net sales and income forecasts for each segment.

Consolidated Forecast for the Fiscal Year Ending March 31, 2020					
(In billion yen)					
Power Plant	2019/3 Result	2020/3 1H Result	2020/3 2H Forecast	2020/3 Forecast	Change Forecast (YoY)
Net sales	47.6	21.2	17.3	38.5	-19.1%
Income	1.40	0.83	0.83	1.66	+18.0%
Amount of orders received	40.2	28.9	36.1	65.0	+61.7%
Order backlog	30.0	37.7	—	56.5	+88.3%

Power Plant Changes in Net Sales and Segment Income (In million yen)

Term	Net Sales	Segment Income
2016/3 (93rd term)	~45,000	~1,800
2017/3 (94th term)	~55,000	~2,000
2018/3 (95th term)	~50,000	~1,800
2019/3 (96th term)	~45,000	~1,500
2020/3 (97th term, forecast)	38,500	1,660

Business Summary

- ▶ Remained steady due to regular inspections and renovations.

Second Half Forecast

- ▶ Renovation of large components for thermal power plants
- ▶ Construction to restart nuclear power plants
- ▶ Renovation of hydroelectric power plants is anticipated.

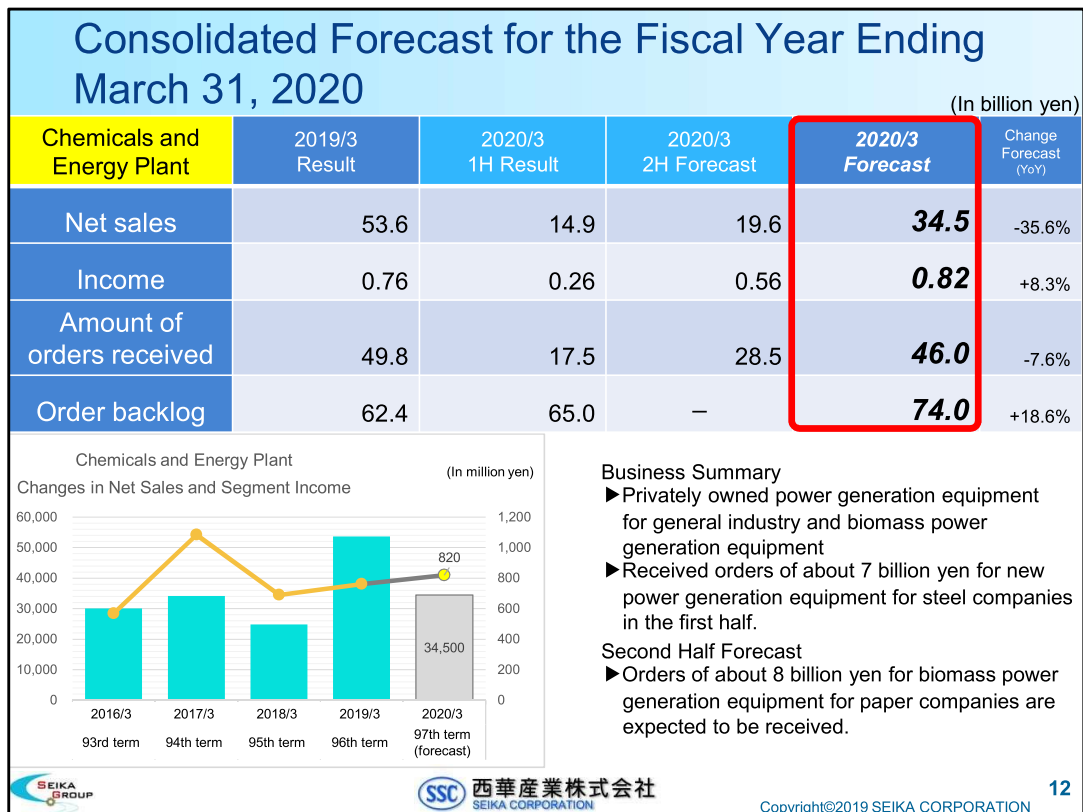
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I will explain our consolidated forecast for the fiscal year ending March 31, 2020 for each segment here and on the next few pages.

First, we expect that the Power Plant business will remain firm in the current fiscal year as well.

We expect that the amount of orders received for the full year will be 65.0 billion yen, given that the renovation of large thermal power plant components, construction to restart nuclear power plants and hydroelectric power plant renovations are planned.

Net sales for the full year will decrease to 38.5 billion yen without deliveries of large projects, but we expect segment income to increase to 1.66 billion due to the building-up of small and medium-sized projects.

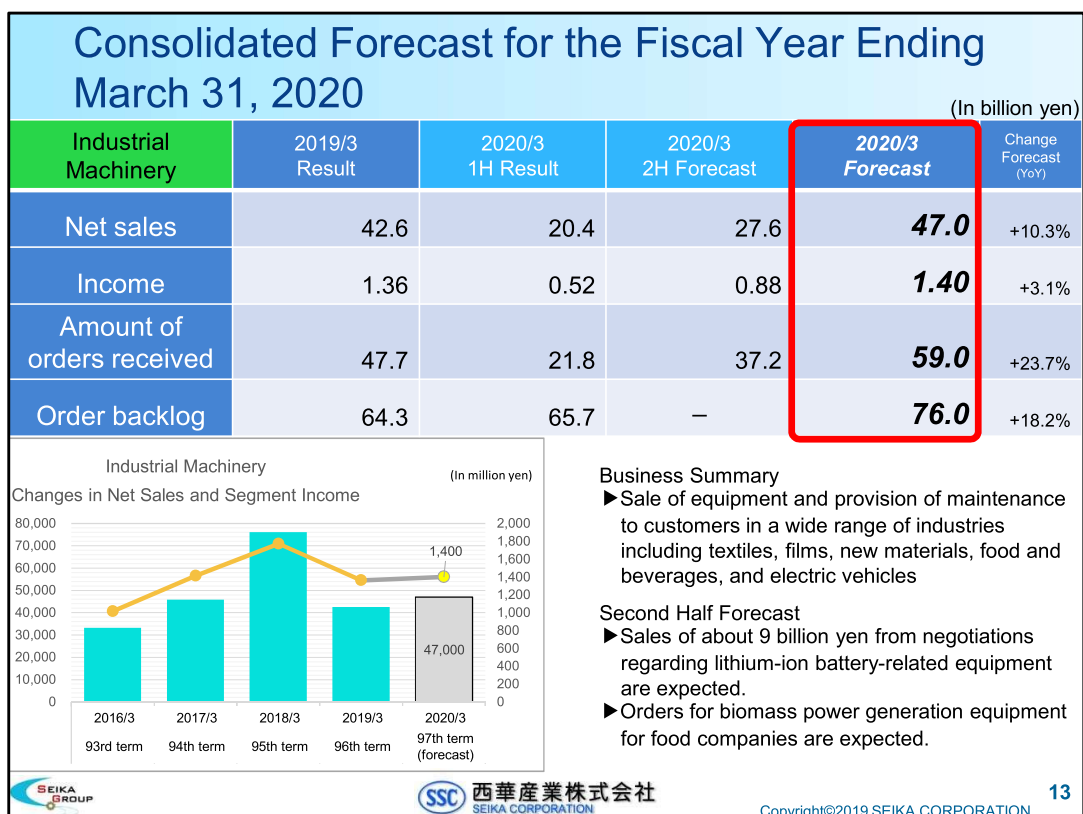


Next, I will explain the Chemicals and Energy Plant business.

This segment deals with renewable energy-related equipment such as privately owned power generation equipment for general industry and biomass power generation equipment.

We expect that net sales and segment income will be 34.5 billion yen and 0.82 billion yen for the full year, respectively.

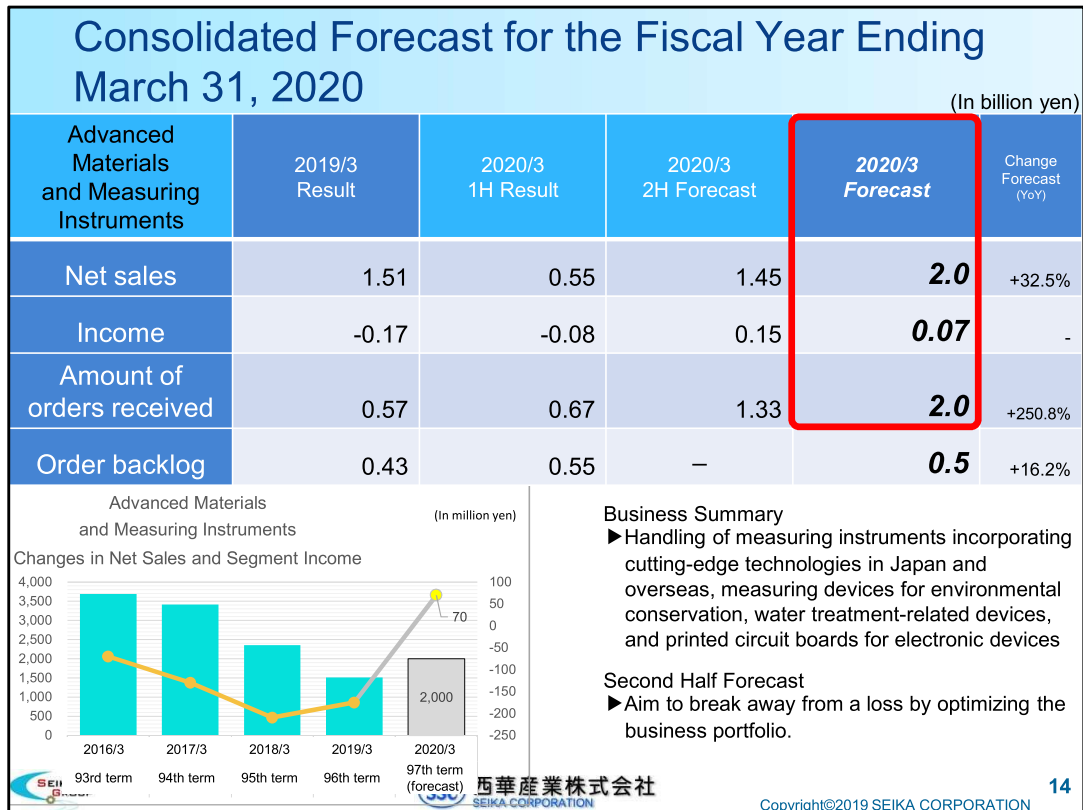
We also expect the amount of orders received to be 46.0 billion yen for the full year as we anticipate orders received for biomass power generation equipment for paper companies of about 8.0 billion yen in the second half, in addition to orders for new power generation equipment for steel companies of about 7.0 billion yen which we received in the first half.



Next, the Industrial Machinery business sells equipment and provides maintenance to customers in a wide range of industries including textiles, films, new materials, and food and beverages. I will give an explanation of the electric vehicle-related business, which we have been working on for some time, later.

For the full year, we expect that net sales will be 47.0 billion yen while segment income will be 1.4 billion yen, given that the business performance of Nippon Daiya Valve Co., Ltd. , a subsidiary, will continue to remain strong, in addition to our forecast that sales related to lithium-ion battery-related equipment will be about 9.0 billion yen.

We also expect that the amount of orders received will be 59.0 billion yen due to orders received for electric vehicle motor manufacturing equipment in China and biomass power generation equipment for food companies.

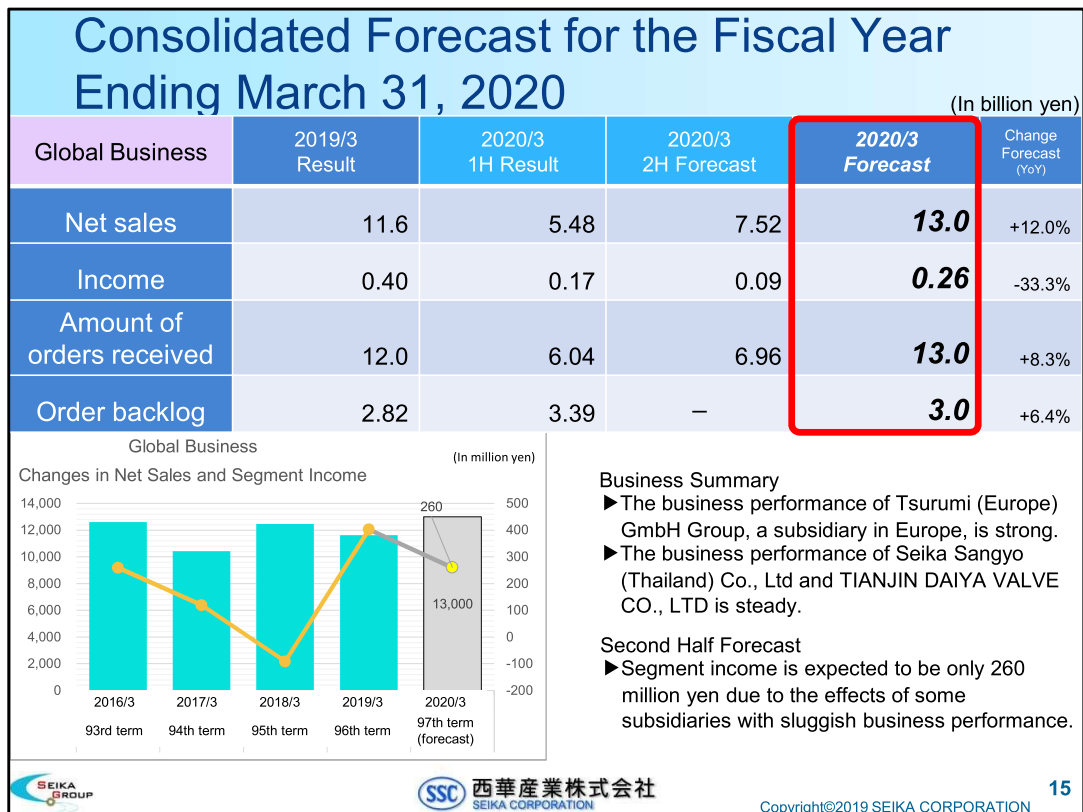


I will now move on to the Advanced Materials and Measuring Instruments business.

This segment handles measuring instruments incorporating cutting-edge technologies in Japan and overseas, as well as measuring devices for environmental conservation, water treatment-related devices and printed circuit boards for electric devices, etc.

We expect net sales of 2.0 billion yen, segment income of 70 million yen, and the amount of orders received to be 2.0 billion yen for the full year.

The restoration of profitability has finally come into sight as a result of our efforts, such as reviewing business content.



Finally, I would like to outline the results of the Global business.

The Group has an overseas network covering 12 countries and 25 bases in Europe, North America and Asia.

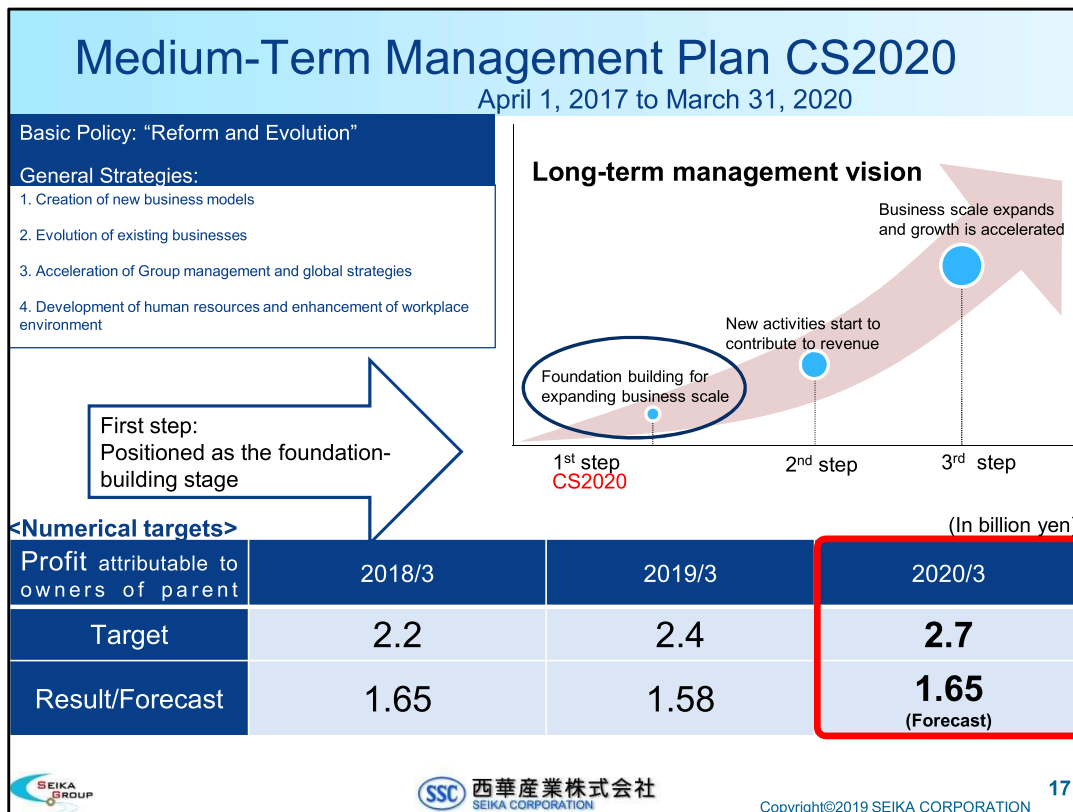
We expect net sales for the full year to increase to 13.0 billion yen, given that the business performance of Tsurumi (Europe) GmbH Group, Seika Sangyo (Thailand) Co., Ltd and TIANJIN DAIYA VALVE CO., LTD will remain strong.

Segment income is expected to be only 260 million yen due to the effects of some subsidiaries with sluggish business performance.

We expect that the amount of orders received for the full year will be 13.0 billion yen.

3. Medium-Term Management Plan CS2020

Next, I will explain the progress of the Medium-Term Management Plan we are currently operating under.



The three-year Medium-Term Management Plan CS2020, which began in 2017, has entered its final year.

This Medium-Term Management Plan is considered as the first step for the long-term business vision and sets change and evolution as the core policy. Under this plan, we have been working to develop a foundation for expanding the business scale.

However, profit attributable to owners of parent is likely to fall short of the numerical target in the final fiscal year, leaving many issues that need to be reflected on.

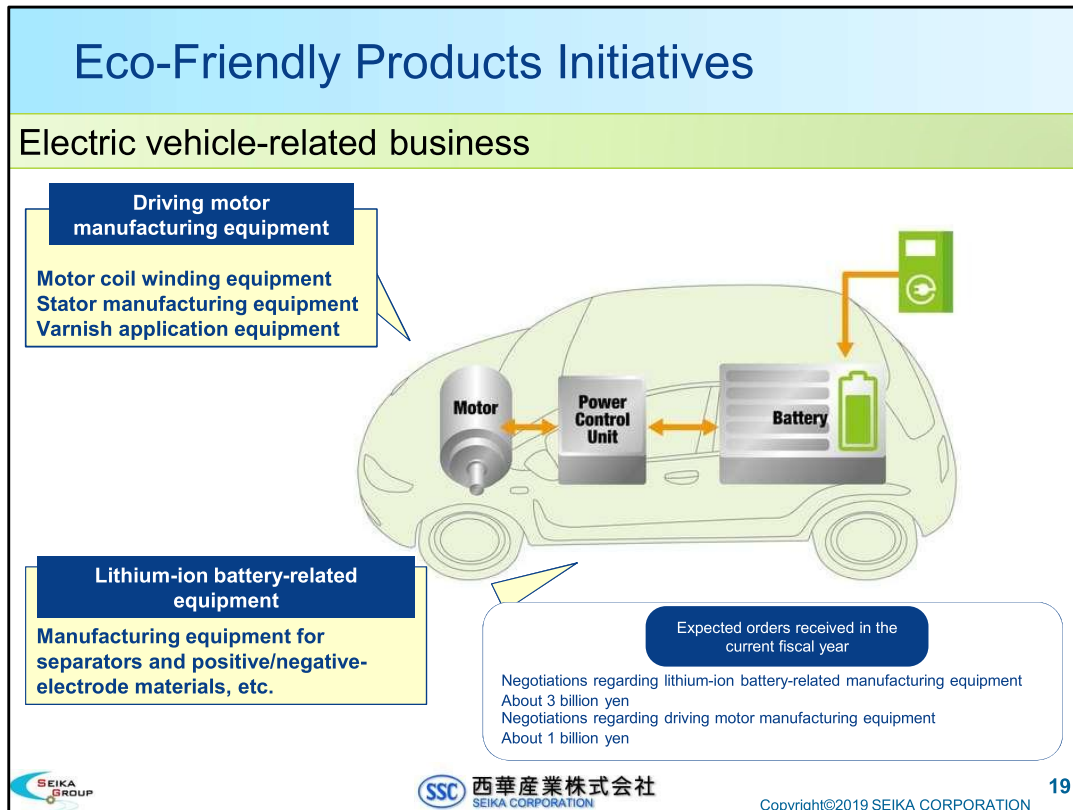
As we develop the next medium-term management plan, which will begin in April next year, we will draw up a more effective plan by re-analyzing the business environment surrounding each business.

We will continue to work vigorously toward the realization of our long-term business vision of becoming a “valuable corporate group that will contribute to society no matter how society will change.”

For the remaining period of the current fiscal year, a little more than four months, we will make efforts to come as close as possible to the targets in the Medium-Term Management Plan CS2020.

4. Eco-Friendly Product Initiatives

I will now explain the eco-friendly product initiatives on which we currently focus in the next few pages.



First, I will explain the electric vehicle-related business in China which we have been working on for some time.

The Chinese government has announced its plan to ship 7 million or more new energy vehicles by 2025 and promotes their popularization. Above all, for lithium-ion battery separators, motors and drive systems, which are core components of new energy vehicles, the government is actively reaching out to foreign-affiliated companies to encourage them to advance into China.

Against this backdrop, we are focusing on sales expansion of driving motors and inverter manufacturing equipment, in addition to lithium-ion battery-related equipment which we have been working on.

Recently, the market for lithium-ion battery separators has become chaotic because of the continuing elimination and consolidation of separator manufacturers as a result of excessive competition, and they maintain a cautious stance on new capital investment at the moment.

However, demand for higher-performance products is increasing in lithium-ion battery separator films associated with requests for the better electric vehicle performance, such as the extension of range. We expect that the market will be organized for each product in the first half of the next year and that there will be more capital investment in high-performance separator films. We will continue to conduct fine-tuned sales activities to lead them to orders received because lithium-ion battery-related equipment is the core product of the electric vehicle business.

Regarding electric vehicle motors, another product we focus on, the shortage of supply has become prominent, and plans to introduce equipment are being materialized, unlike the separator film market. Given that the number of motors to be mounted on a vehicle has increased to about 100 per vehicle in association with the change of automobile drive systems from engines to motors, the miniaturization and increase of accuracy of motors is required. We are negotiating about motor coil winding equipment and stator manufacturing equipment with Japanese manufacturers with a strong track record and superior technology.

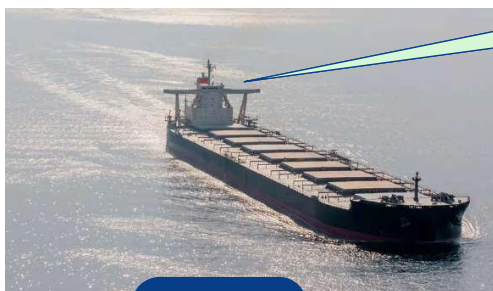
We expect that orders received will be about 3.0 billion yen and 1.0 billion yen in negotiations about battery-related manufacturing equipment and about driving motor manufacturing equipment, respectively.

Eco-Friendly Products Initiatives

Negotiations regarding exhaust gas cleaning systems (SOx scrubber systems) for ships

Negotiations regarding exhaust gas cleaning systems (SOx scrubber systems)

Various types of dumpers and valves for the purpose of controlling and shutting off flow rate for piping for emissions gas cleaning systems (SOx scrubber systems) for ships



Expected orders received in the current fiscal year

About 1 billion yen

What is SOx?

Sulfur oxide

What is the SOx scrubber system?

System to eliminate sulfur oxides (SOx) from exhaust gases from main engines and power generation engines mounted in ships

What is the MARPOL 73/78? (International Convention for the Prevention of Pollution from Ships)?

The international convention and its protocols to establish a prohibition of the disposal and emission of restricted substances, obligation to report, and procedures for reporting, for the purpose of minimizing pollution of the oceans and seas caused by the navigation of ships and accidents.

What are the MARPOL SOx regulations?

Control on SOx concentrations in exhaust gases from ships has been strengthened, and the upper limit of sulfur content has been lowered in stages. It will be lowered from 3.5% to 0.5% or less from 2020.



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Next, I will explain emission gas cleaning systems for ships.

Due to MARPOL 73/78, the international convention to minimize the pollution of the oceans and seas caused by the navigation of ships and accidents, the control of the concentration of SOx, or sulfur oxides, contained in exhaust gases from ships has been strengthened. One of the closely watched measures is a scrubber, an exhaust gas cleaning system.

We sell dumpers and high-performance valves which we have developed for scrubbers in cooperation with manufacturers to shipbuilders.

We expect that the amount of orders received will be about 1.0 billion yen in the current fiscal year, but we think that orders received will increase further in the future.

Eco-Friendly Products Initiatives

Introduction of laser gas monitor

Laser gas monitor

- ▶ Measures the concentration of oxygen and carbon monoxide contained in the exhaust gases of thermal power generation equipment and refuse incineration equipment.
- ▶ Measures exhaust gases containing harmful substances such as nitrogen oxide and sulfur oxide.

Characteristics

- Real-time measurement
- Maintenance free



Expected orders
received in the
current fiscal year

About 0.4 billion yen



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Finally, I will explain laser gas monitors which we focus on in the Advanced Materials and Measuring Instruments business.

This product is a concentration meter that measures the concentration of oxygen and carbon monoxide contained in exhaust gasses from thermal power generation equipment and refuse incineration equipment. Its notable characteristics include real-time laser measurement and being maintenance-free. This high-accuracy concentration meter enables users to improve combustion efficiency and helps reduce greenhouse gases and fuel usage.

It is also used to measure exhaust gases for harmful substances, such as nitrogen and sulfur oxides discharged from the production facilities of chemical plants.

While the amount of orders received in the previous fiscal year was about 200 million yen, we plan to receive orders of about 400 million yen in the current fiscal year and expect an further increase in the future.

That's all for my explanation of these three eco-friendly products. We will continue to contribute to the realization of a sustainable society by working on the development and sales expansion of eco-friendly products.

5. Shareholder Returns

I would now like to outline shareholder returns.

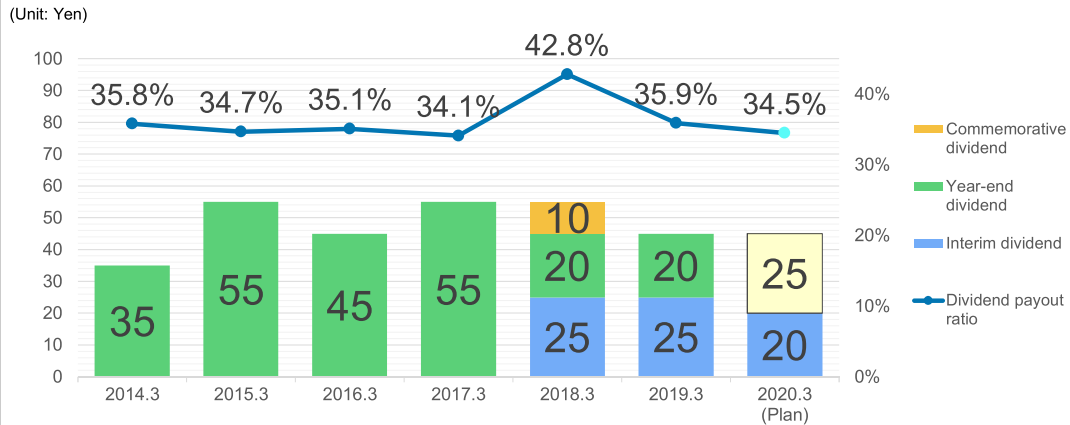
Shareholder Returns: Dividends

The Company implemented a consolidation of shares at a ratio of one (1) share for every five (5) shares of its common stock with an effective date of October 1, 2017. Results reflect the effect of the consolidation of shares.

Basic Policy

The Company considers the return of profits to shareholders one of the most important management issues and has a basic policy of paying a stable dividend. While strengthening business foundations through efficient business operations across both an operational and financial perspective, and flexibly responding to funding needs for new business development, etc.,

the Company targets a consolidated dividend payout ratio of 35%.



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The Company considers the return of profits to shareholders to be one of its most important management issues, and it has a policy of paying a stable dividend. It also targets a consolidated dividend payout ratio of 35%.

For the fiscal year ending March 31, 2020, we plan to pay an annual dividend per share of 45 yen, which consists of the interim dividend per share of 20 yen and the year-end dividend per share of 25 yen.

We are also proceeding with the acquisition of treasury stock which the Board of Directors resolved in its meeting in May, as planned.

Your continued guidance and encouragement would be greatly appreciated.

Thank you for Your Attention

Cautionary Note: Forward-Looking Statements

All forward-looking statements contained herein are based on information available to Seika Corporation as of the date hereof and actual results may differ materially from those in the forward-looking statements due to unforeseeable factors or uncertainties.

Figures in billions of yen or millions of yen presented herein are rounded down to the nearest billion yen or to the nearest million yen respectively and numbers may not add up due to rounding.

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That concludes the financial results briefing for the first half of the fiscal year ending March 31, 2020.

Thank you very much for your attention.