

Financial Results Briefing for the Fiscal Year Ended March 31, 2023 : Q&A

(Questions answered by:)

Akihiko Sakurai, President

Yasumasa Kawana, Director and Senior Managing Executive Officer

<Question 1>

Regarding the launch of a distributor business related to nuclear power generation equipment, what costs were incurred to obtain the commercial rights?

<Answer 1>

(Sakurai)

There were no monetary arrangements made when this business was launched. The activities we have been engaged in as a thermal power generation sales distributor for Mitsubishi Heavy Industries since its founding were recognized, and based on an overall assessment from power companies in the West Japan area, Mitsubishi Heavy Industries made the decision. To supplement that answer, I would point out that we have incurred some costs for business operation, such as setting up staff and sites.

<Question 2>

In the forecast for the Energy Business for the fiscal year ending March 2024, segment income is set to decline significantly, and you mentioned a temporary increase in the cost burden due to up-front investments. Can you provide some details on this?

<Answer 2>

(Sakurai)

A major factor behind segment income dropping from 2.1 billion yen in the previous year to 0.9 billion yen is that in the fiscal year ended March 2023 we completed the handover of many large new power generation-related projects, so there is a reactionary decline due to the lack of large projects in the fiscal year underway. However, unlike the thermal power business, since we will begin the nuclear power business starting in April, we have no contractual backlog, so only profits for orders received in and delivered during the current fiscal year will be recorded. For that reason, the contribution to earnings is yet to be seen in the nuclear power business. In connection with the previous answer I gave, we have increased personnel by 30 and have also had to develop sites, so there will be a cost burden of almost 400 million yen in the Nuclear Power Business. In part due to those factors, segment income will decline compared with the previous year for the fiscal year underway. Since our activities in the Nuclear Power Business start from this year, it is hard to predict, but since we will be reliably proceeding with handovers for periodic inspections in the next fiscal

year, we forecast that earnings will steadily rise.

<Question 3>

Does the "increase of 30 personnel and site development" represent future running costs following transfer, and not acquisition costs?

<Answer 3>

(Sakurai)

That is correct.

<Question 4>

For the Nuclear Power Business, do you expect some degree of medium-to-long-term growth even if nuclear power plants are not restarted? Or, is the facility growth based on the assumption that the restarts will happen eventually?

<Answer 4>

(Sakurai)

Late last year, the government made a major shift in direction concerning the nuclear power business. Various companies have started to move towards the steady operation of nuclear power. Those things continue to develop in the background, and since we are still just getting started and haven't produced any figures in the area of nuclear power, we hope to properly develop forecasts of future business performance based on the experience we are building from the inspections and other activities started from April this year. Please understand that we have produced these numbers based on the assumption that operations will restart, while remaining somewhat cautious.

<Question 5>

You increased your 8.72% holdings in TVE Co., Ltd. to 21.7%, making it an equity method affiliate, and mentioned that you would take the capital alliance to a higher level, but how will this lead to building a closer relationship? Could you be more specific?

In addition, regarding the acquisition of fixed assets of Nippon Daiya Valve Co., Ltd. it seems as though it would have been fine to leave the assets as leased like before. Why was it necessary to acquire them?

I believe you invested large sums to acquire these shares and fixed assets. What as the value of the funds invested?

<Answer 5>

(Sakurai)

When acquiring shares in TVE Co., Ltd., our main purpose was to acquire commercial rights for the nuclear power business, and we managed to acquire commercial rights separately from those of Mitsubishi Heavy Industries. In addition, the valve manufacturer Nippon Daiya Valve Co., Ltd. is one of our Group companies, and it is in the process of exploring co-creation opportunities with

Nippon Daiya Valve Co., Ltd.. We will verify the effects of the acquisitions in the future, taking into account various factors such as joint purchasing and large valve manufacturing between the two companies, but we decided on these latest share acquisitions in light of those factors.

(Kawana)

Regarding the acquisition of fixed assets from Nippon Daiya Valve Co., Ltd., in recent years the company is continued to show healthy sales and manufacturing results, and has already reached the limits of its current production capacity. However, its warehousing facilities and factory buildings are deteriorating, and Daiichi Sankyo Cop., Ltd. was not interested in renovating them, and wanted to liquidate assets not related to pharmaceuticals at an early stage. By rebuilding the warehouse and factory buildings as fixed assets of the company, and revamping production systems for that purpose, we expect to capture demand that currently cannot be accommodated. We expect we will be able to increase the usual 6 billion yen in sales, or 7 billion yen in sales when operating a full capacity, up to 8 billion yen, and the plan is to establish these as fixed assets to enable major leaps forward in the future business.

<Question 6>

You mentioned aiming for a PBR of over 1.0 times and a market capitalization of 40 billion yen by FY2026. From the perspective of improving capital efficiency to meet this target, in addition to a dividend payout ratio of 35% and an ROE of 8%, will you disclose figures aimed at improving capital efficiency such as ROIC and WACC, which are the focus on attention in the current market, and will you disclose what you will do to move towards those goals in the future?

<Answer 6>

(Sakurai)

We truly regard this as a management issue. In the Corporate Management Meeting and Board of Directors, we have started to discuss specific actions to take regarding the figures laid out in the Medium-term Management Plan, and we will be in a position to share that information soon. There are various indicators such as the ones you mentioned, and after considering how we will pursue our target of 40 billion yen while also considering them, we hope to make an announcement.

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.