

# **Nippon Sanso Holdings Corporation (TYNPF) Q1 2025 Earnings Call Transcript**

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**Body**

Nippon Sanso Holdings Corporation (TYNPF)

Q1 2025 Earnings Call

July 30, 2024 05:00 ET

Company Participants

Soichiro Momiyama - Investor Relations

Keita Kajiyama - General Manager, Investor Relations

Toshihiko Hamada - President and Chief Executive Officer

Alan Draper - Chief Financial Officer

Conference Call Participants

Hiroki Watanabe - Morgan Stanley MUFG Securities

Hiroki Ikeda - Daiwa securities

Presentation

Soichiro Momiyama

Hello, everyone. Thank you very much for taking time out of your busy schedule to attend Nippon Sanso Holdings Corporation Earnings Call for the First Quarter Financial Results of the Fiscal Year Ending in March 2025. My name is Momiyama, and I'm in-charge of IR team.

I'd like to give some information about today's conference. First of all, the conference materials are the financial results, pension and earnings call reference materials that we have just released. I would like all the participants to have them at your hand. Next, we have three main presenters today, Representative Director, President and CEO, Hamada; Senior Executive Officer, Group Finance and Accounting Office and CFO, Draper; and General Manager of IR, Kajiyama. Also Kubo, Executive Officer, Group Corporate Planning Office; Mickey, Senior Executive Officer and CSO and Group Sustainability and Management Office; and Yoshida, General Manager of Accounting are also in attendance.

As for the program today, at first, Hamada, President and CEO; Draper, CFO and Kajiyama, General Manager of IR will present the first quarter financial results, along with the presentation materials. We will have time for questions and answers at the end. Please note that presentation will be conducted bilingual in English and Japanese using the simultaneous interpretation function via Zoom. Please select the language you would like to communicate with us in the Zoom control panel using interpretation button. [Operator Instructions]

We now like to ask President Hamada to give his presentation.

Toshihiko Hamada

Good evening. This is Hamada speaking from Nippon Sanso Holdings. Thank you very much for participating in our Q1 earnings call out of your busy schedule. As I always say, I would like to once again touch upon the global situation, because that does impact our company's business. Unfortunately, regarding the global situation, with a series of clashes in Israel and the ongoing conflict around Russia during the past few months, but strictly, basically geopolitical tensions remain high. In the global economy under such circumstances compared with the COVID-19 times, it is indeed a fact that we are seeing recovery in the U.S. and Europe. Interest rates have remained high for a long time. And in Europe, in June, there was an interest rate cut in Europe and there are expectations already cut growing in the United States as well.

In Japan, for the first time in a long time, interest rates have been restored. And I think it is because of the impact of these factors that the depreciation of the Japanese Yen is finally come to a halt some people say. On the other hand, as you may know, there are major elections being held, one after another in countries around the world. This year is said to be a global election year that is what the media says. I will not comment on the individual elections here, but we are doing a business with a lot of companies in major countries and regardless of whether we do business with major or developed countries or not, changes in government in major or developed countries may have a significant impact on economies of those countries and regions.

Therefore, we are closely monitoring whether there is going to be an impact on our gas business, we are closely monitoring the policies of each country and their impact on the global situation, including the foreign exchange rate that we think we have to closely watch the trends in the world. In this business climate, there are companies making steady progress towards and with the sincere efforts of our employees and staff customers as well as our other stakeholders, we are making steady progress towards the final year goals of our medium-term and management plan, NS Vision 2026 that is the impression, we have for the first quarter. And in this environment, it is important for our company to continue our business, maintain a stable supply, while also growing and enhancing corporate value.

To this end, we will clarify how we will proceed with the focus fields of NS Vision 2026, and the strategy decided for each segment as well as what we need to do to firmly establish the role of the holding company, NSHD Holdings and take effective measures. That is how we would like to operate the group as a whole. Details of our business performance will be explained later by Mr. Alan Draper and Mr. Kajiyama.

What was the first quarter like for us? If I may summarize, the key highlights were that there will be continued productivity improvement effort and price management. And during the past 1 year or 1.5 years, we have been making this effort and this is impacting our performance. We would like to continue such efforts. Secondly, we have continued to seize opportunities to expand business continually. Mega deals, it's not that we pursued mega M&A deals, but as was explained later, we are making sure to seize opportunities towards capital investment for future growth. And number three, diversity, increasing women female engagement, engaging people with various ethnic backgrounds in the way we do business, how we perceive our business, we want to ensure that we have diversity before we make decisions. We worked on initiatives with greater emphasis on diversity. And number four, we have been trying to maintain a strong commitment to improving corporate value. This is taken for granted as a listed company, stakeholders and shareholders. What is important for all of these people? We need to be clear on that. And for that, we want to always aim to improve and enhance the corporate value.

Globally, the situation is full of uncertainties, including the economic environment, whatever happens in the world around us, we have to be able to respond promptly and in an agile manner, with regards to cluster and social trends. And we mainly supply industrial gas and we have to think about the surrounding environment around our customers. There are indeed various kinds of users and not everything will impact our company directly, but we also have to be cognizant of work the factories impact our customers and stakeholders. Bearing that in mind, it's important for us to respond promptly to customer and social needs and social trends.

In May 2022, we announced the medium term management plan, NS Vision 2026. And as written here, we set out five focused fields and explained our initiatives for the four years through March 2026 and this information remains unchanged. Today, we would like to introduce to a number of themes that relate to our medium-term management plan. First in June of this year, a new management structure was approved at the ordinary general meeting of shareholders. I would like to introduce to our new management structure and we would also like to explain about our recently revised compensation for system or compensation system for internal directors as a result of TSE recommendations and so forth, we have decided to revise our compensations for internal directors and we also want to explain about the recently announced business acquisition in Australia as a main topic.

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Following the ordinary general meeting of the shareholders held on June 19, we were able to conclude this shareholders meeting successfully and we established a new management structure, including one newly appointed director. Currently, we have 9 directors. The total number of directors remains unchanged. The majority of these directors are independent. The outside directors, five of them are independent outside directors in order to maintain management independence. On the right hand side of the slide, we share the expertise and experience of each director. As you can see, our Board of Directors is made up of experienced members from diverse backgrounds. In essence, this is one important point to ensure diversity.

Including myself, there are four internal directors and three of the four internal directors are well versed in their respective businesses. They are professionals in their respective businesses. And when I worked for Tennessee, Nissan, I was Head of the Electronics division and President of Subsidiary. I do regard myself as being a gas professional. And Raoul Giudici newly appointed Director and President of the European business has many years of experience in sales and marketing and he is one for three of the appointed directors who are presidents of original companies. And he is responsible for sales and marketing in the European industrial gas industry who succeeded as head of European business. He is based in Italy and Eduardo Elejoste was based in Spain.

We do hope that he will make – he will introduce a slightly different perspective, but Europe is not necessarily large and Raoul also has experience in other businesses besides Italy, in Europe and he has experience traveling around in Europe. I think he is about 52 years old or 53 years old, he is very young, and he is a member of a new generation of management. From that perspective as well, we look forward to having him introduce new perspectives in tech initiatives. The Board of Directors also established a voluntary advisory committee called the Nomination and Remuneration Advisory Committee, which is headed by Mr. Nagasawa, an independent outside director. After discussions at the Nomination and Remuneration Advisory Committee, we appointed Raoul as director and revised the compensation system for internal directors.

I would now like to go on to the next page to explain about our compensation system. The Board of Directors resolved to make three changes to internal directors' compensation system. In order to achieve the performance in non-financial targets in our medium-term management plan and to continuously enhance our corporate value, we introduced more incentives in our compensation system. First, we added ROCE after tax as a KPI for performance-linked compensation. In March 2023, the TSE, Tokyo Stock Exchange requested that companies take steps to implement management that is conscious of the cost of capital and stock price. And this request included examples of measures such as including improvements in return on capital in the indicators for calculating executive compensation. Our company had originally set ROCE after tax as one of the financial KPIs for a medium term management plan. Against this background, after discussion, we decided to reflect this in executive compensation and by doing we are further clarifying our commitment to continuous improving capital efficiency.

Secondly, we will reflect as non-financial indicator and this is something that we have included as KPI in our mid-term management plan and GHG reduction through environmentally friendly products. And so, we are really going to reflect that environmental initiatives particularly efforts toward carbon-neutrality and GHG emission reduction are strongly requested by our shareholders, investors and other stakeholders. And this should be taken for granted and we have incorporated them into our incentives to achieve these for non-financial indicators. This was adopted as an indicator, a progress made in reducing GHG emission contributing to our customers through our products and technologies. And so we are to look at while the progress made in reducing the customers GHG or emissions and so GHG emission contribution by a company should people continued. And so we will aim for continuous increase in our contribution to GHG reduction.

Thirdly, the compensation for the three Nippon Senso Holdings directors who serve as Presidents of operating companies in Japan, the U.S. and Europe will now be reflecting performance and non-financial indicators as well. As you can see the composition well, the internal directors were excluding myself and the other three are the President of the regional companies in Japan, the U.S. and Europe and they are serving as the Director of the holdings. And so we will – newly will reflect performance and non-financial indicators as well. And so far up until now, the holding directors have received only fixed compensation, but by clarifying commitment to achieving the group-wide target, we will further promote mutual collaboration across businesses and by reflecting all these for their compensation.

So we are to really have the stronger sense of ownership by these people. And this time around, these performance and non-financial indicators will not only be reflected in a compensation of directors, but also Nippon Senso Holdings' executive officers as well. Within the holdings and the duties were performed by the executive officers are great. And so for these people we would like to have a sense of solidarity and we would like to have the management team to work together as one team to achieve our business targets and improve our corporate value. So, this is not just limited to directors, but also applied to the executive officers.

The next topic I wish to cover is the acquisition of LP gas business in Australia, which was announced on our website just the other day. The Supagas, Supagas, Australian business civil company, is primarily engaged in production and sales of LP gas and also produces and sells industrial gasses.

And I just like to well briefly explain the history and background of business in Australia. The company entered Australia in 2015 when we acquired Renegade, a distributor of LPG and industrial gasses. And then, well, this was the very first entry point. And well, immediately after that, in 2016 well, it expanded its business area by integrating Supagas manufacturing and selling LP and industrial gasses. The companies were business bases as shown with the blue or the blackish dots on this map and currently located on the eastern side of Australia mainly. And this is because where major industries other than mining are concentrated predominantly in the east and though the company does operate with basis in the north and west, but the acquisition this time will significantly increase the scope of its business operations and agreement with its parent company, where Wesfarmers Chemical, Energy and Fertilizers, was concluded to acquire clean hits, LPG sales and fertilizers, LPG sales company in Northern and Western Australia. And currently, the transaction is under review by the Australian Competition Authority. And once well, this processes were passed and the basis indicated by red dots on the map, it will be added to our business and expanding our LPG supply network to cover the whole land area of Australia.

We also expect synergies in industrial gas business as I said earlier. As I said earlier, the western part of Australia is a region with very active mineral and other resource mining industry. And as the importance of mineral resources is increasing rapidly, our inclusive of the rare metal resources in China, have been very much looked at. And so we will leverage the newly acquired sales basis to provide services to the regions, continuing to grow into the future and then reach out to the potential prospective customers in this industry to develop new sales channels. Regarding the timing of closing, as I mentioned earlier, the transaction is under review by the local competition authority. After we pass this review, we would immediately would like to plan to acquire the business and we are expecting this to happen around autumn this year.

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And next I'd like to talk about our future investment information plan. Starting from the first quarter, the financial results for the fiscal year ending in March 2022, we've been presenting a chart shown in the breakdown of CapEx plans by customer industry to provide the total picture of capital investment plan and continuous capital investment is essential for us to keep growing stronger. So, I think – this is really critical and essential. And backlog as of June 30, 2024 is approximately ¥180 billion. And compared to the fourth quarter last year, we have a slight increase and approximately a little over ¥170 billion and we have seen some increase. And from April to June, well, there are some projects well which were removed from the backlog and some were added and some of the increase in the amount is coming from the foreign currency-denominated investment projects amount which have been inflated due to the currency translation effect.

So in terms of the number of projects, however, the number of completed projects and that of newly acquired projects are almost equal. And well, I'd like to refrain from going into the details of the past 12 projects and approximately ¥180 billion worth of the backlog, and out of which environmental and hydrogen society contribution related projects account for approximately 50% or so. And so roughly speaking, these are really accounting for about half. As noted at the bottom of this slide, the scope of this calculation includes those projects worth about ¥500 million or more and does not include projects with less than that amount. And we would like to continue to demonstrate our future growth potential in this manner on a quarterly basis.

Well then and now, I'd like to turn over to Mr. Draper, CFO to give an overview of our first quarter financial results.

Alan Draper

Thank you, Hamada-san. I appreciate everyone attending the event today. Please turn to Page 13. For the quarter April 1, 2024 through June 30, 2024, revenue increased by 6.6%. If the tailwind from the weak yen is excluded, revenue decreased minus 1.1%. Core operating income increased 18.7%. Ex-currency impact COI was up 8.8%. Core operating income margin percentage increased to 14.7%, up 150 basis points. And EBITDA also improved to 23.6%, up 160 basis points. The year-over-year growth and margin improvement was driven by price management, moderating energy costs and continued operational excellence, with productivity and best practices being leveraged throughout the business, which was partially offset by negative volume impact and general inflation.

Please see the right hand side of Page 13. This includes year-over-year revenue variance analysis for the consolidated NSHD group. We're pleased to disclose this information to our investors and stakeholders and hope everyone finds this information useful. With respect to the variance analysis, NSHD experienced a large favorable impact of 7.8% from currency. Outside of currency, price is positive, 2.7% volume negative minus 1.7% pass through and surcharges were lower minus 0.6% due to moderating energy costs and the other category, which includes M&A, divestment, deconsolidation and non-recurring activities such as equipment sales, was negative minus 1.6%.

Please turn to Page 20. Even though, we are starting the year with solid profit and results. We remain cautious because of the relatively soft volumes. During 1Q, we noted monthly sequential improvement in the electronics market. This is a positive sign, but the increase is not yet materialized in a meaningful manner. We expect the sequential improvement to continue. In addition, the yen has become more volatile, which causes additional headwinds. As a result of these factors, we'll maintain the current full year guidance for sales of ¥1.3 trillion and Core OI of ¥177 billion, but we do expect upside of conditions and currencies remain stable.

Page 29. Operating cash flows increase year-over-year by a modest 1.6% investing activities, which is nearly all capital expenditures, increased 85% from the previous year due to a significant ramp-up in large growth capital spend driven primarily by the U.S. business. I anticipate that, much like in recent years, our cash flow will improve as the year progresses.

And with this, I'll turn it over to Kajiyama san to provide some comments by segment. Thank you.

Keita Kajiyama

I am Kajiyama from Investor Relations. Thank you very much for participating. I will now explain our performance by segment for the first quarter of the fiscal year ending March 2025. I will explain using the financial results supplementary material posted on our website today. Before I go over the performance by segment as written on Page 3 as written at the notes on Page 3, the foreign exchange impact is calculated by planning the average rate for each currency for the period under review as the base rate, and comparing it to the previous year. ¥1 depreciation against the U.S. dollar has an impact of approximately positive ¥2.4 billion on revenue and positive ¥350 million on a cooperating income, while against the euro, impact of about ¥1.9 billion on revenue and approximately a positive ¥350 million on core operating income.

I will now go over the performance by segment, but since the overview of our consolidated Q1 performance was already given by Mr. Draper, CFO. I will explain the Q1 situation by segment. First, Japan business on Page 14. In the gas business, which accounts for approximately 60% of revenue, shipment volume of air separation gas or core product, even after exceeding the impact of a conversion of a subsidiary from an onsite production facility for a specific constituted joint operation entity, last year, declined slightly.

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In terms of revenue, this conversion to a joint operation entity and deconsolidation of a residential LP gas subsidiary impacted and led to a significant decrease in revenue. In electronic material gas, we see scientific recovery in customer's capitalization rate, but volumes remain soft. In equipment and installation, since many projects generate revenue in accordance with the progressive projects, revenue increased year-on-year for both industrial gas and electronics. As for segment income, effective price management and moderating electricity costs and continued strong performance of equipment installation and these factors contributed significantly to increasing segment income year-on-year. As a result, revenue was ¥100.9 billion a year-on-year, decrease of ¥6.7 billion, or 6.2%. Segment income was ¥11.5 billion a year-on-year, increase of ¥300 million, or 2.9%. There was minimal foreign exchange rate impact on revenue.

Next, please refer to Page 15, a Q1 performance of the U.S. business. In the U.S. business shipment volume of core product and separation gas increased, but for other gasses, including electronics gas, acetylene, packaged gas and helium shipment was soft. In equipment and installation, sales of both industrial gas and electronics related were soft. With regards to cost, we continued effective price management and productivity initiatives. As a result, revenue was ¥92.6 billion, increase of ¥10.6 billion, or 12.9% year-on-year. Foreign exchange impact was positive ¥10.9 billion, and excluding this impact, revenue decreased by ¥300 million, or 0.4% year-on-year. Segment income was ¥14.8 billion year-on-year, increase of ¥3.7 billion or 32.3%. Forex impact on segment income was positive ¥1.5 billion, exceeding this segment income increased by ¥2.2 billion, or 16.4%.

Next performance of the European business on Page 16. In the European business, a shipment volume of air separation gas increased year-on-year, and sales of equipment and installation, including medical device, was strong. Regarding cost, there was positive impact from a decline in electricity cost and productivity. Initiatives continued. As a result, revenue in Europe was ¥85 billion, an increase of ¥11.9 billion, or 16.3% year-on-year. ForEx impact was a positive ¥8.7 billion excluding this impact, revenue increased by ¥3.1 billion or 3.8% segment income with ¥16.6 billion, an increase of ¥3.5 billion or 26.6% year-on-year, ForEx impact was a positive ¥1.6 billion excluding this impact, segment income increased by ¥1.9 billion, or 12.8%.

Next Asia and Oceania Business on Page 17. In Asia and Oceania, air separation, gas shipment increased in volume year-on-year. Also in LP gas, of which a large population sales, is in the Australian region, sales volume increased. However, for gas in the electronics business, which amount account for about 40% of the total revenue in this segment, so, soft demand, despite the sum recovery and utilization among customers in East Asia. On the other hand, there was a tailwind from the weak yen. As a result, revenue increased by ¥4 billion, up 10.43% year-on-year, to ¥42.4 billion. But FX impact was for positive ¥4.1 billion, and excluding this, it decreased by ¥200 million, down 0.5%. Next segment, income was ¥4.3 billion, increase of ¥200 million, up 4.8% year-on-year. Currency impact was positive ¥400 million, excluding this, income decreased by ¥200 million, down 5.7%.

Now, Thermos business segment on Page 18. In Thermos business sales in Japan, mainly from portable vacuum insulated bottle was strong, and overseas revenue from Korean and Asian production plant was favorable, but sales conditions at equity method affiliates was soft. In terms of income, despite the efforts to observe higher costs by selling at new prices, by launching new products with added new colors in features and so on, and the ongoing depreciation of the yen resulted in manufacturing cost increase, and that has affected the result. As a result, revenue was ¥8.2 billion, increase of ¥700 million at 9.0% year-on-year, currency impact always minor. And excluding this, it grew by 7.9%. Segment income was ¥1.2 billion, decrease of ¥200 million, down 15% year-over-year. Excluding FX impact, it declined by 16.3%. This concludes the segment results presentation.

Lastly, I would touch on materials titled appendix. From Page 23 and onwards, of your materials at hand, well, you'll find various information for your reference, including key performance indicators, condensed considered statements of cash flows, condensed considered statements of financial position and among them I will briefly talk about key performance indicators on Page 27. First overseas sales ratio increased at 267.9% by 4.3% from the same period last year, in-line with our global growth as of the end of the first quarter. In responding too strong investment demand, cash flow turned negative year-on-year, as you see here, due to the expansion of accrued expenses and others, CapEx increased significantly year-on-year, to ¥46.7 billion, though it is partly or due to currency translation impact with the weaker yen, our investment capabilities are steadily being implemented. Adjusted net D/E ratio was 0.73x in the first quarter, steadily improving from 0.74x at the end of last fiscal year.

This brings us to the end of presentation of the first quarter results ending in March 2025. Thank you.

Soichiro Momiyama

Mr. Hamada, Mr. [indiscernible], Mr. Kajiyama, [indiscernible] thank you very much for your presentation. We will now start the Q&A session. [Operator Instructions]

Question-and-Answer Session

A - Soichiro Momiyama

Morgan Stanley MUFG Securities, Watanabe san, please start your question.

Hiroki Watanabe

Morgan Stanley, Watanabe speaking. Thank you for explanation. Sorry for the noise. The auto environment is not so good. At Page 13, reason for increase in revenue. I think I was able to get detailed information from this page but Japan, U.S., Europe, Asia, Oceania and by region. I want to see and break down by region. If you're not able to do so, I want some more qualitative explanation, at least, for Europe exerting forex impact. There's an increase in revenue. I want to know the reason for this increase in revenue in Europe forex impact.

Alan Draper

Yes, Watanabe san. Thank you for your question. This is Alan. So overall, we're continuing to try to disclose more information as time goes along. And appreciate certainly everyone's support. I'll give some high level comments as to, pricing and volume by region. Just to give you a sense for the flavor of what's happening. So on the price side, essentially all businesses are favorable on price. The only business that has slightly reduction in price is Asia Oceania. On the volume side, Europe and Thermos are positive on volume and Japan, U.S., and in Asia Oceana are slightly negative. So that gives you a little insight as to the breakdown. But we are not going to disclose a sales variance by region at this time, but at least it gives you a color commentary as to the major drivers. Thank you.

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Hiroki Watanabe

Thank you. My second question is about EBIT margin, I want Mr. Hamada to respond to this question. May 22 at the explanation you talked about the main trend of margin increase in Japan, U.S. flat and Europe, but slight increase, and Asia, a strong increase. That was what you explained on May 22. I take a look at the Q1 results, and it seems as though it reversed the U.S., with the most improvement, Asia, previously slightly worsening. And if there's a change in what you're see now compared with what you mentioned before, if please explain. And if your perspective is still changed at what timing do you expect to change in a trend in the background as well?

Toshihiko Hamada

It's a very difficult topic, so to speak. The trend is such that, as I mentioned in May. yes, that was the trend mainly for last fiscal year. And actually, we think that for the time being, the trend will remain unchanged. Foreign exchange rate inclusive converted into Japanese yen. That's the number and then the actual gas business numbers taking into consideration CapEx and so forth bearing in mind gas volume. If you take a look at all of these numbers, gas volume basically does not change the result of foreign exchange rate. There is no direct impact of Forex on gas volume, but there's a Forex variance. This time is quite different. The yen is becoming stronger, so we may see such a difference if we calculate various numbers. But if you take a look at depreciation, as Mr. Draper briefly mentioned, the U.S. capital investment is very active and risk in terms of amount and in terms of the size as well. There are large CapEx projects. In that sense, there is impact of that the CapEx going forward on depreciation and with regards to Asia. We will continue investment going forward as well. At the moment though, we are not seeing large CapEx projects. Rather gas business was quite stagnant and we are seeing more movement particularly for electronics. That is the trend we are seeing. It's true that, actually I did not recognize. That the situation now is quite different from what I mentioned in May, that is indeed true. However, there was last year's trend and we don't think there's going to be so much of a difference between last year's trend and now that is the comment I'd like to make.

Hiroki Watanabe

The U.S. alone, I want some additional information about U.S. alone. This active investment CapEx investment in the U.S. and when the new projects get up and running. Do you expect despite the decrease in profit or new projects, will all of a sudden contribute to profit? So can we count the new projects into a profit immediately? Could you please comment on that?

Toshihiko Hamada

And the large CapEx projects basically on a monthly basis. What is the amount? We close a contract and the monthly amount is predetermined and that is how we start the project. That the facility is completed and then when we start the operation, we start to encourage depreciation costs, which means these are businesses that are able to abruptly generate profit. That is the nature of the many CapEx projects in the U.S., not necessarily all of them, but most of them with those that respond to your question. Thank you very much.

Soichiro Momiyama

Thank you for the questions. And from [indiscernible] Securities [indiscernible] san, please.

Unidentified Analyst

Well, thank you very much and for explanation. And this is Yamada from [indiscernible] Securities. And so I would like to ask for several questions. Now related to the CapEx and capital investment in the U.S. While the capital investment has been very active and on Page 11. And well, we have less of the skill and electronics and environmental related and the chemical and energy availability projects are what in the size. And so I think what other than hiker, while others are not so that active and so is this a correct understanding? And also in the U.S. manufacturing this sector where the onsite in the manufacture sector, where we should go for that and also in on site a business in Asia. I think what you need to really well on have a focus on them. So will mainly on site, if you could bit help to supplement the information and student investment altitude?

Toshihiko Hamada

We will starting with Asia first, and on site for projects in Asia, in terms of the number of projects. There are quite a large number of them in the Philippines and Vietnam and Thailand. However, the size or the scale and while gas well, they were on site. Well, the size or the scale is not that large, so the amount per project is not that large. However, in terms of the number of projects, we do have large number of there and most of them, while this might not be the appropriate description and many of them are related to electronics, electronic component the customers. And then we are providing such on site gas supply. And so these are very active. However, as I said, while, the each individual project is not so large in its world capital investment amount. As for the U.S. in a sense, well, there are kind of decomposition [indiscernible] investment and well, Heiko and the air separation and gas equipment, and so we can, we divide them into two categories. In air separation while the equipment investment. And the customers, the chemical related and electronics related and we do have different types of the customers and the customers while are trying to really achieve carbon neutrality and they we'll improve or retro fit or modify the equipment or install new equipments.

And in-line with that air separation gas equipment should be installed. And this type of project is for a quite large and its number. So the traditional or so we cannot really well, distinguish our whether this is purely high Heiko of projects or not and it is becoming more difficult to make a distinction. And that will make a scale Heiko project. Well, there is a worthy project in India. We are engaged in and that kind of further size of Heiko project is not found in the U.S. Well, I see, is so that is the reason why, this is how you are really when having the breakdown by application. And so this might well look a little tricky. But, clearly this individual customer is for machinery, auto. It's not that we can work clearly while separate or distinguish them. And so we are really applying on the perspective and to really allocate on the capital in our own way. So the recent CapEx by customers, while ability to environmental and carbon neutrality related projects. And so they are very much secured are to those projects. And so we do have a larger number of such projects and as a result, the approximate half of the projects are related to carbon neutrality related projects.

Unidentified Analyst

Well, thank you very much. Well, I really had a very good understanding. And Page 8 and Page 9 as the topics. And what you have really well talked about the composition scheme and also the Board directors were composition and related to that where you have the change of the President in European business and earlier. Because you have much of the mobility and what essentially so there is not much of the change or the difference, but in the last 3 years in Europe, NBCB the entire world. Well, the Europe has been taking the lead in improving all the operations, NBCB the new president hitting the European business. What is your expectation? And if you could just tell us what your expectation is, any addition to that and as for the executive officers and what performance linked, the recommendation is now what included. And so, do you see is some just of movement to have more active communication is becoming visible and so the compensation of executive officers first. And communication from long before, we have had a very frequent communication and it's really well come, they are really coming to us, to me. Well, so often, and for each individual or business or operating company and direction, and also through the dialogue with the management team. Well, they are really were trying to really well come to me for consulting a very well overall, instead of your views based upon such communication, conducted internally by themselves and, however, while visible to target values. And the monetary incentives are to be provided. Well, of course, while there could be different views as to whether the amount is big or small, but not just well, the profitability alone, but as the holdings. Well, these are the sort of the important factors we need to incorporate and so the communication of with the business and operating companies. While these, while communication should be secured and so that is the reason why we have come up with this new scheme. And so basically, the actions that will remain the same, well from the past, and the rule, where did it our new President of the European business. And I cannot well give you the details and the predecessor Edward. And the recommendation by himself and for a certain time period we have been while watching him. And he is very competent and talented, and also very, very deep understanding of gas businesses. And this is true of Edward as well, and also have a very strong leadership, which is a very important element that we need to really focus on. I may have talked about this and in Europe where they have to really work together, also different countries, a clear as sort of the communication, a clear direction and a clear sort of motivation. And also sometimes, well, this world leader needs to really will take the leadership and to really will exert that kind of the skills. And so the scalable is almost equivalent to that of the predecessor and he is based in Milan, and he has long worked there. And so as the basis, well, they well went to West Spain, Germany and France. And so as I said earlier, we are within Europe and the various assertively – the way, the necessity to travel to different world countries. Well, there is no problems and concerns and also the industry itself, has well developed in its own way, which is far different from Germany and France. And there are many gas companies and so there have been well on the consolidation or at the various well on the selection, and so he has experienced all this industry, well, a background and also in Europe, were inclusive, depression issues, while it's going to be quite difficult, but it is true of Spain, but Italy and resilience in their life. And the health related or gas business, well, it has a very good sense of business acumen for these four businesses and so in the very world, peripheral areas where Raoul would be able to really develop different types of business, new businesses. And so I very much appreciate and evaluate him highly of these kind of skills. And so as the successor of Edward, well he is fully competent and also have the further development potential.

Unidentified Analyst

Well, thank you very much. I really wanted to ask another question, but well, I should not argue by the time. So, this is the end of my questions. Thank you.

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Soichiro Momiyama

Thank you very much for your questions. Next, AB Securities, Mr. Animoto [ph].

Unidentified Analyst

AB Securites, Animoto speaking. I have three brief questions. First, Europe, there is increasing volume, in what kind of areas, in what kind of regions was there an increase? That's my first question.

Soichiro Momiyama

Then I would like to call upon Alan to respond.

Alan Draper

So, overall, the European business is seeing an uptick on their onsite volumes and also a little bit of uptick on their bulk volumes. So, overall that's a major driver of the increase in volume.

Unidentified Analyst

If possible, particular industry or I want some more hints.

Toshihiko Hamada

This is Hamada. I may not know everything, but according to data that is submitted to NST Holdings, a steel industry on site business, I think there was substantial growth there relatively speaking in chemicals and not so a considerable growth. But still, I think in a sense, this was unexpected, unexpectedly high growth from the steel industry. And I talked about Italy and health related services relating to the resilience of people's lives. They are selling well mainly in Italy and Spain.

Unidentified Analyst

My second question is about Japan, CNG gas and specialty gas. At price hike, I think you announced and both the progress of this price hike announcement. Thank you.

Toshihiko Hamada

Price hike announcement we made and we are now working on price hike. Q1 aggregate number, we don't have sufficient numbers yet in that regard for specialty gas, including specialty gas, cylinder gas overall price hike is what we want to explain about. We want to continue this explanation and by the end of the first half. We want to make sure that we have a clear number, that is what the Japan business is aiming at.

Unidentified Analyst

And my final question is Australia, LP gas acquisition. You announced this acquisition? The size, how much revenue or performance contribution is essentially like to make and what was the M&A value? What was the size of the M&A deal?

Toshihiko Hamada

The M&A price is not yet formally approved. I cannot comment on the acquisition price. But in terms of size, I wonder if Alan has a good comment or maybe corporate planning people have more information about this.

Unidentified Company Representative

This is Cooper from Good Cooper Planning LP [ph], gas distribution business is what we have acquired this time and depending upon CP fluctuation, performance fluctuates. Therefore it's difficult to indicate a specific number. In the case of this fiscal year impact on performance is, as Mr. Hamada mentioned. This deal has not yet closed. Yet competition authority related clearance, we are waiting for. We don't expect a significant impact on performance this year, a minimum impact of this, this year.

Unidentified Analyst

And thank you. And how much share in terms of size of the deal, I want to know what would be the share?

Unidentified Company Representative

Detailed information about the size, we do not necessarily know everything, but we assume our estimated share is less than 10% or so. That is the image we have of the size or share. And through M&A, will there be significant change in share, we are able to supplement and have a broader coverage of the Australian business, which means there might be slight increase in our share after this acquisition. And how much impact does this particular deal have, well, we would like to reframe from disclosing that information. This concludes my response.

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Unidentified Analyst

Thank you.

Soichiro Momiyama

Thank you for the question. Next from Daiwa securities, Hiroki Ikeda. Please go ahead.

Hiroki Ikeda

Well, this from a diversity, one question and the applicability in Asia, Oceania business and the price has gone down. And so because of that, while you have seen the decrease in profit. And then, do you work different from Europe and the Americas and the price management was not so easy, and you cannot really have the effective price management or going forward, do you think that you will be able to have the effective price while the management and also the productivity, where improvement easily started from this fiscal year? And how would that would affect the profitability going forward?

Toshihiko Hamada

Thank you for the question. As for the world price negotiations and the actual price revision, in Asia, Oceania, we are really well doing securely and so actually we are passing on to the prices. And there are many more countries and regions, but some. Well, countries where we have some delay in implementations and so it has not been materialized at the actual effect of the price revision. But, well though there has been a delay in actual implementation, while there have been some approval and as for the electricity while they contact. So, it's going up quite significantly. And so this water cost increase. Well, it cannot be effectively passed down to that price because where there is this world electricity cost increase once, and then well all of a sudden, if we are to pass this on to the process, this is not something we can do and this will price revision this time. It is not just limited to Asia, but while it is true for Japan, Europe and U.S. The reason why are the prices to be increased and for that, what are we supposed to do, and then by explaining this fully while the price increase is accepted, and so are the electricity cost increase after that, it's not that we were to be just, well, have this unattended, but in the next round of the price negotiation, we would like to make sure that this could be also passed on. And as for the cost reduction, efficiency improvement in Asia and Oceania, particularly in Europe, sorry, the efficient operation and actions for that, and they are well promoting in very well concrete terms. And each individual company is smaller in the size, so it's not that we would have the big effect and also the production plant size is not that large and also the production capacity is not that large. And so amount wise, we do not see what big effect, but compared to the our previous COGS and because of the higher efficiency on the profit and have been generated for sure. And so going forward, the plants in Asia, we do have many smaller size plants and that there is a room for further enhancement of efficiency. So, we would try to do whatever we can from the operational excellence perspective.

Unidentified Company Representative

Thank you. Additionally another question and your specialty gas in the South Korea and Taiwan because while the customers do have them in stock and inventory, so that's the reason why you haven't been selling much. And the customers to which we deliver at the specialty gas is quite limited. And so you may have some ideas, but we are seeing on some movement in the inventory of the customers in both South Korea and Taiwan. In some costumers and some gasses, clearly the shipment volume started to increase. Therefore, the major semiconductor manufacturers are located in these countries and clearly there has been some movement. But the semiconductor water plant utilization, which has really well are going down to the very bottom, but all of a sudden, if the utilization is going to be enhanced, well, they have to have some idle sort of the operation before they really will recover the utilization. And in case of semiconductor were related to our businesses. Well, gas would be started to be consumed and hopefully we are starting around the autumn this year and we hope that we will be able to really move our gasses to be supplied to these customers.

Hiroki Ikeda

Well, thank you very much indeed.

Soichiro Momiyama

Thank you for the questions. Next CLSA Securities, Mr. Cho [ph].

Unidentified Analyst

This is Cho speaking from CLSA Securities. Thank you very much. Volume and the amount trend, a trend by vision that was explained Q2 onwards. What is your prospect for Q2 onwards? I want some of the information with regards to prospect for Q2 and onwards. That's my first question.

Toshihiko Hamada

Thank you very much. It's a difficult question. And we may have to respond in a difficult manner. Q2, we don't think there will be so much change in Q2. Semiconductor gas related business, I just talked about and we are not seeing abrupt start up in Q2. And for other factories as well, we are in the midst of the capital investment, which means we have to wait a while until operation starts. Large CapEx projects are currently ongoing. They will not relate so much to increasing volume yet. So, then there are the existing factories. We have to take the customers utilization rate and there will be an increase in our gas in response to that. In the summer season, bearing in mind the summer season, we don't think that there will be so much movement in Q2. We think it's a similar situation as Q1 will continue in Q2 that is what I think. And this was about gas volume. However, there may be a fluctuation in the foreign exchange rate and energy conditions may change. Price is a separate story. If a situation changes, we have to be able to respond flexibly and appropriately. This concludes my response.

Unidentified Analyst

There is one point I want to confirm about what you mentioned before, about the background behind and not changing your full year guidance, I think that it's because of ForEx, besides energy costs and what other risk? What would be some other reasons why, if not change for your guidance?

Toshihiko Hamada

I would like to call upon Alan Draper to respond.

Alan Draper

Thank you, San. Thank you for your question. So, in regard to full year guidance, as you mentioned, the first item is currency, the yen has strengthened significantly over the last two weeks, three weeks. The BOJ is going to probably be making maybe some announcements today or tomorrow regarding interest rates. It could also fluctuate the yen. So, that's obviously something out of our control, and stuff that we are not exactly sure what's going to come out of that. And second of all, we are seeing soft volumes. So, what's carrying us right now is productivity and pricing. And with the soft volumes, we would really like to see some improvement in the volume side before doing any type of adjustment. So, we think there is upside in the currency, if obviously currency stays where it is, but we are just not seeing any meaningful improvement on volumes today. And obviously, pricing is going to get more complicated if the volume stays soft. So, we are also obviously keeping a close eye on pricing. So, it's just a complicated situation to navigate when you have soft volumes and we are doing our best. And as of right now, we just want to maintain our current forecast and maybe there is some upside due to currency. Thank you.

Unidentified Analyst

That's it. Thank you.

Toshihiko Hamada

Thank you for the question. And we would like to take the final question, Nomura Securuties, Kono San [ph]. Well, please go ahead.

Unidentified Analyst

Hey, Kono from Nomura Securities. Well, thank you for this opportunity. European business world margin and the trend of the margin and a quarterly trend in last year, from the first quarter to fourth quarter, there was a declining trend in margin. And fourth quarter last year to the first quarter this year and margin and has improved or increased quite significantly and change of the trend, why is it? And so if you could just give us the reason for this was changing the trend.

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Alan Draper

Sure. This is Alan. As I mentioned, the positive aspect in Europe is they are seeing some on-site volume improvement. On-site has the highest margins as you are probably aware. So, that's obviously a positive momentum and movement. And they are also still seeing some positive price and productivity. So, the on-site volume is probably the biggest unexpected change that we have seen and that's a high margin business. So, that's the primary driver. Thank you.

Unidentified Analyst

While the product price has increased and energy cost has gone down, that is something I would assume, and then the product price is going up. Why is it?

Alan Draper

I think it's more managing our price situation. So, overall moderating costs and our team is doing an excellent job, making sure that we negotiate and work with our commercial organization so that we are able to maintain price. So, I think it's just a good job in the commercial team and sales organization to maintain price. I mean that's part of the job and what we are trying to do every day is maintain our price even if costs are dropping. Thank you.

Unidentified Analyst

As for the whole product price is being maintained and so well, rather than going up, it is where the product prices are maintained or sustained. Is this a correct understanding?

Alan Draper

Yes, there is two aspects of it. The first one is they are maintaining the pricing, we are moderating costs and then they are doing the normal quarterly price increases. So, there is a combination of the price activity where the volume – or I should say, the margin activity. So, maintaining price when moderating costs and then increasing price on the normal quarterly pricing actions which are required under contract. Thank you.

Unidentified Analyst

Understood. Well, another question if I may, in each of the regions and gas price management has been effective. And I think that has resulted in the better profitability and going forward, the energy cost, if it is going to go up or going down in some of the regions, do you see some regions where you would see the changes in the energy cost, if you could give us the state of the prospect by region, please.

Alan Draper

Thank you. This is Alan again. So, overall, I don't think anyone knows what's going to happen with energy. I think what we have worked on over the last 2 years is to make sure that when energy costs go up, we are making sure that we are very active on the pricing side to make sure that we are at least covering our costs. So, we can't tell you exactly what's going to happen in the future. We probably forecast relatively flat energy, but if energy costs increased, we are going to be active in the market to increase price. If energy costs decrease, we are going to actively try to maintain our price. So, that's the best I can tell you because we are not great estimators at what the power costs are going to be in the future. And actually, I don't think anyone really is right now, especially related to the very difficult situation, geographical. So, that's the best I can give you right now for my answer. Thank you.

Unidentified Analyst

Thank you. Well, that's all the questions I have. Thank you.

Soichiro Momiyama

Thank you for the questions. Because of the time constraints, we may not have been able to respond to some questions that we would like to respond to them in one-on-one sessions. We will now conclude our fiscal year ending March 2025 Q1 earnings call. The content of today's earnings call will be posted on the IR page of our corporate website tonight. Please, allow us to inform you of our next Q2 earnings call conference call. As indicated on a Slide 37 of today's presentation materials, the earnings call will be held on Thursday, October 31st and we will begin at 5 o'clock p.m. Japan Standard Time. We used to hold the equal at a later time, but in response to requests from shareholders and investors, we decided to start earlier. Disclosure of financial results is scheduled at 3:00 p.m. JST, the same as before. Thank you very much for taking time out of a busy schedule today to participate in our earnings call and we appreciate your many questions.

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