February 10, 2023

JGC Holdings Corporation

Third Quarter Financial Results for FY2022 ending on March 31, 2023

Q&A from the Online Earnings Release Conference (held on February 10, 2023)

This content is based on information available on the date of the earnings release conference (February 10, 2023).

1. Third quarter financial results and earnings forecast

Question	Answer
To what extent have foreign exchange rates affected third quarter results? Please also identify any other positive or negative factors other than foreign exchange rates. What is the outlook for the fourth quarter?	The consolidated gross profit ratio forecast for the second half (October–March of the following year) was 8.2% as of the second quarter results announcement. Third quarter appreciation of the yen negatively affected net sales by about 14 billion yen and gross profit by 2.5 billion yen. However, certain factors led to a gross profit ratio of 8.7% in the three months of the third quarter, higher than anticipated. Profitability of EPC projects nearing completion improved, and the profit ratio in functional materials manufacturing was also not as low as the forecast. Turning to the fourth quarter, the assumed exchange rate was adjusted to 130 yen to the dollar, but without much impact from the stronger yen (such as from the third quarter shift from 144 to 133 yen), we do not expect the rate to have a greater impact than in the third quarter. Moreover, we anticipate improved profitability in some projects nearing completion. We therefore expect to surpass the third quarter gross profit ratio.

Please tell us about yen/dollar exchange sensitivity at present.	Although this is intended only as a rough guide, we estimate that each 1-yen appreciation against the dollar would have a negative impact of about 2.4 billion yen on net sales, 400 million yen on gross profit, and 800 million yen on ordinary profit.
Please explain the reasons for significantly lower anticipated profit in functional materials manufacturing in the fourth quarter segment profit forecast compared to the third quarter.	Fuel and raw material prices were expected to weaken this segment profit in the second half, but the impact in the third quarter was relatively moderate. For the fourth quarter, we have conservatively estimated this impact.
Can the gross profit ratio be expected to remain roughly the same next fiscal year?	We anticipate a higher consolidated gross profit ratio this fiscal year from yen depreciation in the first half and improved profitability from several projects nearing completion, but next fiscal year will begin without these positive factors.

2. Orders and market environment

Why will the U.S. ethylene plant construction project announced last November be recorded as order intake in the fourth quarter?	Because the contract signatory was the Group's U.S. subsidiary, which signed the contract with the client in the fourth quarter (October–December) of its fiscal year. The order intake will therefore be recorded in our fourth quarter consolidated financial statement.
Are there any projects for which you expect to receive orders in the fourth quarter?	As we work toward the order target of 840 billion yen, domestically we expect orders for large-scale pharmaceutical manufacturing facilities and an increasing number of maintenance projects. Overseas, we expect front-end engineering and design (FEED) and pre-FEED orders, including for LNG projects.
What is the outlook for next fiscal year’s orders?	Specific projects and order targets will be announced with full-year results in May.

	In view of trends, besides prospects for LNG projects, we expect to receive orders for sustainability projects (such as hydrogen/fuel ammonia and SAF) domestically and overseas, and in Japan, large-scale pharmaceutical manufacturing projects and specialty chemical projects.
Gas demand and prices were lower during the relatively warm winter. Has this affected investment among oil majors or national oil companies?	Investment by oil majors and national oil companies is guided by a regard for long-term demand trends. Thus, we do not believe that current conditions of gas demand or higher/lower prices directly affect these investment decisions.

3. Share repurchase

Please tell us the thinking behind the share repurchase and the likelihood of additional repurchases.	The Group positions shareholder return as a key management issue. This repurchasing decision was based on considerations including business outlook, cash flow, and sizable deposits received for projects completed the previous fiscal year. We cannot respond at present about additional repurchases.
Please tell us about the decision-making process for the share repurchase at this time in particular, which some might had impression that you are reluctant due to impact of the pandemic.	Group repurchasing decisions have never been reactionary. This decision was based on active discussions by the Board and was consistent with the shareholder return policy. Specifically, the repurchase decision was informed by progress in current large projects, steady orders, and a clearer business outlook.
Why did this take the form of a fully committed share repurchase?	A fully committed share repurchase was chosen to enable timely and reliable repurchase and shareholder return.
What was the rationale for the repurchase amount of 20 billion yen?	The additional 20 billion yen of shareholder return this fiscal year was determined after considering current and future cash flow conditions.

4. Other matters

What are your intentions in establishing JGC Corporate Solutions?	JCS enables us to consolidate business units in charge of corporate functions at JGC Holdings, JGC Corporation, and JGC Japan that were previously separate due to the holding company structure. We intend this to streamline management of operations such as human resources, finance, legal/contracting, and corporate IT. Meanwhile, each of the three companies will retain their strategic planning and promotion functions, allowing them to focus on their own strategic planning.
What are your intentions in establishing JGC Digital?	In expanding non-EPC business as targeted in our long-term management vision and medium-term business plan, we intend to provide more value-added services through the framework of JGC Digital, which will enable development and operation of relevant digital tools related to new business area.
Order backlog is steadily increasing. Do you expect the operations center in India to be effective in managing this?	The overseas plant market is likely to grow over the medium to long term. To remain responsive to this growth, and also to attain goals in our medium-term business plan, we view it as essential to expand Group EPC execution capacity. The operations center in India was established to this end. Although the center will be staffed by 250 employees in 2023, we do not expect to see results immediately.