May 11, 2023

JGC Holdings Corporation

Q&A from the Online Earnings Release Conference (held on May 11, 2023)

On Financial Results for FY2022 Ended March 31, 2023

This content is based on information available on the date of the online earnings release conference (May 11, 2023).

1. Orders received, market environment

Question	Answer
Although there are ample opportunities in the EPC market, plant costs are said to be higher due to rising prices and other factors, and customers are said to have stricter requirements. What is the JGC Group's stance on the orders you pursue?	We believe it is important to assess the risks inherent in each project. Many LNG projects can be found in the U.S., for example, where we also see many plant construction projects outside the LNG sector. But here, there is a tendency toward sharply higher labor costs and longer construction periods. There are also LNG projects in the Middle East and elsewhere, although we do not expect to secure all of the LNG projects reported. Essentially, we are selective about the orders we pursue, and we consider both the risks and how we will use our resources. Moreover, we expect that EPC projects for fuel ammonia, hydrogen, and SAF will finally appear from the end of FY2023 through FY2024. These new areas represent future engines growth for the JGC Group, and we will be securing internal resources for them as we work to establish this business.
Overseas, the order target in FY2023 is 620 billion yen overall, but how would you describe the scale of individual projects?	For our LNG projects in the Middle East, we expect individual projects to be in the range of 200–300 billion yen, and LNG projects elsewhere lie in a range of 100–200 billion yen.

The domestic SAF demand outlook makes it likely that many future SAF plant construction projects will involve EPC services. How can the JGC Group be competitive in SAF projects?	Japan's Ministry of Land, Infrastructure, Transport and Tourism estimates that domestic SAF demand will grow significantly, reaching approximately 1.71 million kiloliters by 2030, and steady progress in plans to build SAF plants here that will use various feedstocks is being made by multiple companies (mainly Japanese oil wholesalers), several of whom have approached the JGC Group. The fact that an array of feedstocks will be used for SAF gives us a competitive advantage from our unmatched refining and chemical technologies. Moreover, refining and chemical technologies and resources of both the JGC Group and Toyo Engineering Corporation will be combined through an alliance agreement concluded in April, providing a competitive edge in FEED and EPC services for domestic SAF plants.

2. FY2023 earnings forecast and progress of medium-term business plan

Question	Answer
Please tell us about the FY2023 earnings forecast sensitivity to forex rates.	As a reference estimate, each 1-yen change against the US dollar would affect sales by 4 billion yen, gross profit by 600 million yen, and ordinary profit by 1 billion yen.
Might we see improvement in the gross profit ratio of 8.5% stated in the FY2023 earnings forecast, as the year progresses?	The gross profit ratio projected for FY2023 reflects an increase in fixed costs, such as for improvement of employees' compensation. Suppose excluding this, the forecast would have been consistent with the initial forecast for FY2022, at about 9%. This ratio may improve if we see gains in profitability for ongoing projects, as happened the previous fiscal year, because such gains were not factored in the forecast.
Projected SG&A expenses for FY2023 are unchanged from	In FY2022 results, the provision of allowance for doubtful accounts was

FY2022 results, despite higher fixed costs and other factors. Why is this?	included in SG&A expenses. Although the provision was a one-time charge not reflected in the SG&A expense forecast for FY2023, the forecast is nearly the same due to the expected increase in fixed costs. It is realistic to expect SG&A expenses to increase.
In contrast to FY2023 operating income projected as 38 billion yen on page 12 of the Business Overview, you have mentioned that the underlying value of operating income may be 45 billion yen. What is the basis of this difference of 7 billion yen?	This reflects roughly 7 billion yen of downward pressure, representing the total of both the impact of increased fixed costs (such as increased personnel expenses from improvement of employee compensation and increased operating expenses associated with DX, etc.) on current project profitability and the impact of declining market conditions on functional materials manufacturing segment. Both impacts are temporary. The increase in fixed costs such as personnel expenses will be included in future project estimates, and we are also likely to see a recovery in the functional materials manufacturing market by 2024. We therefore believe that the downward pressure on projected operating income in FY2023 would be gradually eliminated as we approach 2025. For this reason, an underlying value of 45 billion yen was mentioned for operating income forecast. This value suggests consistency with the 60 billion yen in operating income targeted by the final year (FY2025) of the medium-term business plan.
Based on the FY2023 earnings forecast, what is your view regarding the 800 billion yen sales target to be met by FY2025 under the medium-term business plan, as mentioned on page 12 of the Business Overview?	In total engineering, we may see higher sales, considering the favorable market environment recently, orders received up to the previous fiscal year, and order targets for FY2023. Although functional materials manufacturing sales will level off in FY2023 on lower demand for products used in semiconductor manufacturing equipment, there will be no change in the medium- to long-term growth trend. These conditions suggest a greater possibility of surpassing the sales target for FY2025.
With ample cash and deposits on the balance sheet, what is the likelihood of future share repurchases?	Some significant factors for last year's increase in cash and deposits were temporary. Although progress was made in large projects as accelerating procurement work, there are significant growth of accrued payables to

	manufacturers and others. Moreover, funds must be applied for several tens of billions of yen in strategic investment that has already been decided and is awaiting the optimal timing for investment. The Group may once again consider share buyback if additional payout becomes possible based on factors such as the medium- to long-term cash flow outlook, the market environment, and the outlook for project orders.