

Taikisha Ltd. FY2024 Financial Results Briefing for  
analysts and institutional investors (online conference)  
Main Q&A session

Date and time : 21 May 2025, 13:30~15:00

Attendees :

Masashi Osada, President Corporate Officer.

Yasushi Nakajima, Executive Vice President Corporate Officer.

Masanori Nakagawa, Chief Executive, Corporate Planning Headquarters.

Seiji Takeshita, Chief Executive, Administrative Management Headquarters.

Tadashi Sobue, Chief General Manager, Green Technology System Division.

Yukinori Hamanaka, Chief General Manager, Paint Finishing System Division.

**Details of Growth Investments and Outlook for Their Contribution to Revenue**

Questioner 1: I would like to confirm to what extent the growth investments in the Mid-Term Business Plan will affect selling, general and administrative (SG&A) expenses in the short term, and when they are expected to start contributing to revenue.

Respondent (Chief Executive, Corporate Planning Headquarters.): In the past, we only disclosed a rough breakdown of investments. However, under the current 10-Year Plan and Mid-Term Business Plan, we have categorized growth investments of 38 billion yen into four areas: “business growth investment,” “capital allocation,” “digital growth investment,” and “human capital investment for growth.” And we have disclosed the specific allocation of the amounts to these categories over three years.

Capital allocation (22 billion yen) is centered on capital expenditures in North America, Japan, and India. They are recorded as assets as they are medium- to long-term investments that will take time before generating actual cash.

On the other hand, business growth investments (6.5 billion yen), such as R&D and the implementation of new technologies, include initiatives that may lead to immediate profits and those that will require time.

Digital growth investments (7 billion yen) include BIM, DX investment, promotion of AI utilization, global communication, and digitalization of procurement. We will accelerate the execution of specific strategies by establishing five specialized subcommittees under the Digital Strategy Committee aimed at advancing the digital strategies. The total investment amount is the accumulation of individual

investments across the five subcommittees over the three-year period.

Lastly, regarding human capital investments of 2.5 billion yen for growth, expenditures for acquiring specialized personnel both in Japan and overseas and, particularly, for training digital and global talents are categorized as growth investments expected to generate future cash flows, and are allocated separately from regular personnel expenses.

Aside from such growth investments, there are infrastructure investments (3.5 billion yen), which are the costs of implementing new core systems at our overseas affiliates, and about one-third of the amount is expected to be incurred in the first year.

These are the total amount of investments for the three years.

Page 9 of the financial results briefing materials (Breakdown of Fluctuation in Ordinary Income Forecasts) shows the increase in SG&A expenses of minus 3.66 billion yen. This is the major reason for our ordinary income's projected decline in FY2025, while our competitors are expecting higher sales and income. In FY2024, our actual ordinary income reached a record high of 19.9 billion yen. We expect a further increase of around 2.8 billion yen in FY2027, driven by growth in net sales of completed construction contracts and improved gross profit. Nonetheless, in the first year of the new Mid-Term Business Plan, a 3.66 billion yen increase in SG&A expenses is expected, resulting in a projected ordinary income of 18.2 billion yen.

For this Mid-Term Business Plan, we worked backward from the goals to achieve by the end of the 10-year period, and concluded that a fundamental overhaul of our traditional business model was necessary. Upfront costs are booked to address challenges through digital, R&D, and human capital investments, resulting in a increase in SG&A expenses.

The impact of these investments is unlikely to appear in cash flows immediately, and it is difficult to envision achievements within the plan period. However, we aim to achieve an ROE of 11 to 12% or higher in 6 to 10 years. By working to improve profitability and investment efficiency, as well as expanding our business scale, we anticipate improved cash flows in the next few years. Although a short-term comparison with our competitors appears unfavorable to an extent due to our front-loaded investments in the first three years, we ask for your understanding that these are necessary expenditures to achieve our long-term goals.

Questioner 2: Of the 38 billion yen in growth investments, the remaining 16 billion yen, after excluding 22 billion yen in capital allocation, will not entirely be recorded as SG&A expenses, but about 4 billion yen of the amount is expected to increase SG&A during FY2025. SG&A expenses are expected to be offset by the current favorable business environment and improved gross profit. The decision was to execute necessary upfront investments at this time, aiming for growth over the next 5 to 10 years. Am I correct in understanding that while the initial year's burden is significant, you would like us to make

assessments from a medium- to long-term perspective?

Respondent (Chief Executive, Corporate Planning Headquarters.): As you understand, we take a conservative stance on the expected figures from the current upfront investments that will lead to improved productivity and higher revenue in the future. Therefore, when these effects materialize, we believe profits will exceed the expected figures. Currently, our ROE target is based on this conservative revenue forecast.

### **The Impact of Trump Tariffs**

Questioner 1: Could you share your view on the impact of the tariff issue. In particular, there are concerns about the impact on the automotive industry, potentially affecting U.S.-related businesses and, more broadly, the semiconductor industry as well. Please tell us whether any impact has been confirmed at the moment as well as your outlook going forward.

Respondent (Chief Executive, Corporate Planning Headquarters.): While there were a series of remarks by President Trump during the formulation of the medium- to long-term plan (late March to April), we recognize from a decade-long perspective that geopolitical risks have a greater impact than tariffs; therefore, the effect of tariffs was not factored into the plan. On the other hand, the medium-term three-year plan, especially the current order forecast (362 billion yen), reflects the latest customer trends we have grasped as of now, and we believe it is very accurate. As there is a possibility of an impact depending on future Japan-U.S. negotiations, further details will be provided by the two business divisions.

Respondent (Chief General Manager, Paint Finishing System Division.): Due to the uncertain impact of tariffs on the automotive industry, we have been utilizing Delivered at Place (DAP) contracts in recent projects to eliminate tariff risks. Although some automakers in the U.S. are trying to expand local production, many are deferring final decisions. We will continue to closely monitor future developments.

Respondent (Chief General Manager, Green Technology System Division.): The Green Technology System Division operates both in Japan and overseas, but at present, no significant delays have occurred in semiconductor-related projects in Japan. However, the future is still uncertain. Regarding overseas projects, while there has been no impact on semiconductor-related projects, there are some non-semiconductor projects that may be delayed or suspended depending on customer decisions, making it difficult to make a judgment.

Questioner 2: How is the impact of President Trump's tariff policy factored into your business plan for FY2025? Are you being a little conservative in terms of orders? Is the current impact of Trump tariffs not factored into the business plan at all?

Respondent (Chief General Manager, Paint Finishing System Division.): I will address this mainly from the perspective of the Paint Finishing System Division, which may be significantly affected in North America. In current contracts, we have separated the tariff impact from the contract scope and already negotiated with our customers in that regard to avoid tariff risks. Moreover, some automakers have postponed or are reconsidering their investment plans in North America, and these developments have been factored into the figures of the new Mid-Term Business Plan. In addition, we have secured a large-scale project in the European market, and these are reflected in our plan.

Respondent (Chief General Manager, Green Technology System Division.): As for the Green Technology System Division, we have not heard of any significant impact from the Trump tariffs either in Japan or overseas. Therefore, the impact has not been factored into our plan.

### **Specific Initiatives for Business Growth**

Questioner 1: Regarding the growth businesses presented in the 10-Year Plan, I believe areas such as industrial HVAC for non-Japanese customers and automation have seen slower expansion so far. What specific initiatives will be implemented to drive growth in those areas? And how will the initiatives differ from those of previous Mid-Term Plans?

Respondent (Chief Executive, Corporate Planning Headquarters.): In the 10-Year Plan, we are restructuring the business portfolio by categorizing it into core, growth, and new businesses, as well as by market and region, rather than dividing it by business division. We aim to expand growth areas by overcoming existing organizational boundaries, prioritizing synergies involving peripheral areas, and collaboration between the two divisions.

Respondent (Chief General Manager, Paint Finishing System Division.): Our strength lies in industrial areas and global expansion. Although some may suggest that we should focus on increasing profits through the currently booming building HVAC market in Japan, we believe that domestic demand will not continue indefinitely from a long-term perspective. We are promoting smartification of factories by integrating industrial HVAC systems, which precisely control manufacturing environments, with factory automation technologies of the Paint Finishing System Division. We plan to focus on growth

areas such as the battery field and build a foundation for them over the medium to long term.

Respondent (Chief General Manager, Green Technology System Division.): As for the Green Technology System Division, we established the ASEAN Management Dept. to expand our non-Japanese customer base, and are leveraging our Singapore base to strengthen business operations across Asia. We also aim to increase orders for non-Japanese semiconductor plants by deepening partnerships with Taiwanese companies. In North America, the two divisions are working together technologically, aiming to expand new businesses in the battery field.

### **Current Status and Growth Potential of the Dry Decoration System**

Questioner: I would like to ask about the new businesses outlined on page 13 of the materials (Our Philosophy on Business Growth). Regarding dry decoration in particular, while the total sales from new businesses as a whole are projected at 2 billion yen for FY2027, I expected dry decoration to grow more within the mid-term plan period. Please tell us about the actual situation and upside expectations.

Respondent (Chief General Manager, Paint Finishing System Division.): We introduced a demonstration line at our technical center in Zama last year and have received many test requests not only from Japanese OEMs but also from Korea and the U.S.

However, whether dry decoration will become established as a new technology in the automotive market depends on whether automotive manufacturing methods change similarly to those used by U.S. EV makers.

This year will be crucial, as Japanese OEMs are beginning to follow the production methods of U.S. manufacturers, and we are currently responding to quote requests in line with the introduction of new EV factory layouts.

Although results beyond expectations could be realized if progress is made, with the current uncertainty, we are using conservative figures in our plan.

### **Current Status of the Paint Finishing System Business in Europe, and Details of and Outlook for a Large-Scale Project**

Questioner 1: It appears that you've secured the order for a large-scale project as part of your re-entry into Europe. Could you tell us the scale of the order, developments in Europe, and your outlook going forward?

Respondent (Chief General Manager, Paint Finishing System Division.): In July last year, we

established a subsidiary in Germany and secured a large-scale order worth tens of billions of yen from European automakers. We formed an alliance with an experienced equipment manufacturer, which enabled us to win the order as the main contractor. Going forward, we will need to take on the part currently handled by the alliance partner. Therefore, we will enhance our German subsidiary, including its human resources, which will involve upfront investments, making costs front-loaded. While performance is expected to decline slightly in FY2025 and FY2026, we anticipate the contribution from these investments to performance will start to materialize thereafter.

Questioner 2: You said that you expect megaprojects in both the Paint Finishing System Division and Green Technology System Division for this fiscal year. Does the megaproject of the Paint Finishing System Division refer to the project in Europe?

Respondent (Chief General Manager, Paint Finishing System Division.): Orders-received in the Paint Finishing System Business were around 100 billion yen in FY2024, and we are projecting a significant increase for FY2025. This is due in part to the project in Europe.

#### **Philosophy on Profitability Planning for Both Divisions**

Questioner 1: Could you explain the profitability outlook for the Green Technology System business in FY2025? Considering the situation at other companies, the profitability at the time of order acceptance appears favorable. Isn't it the case that there shouldn't be a decline in profitability compared with the previous year? Is there an upward potential similarly to FY2024? Furthermore, in FY2024, despite incurring costs in North America, the Paint Finishing System business still achieved a 4% profit margin. Taking that into account, the FY2025 plan appears to be different than the base that excludes those costs. I would also like to know about the concept of this plan.

Respondent (Chief General Manager, Green Technology System Division.): This fiscal year will see the completion of two to three large projects, and the profits from these are reflected in the plan. Further profit improvement can be expected, but due to uncertainties, such upside is not factored into the plan at the moment.

Respondent (Chief General Manager, Paint Finishing System Division.): Last year, we had unprofitable projects in North America. However, we were able to secure ordinary income through an overall increase in project completions and recovery in the Japanese market. In FY2025, contribution from a large-scale European project will materialize from the following fiscal year. We are also incurring costs related to infrastructure development and DX as part of strengthening our management

foundation for growth investments. As a result, performance is expected to decline slightly. Growth investments are aimed at building a management foundation capable of supporting our global strategies over the next ten years, which is more costly than reinforcing the domestic foundation alone. We are not taking a conservative view of our performance. We will strive for an upward swing.

Questioner 2: As a follow-up on the Green Technology System business, could you explain whether the same factors that led to the upward swing against plan in FY2024 could also occur in FY2025?

Respondent (Chief General Manager, Paint Finishing System Division.): In FY2024, we were able to significantly improve profitability on a specific project at the end of the fiscal year. As the nature of each project varies, it is difficult to say whether a similar increase will occur this time as well.

《Precaution》

The contents of this material are the views of the company, summarized from the question-and-answer session of the financial results briefing and based on the judgement on the announcement date and the available information.

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