Ebara Corporation FY2018 Earnings Conference Main Q&A

<Summary of Q&A during earnings summary conference held on February 14, 2019>

FY2018 Summary of Results

Q: What temporary factors caused the decrease in income recorded for FY2018? Will those factors impact FY2019?

A: This is mainly due to malfunctions that affected the FMS business, S&S projects that were postponed until next fiscal year increase in provision for loss-making orders, and confusion due to plant consolidation. There will be no impact on FY2019.

FY2019 Full-year Forecast - Oil and Gas Market

Q: What is the status of the oil and gas market? With the rapid drop in crude oil prices at the end of CY2018, what is your outlook for the pumps business and the CT business this fiscal year?

A: The general sentiment is that the oil and gas market is on a recovery trend. Customers receiving deliveries of compressors and turbines are mainly ethylene plants so there has been no direct impact caused by the drop in crude oil prices.

Like the previous fiscal year, we forecast that FY2019 will see continued recovery. We also forecast that the CT business will see increased orders and sales. We forecast S&S will see firm orders and sales mainly on field services. Custom pumps have a shorter lead time than compressors and turbines so customer orders tend to come after orders for compressors and turbines. As such, orders began recovering in 4Q/FY2018. For FY2019, we are forecasting increased net sales on new orders during the fiscal year.

On the oil and gas market, we expect to see investments conducted by China, India, and the USA.

Q: The FY2019 plan calls for a significant increase in CT business sales. What are your growth projections for products and sales each?

A: Increased order backlog will result in increased sales, mainly for products.

Q: I would like to confirm the operating income margin for the CT business for FY2019. During the period between 2012 and 2014, when sales were strong, the operating income margin exceeded double digits. The forecast for FY2019 sales is largely unchanged from that period but the operating income margin is lower. What has changed compared to five years prior?

A: The competitive environment has changed significantly. The main market for our CT business is the downstream oil and gas market. Stagnant recovery of the upstream market is driving manufacturers to engage in the downstream market. Also, pricing competition has greatly intensified since the market began to recover from a long period of decline. Even amid such conditions, we will continue steadily conducting activities to increase income by improving productivity and reducing costs at plants.

FY2019 Full-year Forecast - FMS Business

Q: What factors back your forecast for increased operating income from the FMS business in FY2019?

A: Firstly, is that temporary factors causing decreased income during the previous fiscal year have been eliminated. This accounts for approximately half of the forecast increases for this year. The other half is due to forecast increases mainly in the pumps business. Specifically, we forecast increased sales and income for standard pumps in Japan and overseas. We also forecast sales and sales of custom pumps will increase on increased orders of products and after-market services for the oil and gas market between the end of last year and this fiscal year.

Q: Will fixed costs increase in FY2019?

A: We forecast fixed costs will increase primarily in the pumps business.

FY2019 Full-year Forecast - PM Business

Q: The FY2019 plan for the PM business outlines a higher volume of orders for components and CMP in the first half. The normal market outlook is for orders to decrease significantly in the first half and recover in the second half. Can you explain how you have devised this plan?

A: Fluctuations in the timing of orders and sales will vary depending on the product. Our full year plan is based on the higher sales targets for the first half because of a large order backlog at the start of the fiscal year. This creates an appearance that second half sales will slow down.

About Acquisition of Treasury Shares

Q: I would like to confirm your share buyback approach. Why did you set the total number of acquirable shares to 7.0% of the total number of shares issued (excluding treasury shares)?

A: This acquisition of treasury stock is merely a balance sheet adjustment. We set necessary capital as the equivalent of two months' worth of monthly sales. However, as growth investments are somewhat delayed, we have accumulated cash above that level. We decided on this share buyback because an evaluation of current fiscal year cash flows indicates we can maintain necessary capital as the equivalent of two months' worth of monthly sales.

About the Medium-term Management Plan

Q: The Medium-term Management Plan outlined a goal of 11% or higher operating income margin for the CT business but you forecast is not achieving this goal for the final fiscal year of the plan. Can you achieve this goal over the next three-year period?

A: The market is currently recovering but operating income margin level from product at the time of order is important factor for the recovery of the profitability of CT business. As such, we forecast this recovery will take a little time. Whether or not we can achieve 11% or higher in the short period of 2 or 3 years will be a major point of evaluation when we create our new Medium-term Management Plan.

On the other hand, we can improve profitability through internal efforts policies. Promoting such initiatives will be worked into the Medium-term Management Plan.