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[Title]

HIRANO TECSEED's Reports a YoY Increase in Both Net Sales and Operating Income, Contributed by Fulfillment of Order Backlog, Expansion of Supplementary Work, and Negotiations with Some Customers on Cost Transfers

[Lead]

This is a transcription of the November 27, 2024 presentation of HIRANO TECSEED Co., Ltd.'s second quarter results for the fiscal year ending March 31, 2025.

[Speaker]


Kaoru Okada, President and Representative Director, HIRANO TECSEED Co., Ltd.

- Company Profile and Business Model Characteristics
- Results Highlights
- 2Q FY2024 Results
- 2Q FY2024 Results by Segment
- FY2024 Outlook
- Appendix

Kaoru Okada (hereinafter Okada): Thank you very much for taking the time out of your busy schedules to attend our financial results briefing for the second quarter of FY2024. I am Kaoru Okada, President and Representative Director of HIRANO TECSEED Co., Ltd.

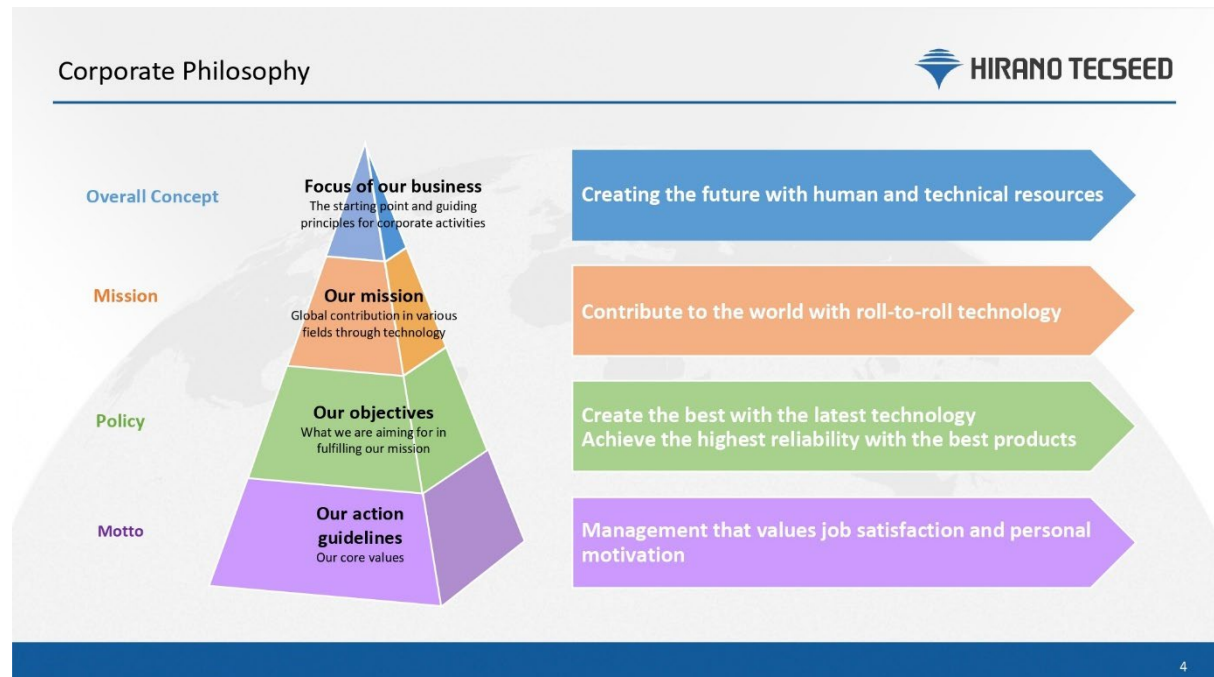
Today, I will speak along the agenda outlined on the slide. I will begin with an overview of our company profile and the characteristics of our business model, followed by an explanation of the results for the second quarter of FY2024 and an outlook for the future.

Company Profile

Company Profile		
Company Name	HIRANO TECSEED Co., Ltd.	
Representative	Kaoru Okada, President	
Paid-in Capital	¥1,847,821,000 (as of end-September 2024)	
Headquarters	101-1, Kawai, Kawai-cho, Kitakatsuragi-gun, Nara Pref. 636-0051, Japan	
Group Companies (wholly-owned)	• HIRANO GIKEN KOGYO Co., Ltd. • HIRANO K&E Co., Ltd., HIRANO AMERICA, INC.	
Number of Employees	Consolidated: 419 (Parent 319) (as of end-September 2024)	
Securities Code	6245 (Industry: Machinery)	

Here is our company profile. There have been no significant changes since the first quarter.

Corporate Philosophy



Here is our corporate philosophy. Since our founding in June 1935, we have developed into a BtoB company that can provide customers with high-value-added manufacturing machinery based on the overall concept of “Creating the future with human and technical resources.”

Based on our mission of “Contribute to the world with roll-to-roll technology,” we will continue to expand our activities globally in various market fields.

Basic Technologies of the Hirano Group

Basic Technologies of the Hirano Group



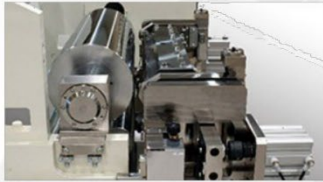
Coating Technology



Drying Technology



Feeder Technology



Formation of a thin and uniform liquid coating on the surface of all types of material, including paper, plastic film, and metal foil



The liquid film coated on the material is fixed and transformed into a functional material



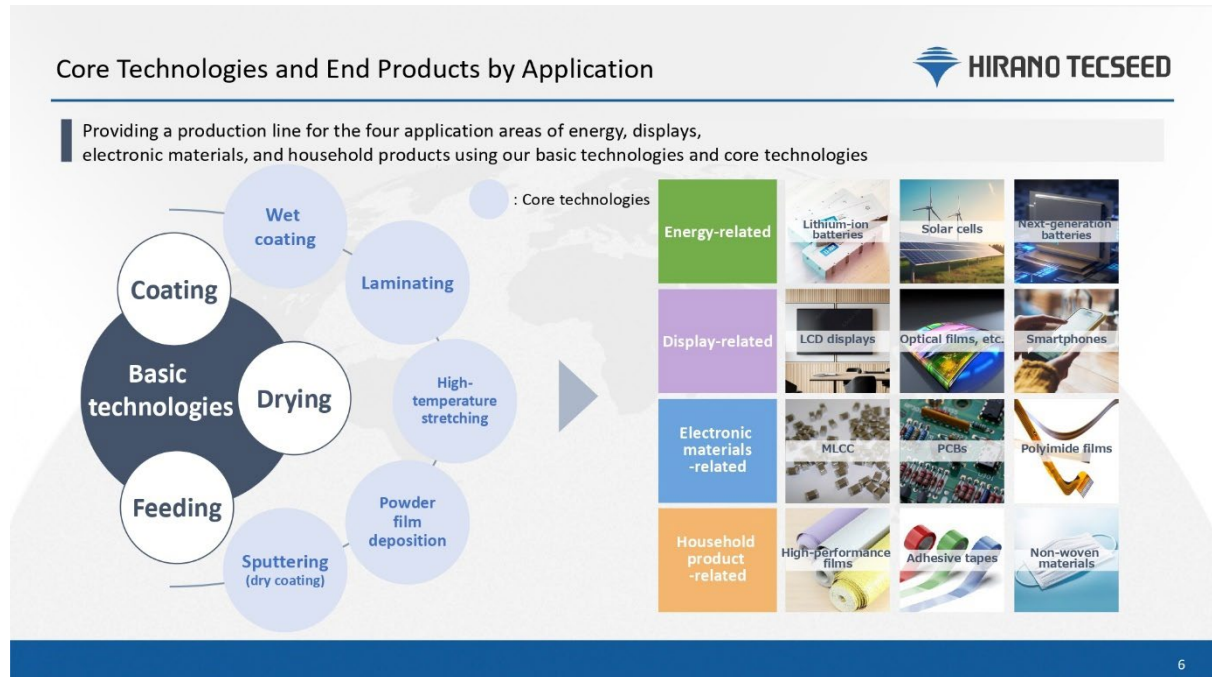
Precise control and stable mass production using a series of processes for unwinding, feeding, and rewinding thin materials without damaging them

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The Hirano Group possesses three basic technologies honed through the “roll-to-roll” technology as stated in our mission as part of our corporate philosophy.

Let me briefly explain each of them. “Coating” refers to a technology that forms a high-precision, micron- or nanoscale coating on all kinds of materials, such as paper, plastic film, and metal foil to add more value to the material. “Drying” refers to a technology that uses heat and wind to fix the coating on all kinds of base materials. “Feeder” refers to a technology that stably conveys coated materials without damaging them.

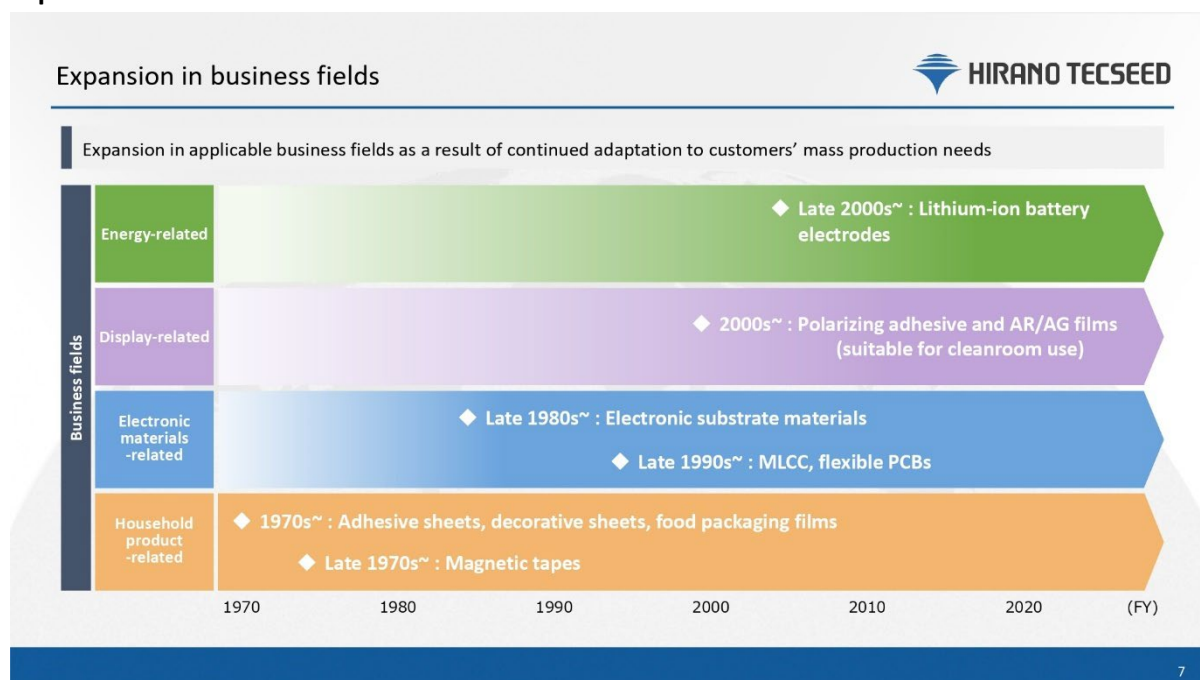
Core Technologies and End Products by Application



This slide shows our core technologies and end products by application. By combining our core technologies, such as wet coating and laminating, with the basic technologies I have just explained, we provide a production line for the four application areas: energy, displays, electronic materials, and household products.

Our production lines are used in a variety of manufacturing sites to produce items ranging from LCDs and other displays you see every day and adhesive tapes, to electronic components such as lithium-ion batteries and capacitors.

Expansion in Business Fields



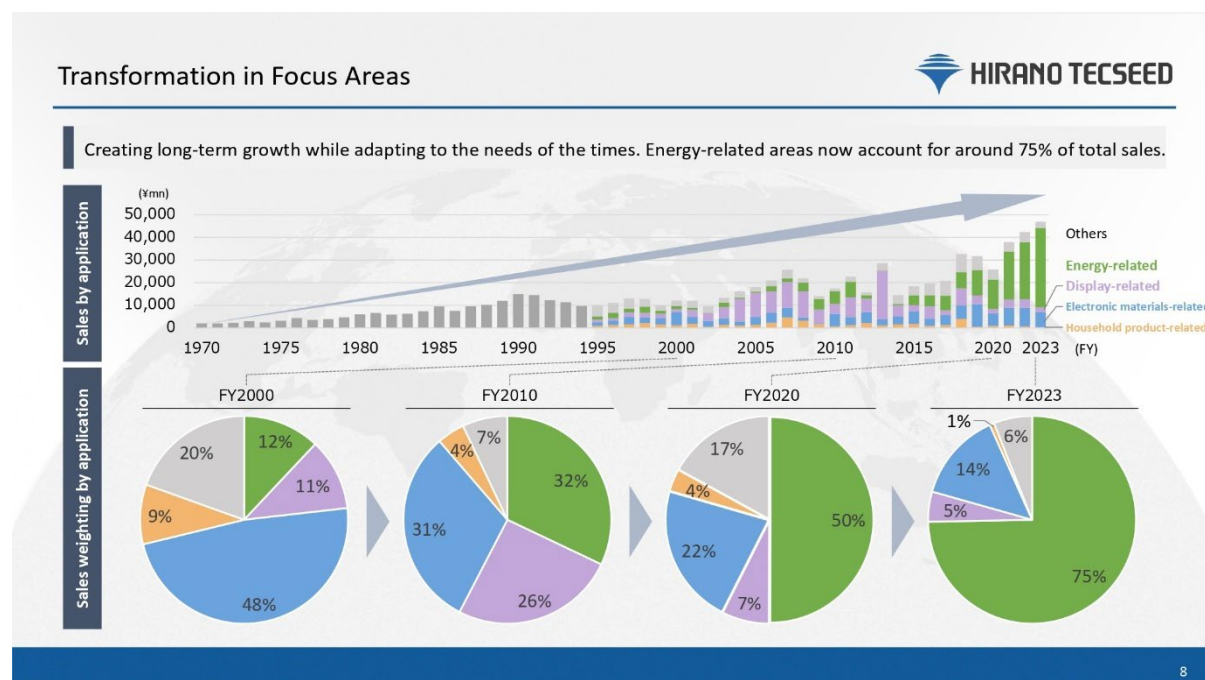
As a result of our continued effort to adopt to customer's needs for mass production, our production lines are now being used in a wide range of manufacturing sites.

In the 1970s, our main business fields were related to household products such as adhesive sheets and cassette tapes, video tapes and other magnetic tapes. Then, we expanded into the electronic materials-related field, providing products for electronic substrate materials in the late 1980s, and for multilayer ceramic capacitors (MLCCs) and flexible printed circuit boards (PCBs) in the late 1990s.

In around 2000, we expanded into the LCD-related field, providing products mainly for polarizing adhesive films for cleanrooms. In the late 2000s, we expanded our business into the energy-related field, providing products mainly for lithium-ion battery electrodes.

As such, we have expanded into various business fields for the sake of fulfilling our customers' needs. Our expansion has been driven by our mission to enable cost reductions that contribute to enriching people's lives worldwide by supplying high-quality components with speed and stability through the "roll-to-roll" technology.

Transformation in Focus Areas



We have expanded our business fields as I mentioned earlier. However, we have not allocated resources equally to each business field. We have achieved long-term growth by adapting to the market environment at each of the times and shifting our focus.

Let me explain the recent specific changes. In FY2000, the energy-related field accounted for 12% of total sales, display-related field 11%, electronic materials-related field 48%, household product-related field 9%, and others 20%.

In FY2023, the energy-related field accounted for 75%, display-related field 5%, electronic materials-related field 14%, household product-related field 1%, and others 6%.

This is the result of our efforts to focus on, and meet the needs of, the energy-related field in response to the rapid expansion in demand for lithium-ion batteries as a result of the shift to electric vehicles (EVs) in the global trend towards decarbonization.

As you know, the market related to lithium-ion batteries is currently soft. While keeping a close eye on the market environment, we will also continue to diversify our revenue sources to achieve sustainable growth.

I will explain the details of the market environment later in the section of the results of the second quarter of FY2024 and future outlook.

Initiatives for Development of Next-generation Markets: Technicum

Initiatives for Development of Next-generation Markets: Technicum



▲ Universal Coater P-FF

▲ Hybrid Coater

Our research and development facility (Technicum) is a place that

takes on the challenge of new technological development along with customers.

Technicum has been involved in the development of numerous mass-production technologies for high-performance materials, including intermittent coating technology for lithium-ion batteries.



▲ Multicoater M-200DL



▲ Sheet Forming Multicoater M-600SF



▲ Lithium-ion Battery Electrode Coater R-800DB

Let me introduce our initiatives to develop next-generation markets. Aiming for the establishment of mass-production technologies for high-performance materials, we are conducting research and development in collaboration with leading companies in the world at our research and development facility, Technicum. Technicum is equipped with testing machines designed for developing mass production machines and for making prototypes of various materials, including those for lithium-ion batteries and MLCCs (green sheets).

In addition, as announced in our press release this September, we are currently conducting study on coating technologies for perovskite. Regarding future initiatives related to perovskite, we plan to unveil detailed specifications of the coating facilities and commence order-taking activities in January next year. We intend to showcase a commercial model machine at an exhibition to be held in January 2026. The first perovskite testing machine is expected to be delivered in May 2026. We will provide updates on progress as new information becomes available.

This concludes my explanation of the company overview and the key characteristics of our business model.

Results Highlights

Results Highlights				HIRANO TECSEED	
2Q FY2024 results				FY2024 earnings forecasts	
	2Q FY2024	YoY	Full-year forecast achievement rate	Forecasts	YoY
Net Sales	24,388 mn	+9.1 %	55.4 %	44,000 mn	-6.3 %
Operating Income	1,024 mn	+33.1 %	35.3 %	2,900 mn	-10.4 %
Operating Income Margin	4.2 %	+0.8 pts	—	6.6 %	-0.3 pts
Topics					
2Q FY2024 results	✓ Net sales and operating income up YoY on progress working through order backlog and supplementary work despite the impact of changes in customers' capex plans resulting from slower growth in the EV sector. Ongoing negotiations with some customers on cost transfers also contribute to 2Q sales and income growth.				
	✓ Operating income forecast achievement rate only 35.3%, in part due to stubbornly high materials prices and rise in outsourcing costs for medium- and long-term projects already booked as orders.				
FY2024 earnings forecasts	✓ Reiterate our initial FY2024 full-year forecasts				

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We will now move on to an explanation of the financial results for the first half of FY2024. Before diving into the details, I would like to highlight the key points of our performance in this quarter.

Net sales for the first half reached ¥24,388 million, up 9.1% YoY. While the slower growth in the EV sector led to changes in capital investment plans, net sales increased due to the fulfillment of the order backlog and the expansion of supplementary work.

Operating income landed at ¥1,024 million, up 33.1% YoY. Similar to the situation in net sales, the fulfillment of the order backlog and the expansion of supplementary work contributed to the YOY increase in profit. On the other hand, the achievement rate against the full-year earnings forecast was only 35.3%, in part due to persistently high material prices and the rise in outsourcing costs for medium- to long-term projects which were already booked as orders.

As for the full-year earnings forecast, there are no changes to the initial forecast for both net sales and operating income. Although the achievement rate for operating income remained at 35.3% for the first half, we have decided to maintain the forecast, taking into account the status of negotiations with customers on cost transfers and orders for supplementary work.

Overview of 2Q FY2024 Results

Overview of 2Q FY2024 Results



Overview of 2Q FY2024 Results

(Unit: ¥million)	2Q FY2023	2Q FY2024	Change	YoY(%)	FY2024 forecasts	Forecast achievement rate
	a	B	b-a	(b-a)/a		
Orders	6,696	18,567	+11,870	+177.3%	-	-
Net Sales	22,346	24,388	+2,042	+9.1%	44,000	55.4%
Gross Profit	3,030	3,433	+403	+13.3%	-	-
Gross Profit Margin	13.6%	14.1%	+0.5pts	-	-	-
Operating Income	769	1,024	+254	+33.1%	2,900	35.3%
Operating Income Margin	3.4%	4.2%	+0.8pts	-	6.6%	-
Ordinary Income	814	1,201	+387	+47.6%	3,000	40.0%
Ordinary Income Margin	3.6%	4.9%	+1.3pts	-	6.8%	-
Net Income	564	867	+303	+53.8%	2,100	41.3%
Net Income Margin	2.5%	3.6%	+1.0pts	-	4.8%	-

2Q FY2024 results overview

- ✓ Orders: Up 177.3% YoY on solid orders for supplementary work in North America despite the impact of weak electrode coating equipment orders resulting from slower growth in the EV sector.
- ✓ Net sales: Up 9.1% YoY in part on progress working through the order backlog. The majority of sales were from lithium-ion battery electrode coating equipment and supplementary work in the Coating and Laminating Machinery Segment.
- ✓ Operating income: Up 33.1% YoY in part on cost transfers via negotiations with customers. Full-year forecast achievement rate only 35.3% owing to sharply higher costs and cost increases from changes in delivery schedules and locations.

Here are the results for the first half of FY2024 and the situation in the second quarter.

Orders increased by ¥11,870 million YoY to ¥18,567 million. As mentioned earlier, this growth was primarily due to the steady progress of supplementary work in North America.

Net sales increased by ¥2,042 million YoY to ¥24,388 million. In terms of the composition of net sales, the majority was from electrode coating equipment for lithium-ion secondary batteries and supplementary work in the Coating and Laminating Machinery Segment.

Operating income increased by ¥254 million YoY to ¥1,024 million. I will explain the details of the factors behind profit increases and decreases by segment later.

2Q FY2024 Results by Segment

2Q FY2024 Results by Segment		HIRANO TECSEED			
(Unit: ¥million)		2Q FY2023	2Q FY2024	Change	YoY (%)
		a	b	b-a	(b-a)/a
Coating and Laminating Machinery Segment	Orders	3,580	16,126	+12,545	+350.4%
	Net Sales	18,227	20,629	+2,402	+13.2%
	Segment income* ¹	918 (5.0%)	1,364 (6.6%)	+445 (+1.6pts)	+48.6%
Industrial Machinery Segment	Orders	2,247	1,719	-527	-23.5%
	Net Sales	3,261	2,941	-319	-9.8%
	Segment income* ¹	504 (15.5%)	244 (8.3%)	-260 (-7.2pts)	-51.6%
Others, Adjustments	Orders	868	721	-147	-16.9%
	Net Sales	857	817	-40	-4.7%
	Segment income* ¹	47 (5.5%)	149 (18.2%)	+101 (+12.7pts)	+215.0%
Consolidated total	Orders	6,696	18,567	+11,870	+177.3%
	Net Sales	22,346	24,388	+2,042	+9.1%
	Total income from reporting segments	1,470	1,757	+287	+19.5%
	All-company costs	+700	+732	+32	+4.6%
	Operating Income* ² (%)	769 (3.4%)	1,024 (4.2%)	+254 (+0.8pts)	+33.1%

* 1 : Operating income equivalent to segment profit in the quarterly results report
* 2 : After adjustment for SG&A costs not assignable to any reporting segment

Here are the results of orders, net sales, and operating income for each segment.

For the Coating and Laminating Machinery Segment, orders increased by ¥12,545 million YoY to ¥16,126 million. Net sales increased by ¥2,402 million YoY to ¥20,629 million. Segment income increased by ¥445 million YoY to ¥1,364 million.

Next, for the Industrial Machinery Segment, orders decreased by ¥527 million YoY to ¥1,719 million. Net sales decreased by ¥319 million YoY to ¥2,941 million.

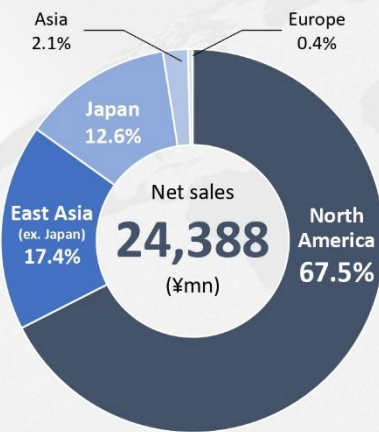
I will explain the details of the market environment and other factors affecting the performance of each segment later.

2Q FY2024 Net Sales Weighting/Order Backlog Weighting by Region

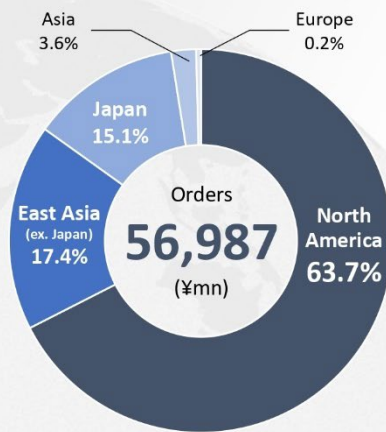
2Q FY2024 Net Sales Weighting/Order Weighting by Region



Net sales by region



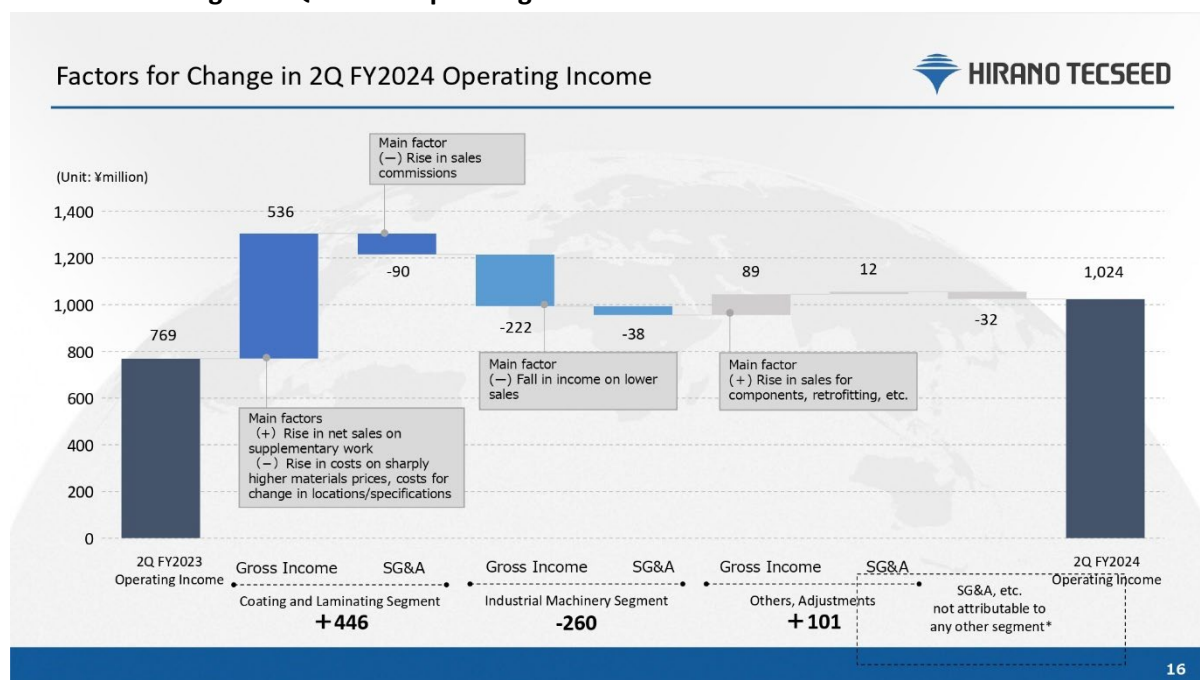
Orders by region



Let me explain the weighting of net sales and order backlog by region. For net sales in the first half of FY2024, North America accounted for 67.5%, East Asia excluding Japan 17.4%, Japan 12.6%, Asia 2.1%, and Europe 0.4%.

As for order backlog, North America accounted for 63.7%, East Asia excluding Japan 17.4%, Japan 15.1%, Asia 3.6%, and Europe 0.2%.

Factors for Change in 2Q FY2024 Operating Income



Here is a waterfall chart showing factors for YoY changes in operating income. The slide illustrates operating income for the first half of FY2024, that of the same period of the previous year, and the factors behind the changes.

Let me start with the Coating and Laminating Machinery Segment. While there were increases in costs due to rising prices of industrial materials and changes in locations and specifications, the rise in net sales from supplementary work resulted in a ¥536 million increase YoY in gross income.

In terms of selling, general, and administrative (SG&A) expenses, increase in sales commissions caused a ¥90 million decrease in operating income. Overall, the Coating and Laminating Machinery Segment saw an increase of ¥446 million in operating income.

Next, for the Industrial Machinery Segment, gross income decreased by ¥222 million due to a decrease in net sales. SG&A expenses also decreased operating income by ¥38 million, resulting in an overall decrease of ¥260 million in operating income for the Industrial Machinery Segment.

Another noteworthy factor was an increase in net sales from sales for components and retrofitting, etc. Taking all these into account, operating income for the first half totaled ¥1,024 million.

2Q FY2024 Balance Sheet

2Q FY2024 Balance Sheet



(Unit: ¥million)	End-FY2023		End-2Q FY2024	
	Value		Value	Change
Current Assets	49,639		50,458	+819
Fixed Assets	13,290		13,283	-6
Tangible Fixed Assets	7,511		7,557	+45
Intangible Fixed Assets	560		479	-80
Investments and Other Assets	5,218		5,246	+27
Total Assets	62,929		63,742	+812
Current Liabilities	22,965		23,634	+668
Fixed Liabilities	1,401		1,432	+30
Net Assets	38,562		38,675	+113
Equity Ratio	61.3%		60.7%	-0.6pts

Assets (vs. end-FY2023)

- Current Assets Up ¥819mn
- ✓ Accounts receivable and contract assets up ¥3,969mn
 - ✓ Advance payments up ¥1,172mn
 - ✓ Cash and deposits down ¥3,836mn
- Fixed Assets Down ¥6mn
- ✓ Tangible fixed assets up ¥45mn
 - ✓ Intangible fixed assets down ¥80mn
 - ✓ Investments and other assets up ¥27mn

Liabilities (vs. end-FY2023)

- Current Liabilities Up ¥668mn
- ✓ Procurement liabilities up ¥820mn
 - ✓ Short-term borrowings up ¥1,050mn
 - ✓ Advances collected down ¥1,161mn
- Fixed Liabilities Up ¥30mn

Net Assets (vs. end-FY2023)

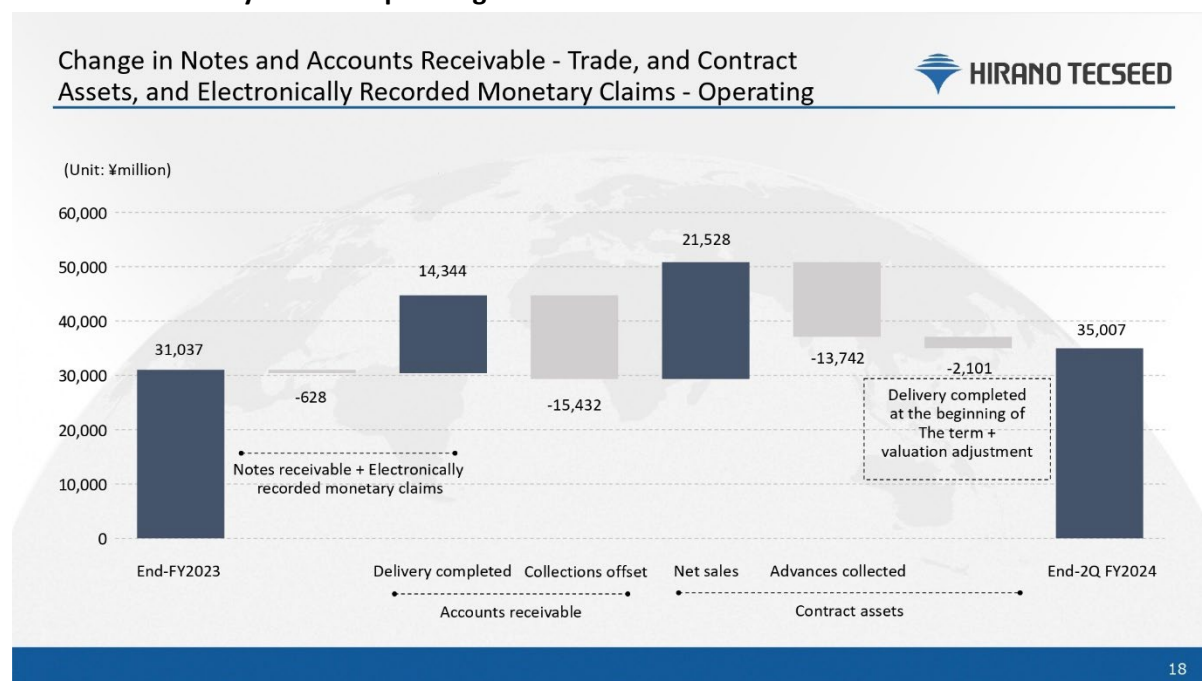
Net Assets Up ¥113mn

This is the balance sheet. First, I will tell you about assets. Current assets increased by ¥819 million YoY due to an increase in accounts receivable and contract assets and advanced payments. Fixed assets decreased by ¥6 million compared to the end of the previous fiscal year due to a decrease in intangible fixed assets, offset by an increase in tangible fixed assets and investments and other assets.

Next, I will talk about liabilities. Current liabilities increased by ¥668 million compared to the end of the previous fiscal year due to an increase in procurement liabilities and short-term borrowings.

As a result of the above, net assets for the current period increased by ¥113 million compared to the end of the previous fiscal year, and the equity ratio decreased from 61.3% at the end of the previous fiscal year to 60.7%.

Changes in Notes and Accounts Receivable - Trade, and Contract Assets, and Electronically Recorded Monetary Claims - Operating



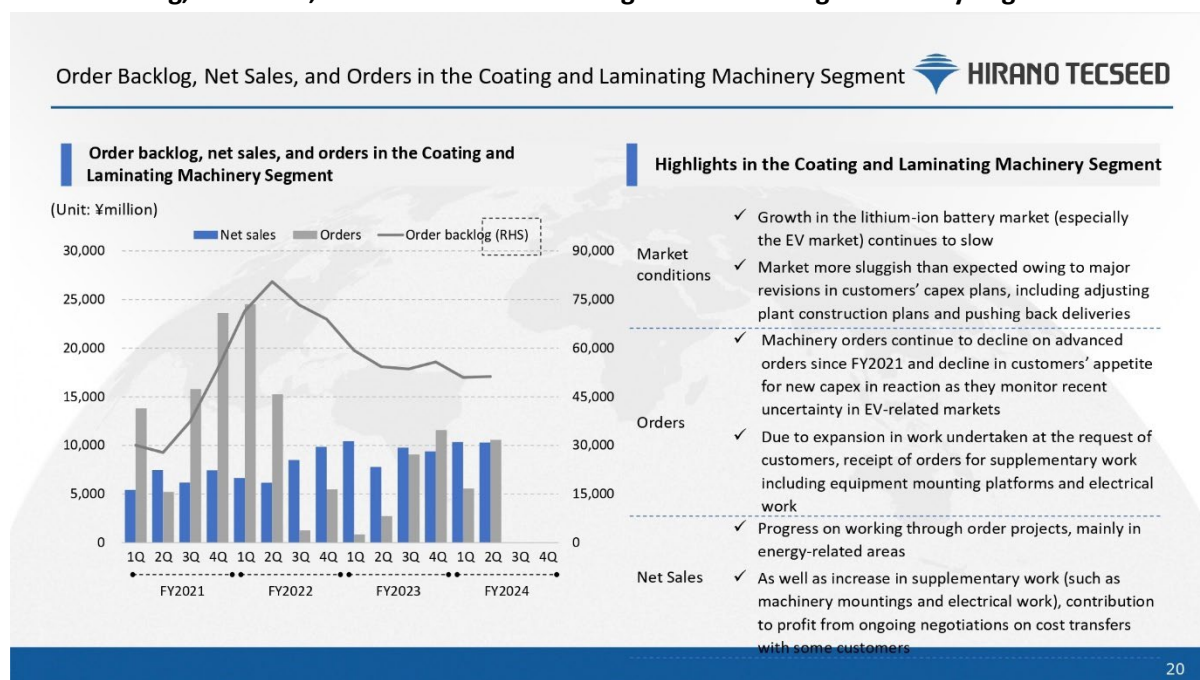
This slide shows a chart comparing the changes in notes and accounts receivable - trade, contract assets, and electronically recorded monetary claims - operating with the previous fiscal year's results.

Notes receivable and electronically recorded monetary claims – operating decreased by ¥628 million. Accounts receivable increased by ¥14,344 million due to completed deliveries, and decreased by ¥15,432 million due to collections.

Contract assets increased by ¥21,528 million due to the recording of net sales, and decreased by ¥13,742 million due to the collection of advance payments. They further reduced by ¥2,101 million due to deliveries completed at the beginning of the term and translation adjustment.

As a result of the above, accounts receivable and contract assets including electronically recorded monetary claims -operating as of the end of the second quarter of FY2024 amounted to ¥35,007 million.

Order Backlog, Net Sales, and Orders in the Coating and Laminating Machinery Segment



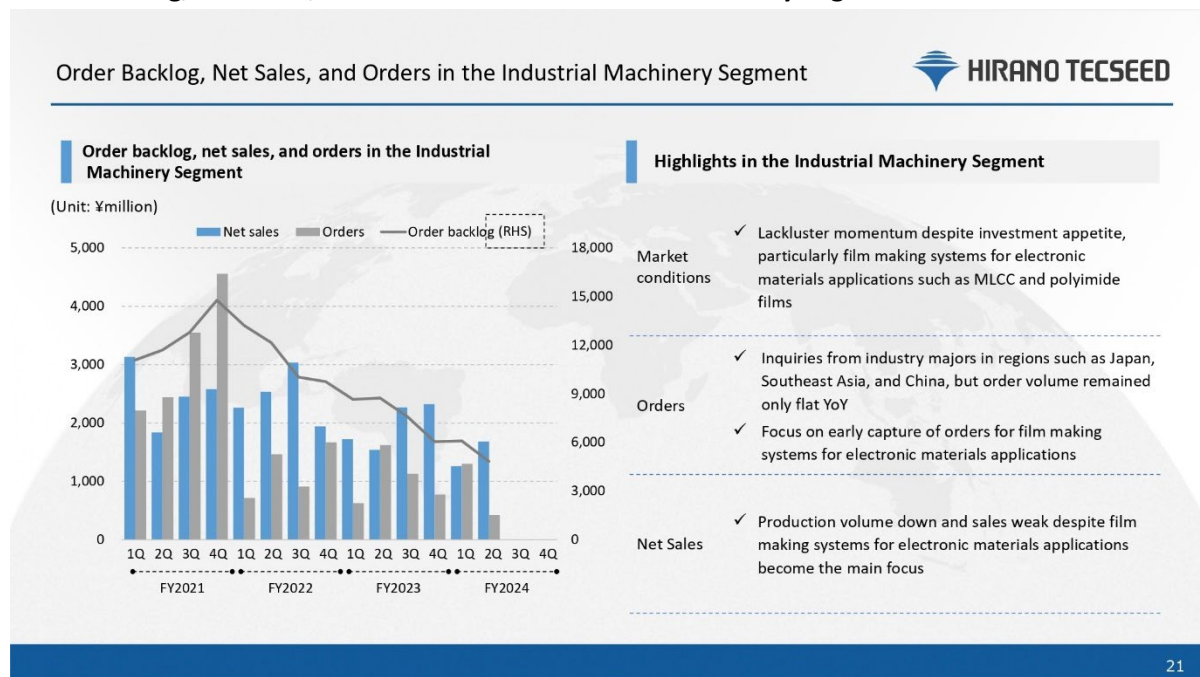
Let me explain the key topics for each segment.

First, I will talk about the Coating and Laminating Machinery Segment. In terms of market environment, slowdown in the lithium-ion secondary battery market, particularly for EVs, are continuing. We also see changes in capital investment, such as adjustments in plant construction plans and delays in delivery times.

In terms of orders, the market conditions have led to a decline in customers' appetite for new capital investment, resulting in a continued decline in orders for machinery. On the other hand, orders for supplementary work including equipment mounting platforms and electrical work were strong in this period, with total value of orders exceeding that of the same period of the previous fiscal year.

Net sales increased, particularly in energy-related areas, with progress on working through order projects. Since the ongoing cost negotiations related to specification changes have also contributed to the net sales increase, we will continue to negotiate with our customers.

Order Backlog, Net Sales, and Orders in the Industrial Machinery Segment



Let me provide an update on the Industrial Machinery Segment. Lackluster momentum was observed in the market despite appetite for investment, particularly for film making systems for electronic materials applications such as MLCC and polyimide films.

In terms of orders, although there were inquiries from industry leaders in regions such as Japan, Southeast Asia, and China, the volume of orders remained flat YoY.

In terms of net sales, production volumes were down and net sales were weak despite our effort to focus on film making systems for electronic materials applications.

FY2024 Earnings Forecast

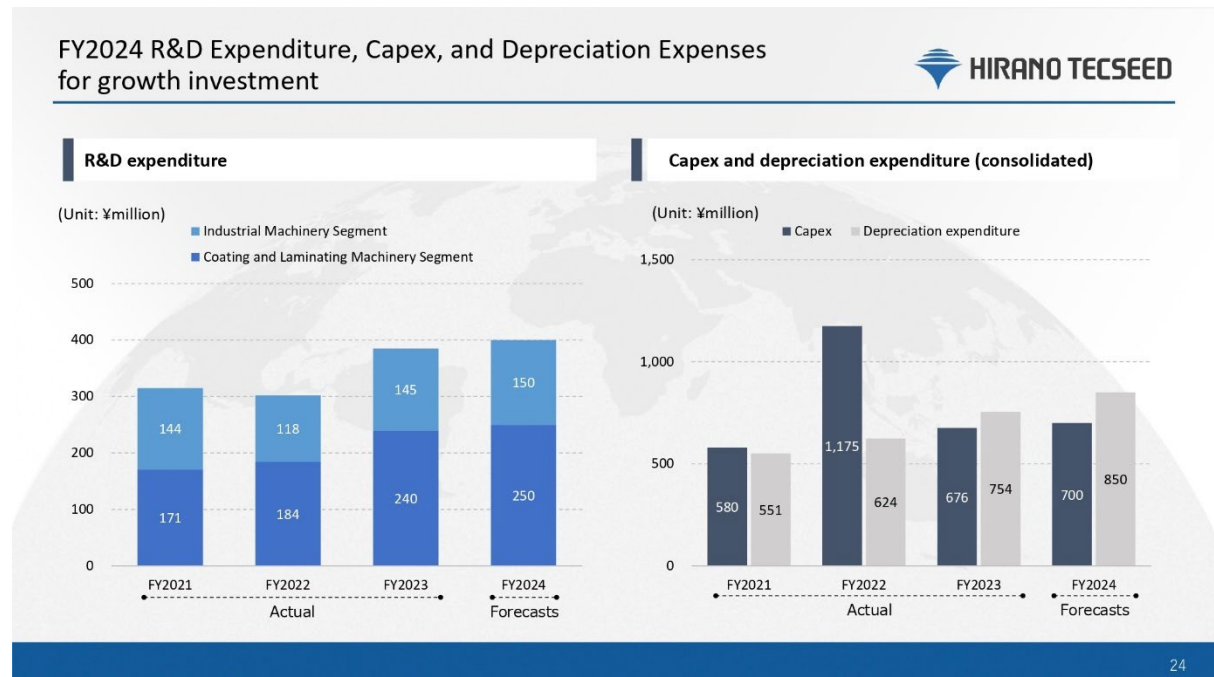
FY2024 Earnings Forecasts					
(Unit: ¥million)	FY2023	FY2024 Forecasts		YoY	
	a	b	Change b-a	YoY% (b-a)/a	
Net Sales	46,946	44,000	-2,946	-6.3%	
Operating Income	3,236	2,900	-336	-10.4%	
Operating Income Margin	6.9%	6.6%	-0.3%	-	
Ordinary Income	3,394	3,000	-394	-11.6%	
Ordinary Income Margin	7.2%	6.8%	-0.4%	-	
Net Income	2,438	2,100	-338	-13.9%	
Net Income Margin	5.2%	4.8%	-0.4%	-	
ROE	6.5%	5.5%	-1.0pts		
Dividends Per Share	88円	90円	+2円		

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I will now give you an update on earnings forecast for FY2024.

There are no changes from the initial plan. Although there is an increasing sense of uncertainty in the energy-related market at the moment, we will continue to work toward achieving our targets in the second half and beyond, in line with the key themes of our medium-term management plan: “Diversify revenue streams,” “Expand supply capabilities,” and “Improve organizational capabilities.”

FY2024 R&D Expenditure, Capex, and Depreciation Expense



These are R&D expenditure, capital expenditure, and depreciation expense.

We are planning to spend ¥400 million as R&D expenditure, as planned at the beginning of the current term. There are no changes to our capital expenditure and depreciation expense as well: ¥700 million for capital expenditure and ¥850 million for depreciation expense.

This concludes my explanation of the financial results for this period. I sincerely ask for the continued support of our shareholders and investors. Thank you for your attention.

Q&A: Northvolt 's bankruptcy filing

Moderator: An emerging battery manufacturer Northvolt has filed for bankruptcy in the U.S. Will this have any impact on your company?

Okada: We are aware, through news reports, that Northvolt has filed for bankruptcy in the U.S. However, we refrain from commenting on the circumstances of individual companies. Northvolt's bankruptcy filing reflects the challenging market conditions for automotive batteries. We will continue to closely monitor the market environment moving forward.

Q&A: Outlook for the new energy-related market

Moderator: What is your outlook for the energy-related market, and when do you expect demand to recover?

Okada: Naturally, some of our customers have made adjustments to their plans, such as changing the destination from China to North America or revising delivery schedules. While we recognize potential for medium- to long-term growth, we also recognize the significant uncertainty in the current market conditions.

We expect trends of capital investment to remain soft in the second half of the year. However, of course, we are taking measures to cultivate demand not only in the field of electrode coating equipment for lithium-ion batteries, but also in other fields.

There are various opinions about when demand will resume, and we have heard that it will pick up again in about two years. However, the policy trends after the Trump administration assuming office in the U.S. are very uncertain, and we see many negative factors, so we are carefully watching this area.

In Japan, the Ministry of Economy, Trade and Industry (METI) has recently initiated measures to subsidize investments in EV batteries. Therefore, we aim to respond proactively to opportunities in the domestic business as well.

Q&A: Status of perovskite-related developments

Moderator: Regarding perovskites, please explain the progress of development, your position in the industry, and the scale of sales you are aiming for, etc.

Okada: As I mentioned a little earlier, we plan to announce the detailed specifications of the coating equipment in January 2025 and start taking orders at the same time. We also plan to exhibit the actual machinery at an exhibition in January 2026, and deliver the first unit in May of the same year.

We have an experimental facility called "Technicum" that we introduced earlier, and we use it as a place for technical exchange with our customers. There, we have been following not only the development process, but also the verification process for commercializing and mass-producing the coating liquids developed by our customers using our machinery.

As previously announced, we have been working with Kanazawa University to establish a method to mass-produce perovskite itself. In our attempt to establish a production process, we would like to

establish a proposal that enables production by using standard materials brought in by our customers.

In the past, the manufacturing process was customer-driven in some ways, but this time, we want to establish a de facto standard for manufacturing method under our own initiative and secure our superiority.

There are various estimates for the market scale, but we are assuming around ¥1 billion for the upcoming fiscal year 2026, ¥2 billion for fiscal year 2027, and ¥4 billion for fiscal year 2028.

Q&A: Outlook for orders and initiatives by segment in the second half and beyond

Moderator: For each segment, please explain the outlook for the order environment and your initiatives in the second half and beyond.

Okada: With regard to Coating and Laminating Machinery Segment, headwinds against EVs penetration are expected due to the new U.S. President, after taking office, repealing the EV incentives provided by the Inflation Reduction Act (IRA) in order to protect major U.S. automobile manufacturers that have been slow to adopt EVs. This could also lead to a decline in customer investment appetite.

For the Industrial Machinery Segment, there is steady demand for multilayered ceramic capacitor (MLCC) and polyimide films. We intend to focus on these areas to secure orders.

Therefore, as initiatives, we aim to focus on efforts that lead us to secure firm orders in areas outside of EVs, such as ceramics and polyimide films, which are currently generating inquiries.

Q&A: Market environment and outlook for supplementary work in the second half and beyond

Moderator: You mentioned that inquiries for supplementary work have been steady this term. Please share your insights on the market environment and the outlook for supplementary work in the second half and beyond.

Okada: The main unit to which we apply supplementary work is coating equipment. While we have historically supplied large volumes of this primary equipment to specific customers, we had not been involved in supplementary work of installing mechanical frames for the equipment, electrical wiring, ducting, and piping. However, as part of our effort to expand business, we have started taking on supplementary work as well.

The prices of main units and supplementary work are almost identical. Although we have carried out a considerable amount of supplementary work, we cannot expect orders for supplementary work without orders for main units.

Therefore, since we are recently facing unstable order situation for main units, as I explained earlier, the same situation applies to supplementary work.

Q&A: Background of the improved business performance

Moderator: Please explain the background behind achieving YoY growth in both sales and profit. In addition, please elaborate on the factors contributing to the significant improvement in the second quarter performance compared to the decline in sales and profit in the first quarter this fiscal year.

Okada: The main factors behind the YoY increase in sales and profit were the smooth progress in fulfilling order backlog as production advanced, and the partial contribution from supplementary work related to lithium-ion batteries in North America.

In addition, customer's adjustment in their plan generated specification changes in the second quarter, and we have been consistently negotiating with our customers. Some of the negotiations have started to yield positive results, contributing to the improvement.

Q&A: Measures to address costs

Moderator: You mentioned rising material prices as a negative factor for cost fluctuations. Please explain your thoughts on the measures the company can implement, such as strengthening sales capabilities or cost control, and the impact on the company's performance.

Okada: We are fully aware that cost increases, including rising material costs, labor costs, and outsourcing costs, have been major factors contributing to reduced profit. The reasons for this are the impact of changes in the destination of our customers' lithium-ion battery-related products and changes in specifications.

As I mentioned a little earlier, when the destination changes from China to North America, they have different standards. In particular, in the field of electrical components, there have been many cases where we have had to start from scratch to procure products with completely different standards.

Another factor was that, while the situation has improved significantly, the semiconductor shortage that began about three years ago has led to extended lead times for delivery. Along labor costs, substantial cost fluctuations including this case has been a primary factor.

In addition, due to the manpower required for above mentioned issues, we were unable to work on other projects. The resulting decline in productivity also had a significant impact.

Moreover, the depreciation of the yen has had a negative effect. For our large machinery, the delivery lead time is about two years, and the yen weakened during the two years between receiving the order and delivering the product. Also, since we purchase components from overseas, the procurement costs were also negatively affected by the weakening of the yen.

We have already begun implementing improvements to address these challenges. We are planning and implementing cost control measures, including the introduction of monitoring systems, stricter acceptance of orders with profitability in mind, and increasing the in-house production ratio and value-added components.

Q&A: Risk management in the battery business

Moderator: The battery business is facing challenges, such as delays in EV adoption and the bankruptcy of Northvolt. Please comment on issues such as requests for pushing back deliveries and order cancellations, and the management of bad debt risks. In addition, regarding the risk of an increase in U.S. tariffs, please explain what impact you foresee and what countermeasures you are considering.

Okada: My response to this question aligns with the answers provided earlier to the first and second questions.

Q&A: Outlook for the battery business in the U.S.

Moderator: North America accounts for 63.7% of the regional breakdown of your order backlog of ¥57 billion, which I assume is primarily lithium-ion battery-related.

There have been reports suggesting possible amendments to the IRA and a reduction in EV tax credits under the next U.S. administration. Have you seen any indications from your customers about scaling back or withdrawing their battery investment plans following the presidential election?

You mentioned earlier that there were changes in plans and delays in delivery schedules during the first half. Please tell us if there have been any further changes after the presidential election.

Okada: As I answered earlier, there have been discussions in the U.S. about the potential repeal of the IRA and the elimination of subsidies for EVs.

Although we have not yet heard such discussions about batteries, a decline in EVs would naturally lead to a corresponding decline in the demand for batteries. Some of our customers are indeed considering reducing production of EV batteries. However, we are also hearing moves to shift production toward non-EV storage batteries and energy storage systems (ESSs), or to relocate production from North America to Europe.

Q&A: Status of customer negotiations and supplementary work

Moderator: You mentioned that the decision to maintain the full-year earnings forecast was based on the status of customer negotiations and the orders for supplementary work. Please provide more details on the progress of customer negotiations. Do you mean there is a high likelihood of revising the contract prices for already secured projects?

In addition, while you mentioned that supplementary work contributed to the first-half performance, has there been any slowdown in activity following the results of the U.S. presidential election?

Okada: We refrain from explaining specific customer negotiations, but we are continuing discussions aimed at revising prices.

For example, changes in shipping destination may require the replacement of electrical components, etc., which can lead to leftover products or work-in-progress items that were left incomplete during production.

These items are stored in our warehouse, and we need to provide evidence to our customers, detailing where these items are, their specifications, and the scale of inventory. While we continue customer negotiations one by one, this process requires significant time and effort. However, we believe that once these hurdles are cleared, we will be able to recover the cost.

As for the outlook for the market environment, it is as I explained earlier.

Q&A: Progress on after-sales services

Moderator: Please provide an update on the progress of after-sales services, one of the key themes in your medium-term management plan, including whether the establishment of the customer support division and the U.S. subsidiary has led to specific after-sales service contracts.

Okada: After-sales services have been steadily expanding. Given the high profit margin and the improved profitability associated with the expansion, we plan to continue scaling up these services in the future.

Speaking of details, there is a growing demand for equipment maintenance and renewal. This is particularly evident in Japan, where we have delivered a large number of machines, resulting in a significant demand for maintenance and renewal. We also address a demand for renewal of our in-house developed original controllers for electrical components.

Looking ahead, in order to expand after-sales services, we will not only visit customers and uncover existing users but also enhance offerings such as highly profitable regular maintenance programs.

Q&A: Lead time for supplementary work

Moderator: Regarding supplementary work, what is the lead time from order to revenue recognition?

Okada: Supplementary work has a shorter lead time compared to the installation of the main equipment, typically being completed within a few months. The main equipment installation follows thereafter.

Q&A: Outlook for investments in electronic material applications

Moderator: Regarding electronic materials applications such as MLCCs and polyimide films, you mentioned that while customers have appetite for investment, they are currently hesitant. Please explain the reasons behind this cautious stance. In addition, what factors do you think could trigger a resumption of investment plans?

Okada: Demand naturally fluctuates, and we are seeing some hesitancy. However, we believe investment will pick up when the timing is right. In particular, we expect that the market for artificial intelligence (AI) and other technologies to expand significantly in the future, particularly for data centers. We also expect capital investment in MLCCs and other areas to increase, so we will be keeping a close eye on this.

Closing remark from Mr. Okada

Okada: Thank you very much for taking part in our financial results briefing today. I hope you have gained a good understanding of HIRANO TECSEED's strengths and business strategies. I would be grateful if you could also take a look at our website, along with the briefing materials you have received today.

Thank you very much for taking the time to join us today.