May 27, 2019

Financial Results Briefing for the Fiscal Year Ended March 31, 2019: Q&A

(Questions answered by:)
Akihiko Sakurai, President
Masanori Takahashi, Senior Managing Executive Officer, General Manager of Business Control Division

<Question 1>
What are your thoughts about the Tokyo Stock Exchange's plan to review the market classification?

<Answer 1>
(Sakurai)

The Tokyo Stock Exchange is currently working on the issue of reviewing its listing standards for the first section, and it is rumored that a total market capitalization of 50.0 billion yen or 25.0 billion yen is being considered as a requirement. It has been almost 60 years since we were listed on the first section of the Tokyo Stock Exchange in 1961. We are therefore very keen to remain listed on the first section. With this in mind, we will not only seek to improve our performance but will also endeavor to provide a range of information regarding our company in an easy-to-understand manner to ensure that stakeholders, including shareholders, show more interest and consequently our stock prices increase. We are determined to offer shareholder returns that are competitive when compared to those of our competitors in the same trade. I sincerely look forward to receiving useful guidance and cooperation from the institutional investors who are attending today's briefing.

<Question 2>

(i) Please explain the main reasons for the differences (decreased sales and profit) between the initial forecasts, namely net sales of 175.0 billion yen and operating income of 3.1 billion yen, and the actual results, namely net sales of 157.1 billion yen and operating income of 2.1 billion yen, with respect to the forecasts for the fiscal year ended March 31, 2019.

(ii) Please explain the main reasons for the decrease in sales but the increase in profit for the fiscal year ending March 31, 2020, namely net sales of 135.0 billion yen (down 14.1% year on year) and operating income of 2.4 billion yen (up 13.3% year on year).
If recording for lithium-ion battery-related equipment were carried over from the previous period (the fiscal year ended March 31, 2019), an increase in sales should be forecast for the current period (the fiscal year ending March 31, 2020).

<Answer 2>
(Takahashi)

(i) With regard to the differences between the initial forecasts for the fiscal year ended March 31, 2019 and the actual results, the difference in net sales was mainly attributable to posting for lithium-ion battery-related equipment carried forward, on which exports to China had been negotiated. The difference in operating income was also chiefly due to lithium-ion battery-related equipment, which was mainly affected by the Chinese government's termination of subsidies, etc. In addition, differences from the initial forecasts occurred in the Advanced Materials and Measuring Instruments business and the Chemicals and Energy Plant business.

(ii) Posting for lithium-ion battery-related equipment carried over from the previous period (the fiscal year ended March 31, 2019) will not be implemented entirely in the current period (the fiscal year ending March 31, 2020). Because some of the sales carried over will be posted as sales in the next period (the fiscal year ending March 31, 2021) or thereafter, it cannot necessarily be said that an increase in sales will be achieved in the current year (the fiscal year ending March 31, 2020).

(Sakurai)

(ii) I will provide a supplementary explanation.

In connection with the forecasts for the current fiscal year (ending March, 2020), we expect that sales will exceed the level achieved in the previous period (the fiscal year ended March 31, 2019) in the Industrial Machinery business and the Global business. However, with sales expected to decrease in the Power Plant business, which handles large power generation equipment, and the Chemicals and Energy Plant business, overall sales will decline.

The Chemicals and Energy Plant business does not expect any large deliveries in the current period (the fiscal year ending March 31, 2020) to compensate for the absence of sales from large-scale projects for oil companies in the previous period (the fiscal year ended March 31, 2019).

Meanwhile, in connection with forecasts for operating income, with sales expected to increase in the Power Plant business and the Chemicals and Energy Plant business and decrease in the Industrial Machinery business and the Global business, overall operating income is expected to rise.

The Power Plant business and the Chemicals and Energy Plant business expect an increase in operating income, partly due to after-sales services that are highly profitable projects, despite the absence of large-scale projects.

In the Industrial Machinery business, some of the orders for lithium-ion battery-related equipment which were carried over from the previous period (the fiscal year ended March 31, 2019) will remain undelivered/unrecorded in the current period (the fiscal year ending March 31, 2020).

The Chinese lithium-ion market, which became brisk in 2017, is now slightly sluggish. Given this situation, customers are in the process of making some adjustments to the introduction timing of the equipment. Deliveries will therefore be made gradually in the current period (the fiscal year ending March 31, 2020) and the next period (the fiscal year ending March 31, 2021).

With respect to the Industrial Machinery business, although lithium-ion battery-related equipment affects its segment income, projects for the food, textile and packaging film industries contribute to boosting profitability.

In conjunction with the Global business, we expect that net sales will increase due to the recovery of the performance of overseas subsidiaries that recorded poor business results in the previous period (the fiscal year ended March 31, 2019). On the other hand, segment income is forecast to decline because Tsurumi (Europe) GmbH, Seika Sangyo GmbH and Seika Machinery Inc., which are European or U.S. subsidiaries, do not expect that their performances in the current period (the fiscal year ending

March 31, 2020) will be as strong as those achieved in the previous period (the fiscal year ended March 31, 2019).

<Question 3>

(i) What would you say to the suggestion that the sales forecast of 135.0 billion yen for the fiscal year ending March 31, 2020 looks conservative in consideration of the order backlog forecast of 160.0 billion yen at the end of the fiscal year ended March 31, 2019 and the order forecast of 180.4 billion yen for the fiscal year ending March 31, 2020?

(ii) Please provide details on the reflection of the order backlog forecast of 209.0 billion yen at the end of the fiscal year ending March 31, 2020 as net sales for the fiscal year ending March 31, 2021 and thereafter.

<Answer 3>

(Sakurai)

(i) Regarding our order backlogs, we have orders mainly for large power generation equipment for power companies and they are the order backlog. Negotiations on lithium-ion battery-related equipment, which is other large orders, are not reflected on a full-scale basis in the results forecasts because we are taking a cautious approach toward businesses in China as a whole. Consequently, we have made conservative estimates.

(ii) The reflection of order backlogs as sales depends on the extent to which large power generation equipment-related orders will be delivered and posted as sales. The order backlog forecasts at the end of March 31, 2020 include numerous large orders received, mainly for the Power Plant business and the Chemicals and Energy Plant business. We have large-scale repair work projects for power companies and power generation equipment projects for steel or chemical companies, which are expected to be delivered gradually in the fiscal year ending March 31, 2021 and thereafter. We will ensure that equipment and instruments are delivered as scheduled, which will have a favorable impact on our corporate financial results. We consider order backlogs to be an increase in corporate assets.

Cautionary Note: Forward-Looking Statements

All forward-looking statements contained herein are based on information available to Seika Corporation as of the date hereof and actual results may differ materially from those in the forward-looking statements due to unforeseeable factors or uncertainties.