

Ebara Corporation First Quarter of FY2020

Earnings Conference (Teleconference) Main Q&A

<Summary of Q&A during earnings conference held on May 13, 2020>

Impact of the COVID-19 Pandemic

Q: The impact on 1Q results seems limited; but exactly how much negative effect was there on sales/operating income of the Standard Pumps and the Chillers businesses?

A: Sales of the Standard Pumps business decreased by more than 1.0 billion yen. As for the Chillers business, operating income was down by more than 500 million yen.

Q: So, there was not so much impact on profit in the Pumps business? Impact is around 500 million yen total across the EBARA Group?

A: Several hundred million yen.

FMS: Financial Results Overview of 1Q FY2020

Q: When you exclude the impact of the COVID-19 pandemic, how are orders and operating income coming along against the projections for 2Q (January to June) and the full year?

A: Both the Pumps business and the Chillers business are progressing mostly as planned. The Compressors and Turbines business was up slightly. The EP business upturned a bit. There was downturn in PM business.

Q: With regard to the 'Breakdown of Changes in Operating Income' in the presentation material, what is the reason for 900 million yen reduction of fixed costs?

A: Due to the impact of the COVID-19 pandemic, activities such as business trips have been greatly restricted, thereby decreasing fixed costs.

Q: Business travel cost 900 million yen in just three months?

A: Not only business trips, other types of costs such as labor costs are included in that figure. It includes impact from restricted business activities like work-from-home in Japan.

Q: Fixed costs of the FMS business for the FY2019 was increasing by 2.1 billion yen (full year) YoY; but it went down by 0.9 billion yen in these three months. Will it decrease by over 2.1 billion yen if the situation remains as-is?

A: That would be possible assuming that the restrictions on business activities

continue; but orders/sales will also decrease because of restrictions on order receiving activity and sales activity.

Forecast for FY2020

Q: What is the reason why you decided not to show projections for 2Q (January to June) and the full year? The EP business results do not tend to swing much; and in the semiconductor market, the main market for the PM business, capital investments continue regardless of the COVID-19 spread. Is there opaqueness in the FMS business?

What needs to become clear so that you can disclose?

A: There are two reasons for having forecasts TBD (To Be Determined):

- ① Orders/sales of the Standard Pumps and Chillers businesses, which have short periods between orders to sales, downturned significantly in April. Whether this will continue going forward or recover or worsen; we cannot foresee at the moment.
- ② Restrictions on people's movement due to the COVID-19 spread has made business travel and sales rounds more difficult. If the situation does not improve, it is possible that restrictions may also continue on activities like service and support (S&S) activity with high profit rates and the dispatching of engineers for starting up equipment of the PM business, and we cannot foresee for how long.

When the situation becomes clearly seen, we will announce our projections.

Q: With no concerns about the supply chain, and the factory stoppage of the location in the Philippines having little impact on the EBARA Group; are risks more in sales activities and such?

A: Cooling of the building equipment market is a risk. When construction of a building is delayed, pump delivery time will be delayed. This impact is expected to be rather large in the Standard Pumps business.

Q: In overseas markets, they are proceeding with lifting lockdowns. Although it is unclear what would happen in case of a second wave, some areas in Japan are restarting construction and restrictions on people's movement are being eased; so it was a surprise that you withdrew your disclosure. Will you be able to disclose your projections if the restrictions are lifted?

A: One of the characteristics of our industry is that our recovery tends to follow behind the recoveries of the market. Our projections will take this point into consideration.

FMS: Forecast for FY2020

- Q:** Regarding the oil & gas market, were there any order cancellations due to the plummet of oil prices and/or did S&S sales decline because of a drop in customer plant's operating rates? There may not have been much impact for 1Q, but what is the forecast for 2Q onward?
- A:** Delays were seen in large-scale project plans. For S&S, which is high in operating income ratio, there was no impact seen for the moment. If the oil prices remain low going forward we expect to see an impact on sales.

PM: Forecast for FY2020

- Q:** Operating income for the PM business fell in 1Q, but the original full year projection is the same as the previous term's.

We want to have 1Q's negative factors divided into impact factors and non-impact ones for the full year projections.

- A:** Impacts from the delay in acceptance inspections is expected to be gradually resolved for the full year. The project mix of 1Q was significantly bad in profitability YoY; but going forward it is expected to recover gradually.

As for fixed costs, due to automated plants being started up in stages, depreciation and amortization costs are expected to go up; but this had already been considered in the original plan.

In the event that restrictions on people's movement continues, there may be impact on equipment startups for the PM business.

- Q:** Will the impact from the project malfunctions that occurred for some customers linger for the full year?

- A:** It is expected to be resolved within this year.

- Q:** Will any negative factors of 1Q be a factor to lower the original full-year forecasts?

- A:** At the moment, we see little of such impact.