堺化学工業株式会社

Sakai Chemical Industry Co., Ltd.

Q2 Financial Results Briefing for the Fiscal Year Ending March 2024

December 1, 2023

Event Summary

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[Participants]	32
[Number of Speakers]	2 Toshiyuki Yagura President, Representative Director Shinji Ogama Executive Officer

Presentation

Moderator: We will now begin the briefing on the interim financial results for the fiscal year ending March 31, 2024 of Sakai Chemical Industry Co., Ltd. This briefing will be held in a hybrid format, with a live-streaming online session in addition to the on-site session.

First of all, we would like to introduce our two guests from the company. Toshiyuki Yagura, President and Representative Director. Shinji Ogama, Executive Officer in charge of IR, General Manager of Corporate Planning Dept.

Today, the two gentlemen I have just introduced will give their explanations. After the explanation, there will be time for questions and answers. We will then take questions from those participating online at this time. Questions from the live stream will be conducted via the chat function.

The IR meeting, including the Q&A portion, will be transcribed and made available in its entirety. Therefore, if you give your company name and name when you ask a question, it will be published as it is. If you wish to remain anonymous, you may omit your name.

Now then, Mr. Ogama, please go ahead.

Ogama: Once again, I am Ogama, in charge of investor relations at Sakai Chemical Industry. Thank you very much for taking time out of your busy schedule to join us today. I would now like to begin the presentation of the interim financial results for the fiscal year ending March 31, 2024.

First of all, I would like to apologize for the modifications that have been made to the materials that we have distributed to you after printing. It is really just a small point, but I would like to ask for your understanding that the document I am projecting in front of you is the revised version.

Key Takeaways of This Briefing

Business conditions remained weaker than anticipated, leading to decreased revenue and profit. The full year forecast has been revised downward, as no significant recovery is expected in the second half either.

- Despite proactive facility expansion of electronic/cosmetic materials, positioned as growth businesses, under the current medium -term management plan, recovery is expected to remain slow within the fiscal year based on market conditions
- Cosmetics materials for the domestic market have made a recovery. Have also been impacted by inventory adjustments in the US/EU, economic decline in China, etc.
- In plastic additives, operations at lead production facilities have declined due to a shift to lead-free products in Southeast Asia. Lead-free product sales will be bolstered to accelerate a shift in revenue base
- In titanium dioxide, external conditions, such as increased import of cheap Chinese products, have deteriorated. Not only will existing prices be revised, but additional measures will be taken.

Let me begin by making a few points for today.

The business environment was slower than initially anticipated, resulting in lower sales and profits for the interim period. Since we do not expect a significant recovery in H2, we have revised our full-year forecast downward.

In the electronics materials and cosmetics materials businesses, which are positioned as growth businesses, although we have aggressively expanded facilities under the current medium-term management plan, we expect only a moderate recovery in line with market conditions during the fiscal year.

Cosmetic materials were affected by inventory adjustments in Europe and the US and the economic slowdown in China, although sales for the domestic market are recovering.

In plastic additives, operations at lead-based production facilities declined in response to the shift to lead-free production in Southeast Asia. As a future strategy, we will accelerate the transition of our earnings base by strengthening sales of non-lead products.

The external environment for titanium dioxide deteriorated due to factors such as increased imports of inexpensive Chinese products. In the future, we will not only correct the prices of existing products, which we are currently doing, but also take additional measures.

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This is the content of today's briefing. The first item in the first half is from me, Ogama. After the second, Yagura, the President, will explain.

Let me first explain the results of H1 of the fiscal year ending March 31, 2024, and the results by business segment.

Summary of Interim Results for the Fiscal Year Ending March 31, 2024 (compared to the same period of the previous year)

(million yen)

	2023.3 2Q	Net sales comparison	2024.3 2Q	Net sales comparison	Increase/decrease	
Net sales	42,694	—	40,471	—	(2,222)	(5.2%)
Operating income	3,267	7.7%	917	2.3%	(2,350)	(71.9%)
Ordinary income	3,830	9.0%	885	2.2%	(2,944)	(76.9%)
Net income attributable to owners of parent	2,871	6.7%	(2,033)	—	(4,905)	(170.8%)

- **Factors Behind Reduced Revenue and Profit**
  In the titanium dioxide business, deteriorating market conditions due to increased influx of cheap Chinese products have led to decreased sales volume, and revenue and profit decreased due in part to the impact of decreased operation rates due to production adjustments.

- **Supplemental Information (On Net Loss This Term)**
  Due to the reversal of deferred tax assets (1,932 million yen), net income was negative .

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First, let's look at sales for the interim period, which totaled JPY40.471 billion. This is a little cut off at the top, but this is a comparison with the same period of the previous year. We recorded a negative JPY2.222 billion compared with the same period of the previous year.

Operating income was JPY917 million, down JPY2.35 billion from the same period last year. Ordinary income was JPY885 million, a decrease of JPY2.944 billion from the same period last year.

Net income attributable to shareholders of the parent company was a loss of JPY2.033 billion. This was a decrease of JPY4.905 billion from the same period of the previous year.

As a result, both sales and profits declined. The main factor was the deterioration of the market environment in the titanium dioxide business due to the inflow of inexpensive Chinese products into the domestic market, which increased. As a result, sales volume fell and operating rates declined due to production adjustments, resulting in lower sales and profits.

And as for the net loss, net income was negative due to a reversal of deferred tax assets of JPY1.932 billion.

Net Sales and Operating Income by Business (compared with the same period of the previous year)

(million yen)

		2023.3 2Q	2024.3 2Q	Increase/decrease	
Chemical Business	Net sales	38,572	36,313	(2,259)	(5.9%)
	Operating income	4,163	1,896	(2,266)	(54.4%)
Medical Business	Net sales	4,122	4,158	36	0.9%
	Operating income	240	144	(95)	(39.6%)
Expenses for entire company	Net sales	—	—	—	—
	Head office expenses	(1,136)	(1,124)	12	—
Total	Net sales	42,694	40,471	(2,222)	(5.2%)
	Operating income	3,267	917	(2,350)	(71.9%)

- **Chemical Business : Decreased Revenue and Profit**
  Revenue and profit decreased due to significantly decreased sales volume, particularly in titanium dioxide.
- **Chemical Business : Increased Revenue, Decreased Profit**
  Increased sales volume of supplements and other new business products as well as strong sales volume in existing businesses such as refurbished medical devices or OTC medicine led to increased revenue . However, decreased sales volume of barium contrast agents and Alloid G as well as drug price markdowns had significant impact, leading to decreased profits .

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Next, I will explain sales and operating income by business segment.

In the chemical business, net sales were JPY36.313 billion, down JPY2.259 billion YoY. Operating income was JPY1.896 billion, a decrease of JPY2.266 billion from the same period last year.

As for the medical business, net sales totaled JPY4.158 billion, up JPY36 million from the same period last year. Operating income was JPY144 million, a decrease of JPY95 million from the same period last year.

Sales and profits were down in the chemicals business. As I mentioned earlier, both sales and profits declined here due to a large drop in sales volume, particularly for titanium dioxide.

The medical business reported higher revenues and lower earnings. Sales volume of new business products such as supplements grew, and sales volume of renewed medical equipment and over-the-counter (OTC) drugs, which are existing businesses, remained strong.

However, profit decreased due to lower sales volumes in barium contrast media and Alloid G, as well as the significant impact of NHI price devaluation.

About the Balance Sheet

Amount units: million yen

Consolidated balance sheet	2023.3	2023.9	Increase/ decrease
Current assets	72,101	76,250	4,149
Cash and deposits	12,409	15,645	3,235
(1) Inventories	30,125	30,231	106
Non-current assets	55,920	55,325	(595)
Property plant and equipment	46,761	46,635	(126)
(2) Intangible assets	1,368	1,257	(110)
Investments and other assets	7,790	7,432	(358)
Total assets	128,201	131,575	3,554
Current liabilities	29,237	31,066	1,828
Non-current liabilities (3)	14,066	19,853	5,786
Total liabilities	43,304	50,919	7,615
Net assets	84,717	80,656	(4,061)
Liabilities and net assets	128,021	131,575	3,554
Equity-to-asset ratio (%)	62.9	60.5	(2.4)
Interest-bearing liabilities (total)	21,642	23,371	1,728

(1) Factors behind inventory changes (including year-end financial results adjustments)

Volume impact:-600 million yen (compared to end of the previous fiscal year)
Unit impact: +700 million yen (compared to end of the previous fiscal year)
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Total: +100 million yen

Regarding inventory that decreased over the end of the previous term, volume has decreased as a result of production adjustments.

(2) Major factors behind changes in investments and other assets

A: Amount impacted by valuation of investment securities
+ 1,012 million yen
B: Amount impacted by reversal of deferred tax assets
(1,932 million yen)

(3) Major factors behind increase in fixed liabilities

Convertible bonds issued: 3,000 million yen
Long-term borrowings: 1,995 million yen

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The following is the balance sheet.

First, I will explain the main reasons for the increase/decrease shown on the right side. The first, the factors for increase/decrease in inventories, are described. This is a comparison with the end of the previous fiscal year. The impact of volume was a negative impact of approximately JPY600 million. However, the unit price impact added JPY700 million, for a total gain of approximately JPY100 million.

With regard to inventories, the volume of inventories decreased as a result of production adjustments made to inventories that had increased toward the end of the previous period.

The main reason for the increase/decrease in investments and other assets was a JPY1.012 billion increase in the value of investment securities. However, there was a negative impact of JPY1.932 billion due to the reversal of deferred tax assets.

Third, in long-term liabilities, the issuance of convertible bonds added JPY3 billion, and long-term debt increased JPY1.995 billion.

Finally, at the end of the interim period, total assets amounted to JPY131.575 billion and total liabilities were JPY50.919 billion. Net assets totaled JPY80.656 billion.

About the Cash Flow Statement

Units: million yen	2022.4 to 9	2023.4 to 9	Increase/ decrease
Cash balance at start of period	10,549	12,188	1,639
Profits before tax	4,218	773	▲ 3,445
Depreciation	2,191	2,255	64
(1) Inventories	▲ 4,860	60	4,920
Other	▲ 427	99	526
Operating CF	1,122	3,187	2,065
Capital investment	▲ 1,319	▲ 1,646	▲ 327
Sale of shares	181	60	▲ 121
Other	▲ 147	▲ 39	108
Investment CF	▲ 1,285	▲ 1,625	▲ 340
FCF	▲ 163	1,562	1,725
Long/short-term borrowings	1,620	1,704	84
(2) Corporate bonds issued		3,000	3,000
(3) Subsidiary stocks acquired		▲ 2,631	▲ 2,631
Other	▲ 614	▲ 486	128
Financial CF	1,006	1,587	581
Cash balance at end of period	11,667	15,524	3,857

(FCF = CF from operations + CF from investments)

(1) Sales cash flow improved by reducing inventory.

(2) Convertible bonds issued to procure 3,000 million yen.

(3) Sakai Trading Co., Ltd. was made a wholly owned subsidiary, resulting in 2,631 million yen as of the end of September 2023.The forecast for the total amount is approximately 3,200 million yen.

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Continuing on, here is the cash flow. We will first explain the factors behind the increase/decrease on the right side here as well.

First, operating cash flow improved as a result of this reduction in inventories, although operating cash flow was considerably negative in the previous year due to this impact.

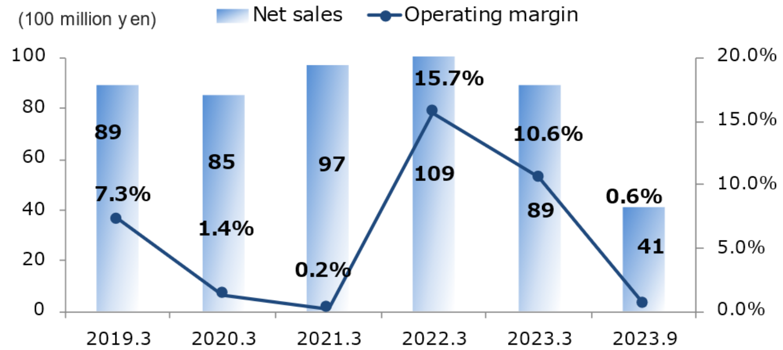
And skipping investment cash flow, we issued convertible bonds, so we have a positive financial cash flow of JPY3 billion, and then we have JPY2.631 billion as of the end of September 2023 to make Sakai Trading a wholly owned subsidiary. The total amount here is approximately JPY3.2 billion.

As a result, operating cash flow was JPY3.187 billion this term, investing cash flow was negative JPY1.625 billion, and financing cash flow was positive JPY1.587 billion. Cash balance at the end of the period was JPY15.524 billion.

I will begin by explaining the results by segment. Please see the materials you have at hand.

Electronic materials

Growth businesses



- Year-on-year Comparison (million yen)

	2022.9	2023.9	Increase/decrease	
Net sales	4,956	4,097	(859)	(17.3%)
Operating income	753	24	(729)	(96.8%)

Key points of the interim financial results for the fiscal year ending March 31, 2024

- Shipment volume decreased. (-25.2% year-on-year)

  The semiconductor market for computers, mobile devices, and other consumer devices has been sluggish since the second half of the previous fiscal year, and decreased shipments of both our dielectrics (barium titanate) and dielectric materials (high-purity barium carbonate) have led to decreased revenue and profit.

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First, electronic materials.

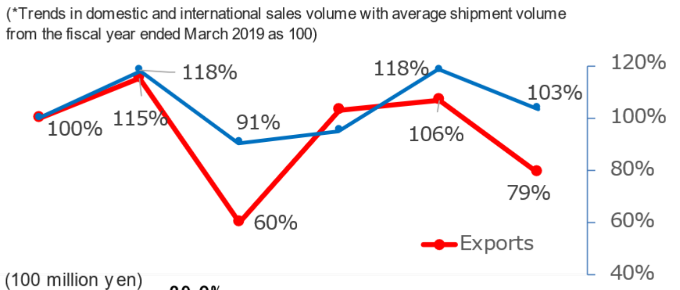
The main point of this interim financial results for electronic materials is the decrease in shipment volume. This represents a 25.2% decrease from the same period last year.

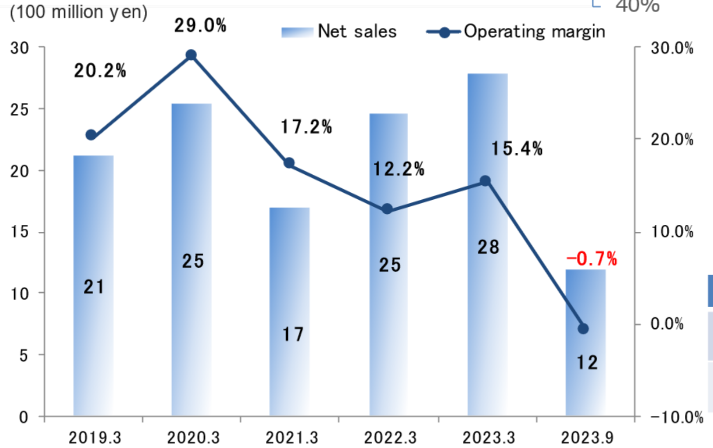
This is due to the continued sluggishness of the semiconductor market for consumer devices such as PCs and cellular phones since H2 of the previous fiscal year, resulting in a decrease in both sales and profits, as shipment volumes of both our dielectrics, barium titanate, and high-purity barium carbonate, a dielectric material, declined.

As a result, sales were JPY4.097 billion and operating income was JPY24 million. The result was a decrease in sales and profit.

Cosmetics materials

Growth businesses





Key points of the interim financial results for the fiscal year ending March 31, 2024

- International sales experienced a particularly large drop.
- Overall sales volume -16.9% year-on-year
- Production adjustments to reduce inventory also had an impact, and when factory shutdown costs were taken into account, the result was an operating loss.

- Year-on-year Comparison (million yen)

	2022.9	2023.9	Increase/decrease	
Net sales	1,348	1,194	(154)	(11.4 %)
Operating income	203	(8)	(211)	(103.8%)

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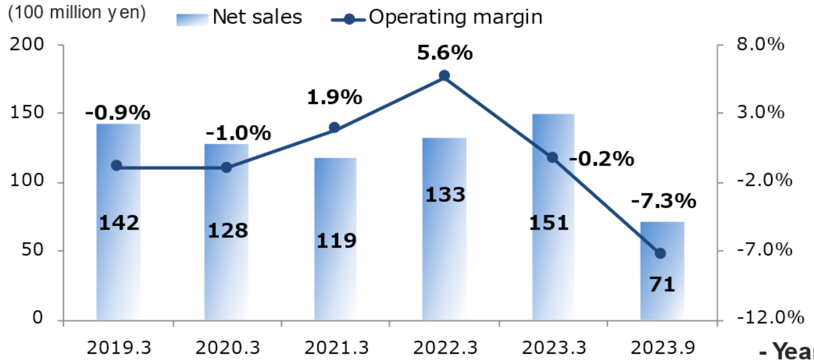
Continuing on, here is our growth business, cosmetics.

The key point of the interim results here is that sales, especially to overseas customers, declined. This was a very significant impact. Overall, sales volume was down 16.9% YoY. In addition, production adjustments to reduce inventories also had an impact, resulting in an operating loss due to plant shutdown costs.

As a result, net sales for this interim period were JPY1.194 billion and operating income was a negative JPY8 million, resulting in a decrease in both sales and income.

Titanium dioxide and zinc products (excluding cosmetics materials)

Businesses considered for efficiency improvement



- Year-on-year Comparison (million yen)

	2022.9	2023.9	Increase/decrease	
Net sales	7,596	7,082	(514)	(6.8%)
Operating income	362	(519)	(881)	(243.4%)

Key points of the interim financial results for the fiscal year ending March 31, 2024

- Titanium dioxide: Despite price revisions gradually permeating the market, the onslaught of cheap Chinese products has worsened market conditions, with decreased shipment volume compared to the previous fiscal year and lower operating rates leading to decreased revenue and profit. (Volume: -20.4%)
- Zinc products: While sales volume for automobile tires has remained steady, zinc market prices have dropped significantly compared to the previous fiscal year, which affected unit sales prices, leading to decreased revenue and profit.

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These are titanium dioxide and zinc products for the efficiency improvement study project.

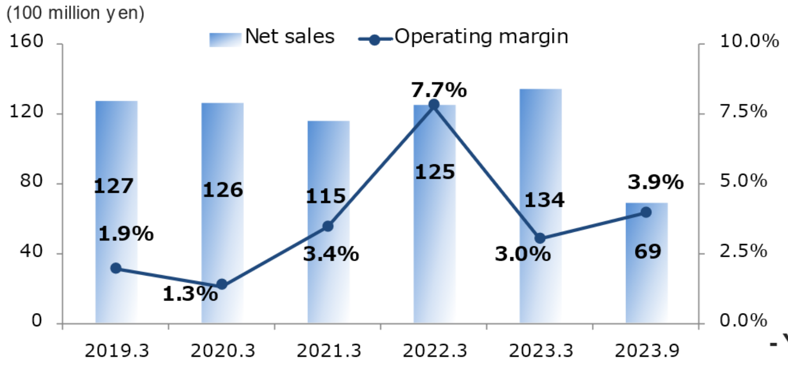
As for titanium dioxide, as mentioned previously, although price revisions have gradually penetrated the market, the influx of inexpensive Chinese products has worsened the market environment, resulting in a YoY decline in shipment volume and lower utilization ratio, resulting in lower sales and profits. Volume was down 20.4% from the same period last year.

In the zinc products business, sales volumes of automotive tires and other products were firm, but the zinc market price fell sharply from the same period of the previous fiscal year, and unit selling prices were affected by the drop in the market price.

As a result, the total sales of these two businesses amounted to JPY7.082 billion, and operating income was a loss of JPY519 million, also a decrease in sales and profit.

Plastic additives

Businesses considered for efficiency improvement



- Year-on-year Comparison (million yen)

	2022.9	2023.9	Increase/decrease	
Net sales	6,712	6,944	232	3.5%
Operating income	312	273	(39)	(12.5%)

Key points of the interim financial results for the fiscal year ending March 31, 2024

- In products aimed at the domestic market, price revisions have permeated the market, but demand for PVC used in joints, pipes, and construction materials used widely in housing, etc., has dropped, leading to a decrease in sales volume and consequently decreased revenue and profit
- In products aimed at the international market, despite decreased sales volume of lead-based stabilizers in Thailand amid a switch from lead to lead-free stabilizers, increased sales volume of lead-free stabilizers in Thailand and Vietnam as well as permeation of price revisions throughout the market have led to increased revenue and profit

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Next, this is also an efficiency improvement study project, plastic additives.

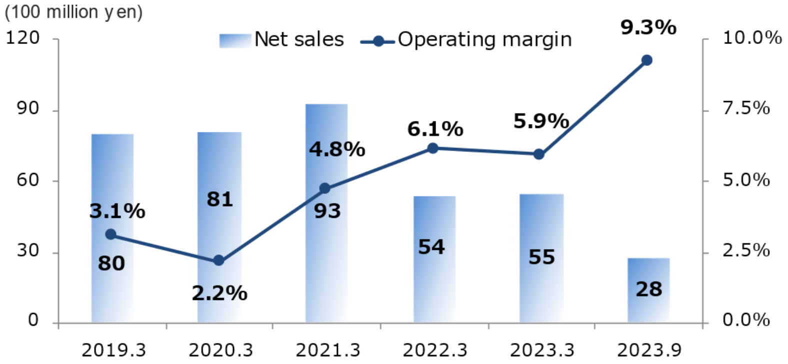
As for the key points of these interim financial results, the price revision for the domestic market has penetrated the market. However, both sales and profits declined due to a decrease in sales volume caused by the sluggish market for polyvinyl chloride (PVC), which is used for building materials, fittings, and pipes widely used in housing and other applications.

In the overseas market, sales volume of lead-based stabilizers in Thailand declined amid the ongoing shift from lead-based to non-lead-based stabilizers, but sales volume of non-lead-based stabilizers in Thailand and Vietnam increased, and price revisions penetrated the market, resulting in an increase in sales and profit.

As a result, sales of plastic additives amounted to JPY6.944 billion, and operating income was JPY273 million, an increase in sales and a decrease in income.

Hygienic products

Stable businesses



- Year-on-year Comparison (million yen)

	2022.9	2023.9	Increase/decrease	
Net sales	2,652	2,763	111	4.2%
Operating income	136	256	120	88.2%

Key points of the interim financial results for the fiscal year ending March 31, 2024

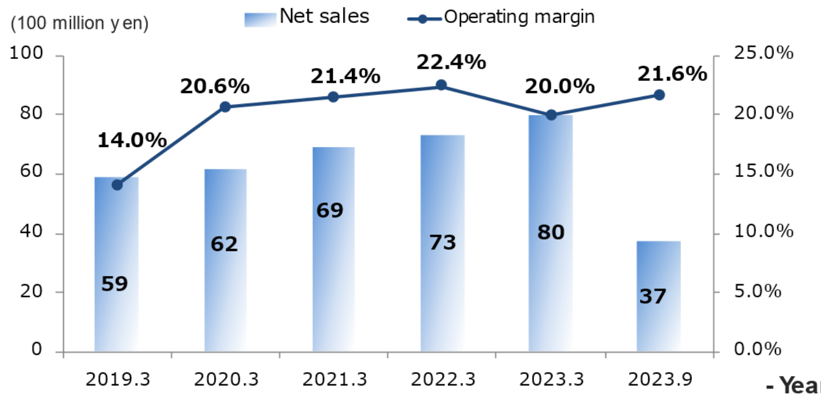
- Cost pass-through and cost reductions have led to increased revenue and profit.

Next is hygienic products, which is a stable business. This segment saw an increase in both sales and income due to progress in price pass-through and cost reductions, and an improvement in the operating income margin.

Net sales were JPY2.763 billion and operating income was JPY256 million, resulting in an increase in both sales and income.

Organic chemicals

Stable businesses



- Year-on-year Comparison (million yen)

	2022.9	2023.9	Increase/decrease	
Net sales	4,383	3,727	(656)	(15.0%)
Operating income	939	806	(133)	(14.2%)

Key points of the interim financial results for the fiscal year ending March 31, 2024

- In active pharmaceutical ingredients (API) and intermediates, API sales volume has increased but pharmaceutical intermediate sales volume has decreased, leading to decreased revenue and profit.
- In thio products, sales volume of plastic lens additives surpassed initial forecasts, leading to increased revenue. However, despite progress in cost pass-through for raw material and fuel price hikes, the impact of further price hikes could not be avoided, leading to decreased profits.

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Next is organic chemicals.

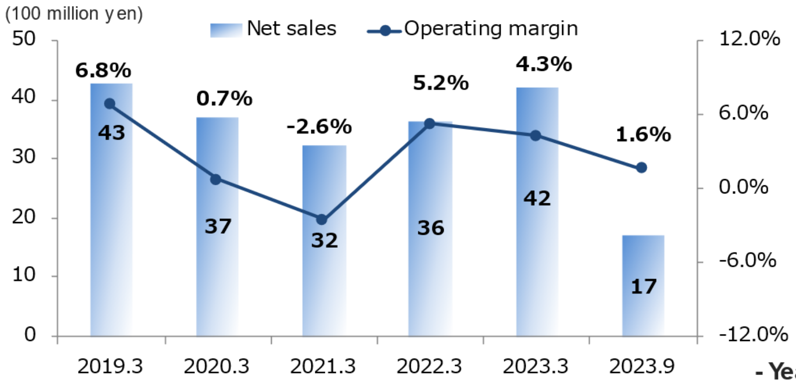
As for the key points of this interim financial results, sales and profits of bulk pharmaceutical intermediates decreased due to a decline in sales volume of pharmaceutical intermediates, despite an increase in sales volume of APIs.

In thio products, sales volume of additives for plastic lenses exceeded the initial forecast, resulting in an increase in sales. However, although progress has been made in passing on higher raw material and fuel prices, the impact of further price hikes was unavoidable, resulting in a decrease in profit.

As a result, the organic chemicals segment reported net sales of JPY3.727 billion and operating income of JPY806 million, a decrease in both sales and income.

Catalysts

Businesses considered for efficiency improvement



- Year-on-year Comparison (million yen)

	2022.9	2023.9	Increase/decrease	
Net sales	2,062	1,689	(373)	(18.1%)
Operating income	104	27	(77)	(74.0%)

Key points of the interim financial results for the fiscal year ending March 31, 2024

- For nickel catalystsused in resin hydrogenation processes, progress has been made in cost pass-through for raw material price hikes, leading to improved revenue.
- For deNOx catalysts used in thermal power plants and waste incinerators, sales of large-scale properties overseas, which contributed to performance in the previous fiscal year, have slowed, leading to decreased revenue and profit.

Continuing on with the catalyst for the efficiency study project.

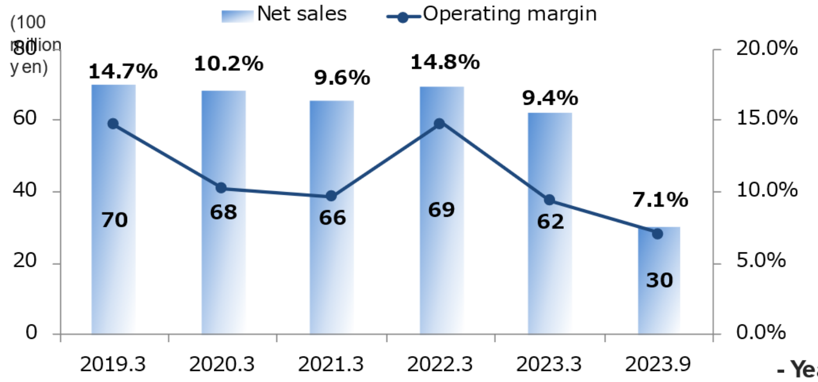
As for the main points of the interim financial results, earnings of nickel catalysts used in the hydrogenation process of resins improved due to progress in passing on higher raw material prices.

Sales and earnings of deNOx catalysts used in thermal power plants and waste incineration plants decreased due to the drop in shipments of large overseas projects that contributed to earnings in the previous fiscal year.

As a result, the catalyst resulted in sales of JPY1.689 billion and operating income of JPY27 million, a decrease in both sales and income.

Contract processing

Stable businesses



- Year-on-year Comparison (million yen)

	2022.9	2023.9	Increase/decrease	
Net sales	3,192	3,009	(183)	(5.7%)
Operating income	368	213	(155)	(42.1%)

Key points of the interim financial results for the fiscal year ending March 31, 2024

- Processed pigment sales for the automotive industry have increased compared to the previous fiscal year, but due to decreased sales of pigment for building materials and bath additives as well as the impact of raw material and fuel price hikes, revenue and profit have decreased.
- In contracted processes as baking, mixing, and drying, a major project has come to an end, resulting in decreased revenue and profit.

Next is contract processing which is a stable business.

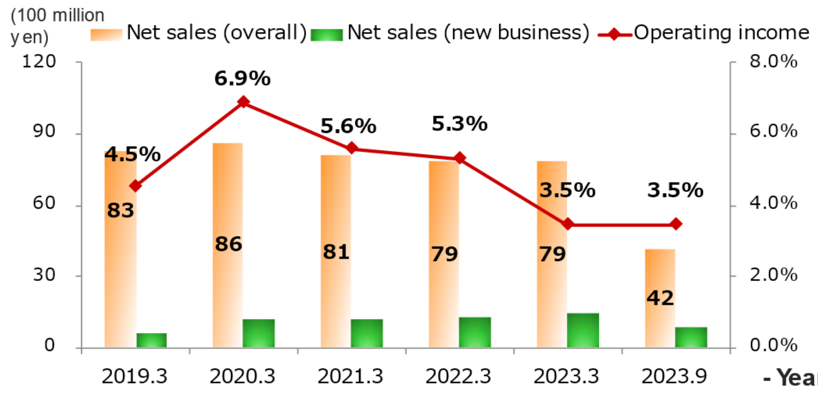
As for the key points of the interim results, processed pigment sales and earnings declined due to lower sales for building materials and bath additives and the impact of high raw material and fuel prices, despite higher sales for automotive-related applications compared to the same period last year.

Both sales and profits declined in the contracted firing, mixing, drying and other processes due to the termination of a large project.

As a result, the contracted processing business reported net sales of JPY3.009 billion and operating income of JPY213 million, a decrease in both sales and income.

Medical business

Medical



- Year-on-year Comparison (million yen)

	2022.9	2023.9	Increase/decrease	
Net sales	4,122	4,158	(36)	(0.9%)
Operating income	240	144	(96)	(40.0%)

Key points of the interim financial results for the fiscal year ending March 31, 2024

- Barium contrast agent shipment volume for both the domestic market and exports has decreased, and the impact of raw materialand fuel price hikes has led to decreased revenue and profit
- Both revenue and incomefrom AlloidG declineddue to the impactof NHI price reductionsand lower sales volume
- In medical devices, the launch of a refurbished endoscope washing and disinfection product has led to steady shipment volumegrowth.
- The cold medicineKaigenand other OTC drugs have performedwell, leadingto increased revenue and profit
- Sales volume of products for cosmetic treatment providers (UV supplements), a new business area we are focused on, has surpassed the initialforecast, leadingto increased revenue and profit

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Continuing on, we have the medical business.

As for the key points of the interim financial results, both sales and profits of barium contrast media declined due to lower shipments in both domestic and export markets and the impact of high raw material prices.

Sales and earnings of Alloid G decreased due to the impact of NHI price reductions and lower sales volume.

In medical equipment, renewed endoscope cleaning and disinfection equipment was launched and shipments grew steadily.

OTC drugs, such as cold remedies and Kaigen, performed well, resulting in increased sales and profit.

And since the sales volume of products for cosmetic medical institutions and UV supplements, which we are focusing on as a new business, increased more than our initial forecast, sales and income increased.

As a result, the medical business reported net sales of JPY4.158 billion and operating income of JPY144 million, a decrease in both sales and income.

Full Year Forecast for the Fiscal Year Ending March 31, 2024

Amount units: million

	2023.3		2024.3					
	Full year results		First half results		Second half forecast		Full year forecast	
		Net sales comparison		Net sales comparison		Net sales comparison		Compared to previous period
Net sales	83,861	—	40,471	—	43,529	—	84,000	0.2%
Operating income	4,407	5.3%	917	2.3%	983	2.3%	1,900	(56.9%)
Ordinary income	4,854	5.8%	885	2.2%	815	1.9%	1,700	(65.0%)
Net income attributable to owners of parent	2,344	2.8%	(2,033)	—	1,233	2.8%	(800)	(134.1%)

- In sales, the recovery in demand especially for electronic materials in the second half initially forecast is no longer anticipated, and as such has been revised downward from 91,000 million yen in the initial plan to 84,000 million yen. (7.7%)
- In operating profit, as in sales, the recovery in demand for electronic materials in the second half is no longer anticipated, and as such has been revised downward significantly from 4,500 million yen in the initial plan to 1,900 million yen. (57.8%)

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The last topic for the first item is the full-year forecast for the fiscal year ending March 31, 2024.

For the full year, we forecast net sales of JPY84 billion, operating income of JPY1.9 billion, ordinary income of JPY1.7 billion, and net loss attributable to owners of the parent of JPY800 million.

Both of these downward revisions were made because we no longer expect demand, particularly for electronic materials, to recover from H2, as we had initially anticipated, and we have revised our net sales downward from the original plan of JPY91 billion to JPY84 billion, a decrease of 7.7%.

As with net sales, operating income was revised downward significantly from the initial plan of JPY4.5 billion to JPY1.9 billion due to the fact that earnings from electronic materials, which were expected in H2, are no longer anticipated. The forecast is negative 57.8%.

From the second item, President Yagura will explain.

Deviation From Initial Forecast for the Fiscal Year Ending March 31, 2024

(million yen)

		Initial forecast	First half results	Revised forecast	Amount changed	Percentage changed
Net sales	First half	43,000	40,471		(2,529)	(5.9%)
	Second half	48,000		43,529	(4,471)	(9.3%)
	Full year	91,000		84,000	(7,000)	(7.7%)
Operating income	First half	1,200	917		(283)	(23.6%)
	Second half	3,300		983	(2,317)	(70.2%)
	Full year	4,500		1,900	(2,600)	(57.8%)

- The forecast for business performance in the second half has undergone significant downward revision compared to the initial forecast.

Yagura: Now, I, Yagura, will explain the second half. Once again, please see this slide.

The table shows the original forecast, the actual results for H1, and the revised forecast for net sales and operating income. The colored areas indicate the amount and percentage of change from the original forecast. This initial forecast, which we will use many times later, should be understood as the forecast for the fiscal year ending March 31, 2024, which we presented in our financial results on May 12 of this year.

As you can see from the difference in operating income between H1 and H2 in the initial estimates column on the far left, we originally set our performance estimates conservatively for H1 and expected a recovery, mainly in electronic materials, from H2.

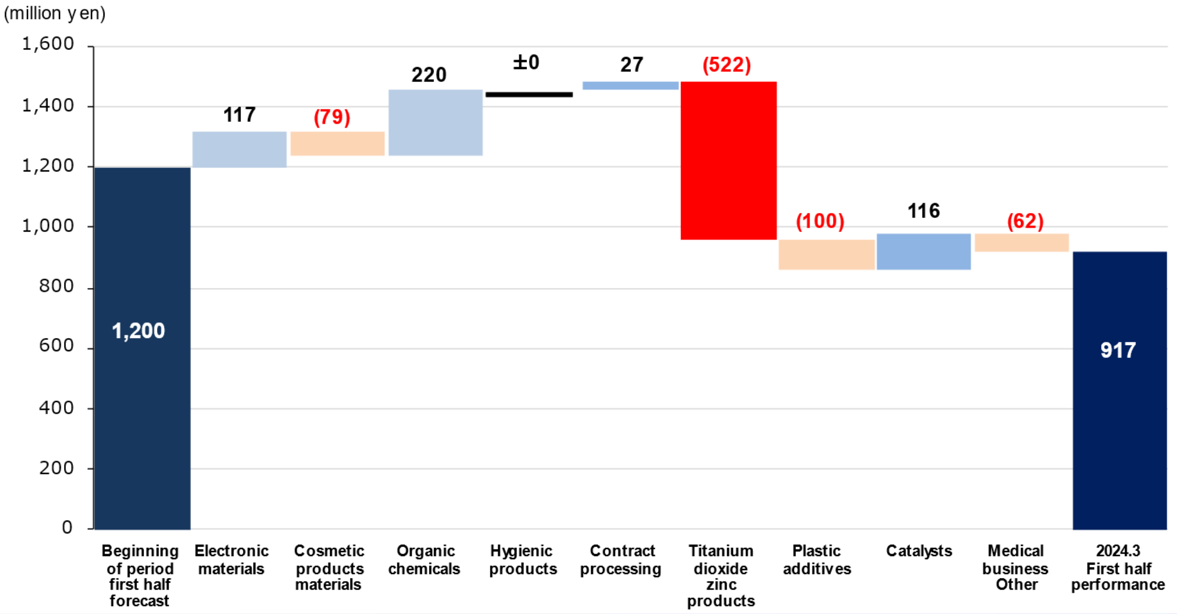
With that in mind, please look at the percent change on the far right. H1 results fell short of initial estimates, with net sales down 5.9% and operating income down 23.6%.

Next, for H2, we have made a significant downward revision of 9.3% for net sales and 70.2% for operating income compared to our initial forecasts, based on our judgment that the initially expected recovery in earnings is not expected during the current fiscal year.

We will explain the background to this difference in estimates for H1 and the major differences in estimates for H2, focusing particularly on segments with large discrepancies, and what we are doing to address them going forward.

Breakdown of difference in amount from initial forecast for the first half of the fiscal year ending March 31, 2024 (by sub -segment)

While some sub-segments surpassed initial forecasts,
profits for titanium dioxide and zinc products decreased significantly



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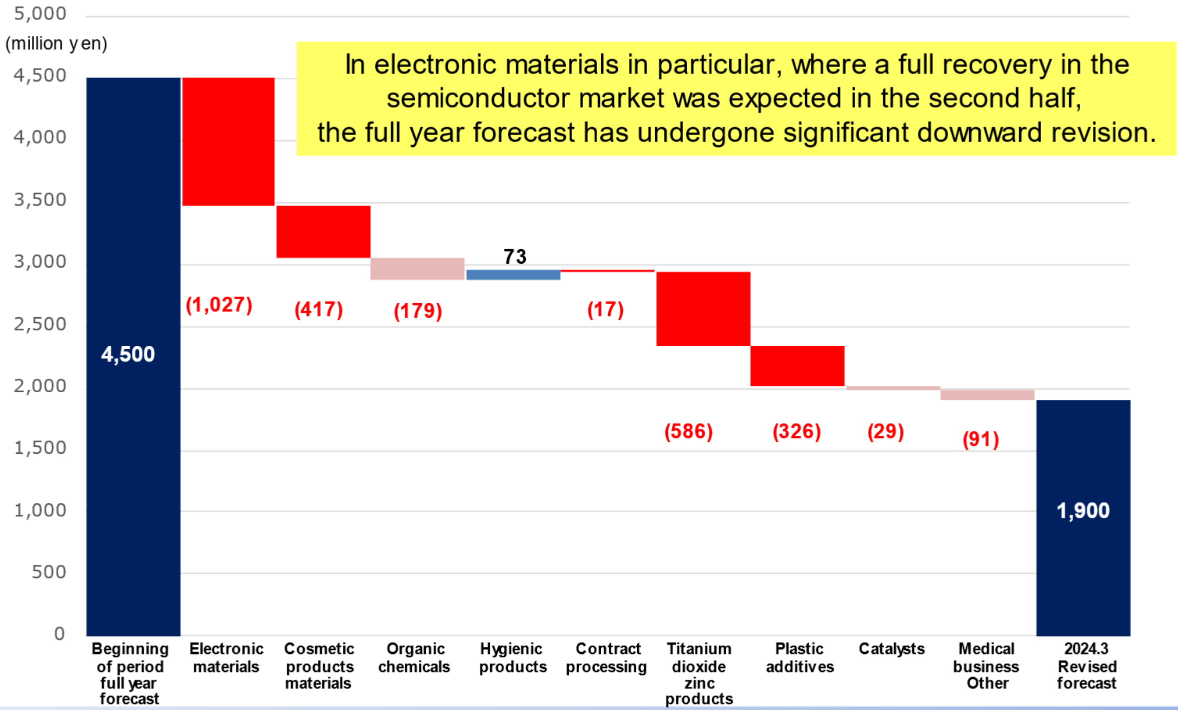
First, we will look at how H1 results compared to H1 profit estimates in each segment.

The bar graph on the leftmost side shows the initial H1 forecast for operating income of JPY1.2 billion, and the amount of deviation from the initial forecast in the segments of electronic materials, cosmetic materials, and organic chemicals, which resulted in JPY917 million in H1.

Originally, we had expected the H1 results to be difficult. As a result, sales of electronic materials, organic chemicals, contract processing, and catalysts were higher than expected, while sales in the four segments of cosmetic materials, titanium dioxide and zinc oxide products, plastic additives, and medical business and others were lower than expected.

Among these, the titanium dioxide and zinc dioxide products, shown in dark red, were the most prominent in the lower-than-expected sales. This was a negative JPY522 million deviation from the initial projection.

Breakdown of difference in amount from initial forecast for the first half of the fiscal year ending March 31, 2024 (by sub -segment)



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Next, I will explain the full-year forecast and the revised H2 operating income by segment.

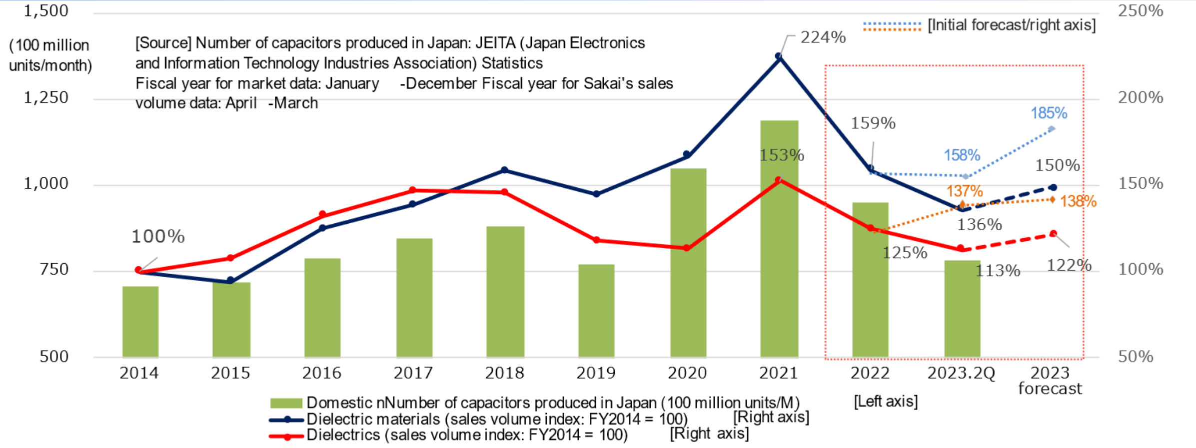
As before, starting from the left, the initial forecast of operating income of JPY4.5 billion, the deviation from the initial forecast of operating income for each segment, and then the revised forecast of JPY1.9 billion for H2 is listed.

Almost all segments, especially electronic materials, for which demand was initially expected to recover from H2, were revised downward from the initial forecast. We have indicated in dark red those businesses that we consider to have particularly large negative margins. These are electronic materials and cosmetics materials, which are positioned as growth businesses, and titanium dioxide and zinc dioxide products and plastic additives, which are positioned as businesses for efficiency improvement. These four categories account for more than 90% of the total negative balance.

From the next page, we will discuss the background and future of each of these four projects.

[Electronic materials] Current sales volume by Sakai has decreased in proportion to the number of capacitors produced in Japan

Growth businesses



While a V-shaped recovery in the semiconductor market is not expected, market conditions are expected to gradually improve, resulting in a recovery in Sakai's sales volume.

Future		
	Dielectrics	Leveraging particle miniaturization technology that excels in hydrothermal synthesis, we are currently focused on the volume zone for nanoparticles.
	Dielectric materials	Sakai's production system is already in place for the recovery/increase in the number of domestically produced capacitors, and we will first raise the operation rate.

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We will begin with electronic materials, which is expected to have the largest negative impact from the initial profit.

The green bar graph shows the monthly average number of capacitors produced in Japan by year, with the unit on the left axis being 100 million units per month. On the other hand, the line graph shows the sales volume index of our electronic materials products, with FY2014 as 100%. The dark blue line graph shows dielectric materials and the red line graph shows dielectrics.

As you can see, there is a general correlation between the number of capacitors produced in Japan and the sales volume of our electronic materials products. With that in mind, please take a look at the area enclosed in the square.

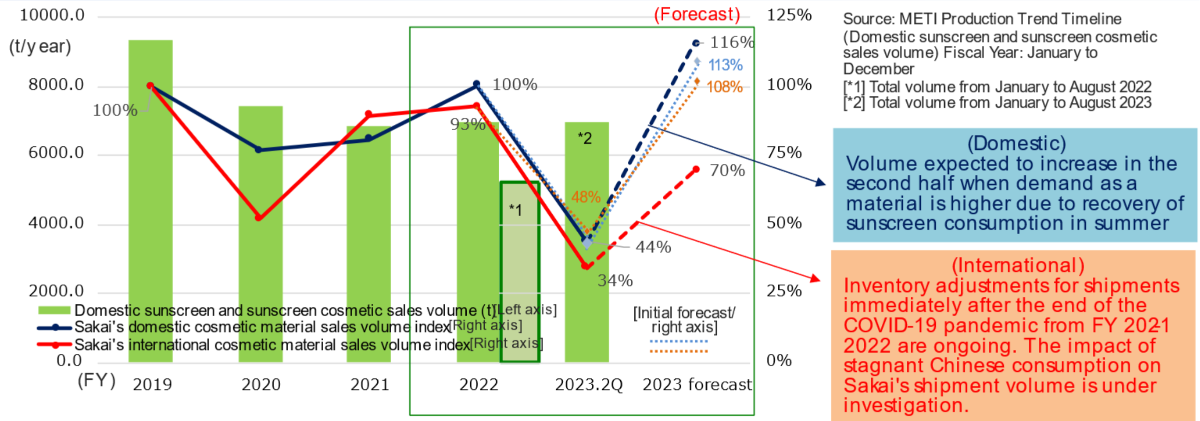
The most recent domestic production of capacitors is lower than in FY2022, and we can see that our H1 sales level is also lower than in the previous year, in line with this trend. We had expected a certain amount of growth up to this point but look here at the dotted line in the line graph, which will grow from FY2022. Although we had initially estimated that the sales volume of dielectric materials and dielectrics would recover to 185% and 138% of the full-year forecast, respectively, the sales volume of dielectric materials and dielectrics are expected to remain at around 150% and 122% of the full-year forecast, partly due to the prolonged capacitor production adjustment.

Although not as initially expected, sales volume is expected to gradually improve compared to H1, and we expect a full recovery in the next fiscal year and beyond. We also see this as a strong external factor due to market conditions and not an internal factor such as the loss of market share in our industry or delays in developing products.

For the future, we will focus on the volume zone of small particle size dielectrics by taking advantage of the characteristics of the hydrothermal synthesis method, and for dielectric materials, we will focus on steadily increasing the operation of facilities invested in the first half of this medium-term business plan period.

[Cosmetic materials] International sales volume sluggish, domestic sales volume expected to increase

Growth businesses



Growth strategy	
Organizational restructuring	Cosmetic Innovation Department has been established. Plans to strengthen material development and ability to meet client needs by consolidating marketing, development, and sales.
Overseas expansion	Sales will be bolstered primarily in the US. Outside of the US, the supply system will be strengthened while complying with a specific chemical substance regulations.
New areas	We will leverage our wealth of experience in handling such elements as Ba and Ca in addition to Zn and Ti to expand beyond sunscreens in the field of cosmetics. (Makeup materials)

SAKAI CHEMICAL INDUSTRY CO., LTD. 24

Next, I will explain our cosmetic materials business, which is also positioned as a growth business.

The green bar graph, market conditions, shows domestic sales volume of sunscreens and tanning cosmetics. On the left axis, the unit is ton-per-year. The line graph shows the monthly average sales volume index of our cosmetic materials in Thailand with FY2019 as 100%. The dark blue line graph shows the domestic sales volume index and the red line graph shows the overseas sales volume index.

Please see the market data for H1 2023. This data is the total volume through August of this year, which is already equal to the total volume for the previous year. This is a confirmation that life in Japan has generally returned to normal and people has taken off their masks. Based on this, we expect domestic sales volume to recover from H2 onward, when demand for materials will be high, and to exceed our initial forecast of 116% as indicated by the light blue dotted line.

On the other hand, the current issue is for overseas markets. Note the red line graph. As indicated by the dotted orange line, we initially expected average annual sales of 100%. We have revised downward our plan to 70%. The reason for this is that, once the pandemic settled down to some extent from FY2021 to FY2022, many overseas shipments increased, and inventory adjustments on the user side are still continuing.

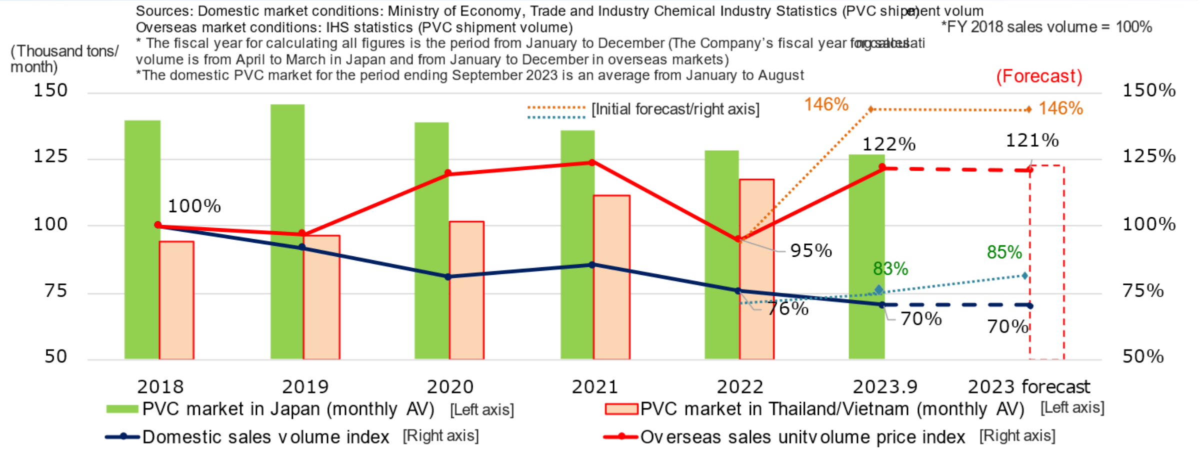
Although we do not export directly to China, we have information that the trend of end products in China is slowing down, and we are currently scrutinizing information to determine the extent to which the slump in consumption in China will affect our product sales.

As for the future, we established the cosmetic innovation department as of September 16th to unite sales and development functions in the same organization and to strengthen our ability to propose materials faster. In the area of overseas development, which is an issue for us, we are strengthening our sales and supply systems while complying with region-specific chemical substance regulations, mainly in the US where we already have a strong track record, but also in Europe.

We would also like to expand the scope of our cosmetic materials business by proposing materials of our unique elements, targeting cosmetic fields other than sunscreen materials, especially makeup materials.

[Plastic additives] In international products, there has been a temporary impact due to a shift from lead to leadfree products. Sales expansion will continue primarily in Southeast Asia, where PVC demand is growing

Businesses considered for efficiency improvement



- Demand for irrigation equipment and infrastructure development in Southeast Asia, primarily Thailand and Vietnam, is expected to expand in the medium to long term. Technical training at the head factory for local staff is currently underway to enable agile local sales.
- The current sales volume for lead-based stabilizers in the international market has been lackluster due to a shift from lead-based to lead-free stabilizers.

	2018	2019	2020	2021	2022	2023 2Q	2023
*Overseas sales ratio	31.8%	33.1%	40.9%	40.4%	36.9%	44.8%	44.6%

* Calculations are based on local sales volumes at local subsidiaries in Thailand and Vietnam [Forecast]

SAKAI CHEMICAL INDUSTRY CO., LTD. 25

Next, I will explain the plastic additives business, which is positioned as an efficiency improvement study business.

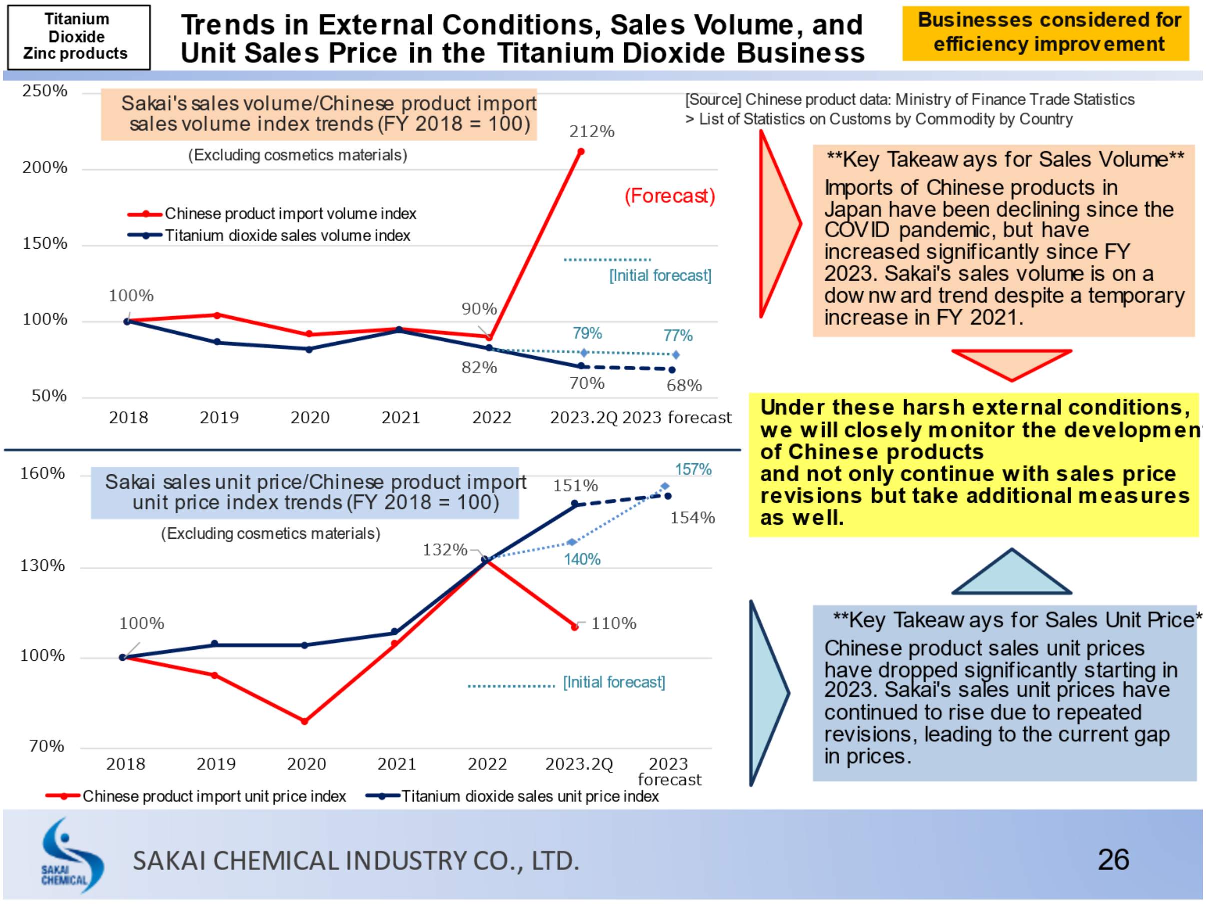
The bar graph shows the PVC market, with green showing the domestic market and pink showing the market in Thailand and Vietnam, and the unit on the left axis is 1,000 tons per month. The line graph shows the monthly average sales volume index of our plastic additives business with FY2018 as 100, with red showing the overseas local sales movement and dark blue showing the domestic sales movement.

In the domestic market marked in blue, we have revised downward our sales forecast from 85% to 70% of the initial annual forecast due to the downward trend in the domestic PVC market. As for overseas, we do not expect to reach our annual projection of 146%, but rather 121%.

The main reason was that sales of lead-based stabilizers in Thailand were weaker than initially expected. We expect to cover the decline in sales of lead-based stabilizers by strengthening exports to countries around

Thailand to secure sales volume, and we plan to further promote sales of non-lead stabilizers, which we are already promoting.

As indicated in the pink bar graph, we will continue to focus on expanding sales of PVC in Southeast Asia, where demand for PVC is increasing year by year, as we have already begun training at our head office plant to strengthen the ability of local staff to propose formulations.



Finally, I would like to explain our titanium dioxide and zinc dioxide products, which are also positioned in the efficiency improvement study project. Since titanium dioxide accounts for a very large proportion of this segment and most of the negative factors are titanium dioxide, I will focus on titanium dioxide in this section.

This slide shows the index trend of the sales volume of titanium dioxide made in China and our titanium dioxide and the unit sales price of titanium dioxide when FY2018 is set as 100%. The upper graph shows the index of sales volume and the lower graph shows the index trend of unit sales price. The red line graph shows the transition of Chinese products and the blue line graph shows the transition of our products.

First, the volume trend on the upper side shows that a large volume of Chinese products have been flowing into Japan since the beginning of FY2023. The graph on the bottom shows that we have revised our prices more than expected, from 140% in H1 to 151%, but the price of Chinese products has dropped significantly, from 132% to 110%.

As described above, the environment surrounding titanium dioxide in Japan is becoming increasingly severe because local products that can no longer be sold in China are entering the Japanese market at low prices due to the effects of the economic downturn in China.

Against this backdrop, and in line with our policy of not pursuing volume, the H1 sales declined from 79% of our initial forecast to 70%, and we expect the annual sales to decline to 68% in the current fiscal year. The resulting increase in per-unit fixed costs as a percentage of cost of goods to be sold will be a heavy burden, further lowering profit margins.

Although this difficult business environment will continue, we plan to take additional measures, not only to correct selling prices, while keeping a close eye on the movement of Chinese products.

[Summary] Growth Businesses: Preparations for increasing sales volume are in place
Businesses considered for efficiency improvementWith the exception ofplastic additives for the international market, we will strive to improve profitability instead of volume.

		Now	Future
Growth businesses	Electronic materials	➢ Sales volume remains low since the production adjustment phase of MLCC production volume, primarily for consumer products.	➢ Sales volume is expected to increase when the adjustment phase ends and EVs and electronic equipment for 5G/6G spreads further. ➢ Capital investment and raw material procurement for this purpose has already been conducted, including making Sakai Trading a wholly owned subsidiary.
Growth businesses	Cosmetic materials	➢ In Japan, the easing of COVID-19 restrictions and the return to normal life has led to a recovery in demand. ➢ Overseas, inventory adjustments are still underway for shipments made immediately after the end of COVID-19.	➢ In Japan, there is growing awareness of sunscreen use, and sales are expected to increase steadily. ➢ Overseas, shipments are expected to increase gradually once inventory adjustments settle down. Scrutiny related to China is ongoing. ➢ A new field of makeup materials will be developed.
Businesses considered fo efficiency improvement	Titanium dioxide and zinc	➢ High volumes of cheap Chinese products continue to be imported into Japan, suggesting that challenging sales conditions will persist.	➢ Existing measures will continue, with a focus not on volume but on revising sales prices. ➢ Additional measures will be put in place to hasten improvement of profit.
Businesses considered fo efficiency improvement	Plastic additives	➢ In Japan, where the PVC market is on a downward trend, increasing sales is expected to be difficult. ➢ Overseas, where the PVC market is expanding, there has been a shift from lead-based to lead-free stabilizers.	➢ Efforts are underway to revise the prices of low profit products or discontinue them and to improve the sales portfolio by going from domestic to international. ➢ Overseas, demand for pipe materials for irrigatio is expected, and we will focus on expanding loca sales of lead-free stabilizers, particularly in Thailand and Vietnam.

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This has been an explanation of the four businesses that are expected to see large downward revisions from the initial forecast.

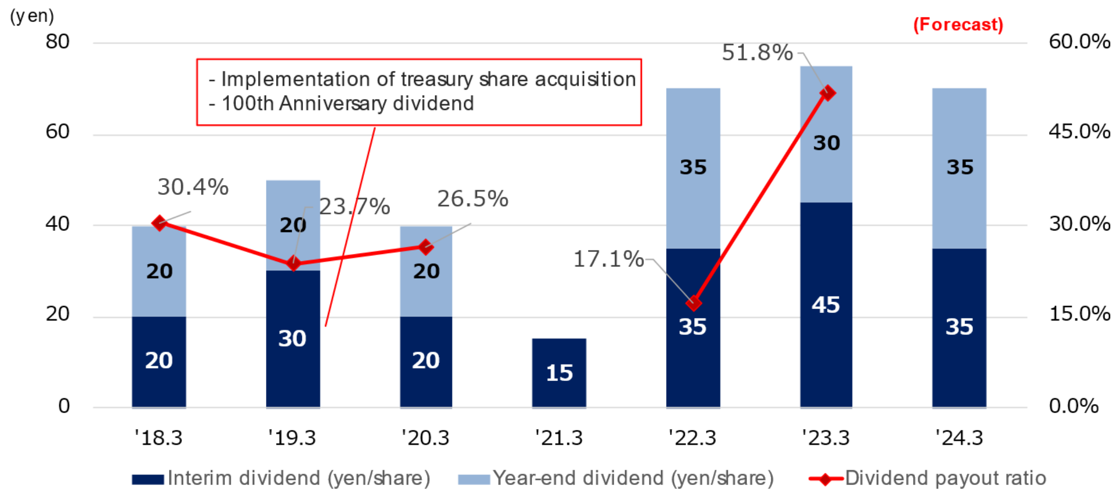
As for electronic materials, domestic capacitor production has remained sluggish, but as the demand for capacitors increases, production volume is expected to recover and our sales volume is also expected to increase as the demand for capacitors grows in step with the shift to EVs for automobiles and the increasing performance of electronic devices such as 5G and 6G. We have already implemented measures to strengthen raw material procurement, including capital investment and making Sakai Trading a wholly owned subsidiary, in order to achieve this.

As for cosmetic materials, domestic demand is recovering and awareness of sunscreens is increasing, so we expect steady growth in shipment volume. As for overseas demand on the other hand, we expect a recovery in shipment volume once inventory adjustments are resolved at least locally, with the exception of China. There are uncertainties related to China, and we will continue to closely scrutinize the situation.

Next, in the titanium dioxide and zinc dioxide products business, which is a business we are studying to improve efficiency, we expect conditions to remain difficult due to the deteriorating market environment, including the influx of inexpensive Chinese products. Due to the sharp deterioration in earnings, the Company will work to improve earnings as soon as possible while taking additional measures in addition to the initiatives taken to date.

In the plastic additives business, the PVC market in Japan is expected to remain in a severe situation with a downward trend, but overseas, as the market expands, the switch from lead-based to non-lead-based stabilizers is expected to progress. Based on these efforts, we will push forward with the price correction and discontinuation of low-profit products in Japan and further improve our sales portfolio from Japan to overseas. As for overseas, we will focus on expanding sales of non-lead stabilizers locally, mainly in Thailand and Vietnam, in light of the expanding PVC market conditions, such as demand for irrigation measures.

Shareholder Return



Basic Policy on Dividends of Surplus

We will implement the distribution of profits with **a target payout ratio of 30% or more** (2 times/year).

About the Fiscal Year Ending March 2024

Dividend payment expected to be **70 yen/share for the year (35 yen for the interim, 35 yen for the year-end)**

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Finally, I would like to discuss the prospects for shareholder returns and capital expenditures, etc.

Regarding shareholder returns, although we have revised our financial results downward significantly, we currently expect to pay an interim dividend of JPY35 and a year-end dividend of JPY35, for a total of JPY70, unchanged from the amount we announced at the beginning of the fiscal year.

We will announce our shareholder return and dividend policy for the following fiscal year and beyond at the time of the announcement of our new medium-term management plan, which is currently being finalized.

We have been working on the new medium-term management plan with the aim of presenting it within the first year. In light of the recent significant deterioration in business performance, we have come to the conclusion that a more elaborate study is necessary, depending on the level of operating income that will serve as the foundation and the details of the various initiatives. Therefore, we will consider announcing the new medium-term management plan at the same time as the announcement of financial results at the end of the current fiscal year.

Trends and forecast for capital expenditures, depreciation, and research and development expenses

Amount units: million yen

	2019.3	2020.3	2021.3	2022.3	2023.3	2023.9	2024.3
Capital investment	6,891	8,403	9,567	5,967	2,658	1,646	**3,500**
Depreciation	3,189	3,686	4,243	4,331	4,417	2,255	**4,500**
Research and development expenses	2,951	2,898	2,487	2,376	2,674	1,359	**3,000**

(Forecast)

- Capital investment

No major investments have been made as in the first half of the current mid -term plan, and plans are currently in place to account for necessary maintenance and upgrade expenses.

- Research and development expenses

In order to accelerate the early transfer of pilot -scale product manufacturing and efforts to convert bulk pharmaceutical intermediates to CDMO, funds will be invested in staff replacement and employee training.

See the red box for capital expenditures, depreciation, and R&D expense trends. There is no change from the initial forecast, and no major capital investment is planned.

We plan to make the necessary investments in research and development expenses in order to transfer the production of pilot-scale products and prepare for the conversion of bulk pharmaceutical intermediates into CDMOs.

This is the end of the Company's explanation of the financial results. Thank you for your attention.

Question & Answer

Moderator [M]: Thank you very much. We will now begin with a question-and-answer session from those of you in the audience. Please raise your hand if you have any questions.

Here, from the second from the front.

Participant [Q]: Thank you for your explanation.

I believe there is a request from TSE to improve PBR, but how are you going to address to that?

Yagura [A]: Thank you for your question. We believe that we must respond seriously to the request for PBR improvement. Since our PBR is currently very low, we are considering a method to improve cash flow and PBR while gradually increasing earnings through a drastic review of businesses under consideration for efficiency improvement that have low earnings.

Moderator [M]: Thank you very much. I there is any other questions, please raise your hand. Any questions? Since there do not appear to be any questions from the audience, we will now move on to questions from those participating online. The IR personnel has been taking care of your questions, so please proceed after this.

Company Representative [M]: I would appreciate your comments in the chat. We had a problem with the audio and other communication, which was confirmed in advance. We have received your question, and I would like to read it out loud.

Participant [Q]: You have an operating deficit, but to what extent were there one-time factors such as fixed repairs? Please answer in Q2 only, from July to September, not interim.

Yagura [A]: We have not been able to calculate in detail, but roughly speaking, I estimate that we have lowered the price by about JPY200 million.

Ogama [A]: As a supplementary note, there was an impact of scheduled repairs in Q2. The JPY200 million mentioned earlier is expected to be negatively impacted by those periodic repairs, etc. The point is that it is temporary.

Company Representative [M]: If you have any additions, please feel free to write it down on chat again.

Participant [Q]: What is your view by sub-segment for H2? Which sub-segments will improve compared to Q2?

Company Representative [M]: Mr. Ishibashi, just to confirm from here, is my understanding correct that the segment will improve from H1 to H2?

Participant [Q]: Regarding the confirmation on page 23. When you say 113% for Q2 2023 and 122% for the forecast for 2023, does that mean that for H2 it will be about 130%? If so, I take this to mean that it would be a significant improvement, but what do you think?

Ogama [A]: As you mentioned, we expect a recovery in electronic materials in H2, but compared to the original plan, the recovery will be slower than originally expected, but I think you are correct in your understanding.

Company Representative [M]: Ogama has answered your question, do you have any follow up questions to ask?

Participant [Q]: So by that same logic, if the cosmetics materials business was 34% in H1 and 70% for the full year, does that mean it will return to around 100% in H2?

Ogama [A]: Yes. In terms of cosmetics, we expect a considerable recovery from H1 due in part to the fact that these are seasonal products, and I believe our understanding of the volume is generally correct.

Company Representative [M]: Ogama has answered your question. Are there any more questions? Since there seems to be no particular hand raised, I will return the microphone to the Secretariat.

Moderator [M]: Thank you very much. Just in case anyone in the audience has any additional questions, please raise your hand. Any questions? There does not seem to be anything in particular. If the company has any additional items to add, how about it? Any? I understand.

This concludes today's financial results briefing. Thank you all very much.

[END]

Document Notes

1. *Portions of the document where the audio is unclear are marked with [Inaudible].*
2. *Portions of the document where the audio is obscured by technical difficulty are marked with [TD].*
3. *Speaker speech is classified based on whether it [Q] asks a question to the Company, [A] provides an answer from the Company, or [M] neither asks nor answers a question.*
4. *This document has been translated by SCRIPTS Asia.*

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