



Sakai Chemical Industry Co., Ltd.

Financial Results Briefing for the Fiscal Year Ended March 2021

May 25, 2021

Event Summary

[Company Name]	Sakai Chemical Industry Co., Ltd.	
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[Venue Size]		
[Participants]		
[Number of Speakers]	2	
	Masaaki Yabe	President, Representative Director
	Atsuya Nakanishi	Managing Director, In charge of Investor Relations

Presentation

Moderator : It is time to start. Thank you very much for taking time out of your busy schedules to join us today for the financial results briefing of Sakai Chemical Industry Co., Ltd. for the fiscal year ended March 2021. Now, we will hold a briefing session.

In order to prevent the spread of COVID-19, we decided to hold the briefing session live on the web instead of at the venue.

As for today's schedule, first, President Yabe would like to apologize and explain about the explosion and fire accident at the Yumoto Factory in Iwaki City, Fukushima Prefecture, which occurred on May 11.

Apology

We would like to express our deepest sympathy to those who were injured in the explosion and fire that occurred at our Yumoto Factory on May 11, 2021, and our sincere apologies for the inconvenience and concern caused to the many people affected, including area residents, the authorities concerned, our shareholders, and our customers.

We are continuing to investigate the cause of the accident. We will work to prevent such an accident from happening again in the future and strive to restore trust in the company.

Sakai Chemical Industry Co., Ltd.
President and Representative Director, Masaaki Yabe



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About the Explosion and Fire Accident at the Yumoto Factory

Regarding the explosion and fire at the Yumoto Factory that occurred on May 11, we would like to explain the current situation as of May 25.

1. Location of occurrence

1-1, Sawame, Joban Iwagaoka-cho, Iwaki-shi, Fukushima Prefecture
Yumoto Factory Zinc dust manufacturing plant (red line)

2. Human injuries and property damage

- Four employees of a subcontractor were suffered serious and light injuries.
- There was damage to the side and roof of the zinc dust plant building as well as equipment inside the plant. Details are under investigation.
- The zinc oxide plant (for industrial use) located in the same factory was not affected.

3. Impact on business performance

Currently under investigation.



Zinc dust is mainly used in anti-rust paints. Our company manufactures it only at the Yumoto Factory. Annual sales of zinc dust for the fiscal year ended March 31, 2021, were JPY1.3 billion.

The fire and smoke have been contained, but we are still waiting for the temperature of the remaining zinc dust in the plant to drop, and the fire department has not yet declared the fire extinguished.

Once the fire has been extinguished, we will continue to investigate the cause of the fire together with the relevant authorities, and set up an accident investigation committee including experts to investigate the cause of the accident and make thorough efforts to prevent a recurrence.



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Yabe: I am Yabe.

First of all, we extend our deepest sympathy to those who were injured in the explosion and fire accident that occurred at our Yumoto Factory on May 11, and we sincerely hope for their early recovery. We express our sincere apologies for the inconvenience and concern caused by this accident to our neighbors, authorities, customers, shareholders, and many others.

As for the cause of the accident, we will cooperate with the fire department and the police in their investigations and establish an accident investigation committee, including third-party experts, to conduct a thorough investigation. We will work to prevent recurrence so that such an accident will not occur again, and strive to restore the trust of everyone.

We are currently examining the impact of this accident on our business performance, and will make an announcement as soon as it becomes clear.

Moderator: The above was the greeting and report from the president.

We will now begin to explain the financial results.

Mr. Nakanishi, Managing Director, in charge of Investor Relations, will provide an overview of the fiscal year ended March 31, 2021, followed by Mr. Yabe, President, Representative Director, who will explain the impairment loss disclosed in March of this year and the earnings forecast for the fiscal year ending March 31, 2022. At the end, we will have a question-and-answer session, and we will use the raise hand feature of the Zoom webinar to take your questions. The event is scheduled to end at 16:30.

Now, Managing Director Nakanishi, please start.

**Overview of business results for the fiscal year ending March 2021
(compared to the previous year)**

Monetary units: million yen

	2020.3		2021.3		Increase/decrease	
		Net Sales Ratio		Net Sales Ratio		
Net Sales	87,177	100.0%	84,918	100.0%	(2,258)	(2.6%)
Operating Income	4,015	4.6%	4,304	5.1%	289	7.2%
Ordinary Income	4,208	4.8%	4,012	4.7%	(196)	(4.7%)
Profit (loss) attributable to owners of parent	2,535	2.9%	(2,803)	(3.3%)	(5,339)	-

◆ **Net Sales**

Sales of organic chemicals and hygienic products were strong, but sales of titanium dioxide and zinc products, plastic additives, etc. were weak due to the impact of the COVID-19 during the first half of the year, resulting in a decrease in sales.

◆ **Profit**

Operating income increased as a result of lower manufacturing costs, company-wide cost-cutting efforts, and the fact some fixed costs were recorded as non-operating expenses.

However, net income ended up in net loss due to a JPY7 billion impairment loss.

* Non-operating expenses of JPY543 million were recorded for fixed costs for the suspended period.



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Nakanishi: I am Nakanishi. Thank you.

First, I would like to provide an overview of our financial results for the fiscal year ended March 31, 2021, focusing on the YoY figures.

First of all, net sales were JPY84,918 million, a decrease of JPY2,258 million, or 2.6% YoY.

Operating income was JPY4,304 million, an increase of JPY289 million, or 7.2% YoY. However, as you can see in the note below, we have recorded JPY543 million for the fixed costs for the suspended period as non-operating expenses, so in effect, profits have decreased.

Ordinary income was JPY4,012 million, a decrease of JPY196 million YoY.

Loss attributable to owners of parent was JPY2,803 million, a significant decrease of JPY5,339 million YoY, due to the recording of an impairment loss of over JPY7 billion, which we will explain later.

Although some products, such as organic chemicals and hygienic products, performed well, sales of many products, such as titanium dioxide, zinc products, and plastic additives, were sluggish due to the impact of COVID-19 in H1 of the fiscal year. There was a partial recovery in H2 of the fiscal year, but there was a large decrease in revenue.

In terms of profits, we have made efforts to reduce manufacturing costs and cut expenses across the board, but this has not been enough to offset the negative impact of sales, and in effect, operating income has also decreased.

Net sales and operating income by business

Monetary units: million yen

		2020.3	2021.3	Increase/decrease	
Chemical Business	Net Sales	78,555	76,821	(1,733)	(2.2%)
	Operating Income	5,614	5,731	117	2.1%
Medical Business	Net Sales	8,621	8,096	(525)	(6.1%)
	Operating Income	594	452	(141)	(23.8%)
Company-wide Expenses	Net Sales	-	-	-	-
	Head Office Expenses	(2,193)	(1,880)	-	-
Total	Net Sales	87,177	84,918	(2,258)	(2.6%)
	Operating Income	4,015	4,304	289	7.2%



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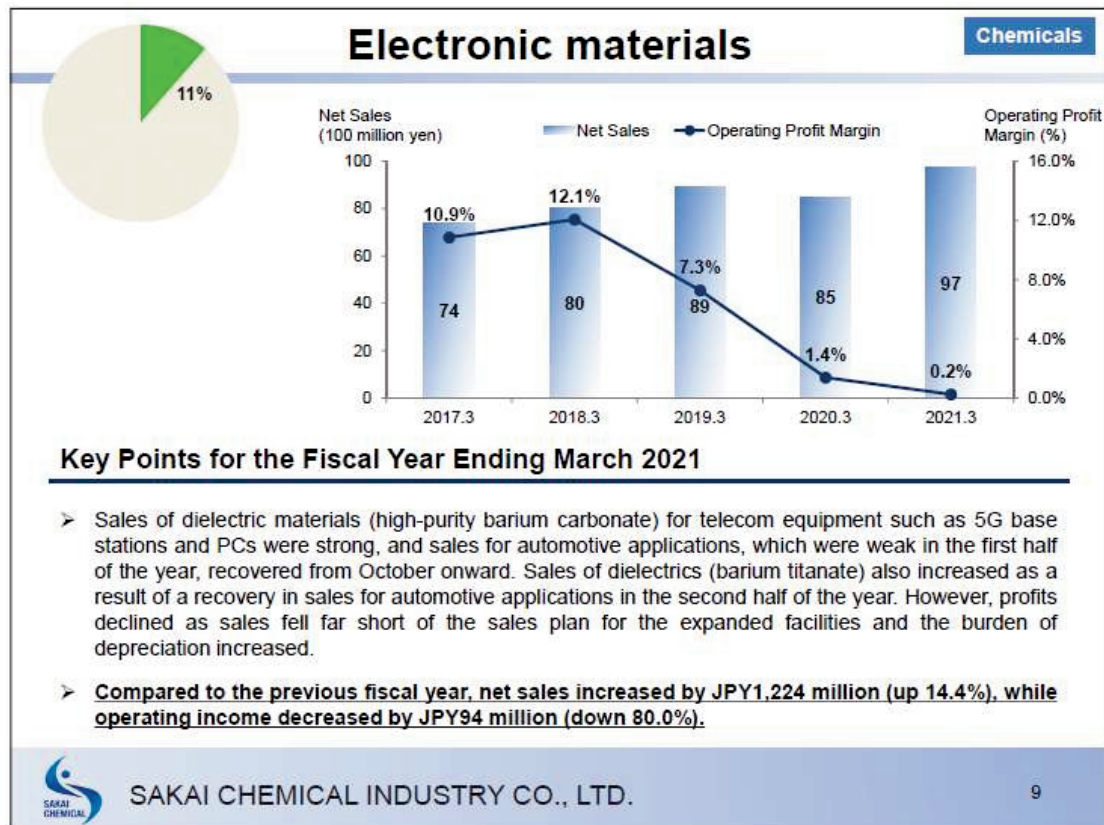
I will now report on the financial results by segment.

First, in the chemicals business, net sales decreased by JPY1,733 million, or 2.2% YoY, to JPY76,821 million. Operating income increased by JPY117 million to JPY5,731 million, but as I explained earlier, the majority of the fixed costs for the suspended period was incurred in the chemicals business, so in effect, operating income declined.

In the medical business, as I will explain in more detail later, net sales decreased by JPY525 million to JPY8,096 million, and operating income decreased by JPY141 million to JPY452 million.

Company-wide expenses related to the headquarters division decreased to JPY1,880 million. This is approximately JPY300 million YoY decrease as a result of company-wide efforts.

The total is the same as the total for the entire company I explained earlier, so I will omit it.



Now, let's look at each sub-segment.

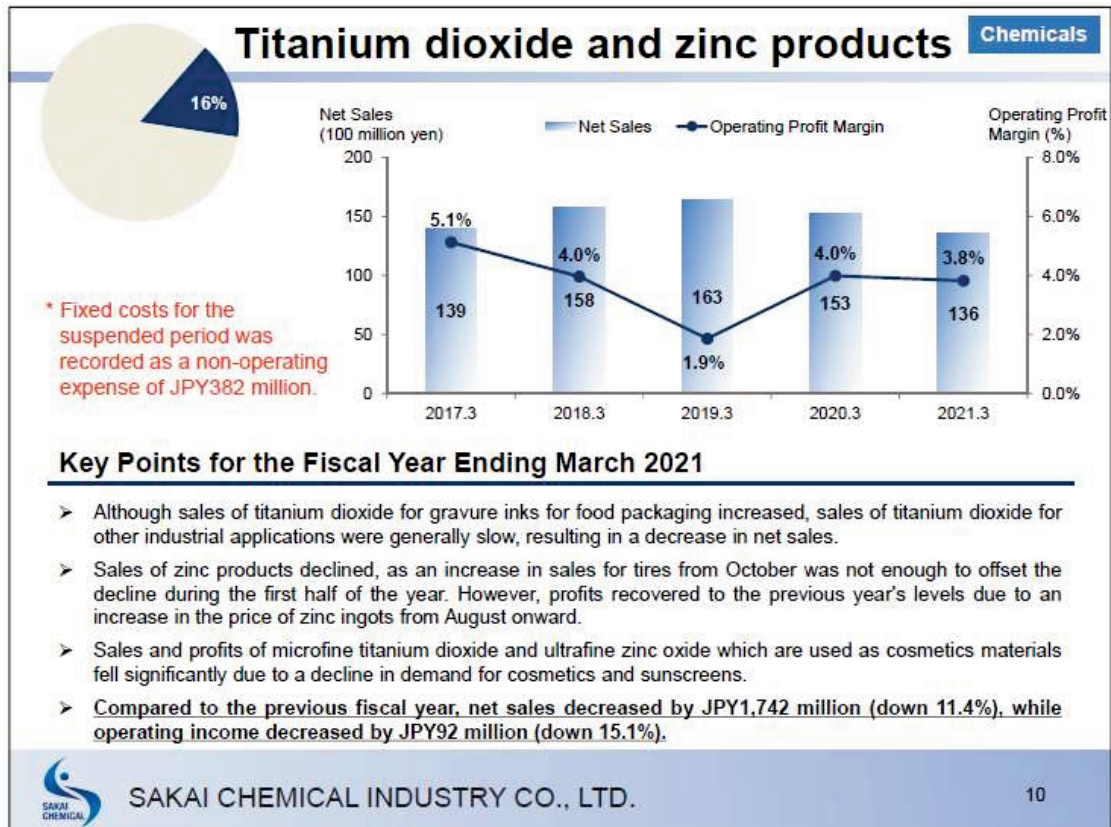
The first one is electronic materials.

Net sales increased by JPY1,224 million YoY to JPY9,723 million. However, operating income decreased by JPY94 million YoY to JPY23 million. We barely brought operating profit into positive territory. Especially due to the recovery in Q4, we managed to bring operating profit to a positive level in the fiscal year.

Sales of dielectric materials, such as high-purity barium carbonate, for 5G base stations and for telecom equipment such as PCs were strong, while sales for automotive applications, which were weak in H1 of the fiscal year, recovered from October.

Although, sales of dielectrics also increased as a result of the recovery for automotive applications in H2 of the year, the sales fell far short against the plan reflecting the expanded facilities, and as a result, the burden of depreciation increased, resulting in a decrease in profits.

As shown in the graph above, the operating profit margin has been declining over the past 3 years.



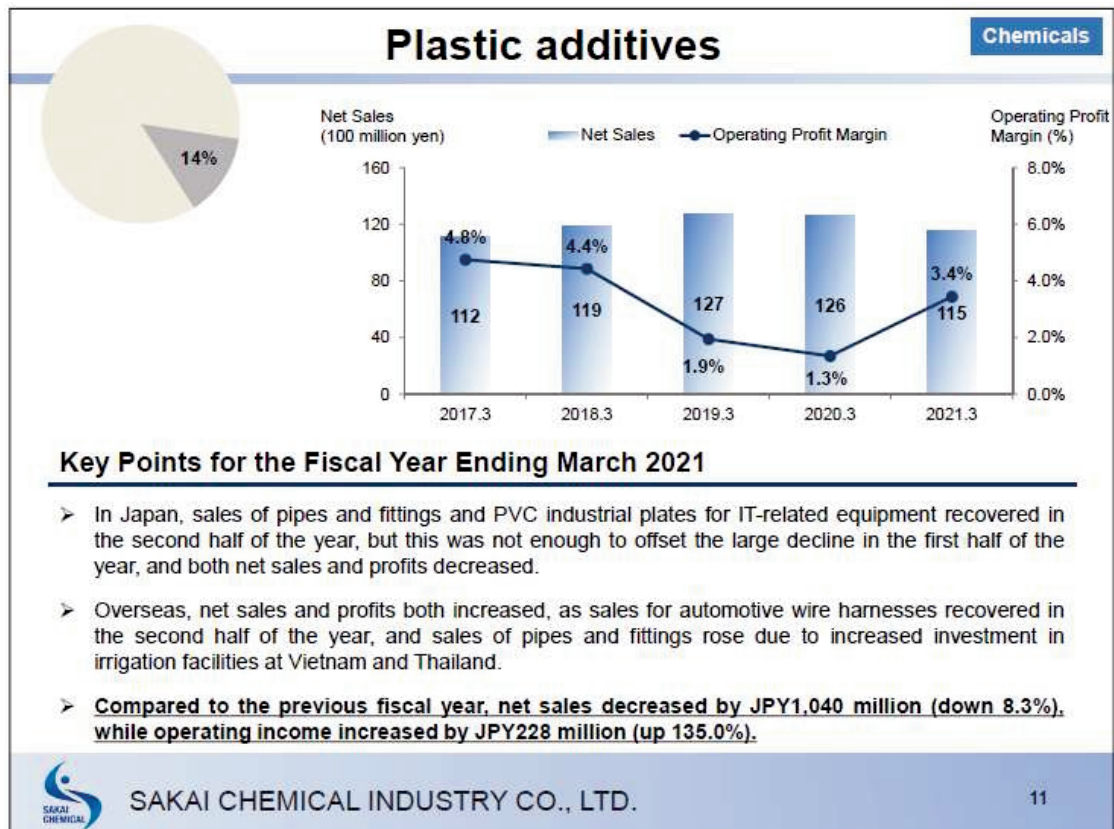
Next, titanium dioxide and zinc products.

Net sales were JPY13,563 million, decreased by JPY1,742 million YoY. Operating profit was also down JPY92 million YoY to JPY518 million, but as I mentioned earlier, we incurred expenses for fixed costs for the suspended period, especially in the titanium dioxide process, so the actual decrease in operating income was a bit larger than the figures shown here.

Sales of titanium dioxide for gravure inks for food packaging increased, but sales of titanium dioxide for other industrial applications were generally sluggish, and net sales decreased.

As for zinc products, sales for tires increased from October, but it could not cover the decline in H1 of the year, and net sales decreased. However, profits have recovered to the same level as the previous year due to the increase in the price of zinc ingod from August onward.

Sales and profits of microfine titanium dioxide and ultrafine zinc oxide, which are used as cosmetic materials, decreased significantly due to a decline in demand for cosmetics and sunscreens. After all, the impact of COVID-19 on the refraining from going out and the decline in inbound tourism had a major impact.



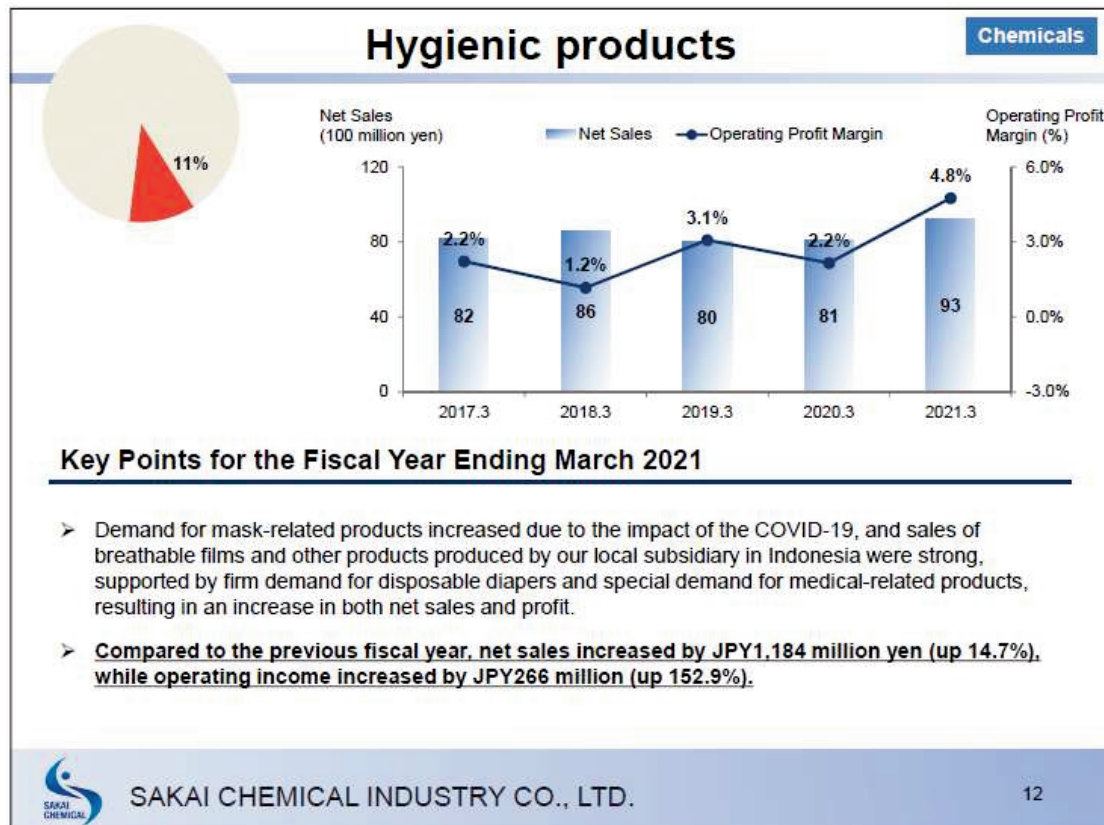
Next, plastic additives.

Net sales were JPY11,543 million, down JPY1,040 million YoY. Operating income increased by JPY228 million to JPY397 million. Although net sales decreased, profit increased.

In Japanese market, although sales of pipes, joints, and PVC industrial plates for IT-related equipment recovered from H2 of the fiscal year, it was not enough to cover the large decline in H1 of the fiscal year, and both sales and profits decreased.

However, overseas sales and profits both increased due to a recovery in H2 of the year in stabilizers for automotive wire harnesses, as well as for pipes and joints due to increased investment in irrigation facilities at Vietnam and Thailand.

As you can see from the graph above, the profit margin bottomed out in the fiscal year ended March 2020 and increased significantly in the fiscal year ended March 2021.

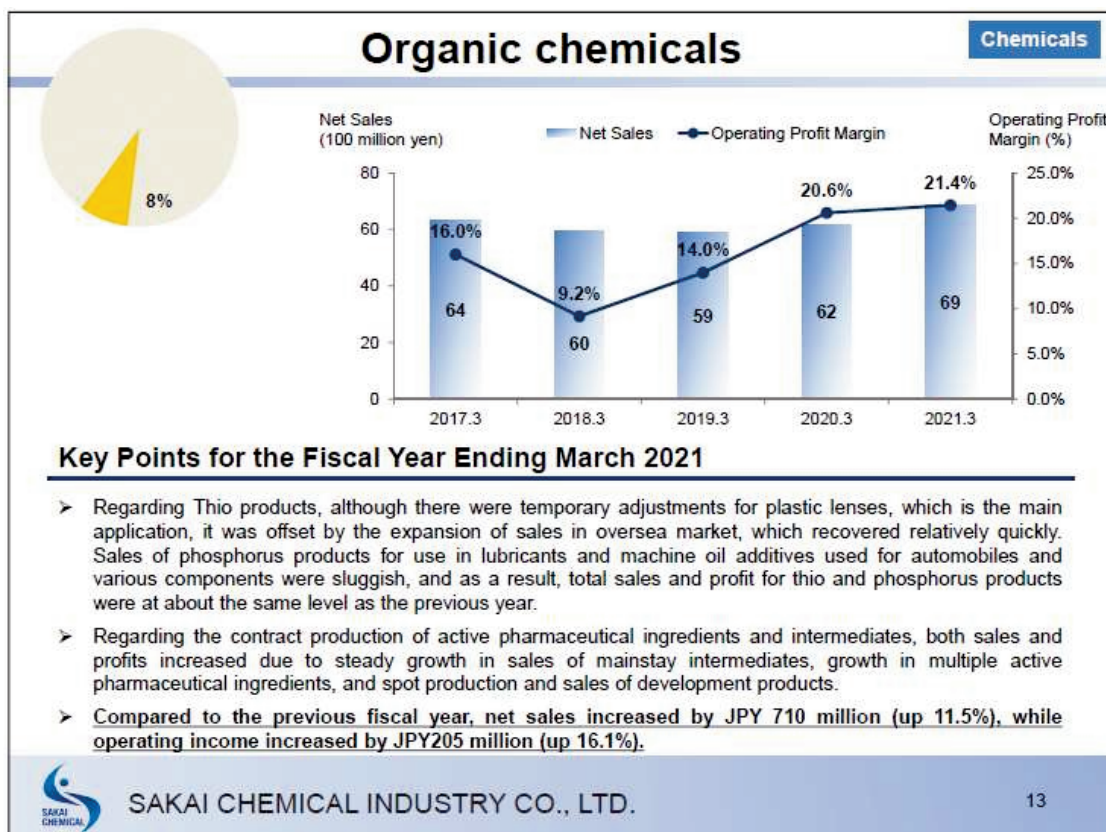


Next, hygienic products.

Net sales increased by JPY1,184 million YoY to JPY9,254 million, and operating income increased by JPY266 million to JPY440 million.

This sub-segment mainly reflects the performance of SAKAI TRADING, our affiliate, and PT.S&S HYGIENE SOLUTION, SAKAI TRADING's local subsidiary in Indonesia.

Demand for mask-related products expanded due to the impact of COVID-19, and sales of breathable films and other products produced by our local subsidiary in Indonesia were strong, supported by firm demand for disposable diapers and special demand for medical-related products. The result was a significant increase in sales and profits.

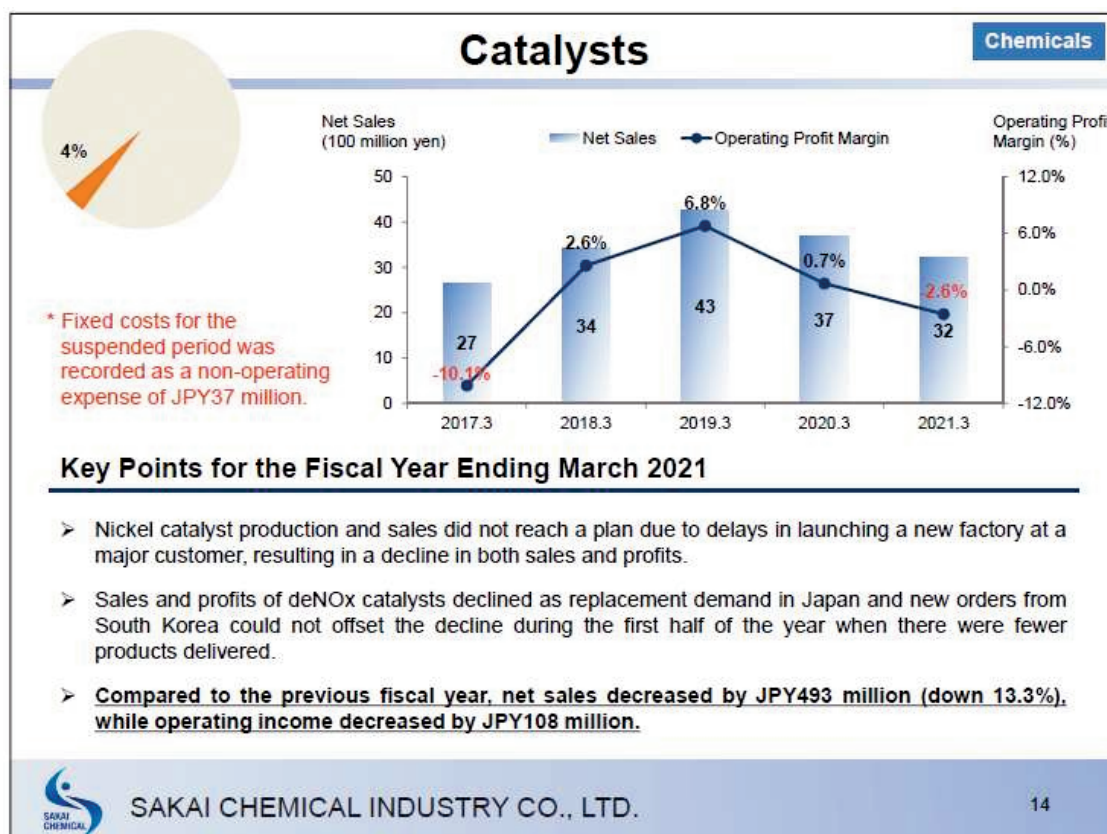


Next, we will look at organic chemicals.

This was also a very strong performance, unaffected by COVID-19. Net sales increased by JPY710 million YoY to JPY6,882 million, and operating income increased by JPY205 million to JPY1,476 million. Both sales and profits increased significantly.

In the area of thio products, there was a temporary adjustment in sales of products for plastic lenses, which is the main application, but this was compensated for by sales expansion in overseas market, where recovery was relatively quick. Sales of phosphorus products for use as additives in lubricants and machine oil used for automobiles and various parts remained sluggish, and as a result, total sales and profits of thio and phosphorus products remained at the same level as the previous fiscal year.

In the area of contracted production of active pharmaceutical ingredients and intermediates, both sales and profits increased significantly due to steady growth in sales of our mainstay intermediates, as well as the growth of several active pharmaceutical ingredients and spot production and sales of products under development.

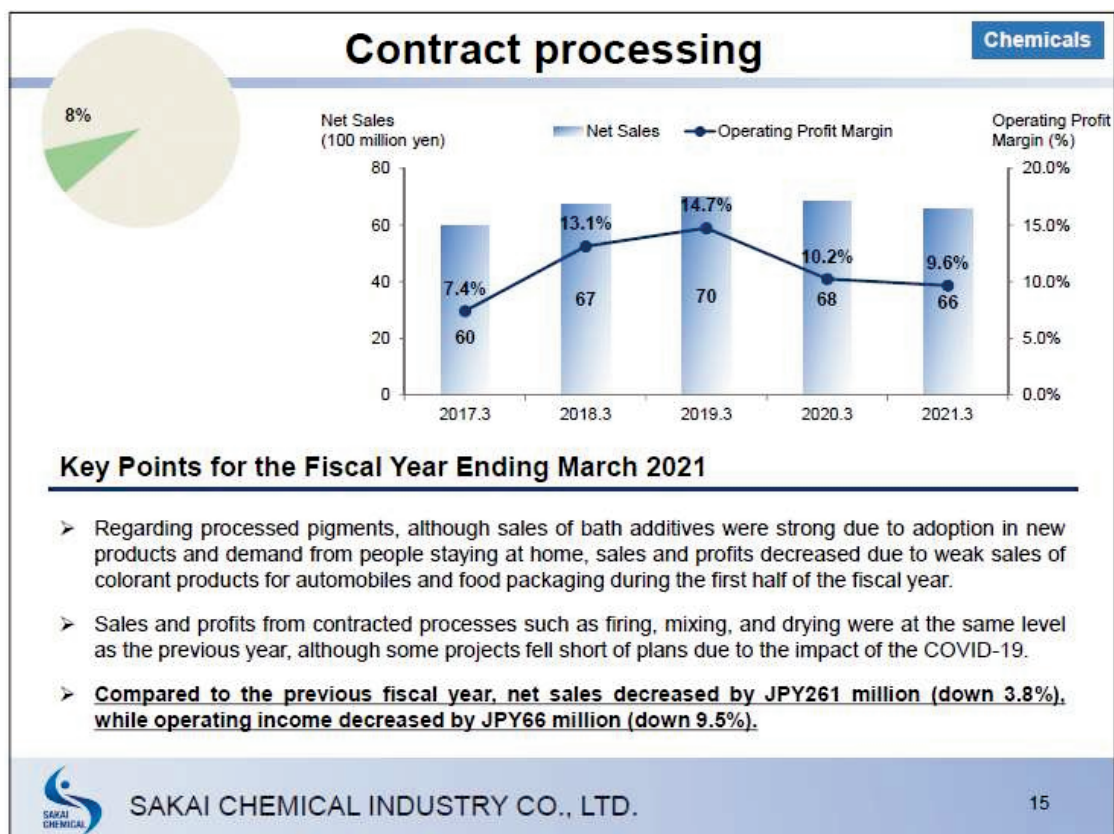


Next is the catalysts.

Net sales were JPY3,210 million, down JPY493 million YoY, and operating income decreased by JPY108 million YoY. Unfortunately, we incurred an operating loss of JPY82 million.

Nickel catalyst production and sales did not reach a plan due to delays in launching a new factory at a major customer, resulting in a decline in both sales and profits.

Unfortunately, sales and profits of deNOx catalysts decreased because of sluggish replacement demand in Japan, and new orders from South Korea could not make up for the decrease in H1 of the fiscal year.

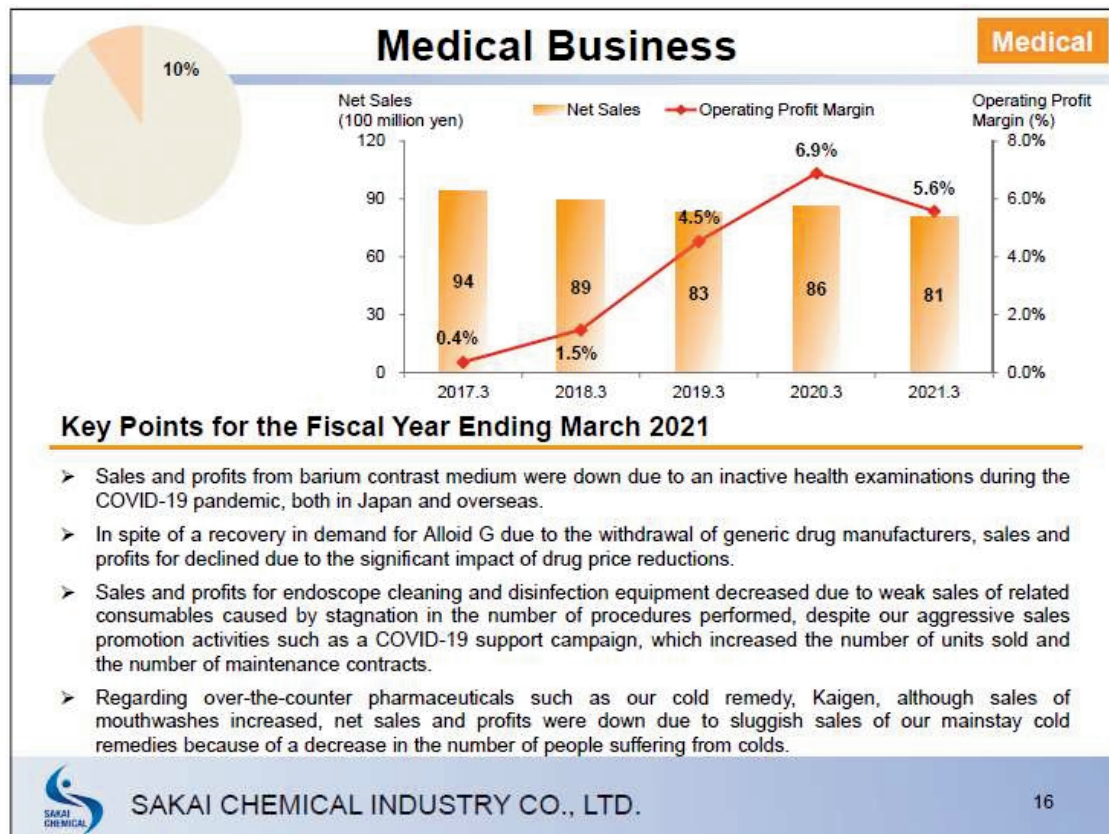


Next, let's look at contract processing.

Net sales decreased by JPY261 million YoY to JPY6,550 million, and operating income decreased by JPY66 million YoY to JPY632 million.

In the processed pigments, sales and profits of bath additives remained strong due to the adoption of these products in new products and stay-at-home demand, but sales and profits decreased due to the impact of COVID-19 on automobiles and food packaging colorant products.

In the contract processes such as firing, mixing, drying and other processes, sales and profits remained at the same level as the previous year, although some of them fell short of the plan due to the impact of COVID-19.



Lastly, the medical business.

As I explained earlier in the segment information section, sales and profits were also strongly affected by COVID-19 in H1 of the fiscal year.

In particular, sales and profits of barium contrast media, one of our main products, decreased as a result of an inactive health examinations due to COVID-19.

Sales and profits of Alloid G decreased due to the significant impact of drug price reductions, despite a recovery in demand due to generic manufacturers withdrawal from the market.

As for endoscope cleaning and disinfection equipment, we promoted aggressive sales activities such as the COVID-19 support campaign. As a result, the number of units sold of the equipment and the number of maintenance contracts increased, but unfortunately, sales of related consumables remained sluggish due to the stagnation in the number of operations, resulting in a decrease in both sales and profits.

Sales and profits of OTC pharmaceuticals, including cold remedies such as Kaigen, decreased due to weak sales of mainstay cold remedies caused by a decrease in the number of patients suffering from colds, despite increased sales of mouthwashes.

We had been on an upward trend for the past 4 years, but unfortunately, there was a slight decline in the previous fiscal year.

Cash Flow

Monetary units: million yen

	2020.3	2021.3	Increase/decrease
Cash at Beginning of Period	11,175	9,148	(2,026)
Profit (loss) Before Income Taxes	3,999	(2,037)	(6,037)
Depreciation	3,686	4,243	556
Other	(1,231)	5,620	6,851
Cash Flow From Operating Activities (Operating CF)	6,454	7,826	1,372
Purchase of property, plant and equipment	(8,403)	(9,567)	(1,164)
Other	(21)	2,145	2,166
Cash Flow From Investing Activities (Investment CF)	(8,424)	(7,422)	1,002
Cash Flow from Financing Activities (Financial CF)	(68)	1,667	1,735
Cash at End of Period	9,148	11,153	2,004

◆ Operating CF

Despite a decrease in net income, cash flow from operations increased due to reductions in inventories.

◆ Investment CF

Although expenditures increased due to the expansion of facilities for electronic materials, cosmetic materials, etc., income also increased due to the sale of strategically held stock.



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Next, I will explain about cash flow.

First of all, profit before income taxes declined significantly YoY. However, operating cash flow improved due to the fact that many of the negative impacts were due to non-cash items such as depreciation and impairment loss and also due to our focus on cash generation through inventory reduction and other measures.

In addition, although we continued to make high levels of capital investments, the balance of cash on hand at the end of the fiscal year was positive YoY due to the generation of investment cash flow by sales of cross-shareholdings and financial cash flow by borrowings from financial institutions. We have a little margin regarding cash on hand.

Free cash flow, calculated by subtracting investment cash flow from operating cash flow, was positive in the fiscal year ended March 31, 2021.

In the current fiscal year, the negative range of the investment cash flow is expected to improve significantly compared to the previous fiscal year, as capital investments have made a round.

Next, President Yabe will explain about the impairment loss.

About the impairment loss for the fiscal year ending March 2021

- The Company has been actively expanding its facilities, mainly for electronic materials and cosmetic materials, positioning it as a strategic investment.
- We judged that the profitability of cosmetic materials was declining due to a drop in demand caused by the COVID-19 pandemic and the profitability of electronic materials was declining due to the delay in launching commercial production at new facilities.
- In the financial results for the fiscal year ended March 2021, an impairment loss of JPY7,041 million was recorded as an extraordinary loss.

Segment	Subsegment	Impairment amount (million yen)	Notes
Chemicals	Electronic materials	3,581	Dielectric materials, dielectrics
Chemicals	Titanium dioxide and zinc products	3,117	Cosmetic materials
Chemicals	Other	302	
Medical		38	
Total		7,041	



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Yabe: Now, I will give you an explanation.

As already disclosed, we incurred an impairment loss of approximately JPY7 billion in Q4. The main items were electronic materials of JPY3,581 million and cosmetic materials of JPY3,117 million. These were all investments in equipment based on the growth strategy of the medium-term businessplan.

Electronic materials refer to manufacturing facilities for dielectric, or barium titanate, and dielectric materials, or high-purity barium carbonate. As of the end of the previous fiscal year, there was a large deviation from the planned investment profitability, which led to the impairment.

The facility for dielectric is a new production line for high value-added products. Some customer approvals have been obtained, but the speed of demand growth has been slower than we expected, and this is the reason why the utilization rate is not rising as expected.

As for the dielectric materials, due to the trade friction between the US and China and the COVID-19 crisis, the forecast of customer demand was temporarily unclear, and the recovery of demand was expected to take some time, which forced a delay in the completion of the plant and the start of operations. This is the main reason for the impairment.


Although we have recorded an impairment loss, the recovery of dielectric and dielectric materials is remarkable, and we will work to make a contribution to our business performance at an early stage.

Next, in the area of cosmetic materials, despite the completion of the new plant, the Company decided to impair the new facilities. Because, in the current situation, we expect only shipments that can be supplied by the existing facilities due to the decline in demand for sunscreens caused by the restrictions on going out and the sharp decline in inbound demand due to COVID-19. We had expected that it would take about 2 years to achieve a full-scale recovery, but the situation is now changing to the point where we can expect a recovery

in shipments to the US and China. And we are expecting a full-scale market recovery in Japan and overseas as soon as the vaccine becomes widely available.

Earnings Forecast for the Fiscal Year Ending March 2022						
Monetary units: million yen						
	2021.3		2022.3			
	Full-year Results		Interim Forecast		Full-year Forecast	
		Change From the Previous Year		Year-on-year Comparison		Change From the Previous Year
Net Sales	84,918	(2.6%)	38,700	(3.8%)	76,300	(10.1%)
Operating Income	4,304	7.2%	2,800	75.3%	4,700	9.2%
Ordinary Income	4,012	(4.7%)	2,700	121.4%	5,100	27.1%
Profit (loss) attributable to owners of parent	(2,803)	-	1,800	222.5%	4,300	-

- ◆ Profit is expected to increase in the fiscal year ending March 2022. Due to changes in revenue recognition standards, net sales are expected to decrease.
- ◆ In the chemical business, we expect that it will take time for cosmetics materials to fully recover, but the market for electronic materials has almost recovered, and our sales expansion efforts are beginning to bear fruit, centered on high-end products in automotive applications, where the shift to EVs and automated driving is underway, and telecommunications applications, where 5G is becoming widespread. We expect organic chemicals and hygienic products to remain strong.
- ◆ In the medical business, we will work to improve our earning power by focusing on medical device-related business and promising new businesses that are not affected by drug price revisions.
- ◆ If the economic downturn due to the COVID-19 continues, it could negatively affect the performance of titanium dioxide and barium products, which are used in a wide range of applications.


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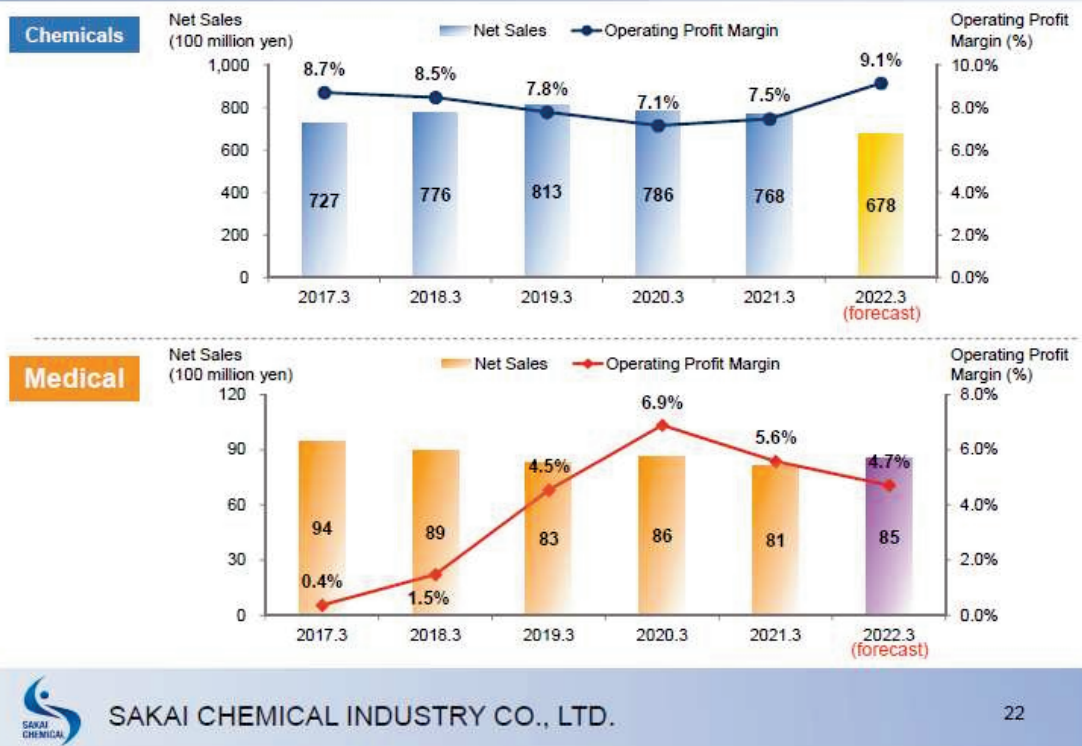
Next, I would like to explain our business forecast for the fiscal year ending March 31, 2022.

Net sales in the forecast for fiscal year will decrease due to the application of the changes in revenue recognition standards, but we forecast an increase in both interim and full-year sales based on the old standard.

Operating income will increase 75.3% YoY in the interim and 9.2% YoY in the full year to JPY2.8 billion and JPY4.7 billion, respectively. Since earnings are concentrated in H1 of the fiscal year at some affiliates, we expect that earnings on a consolidated basis will also be of the first-half type.

For ordinary income, we expect the sales of cross-shareholdings and non-operating income in H2 of the fiscal year.

Earnings Forecast for the Fiscal Year Ending March 2022



Next, I would like to explain the forecast for each segment.

Assuming that the COVID-19 crisis will gradually move toward a convergence, the chemicals segment is expected to perform well, especially in the electronic materials business, on the assumption that there will be no major production adjustments.

On the other hand, in the medical segment, we expect a limited recovery in business performance this year, partly due to the impact of the reduction of drug prices.

Trends and Forecasts for Major Items

Monetary units: million yen

	2017.3	2018.3	2019.3	2020.3	2021.3	2022.3
Net Sales	83,938	87,223	89,541	87,177	84,918	76,300
Operating Income	4,551	4,690	4,404	4,015	4,304	4,700
Ordinary Income	4,290	4,279	4,553	4,208	4,012	5,100
Profit (loss) attributable to owners of parent	2,037	2,329	3,606	2,535	(2,803)	4,300

Capital Investment	4,636	3,771	6,891	8,403	9,567	5,000
Depreciation	2,877	3,005	3,189	3,686	4,243	4,100
Research and Development Expenses	2,909	3,217	2,951	2,898	2,487	2,500



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Next, I will explain the trends and forecasts for major items.

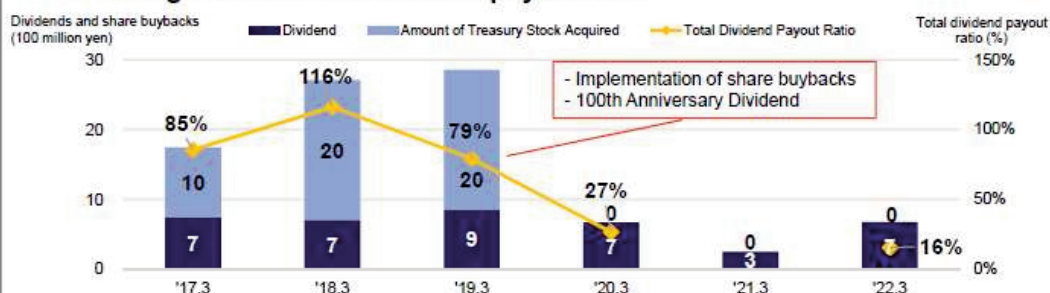
For the current fiscal year, we plan to make a capital investment of JPY5 billion, and this figure has not changed since the interim results briefing held in November last year.

Depreciation is expected to be JPY4.1 billion, which was announced at JPY4.8 billion in last year's interim results. As a result of the impairment, depreciation will decrease by approximately JPY0.7 billion, so the forecast is JPY4.1 billion.

R&D expenses remain unchanged.

Shareholder Return

■ Changes in the total dividend payout ratio



Concerning surplus dividend, the Company considers the stable return of profits to shareholders to be one of our most important management issues, and aims to strengthen our financial position and increase the internal reserves necessary to actively grow the business. At the same time our basic policy is to pay dividends twice a year, taking into account profit trends and the business environment.

We sincerely regret to say that we have decided not to pay a year-end dividend for the current fiscal year because we have recorded a net loss. As a result, the JPY15 per share interim dividend paid in December will be the only dividend, making the total annual dividend JPY15 per share. We will strive to restore our business performance so that dividend payments can be restored.

For the fiscal year ending March 2022, we plan to pay dividends of JPY20 per share in the middle of the term and JPY20 per share at the end of the term, for a total annual dividend of JPY40 per share.



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Lastly, I would like to explain about shareholder returns.

In the previous fiscal year, as we explained, we incurred a net loss due to the recording of a large amount of impairment losses in Q4, and therefore, I am truly sorry to say that we have decided to forgo the year-end dividend. We will continue to make efforts to recover and improve our business performance and pay dividends in accordance with our basic policy of a total dividend payout ratio of 30%.

For the current fiscal year, we plan to pay an interim dividend of JPY20 and a year-end dividend of JPY20 each, for a total annual dividend of JPY40.

That's all I have to say.

Question & Answer

Moderator: We will now move on to the question-and-answer session.

Questioner1: I would like to ask you about 3 points.

The first point is that the planned operating income of JPY4.7 billion for the current fiscal year will be JPY400 million higher YoY. I have just seen the figures for each segment, and there are some other factors to consider, such as the impact of increased sales and fixed costs. It may mean that depreciation will decrease a little, but I would like to have a breakdown of the increase/decrease in the amount of raw materials and so on.

Yabe: In the previous fiscal year, we had about JPY500 million in non-operating items. Also, due to the impairment, the burden of the depreciation of JPY700 million will be reduced. In addition, we expect Sakai Chemical Industry's performance to recover, and conversely, we expect a slight decline in the performance of affiliates YoY, resulting in an increase in operating income of about this amount.

Questioner1: What sub-segments will be recovered in the parent company?

Yabe: As I explained earlier, we expect a considerable recovery in profits of the electronic materials business.

Questioner1: How about titanium dioxide, zinc products, et cetera?

Yabe: We do not expect titanium dioxide and zinc products to be as bad as last year. The cosmetics business, which is included in the segment, is also expected to increase from last year.

Questioner1: I understand.

Secondly. We have heard that the electronic materials business recovered quite well in H2, and I expect a considerable profit in Q4. Compared to Q3, I think the profit and loss has changed considerably, but I would like to know why this electronic materials business improved in Q4 of last fiscal year.

Also, in this new fiscal year, based on the current situation, I feel that it is not impossible to achieve the level of, for example, the number in Q4 of last fiscal year multiplied by 3 or 4, or even exceed it. Please tell us how you see the new year for electronic materials in this area.

Yabe: You are right, and operating income was quite positive in Q4. In terms of the electronic materials segment last year, Q2 was the bottom, Q3 was quite a recovery, and Q4 saw a considerable increase in operating income, which was a considerable recovery from the negative results of Q2.

The current situation even exceeds the initial forecast for the current fiscal year.

It is difficult to tell about this area, but we expect that sales may increase by about 20% from last year.

Questioner1: What was the biggest reason for the positive results in Q4 of last fiscal year? Does this include some transient factors? Or is this based on your actual value?

Yabe: Well.

Nakanishi: This is the result of a fairly rapid recovery for both dielectric materials and dielectrics, especially for dielectric materials, in Q4.

Questioner1: It's not just a one-time thing, is it going to grow even more over the course of this new year? According to what the president said earlier, is there a possibility that the number will increase by about 20% this year?

Nakanishi: Yes. The trend is continuing.

Questioner1: How much has been factored in as an assumption now? Have you factored the 20% increase into the plan?

Nakanishi: The situation is a little different for dielectrics and dielectric materials, but on a fiscal year basis, if you compare the previous fiscal year with the current fiscal year, dielectrics and dielectric materials are also expected to increase by about 30% on a volume basis.

Questioner1: Is this for both?

Nakanishi: Yes.

Questioner1: What did you mean earlier about a 20% increase?

Nakanishi: I was referring to the fiscal year. The first half of last year was very low, so in that sense, the increase for the fiscal year was about 30%.

Questioner1: Is it correct to say that this is the forecast for this year?

Nakanishi: Yes. That's right.

Questioner1: Is it correct that 30% increase has been factored into your plan?

Nakanishi: Yes.

Questioner1: I see. I understand. Is this the profit even if the sales increase by 30%?

Nakanishi: That's right. As the President explained earlier, rather than last year's operating income, the fixed cost for the suspended period has been recorded as non-operating expenses, so in that sense, there is an impact of this increase of more than JPY500 million. If we incorporate these factors, we expect to see a considerable increase in operating income this year.

Questioner1: I see. However, I think the sales of electronic materials are about JPY10 billion, so a 30% increase in sales would mean a JPY3 billion increase in sales. Even if the impact of increasing sales is included, do you expect the profit with this range?

Nakanishi: That's right.

Questioner1: I understand.

Lastly, regarding titanium dioxide, there have been price increases in Japan. How is the situation? Also, I would like to know how you see titanium dioxide in terms of volume and unit price this year. That's all.

Yabe: We are currently negotiating a price increase. As you know, China's economy is recovering, and the prices of imported products have been raised a little. It's becoming an environment where we don't have to

put out much in the Japanese market. We have announced that the price increase effective June 1, but there may be a slight delay. However, we believe that we can raise the price to some extent.

Questioner1: How much do you expect the volume to increase this year? In particular, titanium dioxide for general-purpose, excluding cosmetics.

Yabe: It will return to approximately the same level as before COVID-19. In the last fiscal year, there was a decline due to the impact of COVID-19, but we believe that this will return to the previous level. I think the annual level will be 24,000 tons or something like that.

Questioner1: I understand. Thank you very much.

Questioner2: First, I would like to ask you about organic chemicals and catalysts. I think there are various product groups in organic chemicals. Which product groups do you see as having positive or negative from previous fiscal year to the next? Also, do you feel that overall profits will increase in the next fiscal year?

Yabe: First, for plastic eyeglass lenses. We have heard that the customer is going to increase production capacity, so we are expecting at least positive.

As for the other item, active pharmaceutical ingredients and intermediates, the plan for this year is almost complete, and the current plan is for a slight decrease from last year.

Questioner2: In total, do you feel that they are almost even?

Yabe: Yes. We think so.

Questioner2: I heard that there is a large concentration of pharmaceuticals and intermediates in H1 of the fiscal year.

Yabe: Yes. It seems like H1 of the fiscal year is pretty much over, and H2 will be a bit slow. However, there are some things like spot orders, so we don't know if we can expect that. It's hard to say at this point.

Questioner2: In your plan, it seems that you are leaning toward H1.

Yabe: Yes.

Questioner2: Also, with regard to the catalyst, the nickel catalyst was delayed last year, but is that factored into the plan for this year?

Yabe: There are 2 large customers, and one of them is currently undergoing regular repair in May, but from June onwards, the volume is expected to increase considerably.

As for the other company that is planning to launch a new plant, the latest information we have heard is that their plans are gradually being delayed. However, we have been told that they would like to increase the usage of existing plants to cover this amount, but we have to be prepared for a slight downturn from the initial plan.

Questioner2: So it looks like the new plant will be for the next fiscal year, not the current one.

Yabe: I think shipments will start gradually in H2 of the fiscal year, but we are not going to start up as quickly as initially thought.

Questioner2: I understand. Also, how about a deNOx catalyst?

Yabe: As for deNOx catalyst, as we have a major export project this year, we expect it contributes to our profit this fiscal year.

Questioner2: So it seems that both are better this fiscal year than in the fiscal year ended March 2021.

Yabe: That's right. Yes.

Questioner2: But do you feel that you will not be able to return to the level of the fiscal year ended March 2019?

Yabe: That's right. Yes.

Questioner2: I understand.

Nakanishi: There were some special factors during the fiscal year ended March 2019.

Questioner2: I see.

Also, in the medical business, last year the emergency was declared at the beginning of the fiscal year, and people were not allowed to go to school or come to work. In the new fiscal year, the government has declared a state of emergency as well, but I think there are still many people riding the trains. I wonder if we can expect a significant recovery in barium contrast media.

Yabe: We've just started a new fiscal year. I have heard that they are still being affected to some extent. However, I think that it will not be as depressed as last year.

In addition, concerning OTC medicines, as people don't catch colds and so on.

Questioner2: We wear a mask all year round.

Yabe: Yes. I heard that sales are not going well.

Questioner2: In that case, do you feel that in the medical business, the negative impact is greater overall?

Yabe: We are expecting a recovery from the previous year, but as I mentioned earlier, we will also be affected by the drug price reduction this year. In terms of profit, our forecast is for only a limited recovery.

Questioner2: I understand.

Lastly, I think you are developing new products, especially high-end dielectric. What is your outlook, or what is the progress like?

Yabe: I've already mentioned this, but it has been adopted by one customer, and they are now considering increasing the number of items they use. We expect the volume to increase slightly in H2 of the year. The other customer is expected to start up the business in June or so.

However, since this is a truly cutting-edge, high-end product, it will probably be used for smaller devices, and the launch will not be in large quantities. Rather, we are expecting that it will gradually spread.

Questioner2: Which side is more advanced, the cutting-edge of so-called 5G and electronics, or the cutting-edge of automobiles?

Yabe: At the moment, we have heard that it will be used for small devices. However, we have also heard that the reliability of this technology is very high, so I am very hopeful that it will be used in the future for automobiles that require high reliability.

Questioner2: I understand. That's all from me.

Questioner3: I would like to ask you about hygienic products, which performed very well last fiscal year. What is your outlook? Also, if there are any items that continue to perform well this fiscal year, or if there are any items that are likely to experience a rebound from last fiscal year, please let us know.

Nakanishi: The strong performance will be continued in this product starting from the previous fiscal year. At least for the current fiscal year, as we are still suffering from the effects of COVID-19 and other factors, so we are now forecasting that sales will be strong throughout the fiscal year.

However, our local subsidiary in Indonesia, has reached the point where the capacity utilization rate is quite full. So regarding a further jump from here, the growth will be limited to some extent, but we expect that we will be able to continue our current strong performance at least for this fiscal year.

Questioner3: Thank you very much.

Please let me know one point as a supplement. You mentioned that the demand for mask-related products has increased. Please tell us about the specific development of your mask-related business.

Yabe: Actually, this is a trading company activity, but we are importing and exporting nonwoven fabrics through our subsidiary SAKAI TRADING.

Questioner3: I understand. Could you tell us about the outlook for the mask business for the current fiscal year?

Yabe: At one time, there was a worldwide shortage of masks, and demand for masks arose that people were willing to buy them even if they were expensive. But things have settled down a bit. As Mr. Nakanishi mentioned earlier, I don't think there will be a further jump up from last year.

Questioner3: Thank you for your answer.

Moderator: Thank you very much.

Since there seems to be no further questions by raised hands at the moment, we'll take questions by chat.

What is the current sales status of products for cosmetics? What do you think about the inventory status of your customers? We will answer this.

Yabe: For the US, China, and other markets, there has been a slight recovery from the considerable decline in the previous fiscal year. However, the domestic market is still not as strong as it was the fiscal year ended March 2020.

As for the inventory situation, I believe that customers have narrowed down considerably, so I understand that when demand recovers, there will also be demand to accumulate such inventory.

Moderator: As there appear to be no further questions, we will close this question-and-answer session.

This concludes the financial results briefing of Sakai Chemical Industry Co., Ltd for the fiscal year ended March 31, 2021. Thank you very much for joining us today. [END]

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