



Sakai Chemical Industry Co., Ltd.

Financial Results Briefing for the Fiscal Year Ended March 2022

May 24, 2022

Event Summary

[Company Name]	Sakai Chemical Industry Co., Ltd.	
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[Venue]	3rd Seminar Room, Kabutocho Heiwa Building 3F, 3-3 Kabutocho Nihonbashi, Chuo-ku, Tokyo 103-0026 (Hosted by The Securities Analysts Association of Japan)	
[Venue Size]	145 m ²	
[Participants]	25	
[Number of Speakers]	2	
	Masaaki Yabe	President, Representative Director
	Atsuya Nakanishi	Managing Executive Officer

Presentation

Moderator: We will now begin the financial results briefing of Sakai Chemical Industry Co., Ltd.

This briefing will be held in a hybrid format, combining an online live streaming and an on-site session.

First of all, I would like to introduce two attendees from the Company. President and Representative Director, Masaaki Yabe.

Yabe: I am Yabe. Thank you.

Moderator: Managing Director in charge of Investor Relations, Atsuya Nakanishi.

Nakanishi: I am Nakanishi. Thank you.

Moderator: Today, President Yabe will report on the Yumoto Factory Explosion and explain the progress on the current medium-term management plan, and then Managing Director Nakanishi will explain the business results for the fiscal year ended March 2022, the forecast for this fiscal year, and sustainability activities.

After the explanation, there will be time for questions and answers from the audience. Afterwards, as time permits, we will take questions from those who are participating online.

Mr. Yabe, please go ahead.

Final Report on the Yumoto Factory Explosion and Fire Accident and Future Response

[Accident Overview]

1. Time and place of occurrence: May 11, 2021 / Yumoto Factory zinc dust manufacturing plant
2. Personal Injuries: One employee of a cooperating company was seriously injured and three were slightly injured (all have been discharged from the hospital)
3. Cause of accident: Lumps (deposits) of zinc dust adhering to the blades of the classification fan accidentally detached during fan startup, causing the shaft of the fan to become misaligned and eccentric, which in turn caused the shaft to come in contact with the motor, generating heat and sparks. This ignited the zinc powder in the process piping, causing a dust explosion.
(For details, please see the Accident Investigation Committee's investigation report released on January 7, 2022.)

[Impact on the Company's Business]

1. Withdrawal from the zinc powder business (Reference: Annual sales of zinc powder for FY 2021 were approximately 1.3 billion yen)
2. 294 million yen in expenses related to this accident will be recorded as an extraordinary loss for FY 2022

[Measures to Prevent Recurrence]

In addition to a thorough investigation of substances that could potentially cause similar dust explosions, we have had outside experts conduct plant inspections to identify dust explosion risks and other risks. In addition, a message from the president making a pledge for safety is delivered annually to all employees on May 11, along with a safety seminar held by outside experts. In the future, we will work to achieve safe operations not only through messages, but also through actions carried out by top management.

Yabe: I am Yabe. Thank you for your continued support. Thank you very much for taking time out of your busy schedule to attend today's meeting.

Let me begin with a brief explanation of the Yumoto Plant explosion, the final report, and our future response.

We would like to express our sincere apologies again for the great concern caused by the explosion at the Yumoto zinc dust manufacturing plant on May 11 of last year.

The outline of the accident, causes, and countermeasures are as shown in the document at hand. For further details, please refer to the investigation report of the accident investigation committee, which was released on January 7. As a result of this accident, the Company withdrew from the zinc dust business, and approximately JPY294 million in expenses related to the accident was recorded as an extraordinary loss in the fiscal year ended March 2022.

First, in order to prevent a recurrence, we are currently proceeding with specific measures. We have identified substances in raw materials and products handled at all of our plants that have the potential to cause dust explosions and have had outside experts inspect the sites of plants that are at risk.

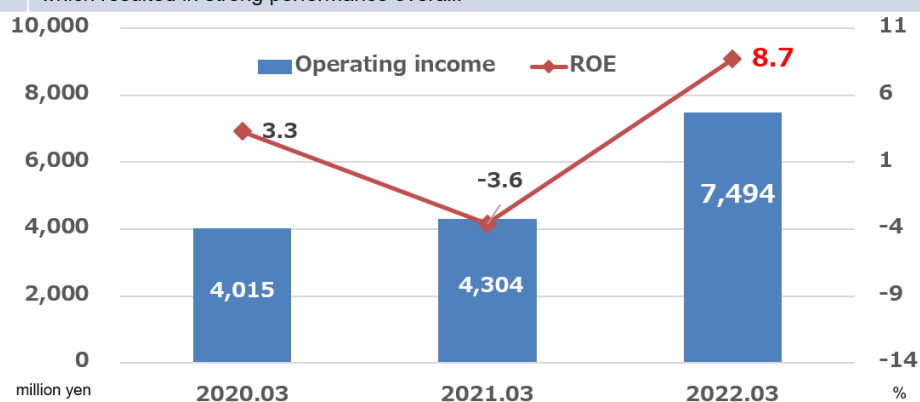
In addition, in order not to forget the terrible lessons of the May 11 explosion, we have designated the day as Safety Day, a day to send out a safety message to all employees and reaffirm safety.

In addition, this year, we invited outside experts to give lectures on safety in general. We would like to ask for your understanding as we strive for safer operations throughout the Company.

Progress on the Medium-term Management Plan "SAKAINNOVATION 2023"

The Company's 5-year plan "SAKAINNOVATION 2023" entered its third year in FY 2022.

	Major progress, external environment, etc.
FY 2020 (First year)	The profitability of electronic materials, an area of business we are focused on, deteriorated due to US-China trade friction.
FY 2021 (Second year)	The cosmetics materials business, an area of business we are focused on, deteriorated due to the spread of COVID-19. At the end of the period under review, the Company wrote down approximately 7 billion yen of strategic investments made for electronic materials and cosmetic materials.
FY 2022 (Third year)	Along with the recovery of the economy, sales were strong, particularly in electronic materials, and cosmetic materials also showed a recovery starting in the second half of the fiscal year, mainly in overseas markets, which resulted in strong performance overall.



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Next, I would like to discuss the progress of the medium-term management plan.

The medium-term management plan, SAKAINNOVATION 2023, which started in April 2019, is focused on improving earnings power in our core business and sets targets of operating income of JPY8 billion and ROE of 6% or more for the final year ending March 2024. I would like to report on our progress during the past three years.

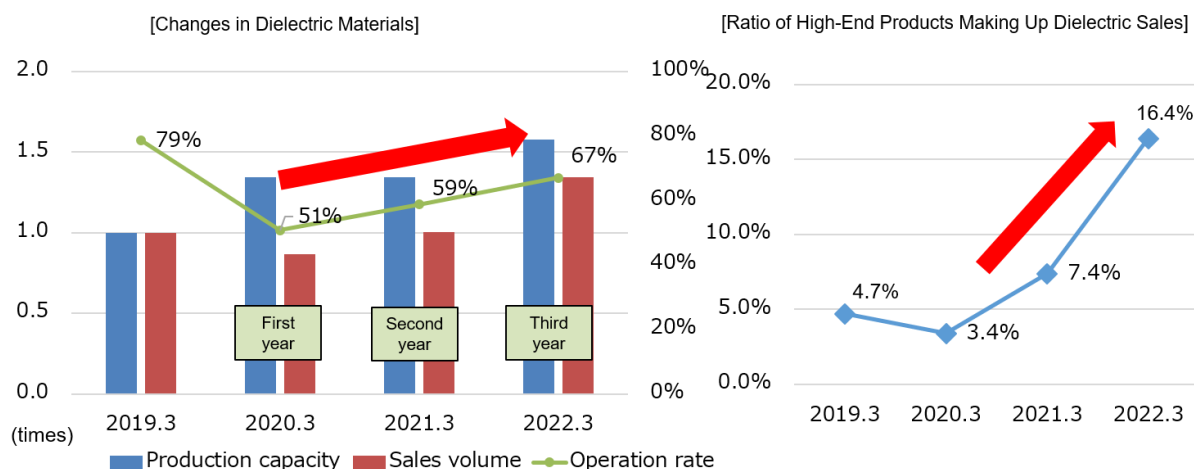
In the first year, as you know, earnings from electronic materials deteriorated due to US-China trade friction, and in the second year, amid the COVID-19 pandemic, sales of electronic materials and cosmetics, in which we invested in growth strategies, deviated significantly from our plan, resulting in a severe performance with an impairment loss of approximately JPY7 billion and a loss in final income at the end of the fiscal year.

In the third year, however, the economy recovered and sales were strong in all segments except for pharmaceuticals. In particular, shipments of electronic materials and, from the latter half of the fiscal year, cosmetics materials also showed a sharp recovery. As you know, we were affected by the rise in raw material and fuel prices and disruptions in the supply chain, including logistics, but it was a year of V-shaped recovery. As you can see here, operating income was JPY7,494 million and ROE was 8.7%.

Progress on the Medium-term Management Plan "SAKAINNOVATION 2023"

1. Electronic materials business

- During the first year, the MLCC market, which had been expected to grow, was sluggish due to US-China trade friction, but the MLCC market expanded from the second half of the second year due to the economic recovery, particularly in the automobile industry. From the third year, mass-production shipping of high-end dielectric products began, and sales and profits grew steadily.
- The expanded volume of dielectric materials have reserves of about 30% of the current production capacity.



* Sales volume and production capacity are expressed as indexes using FY 2019 as a reference.

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The following is an overview of the main segments. Mr. Nakanishi will explain the performance figures by fiscal year later.

The first is the electronic materials segment.

As you may be aware, as for trends in demand for MLCCs, demand for telecommunications and information infrastructure expanded due to the stay-at-home demand during the COVID-19 pandemic, telework, and other factors. In the second year, from H2 of the fiscal year ended March 2021, demand grew on the back of a recovery in automobile production, and the raw materials for this, our dielectric materials and dielectrics,

both showed a remarkable recovery in performance last fiscal year, resulting in a significant increase in sales and profit.

In the market of dielectric materials, or high-purity barium carbonate, in which we have the top share in the industry, further expansion is expected. The line graph on the left shows the operation rate, and as of the end of March, the operation rate was 67% of the previous year's sales, which means that we have a production capacity of approximately 33%. We expect that plenty of supply will be available for a while, but we have now started to consider our next move while exploring trends among various customers and the market.

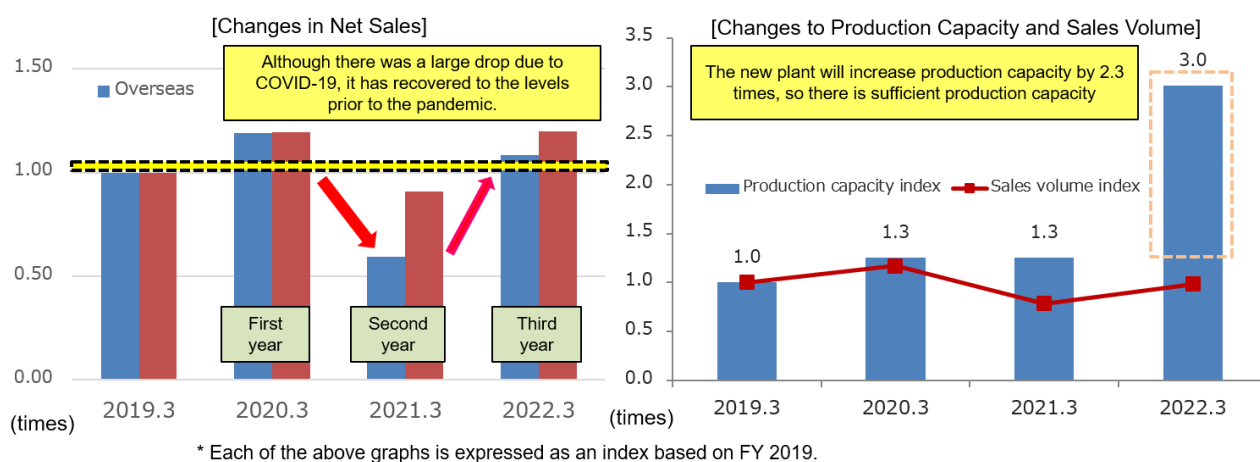
This is about the dielectric on the right-hand side. Fine, highly crystalline products made with our proprietary manufacturing methods and technologies have been adopted for high-end products for thin films. The ratio is now about 16.4% in our company. Furthermore, we are currently working to expand adoption at our clients.

Also, although not listed in the document, we are currently on track to develop middle-end products that are close to high end based on the technology we have acquired here, and we are currently conducting evaluations at our customers.

Progress on the Medium-term Management Plan "SAKAINNOVATION 2023"

2. Cosmetics materials (ultrafine zinc oxide, microfine titanium dioxide)

- Although the first year was strong due to increased inbound demand, the second year saw a significant drop in demand because of restrictions on movement due to the spread of COVID-19.
- In the second half of the third year, demand recovered, mainly from overseas. Sales recovered in the domestic market as well thanks to strong overseas e-commerce for cosmetics manufacturers and our sales promotions.
- We expect economic activity to recover as the situation returns to normal after the COVID-19 pandemic and an increase in demand for replacement of organic sunscreen agents, and we expect an improvement to the operating rate of our new line.



Next, cosmetics materials.

As shown in the left-hand side of this document, demand fell sharply both in Japan and overseas in the second year due to the COVID-19 pandemic, but demand recovered sharply in H2 of the third year from Europe and the US.

Although the recovery of domestic demand was somewhat delayed, sales recovered to the level before the COVID-19 pandemic, mainly due to strong e-commerce and new sales expansion of our products.

The graph on the right-hand side shows our production capacity index for sunscreen, namely microfine titanium dioxide and ultrafine zinc oxide. As of the end of March, we had 3x the capacity we had before the expansion, and we are currently proceeding with actual production while obtaining customer approval.

In the future, global demand for skincare products is expected to continue to grow. Furthermore, there is currently a trend toward blending and shifting from organic UV absorbers to inorganic materials, such as titanium and zinc, which have less environmental impact, and we are working to catch up with our sales plan at the time of capital investment as we expect an increase in blending volume.

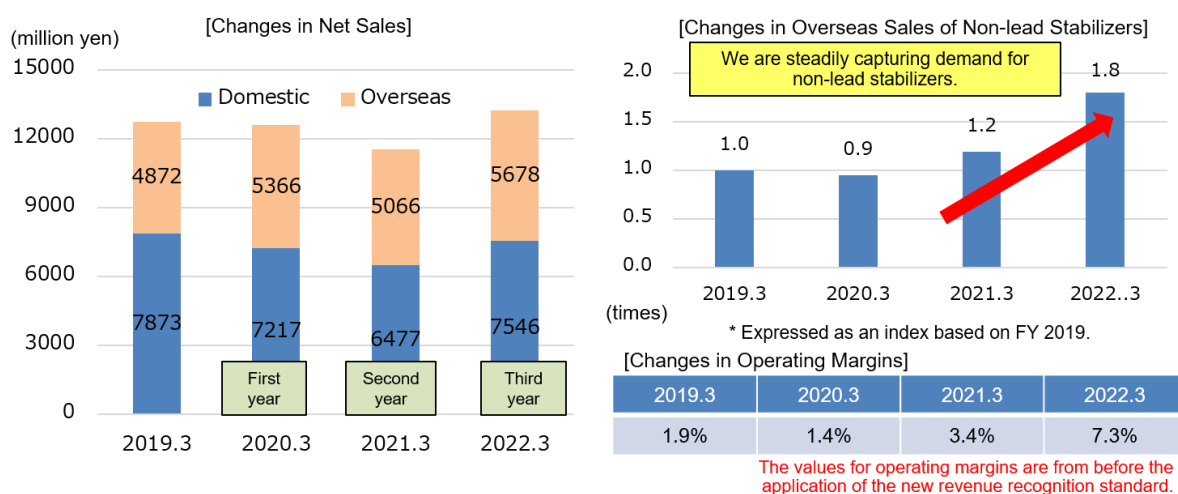
Although not included in the document, regarding cosmetics materials, from the perspective of ESG and differentiation from other companies, we will increase our lineup of inorganic spherical products that can replace microplastic beads, which are currently a problem due to marine pollution, and special functional pigments to focus on improving our presence and value as a materials manufacturer in the industry.

Progress on the Medium-term Management Plan "SAKA^{INNOVATION} 2023"

3. Plastic additives

[Domestic] Sales dropped in the first and second years due to US-China trade friction and COVID-19, but demand recovered from the third year, FY 2022, mainly for PVC industrial plates for IT-related equipment. Measures were also taken to revise profitability, and the operating profit margin improved.

[Overseas] Sales grew steadily as the company focused on capturing demand for wire harnesses for automobiles, pipes and fittings required for maintaining irrigation facilities, and non-lead stabilizers to reduce environmental impact.



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Next, plastic additives.

In terms of market overview, domestic demand is saturated, and we have sought opportunities for business expansion in the overseas markets of China and ASEAN and have promoted business activities in Japan, Vietnam, and Thailand.

Although not included in the document, we will reduce costs in Japan by outsourcing production, and in sales, we will thoroughly implement price revisions to compensate for raw material price hikes. Overseas, as shown in the graph on the right, we have worked to expand sales by capturing demand for non-lead products.

As a result, as shown in the graph on the left, sales declined in the second year due to the COVID-19 pandemic, but our efforts bore fruit in the third year, and sales and profits increased in the third year due to a tailwind

from the economic recovery, which boosted sales for wire harnesses and industrial plates used in semiconductor plants.

Progress on the Medium-term Management Plan "SAKA^{INNOVATION} 2023"

4. Catalysts (nickel catalysts, deNOx catalysts, PET polymerization catalysts, copper catalysts)

(1) Nickel catalysts

Although the start-up has been delayed due to a series of equipment troubles at some major customers, the company plans to increase both sales and profits in FY 2023 when these issues are resolved.

(2) Environmental catalysts (deNOx catalysts, PET polymerization catalysts, copper catalysts)

- 1) DeNOx catalysts: The domestic market is saturated, so the company is focusing on acquiring overseas projects.
- 2) PET polymerization catalysts: De-antimony is not widely used in the industry and is struggling.
=> We will continue to improve performance by improving polymerization speed and color.
- 3) Copper catalysts: Evaluation by overseas target customers has been delayed by the effects of the COVID-19 pandemic.
=> We expect to find out the evaluation results for submitted prototypes during FY 2023.

5. Highly refractive materials

- US-China trade friction caused delays in the mass production of refractive index adjustment materials for electronic material equipment.
- After that, a major mass production project that had been anticipated was abandoned, and our plans were revised.
=> We are currently conducting sample work in search of a target where we can gain a competitive edge in terms of product quality.

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Next, I would like to discuss catalysts.

In the third year of nickel catalysts, we had high expectations of expanding sales to our major customers, but unfortunately, the start-up of new facilities at our customers was significantly delayed due to equipment troubles. Since full-scale operations are scheduled to begin this fiscal year and sales to another main customer continue to be strong, we plan to increase both sales and profits this fiscal year.

Next, I will explain about environmental catalysts. First, deNOx catalysts. These are used in waste incineration plants and others. Demand in Japan is saturated, and we are focusing on acquiring projects overseas, especially in China and Korea. Last fiscal year, shipments of large projects to China contributed to the recovery of profits. We will continue to make efforts to acquire overseas projects.

Next, I would like to introduce a few products that are in the development stage before they are fully launched. We have been proposing an antimony-free PET polymerization catalyst as an alternative to catalysts containing harmful antimony. Although trial tests have been conducted on a limited number of customers' production lines as long-run tests, they are not yet fully switched over due to lack of recognition, and we are currently focusing on quality tuning while accumulating the usage record on customers' actual production lines.

In addition, the evaluation by promising target customer, an overseas manufacturer, for switching from harmful chromium-based catalysts to copper-based catalysts is currently being delayed due to the COVID-19 pandemic. A decision on the merits of the results is expected by the end of this fiscal year.

As for catalysts, we are also developing products that can contribute to a decarbonized society, as we will discuss later, and we are very excited about the future potential of catalysts. We will continue to work on improving profitability in our existing businesses.

Next, highly refractive materials. These are specifically nano-sized zirconia and titanium dioxide sol products, which are used in liquid crystal films for displays, optical films, and eyeglass lenses. The application was expected to generate demand in the double-digit tons when the project was initiated, but unfortunately, it was abandoned due to cost. We are currently working on full-scale adoption, targeting new customer applications where the superiority of the product's quality is highly valued.

Progress on the Medium-term Management Plan "SAKAINNOVATION 2023"

6. Medical business

[Existing businesses]: The situation is difficult due to the spread of COVID-19.

Summary	Adverse external factors	Countermeasures
(1) Barium contrast media	The number of group medical examinations decreased due to the COVID-19 pandemic	Maintain business scale by responding to the needs of institutions performing medical checkups and expanding sales to South Korea and Taiwan
(2) Alloid G	Devaluation of NHI drug prices	Maintaining sales due to strong demand
(3) Medical devices	Sales activities aimed at medical institutions were restricted due to COVID-19	Maintain and improve the number of new contracts through campaigns and expand sales of maintenance products
(4) Over-the-counter pharmaceuticals	Decrease in cold patients due to COVID-19	Reorganize sales channels and product lineups to improve revenue

[New businesses]: Aim for recovery through the following initiatives.

Summary	Current focus
(1) New medical devices	Expand sales of new submucosal injection materials for endoscopic surgery and puncture needles for injection materials. Obtain approval and launch sales of submucosal injection materials in Thailand.
(2) Products for cosmetic medical institutions	Introduce "SolPro," a supplement for UV protection, and "Applaura," a body odor prevention supplement, to the market.
(3) Collaborations with start-up companies	Develop various cancer screenings using blood and saliva, and diagnostic support AI for medical images such as chest X-rays and digestive organ endoscopes, etc.

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Next is the medical segment.

First, existing businesses are shown in the upper row. In the mainstay barium contrast media, the number of group medical examinations declined due to the COVID-19 pandemic, and to compensate for this, sales overseas have helped to stem the decline in sales.

Although sales of Alloid G are strong due to the withdrawal of generic drug manufacturers, revenues have declined slightly due to the impact of the devaluation of NHI drug prices.

As for medical equipment such as endoscope cleaners, although visits to medical institutions were restricted, we were able to achieve our sales volume target. We will continue to aim for expansion in the future.

OTC pharmaceuticals including cold remedies, Kaigen, are struggling due to the decrease in the number of patients affected, but we are working to improve profitability by reorganizing sales channels and product lineups.

In existing businesses, the environment is difficult, but we are working to maintain business through a mix of cost-savings and aggressive measures.

Next, I will explain three points on new businesses. As for new medical devices, we are currently expanding our domestic market share and overseas development of submucosal injection materials for endoscopic surgery and puncture needles for such injection materials, which were launched approximately two years ago.

Second, products for cosmetic medical institutions. As a supplement provided by Kaigen, a pharmaceutical manufacturer, sales have been steadily increasing, thanks to the positive impression of beauty medical institutions and their customers.

Currently, we are working on renewing our supplement for UV protection and introducing new products such as body odor prevention supplements to further grow in this niche market.

Third, we are developing cancer screenings using blood and saliva and diagnostic support AI for medical images by utilizing our know-how cultivated in the barium contrast media business and human networks with universities and medical institutions and by collaborating with startups that possess new technologies.

We are working on this business with the expectation that it will supplement and succeed our business in the future as the demand for barium contrast media declines.

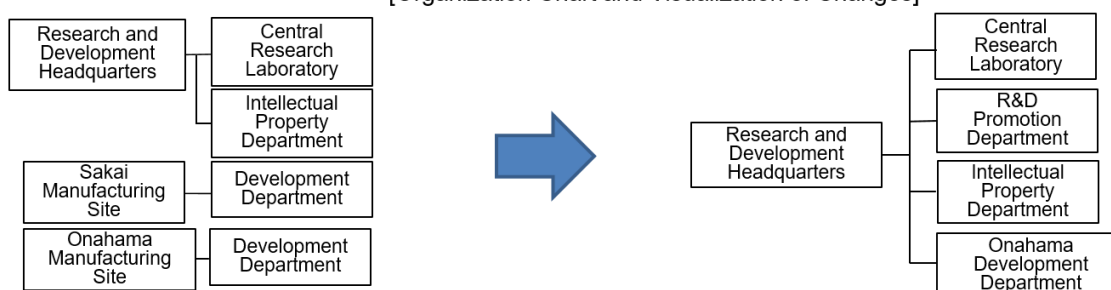
With the three new businesses I have explained above as pillars, we are aiming to return to the growth path in the entire medical business.

Progress on the Medium-term Management Plan "SAKAINNOVATION 2023"

7. Review of R&D structure

We consolidated the development divisions, which had been dispersed throughout the Central Research Laboratory and each plant at each business site, into a single organization as the Research and Development Headquarters to enable the necessary resources to be allocated to each developed or improved product at the necessary time to bring it to market. This will allow us to **accelerate the development process and focus more on the launch of new products**. In addition, we will continue to focus on research themes (*) that align with the Sustainable Development Goals (SDGs) 7 "Affordable and Clean Energy" and 9 "Industry, innovation and infrastructure".

[Organization Chart and Visualization of Changes]



*** In particular, we are focusing on the development of the following materials that will contribute to the realization of a carbon-free society**

- (1) New catalysts for methanation and ammonia synthesis**
- (2) Materials for secondary batteries**

Finally, I would like to briefly explain the review of our R&D structure.

The key to our future growth will be to respond to society's needs in a timely manner by developing distinctive new products and improving products from our existing businesses.

To this end, in September last year, we reorganized the R&D divisions into an organization that oversees the entire company's development, as shown in the document, so that tangible and intangible resources, including development personnel, production technology, and know-how, can be used in an optimal and timely manner throughout the Company, and results can be achieved quickly.

As particular areas of future promise, we are focusing on the development of new catalysts for methanation and ammonia synthesis and materials for secondary batteries that can contribute to the realization of a decarbonized society, which is an important social issue in relation to the SDGs.

In addition, although not listed in the document, we are continuing to discuss with external organizations on catalysts related to artificial photosynthesis as a medium- to long-term theme.

That's all I have to say. Next, Mr. Nakanishi will continue to explain.

Summary of Results for FY 2022 (compared to the same period of the previous year)

(Monetary unit: million yen)

	2021.3		2022.3		Increase/decrease	
		Net Sales Ratio		Net Sales Ratio		
Net Sales	84,918	—	80,135	—	▲ 4,782	-5.6%
Operating Income	4,304	5.1%	7,494	9.4%	3,190	74.1%
Ordinary Income	4,012	4.7%	8,840	11.0%	4,827	120.3%
Profit (loss) attributable to owners of parent	▲ 2,803	-3.3%	6,747	8.4%	9,550	—

- ◆ **Net sales:** Although revenue decreased due to the application of the new revenue recognition standard, each of our businesses, particularly electronic materials, performed well.
(Reference: Net sales for the period, before application of the new revenue recognition standard: 96,451 million yen)
- ◆ **Operating income:** In addition to strong sales, profit corrections for general-purpose products in electronic materials and plastic additives contributed to an increase in profit.
- ◆ **Net income:** Despite posting an extraordinary loss of 249 million yen due to the explosion and fire accident at the Yumoto Plant, the Company recorded a gain from the sale of cross-shareholdings of 1,533 million yen, and there was significant improvement from the previous term's deficit due to impairment.

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Nakanishi: I am Nakanishi in charge of IR.

First, I will provide a slightly more detailed overview of the financial results for the fiscal year ended March 2022.

First, the YoY results are shown in this table, as you can see. Although the application of the new revenue recognition standard resulted in a decrease in both revenue and income, in real terms, both revenue and income increased significantly. Under the so-called former standard, sales increased by 13.6% and operating

income by 74.1%. Net income also recovered significantly from the deficit owing to the impairment loss in the previous year, due in part to a JPY1,533 million gain on the sale of cross-shareholdings, despite a JPY249 million extraordinary loss due to the explosion and fire accident at the Yumoto Plant.

As explained earlier, ROE has also achieved 8.7%, far exceeding the midterm plan target of 6%.

Net sales and operating income by business

(Units: million yen)

		2021.3	2022.3	Increase/decrease	
Chemical Business	Net Sales	76,821	72,243	▲ 4,578	-6.0%
	Operating Income	5,731	9,190	3,459	60.4%
Medical Business	Net Sales	8,096	7,892	▲ 204	-2.5%
	Operating Income	452	418	▲ 34	-7.5%
Company-wide Expenses	Net Sales	—	—	—	—
	Head Office Expenses	▲ 1,880	▲ 2,114	—	—
Total	Net Sales	84,918	80,135	▲ 4,783	-5.6%
	Operating Income	4,304	7,494	3,190	74.1%

- ◆ Chemical business: Although revenue declined due to the application of the new revenue recognition standard, each business, particularly electronic materials, performed well.
(Reference: Net sales for the period, before application of the new revenue recognition standard: 88,497 million yen)
- ◆ Medical Business: Sales and income decreased due to the impact of COVID-19 and devaluation of NHI drug prices, etc.
(Reference: Net sales for the period, before application of the new revenue recognition standard: 7,954 million yen)

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Next, by segment.

The chemical business showed significant growth especially in electronic materials, with net sales up 15.2% and operating income up 60.4% under the former standards, while the medical business remained sluggish due to the impact of COVID-19 and drug price reductions, and unfortunately both sales and income declined. Head office expenses increased slightly, mainly in personnel costs.

Changes to the Balance Sheet

	2018.3	2019.3	2020.3	2021.3	2022.3
Current assets	61,787	61,318	58,760	60,260	65,496
Cash and deposits	14,091	11,195	9,110	11,093	10,800
(1) Inventories	17,702	20,740	23,110	20,833	23,110
Non-current assets	56,166	58,763	62,888	62,746	58,423
Property plant and equipment	39,807	44,048	49,446	48,621	48,134
Intangible assets	2,205	2,075	1,901	1,706	1,519
(2) Investments and other assets	14,154	12,640	11,541	12,418	8,769
Total assets	117,954	120,082	121,648	123,007	123,919
Current liabilities	27,978	23,994	25,438	26,178	26,771
Non-current liabilities	9,212	15,796	14,717	17,564	14,439
Total liabilities	37,190	39,790	40,156	43,742	41,211
Net assets	80,763	80,291	81,492	79,264	82,708
Liabilities and net assets	117,954	120,082	121,648	123,007	123,919
Equity-to-asset ratio (%)	66.1	64.3	64.4	61.6	63.6
(3) Interest-bearing liabilities (total)	14,576	17,528	18,156	20,438	16,958

(1) Although efforts were made to reduce inventories to an appropriate level in FY 2021 in line with the decline in net sales, in FY 2022, sales are expected to recover in FY 2022. Along with the increase in volume, the price of raw materials rose sharply, resulting in a substantial increase.

(2) We have been reducing our cross-shareholdings .

(3) In addition to the recovery in business performance, there was a lull in large strategic investment, which has allowed the Company to make progress in repaying borrowings in FY 2022.

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Next, I will explain a little about the balance sheet trends.

First, with regard to current assets, inventories increased by JPY2,277 million due to a combination of increased inventory to prepare for disruptions in the raw material supply chain and higher unit prices for raw material and product inventories.

Regarding non-current assets, capital investment in strategic areas has run its course, and property, plant, and equipment decreased due to depreciation. In addition, a reduction in cross-shareholdings combined with a decline in the value of securities holdings due to deteriorating market conditions resulted in a JPY3,649 million decrease in investments and other assets. As a result, total assets increased only by JPY912 million.

With regard to liabilities, long-term liabilities decreased by approximately JPY3.1 billion due to the repayment of long-term borrowings, while net assets increased by JPY3,443 million due to the accumulation of retained earnings of JPY6 billion. As a result, the equity-to-asset ratio rose 2% to 63.6%, a more stable level.

Cash Flow

	2018.3	2019.3	2020.3	2021.3	2022.3
Cash balance at start of period	14,598	13,848	11,175	9,148	11,153
Profits before tax	3,578	5,239	3,999	▲ 2,037	9,223
Depreciation	3,005	3,189	3,686	4,243	4,333
Other	▲ 2,642	▲ 5,673	▲ 1,231	5,620	▲ 6,989
Operating CF	3,941	2,755	6,454	7,826	6,567
(1) Capital investment	▲ 3,771	▲ 6,891	▲ 8,403	▲ 9,567	▲ 5,064
(2) Sale of stocks	2,101	681	411	2,412	3,591
Other	1,183	752	▲ 432	▲ 267	359
Investment CF	▲ 487	▲ 5,458	▲ 8,424	▲ 7,422	▲ 1,654
FCF (3)	3,454	▲ 2,703	▲ 1,970	404	4,913
Financial CF	▲ 4,209	64	▲ 68	1,667	▲ 5,654
Cash balance at end of period	13,848	11,175	9,148	11,153	10,549

(1) Strategic investments for growth are almost completed.

(2) We will continue to reduce our cross-shareholdings policy.

(3) FCF improved significantly due to the recovery in business performance and the completion of major investments.

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Next is cash flow.

Operating cash flow was negative YoY due to an increase in operating receivables resulting from higher sales and an increase in inventories included in other, despite a significant YoY increase in profits before tax.

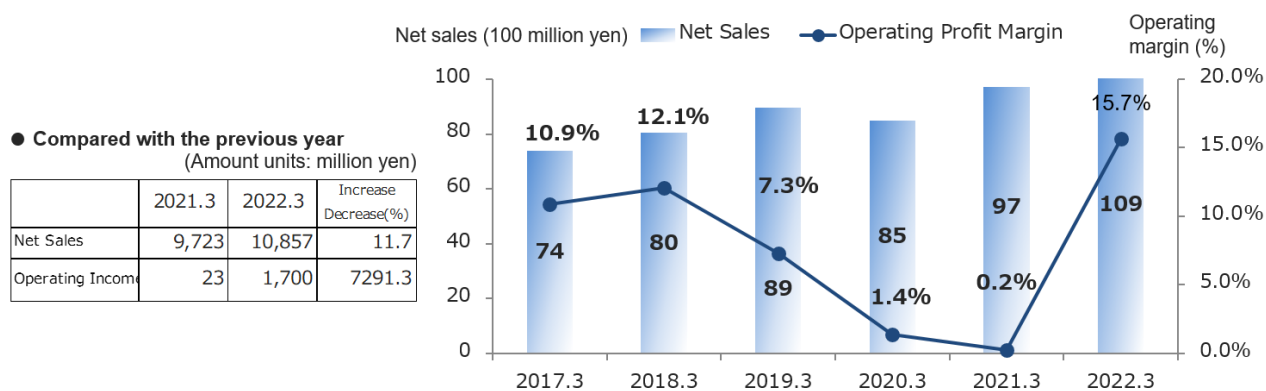
With regard to investment cash flow, the peak out of capital investments and the sale of cross-shareholdings resulted in a significant decrease in cash outflows. As a result, free cash flow was significantly positive, while financial cash flow was significantly negative due to the repayment of borrowings, mainly long-term ones.

As a result, cash and cash equivalents at the end of the period decreased but remained at a sufficient level to provide the necessary working capital.

In addition, we have JPY10 billion available within the committed lines of credit, and we are maintaining a solid cash management situation.

Electronic materials

Chemicals



Key Points for FY 2022 * Decrease in sales of 2,199 million yen due to the application of new revenue recognition standards

- Both dielectrics (barium titanate) and dielectric materials (high-purity barium carbonate) for laminated ceramic capacitors for use in vehicles, 5G base stations, and telecommunications equipment performed well in general, and both sales and operating profit increased.
- In dielectrics, mass-production shipments of high-end products started this term.
- In dielectric materials, profit correction was implemented for general-purpose products.
- **YoY net sales +1,134 million yen (+11.7%), operating income +1,677 million yen (+73.9 times)**

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Next, let me move on to the explanation of the sub-segments.

First, electronic materials.

Among the sub-segments, electronic materials showed the largest growth this fiscal year. Sales increased 34.3% in real terms under the former standard, and operating income grew from almost breaking even to JPY1.7 billion. The operating profit margin has also risen to the mid 10% range.

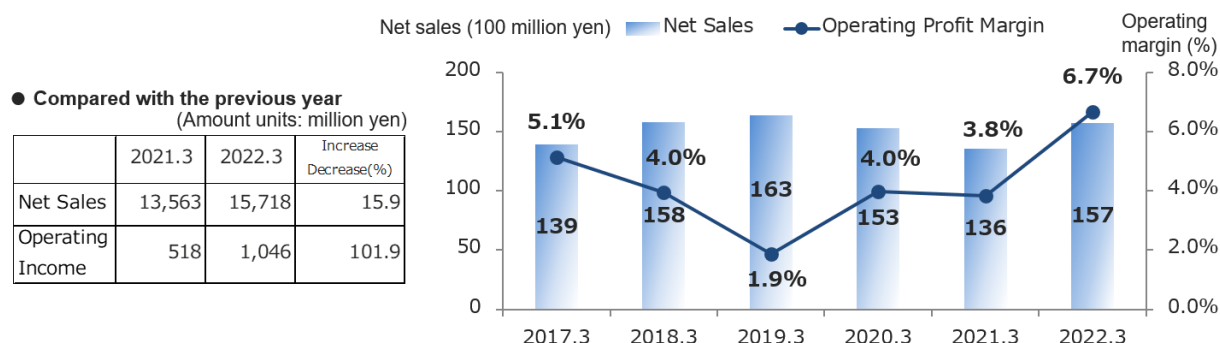
Sales of both dielectrics and dielectric materials were favorable in all applications, including for use in vehicles, 5G base stations, and telecommunication equipment.

As explained earlier, in dielectrics, shipments of high-value-added, high-end products began, and we were able to improve profitability by increasing unit prices. In dielectric materials, the main factors were that we corrected the profitability of general-purpose products and that we were able to reduce manufacturing costs by increasing the operation of existing facilities.

The outlook for MLCCs is strongly positive, and as explained earlier, we are in a situation where we can adequately respond to further increases in production of dielectric materials, as we have sufficient production capacity with the operation of the new plant.

Titanium dioxide and zinc products

Chemicals



Key Points for FY 2022 * Decrease in sales of 179 million yen due to the application of new revenue recognition standards

- In titanium dioxide, sales and income increased due to steady sales for all applications and the penetration of price revisions.
- Zinc products posted higher income due to steady sales of zinc oxide for tires and higher zinc prices. The decrease in sales due to the withdrawal from the zinc dust business was limited.
- Microfine titanium dioxide and zinc oxide for cosmetics materials recovered from the second half of the fiscal year, mainly in overseas markets, leading to an increase in both sales and income.
* An extraordinary loss of 249 million yen was recorded for expenses related to the explosion at the zinc dust manufacturing plant.
- **YoY sales +2,155 million yen (+15.9%), operating income +528 million yen (+101.9%)**

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Next are titanium dioxide and zinc products.

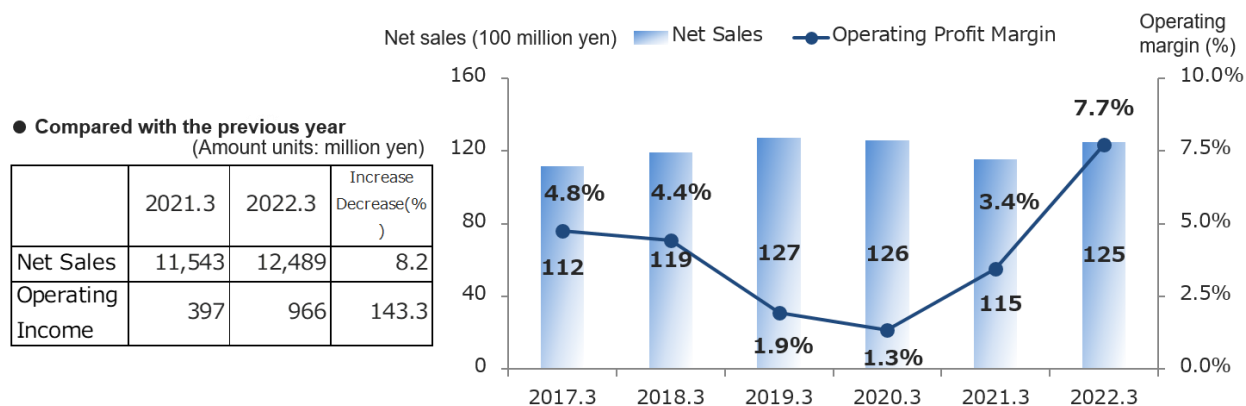
The sub-segment also achieved a significant increase in sales and profit. Titanium dioxide sales and income increased due to firm sales in all applications and the penetration of price revisions.

The main reasons for the strong performance of zinc oxide were steady sales for tires and higher zinc prices. The decrease in sales due to the withdrawal from the zinc dust business caused by the accident at the Yumoto Plant was limited.

Microfine titanium dioxide and zinc oxide for cosmetics materials recovered from H2 of the fiscal year, mainly for overseas markets, leading to an increase in both sales and profit. In the cosmetics business, we are now looking at the start of operation and production at a new plant, and we are waiting for a full-fledged recovery of market conditions while maintaining sufficient production capacity.

Plastic additives

Chemicals



Key Points for FY 2022 * Decrease in sales of 735 million yen due to the application of new revenue recognition standards

- Domestic sales were generally strong for housing, automobile, IT-related equipment and industrial panels, etc., and price revisions also penetrated, resulting in higher sales and profit.
- For overseas markets, sales of PVC stabilizers for automotive applications and hydrotalcite for agricultural sheets remained strong, and with the inclusion of demand for non-lead stabilizers the result was an increase in both sales and profit.
- YoY sales +946 million yen (+8.2%), operating income +569 million yen (+143.3%)

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Next, plastic additives.

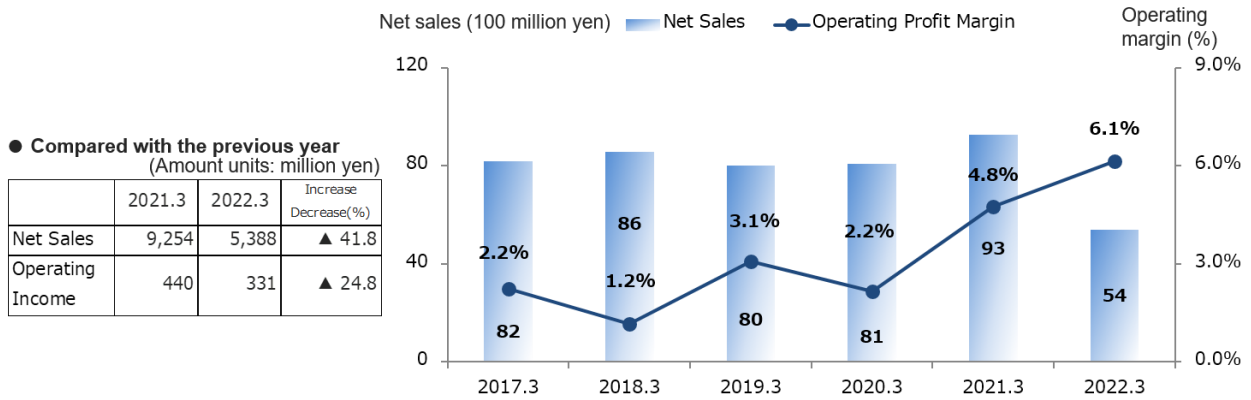
Both domestic and overseas sales were solid, with substantial increases in both sales and profit.

In Japan, the main factors were growth in shipments in almost all applications and the penetration of price revisions.

Overseas, sales of PVC stabilizers for wire harnesses and hydrotalcite for agricultural sheets remained strong.

Hygienic products

Chemicals



Key Points for FY 2022 * Decrease in sales of 4,361 million yen due to the application of new revenue recognition standards

- Sales decreased significantly due to the application of new revenue recognition standards.
- Although the manufacturing and sales business at the local subsidiary in Indonesia remained strong, profits decreased because there was no special demand for non-woven fabric related to the coronavirus pandemic in the current fiscal year, which there was in the same period of the previous fiscal year.
- YoY sales -3,866 million yen (-41.8%), operating income -109 million yen (-24.8%)

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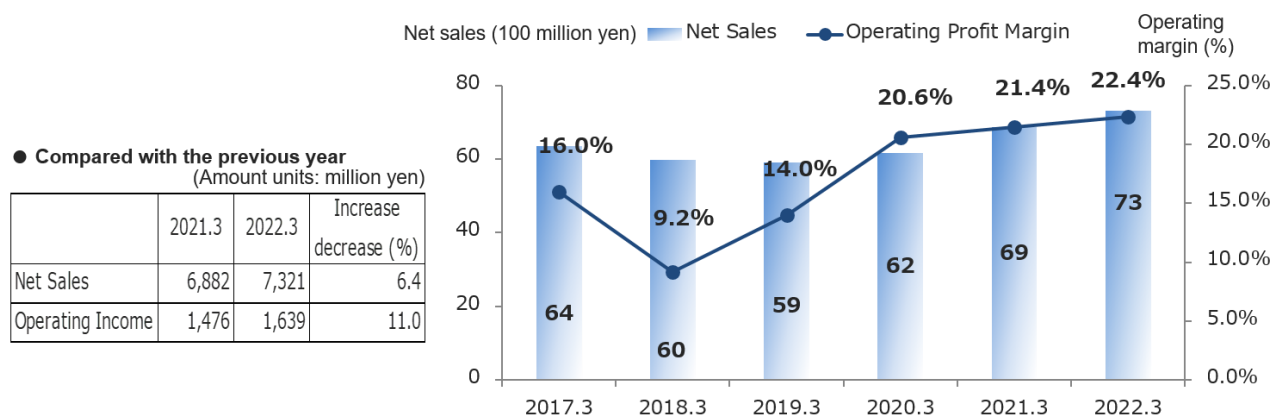
Next, hygienic products.

Under the former revenue recognition standard, revenues increased by 5.3% in real terms.

However, profits for the current fiscal year have decreased, due in part to the loss of special demand at the local subsidiary in Indonesia, which had experienced special demand for nonwoven fabric related to COVID-19 pandemic in the previous fiscal year.

Organic chemicals

Chemicals



Key Points for FY 2022 * Decrease in sales of 93 million yen due to the application of new revenue recognition standards

- Sales and profits of this products increased as a result of strong sales of products used in plastic lenses and phosphorus products for use as lubricant additives in the manufacture of automobiles and various parts.
- Regarding contract production of active pharmaceutical ingredients and intermediates, shipment volumes of the main intermediates increased, but in the second half of the fiscal year, sales increased while profits decreased due mainly to shipments of high-cost developed products.
- **YoY sales +439 million yen (+6.4%), operating income +163 million yen (+11.0%)**

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Next, organic chemicals.

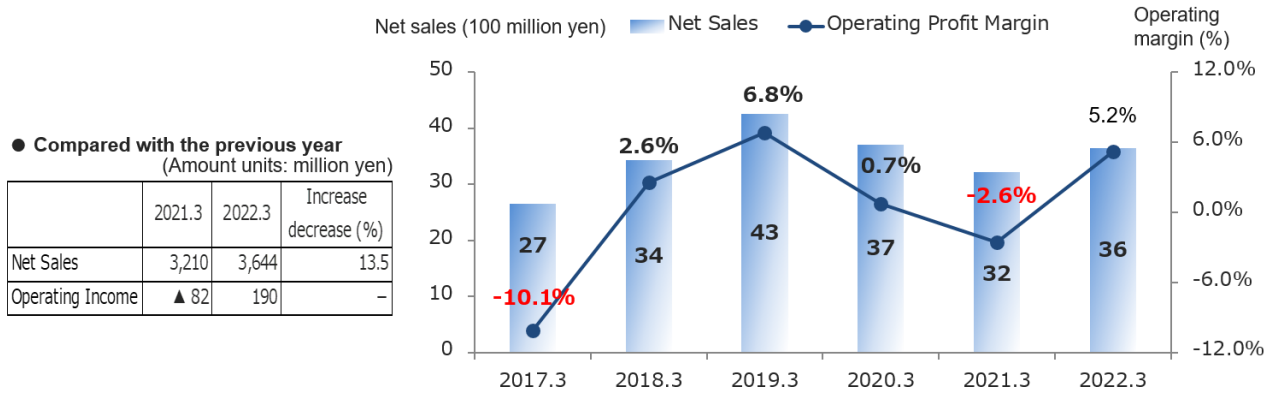
Sales and profit increased due to strong sales of this products used in plastic lenses and phosphorus products for use as automobile lubricant additives.

In the contract production of active pharmaceutical ingredients and intermediates, shipments of mainstay intermediates were strong, but sales and profit declined due to an increase in shipments of high-cost development products in H2 of the fiscal year.

However, as a sub-segment, it has maintained an increase in sales and profit and a very high operating profit margin.

Catalysts

Chemicals



Key Points for FY 2022 * Decrease in sales of 365 million yen due to the application of new revenue recognition standards

- Sales of nickel catalysts used in the hydrogenation process of resins, etc., were affected by delays in the start-up of mass production by users, but sales increased due to a sharp rise in the price of raw nickel.
- Sales and profits of deNOx catalysts used in thermal power plants and waste incineration facilities increased due to large shipments to overseas markets.
- **YoY sales +434 million yen (+13.5%), operating income +272 million yen**

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Next, the catalysts.

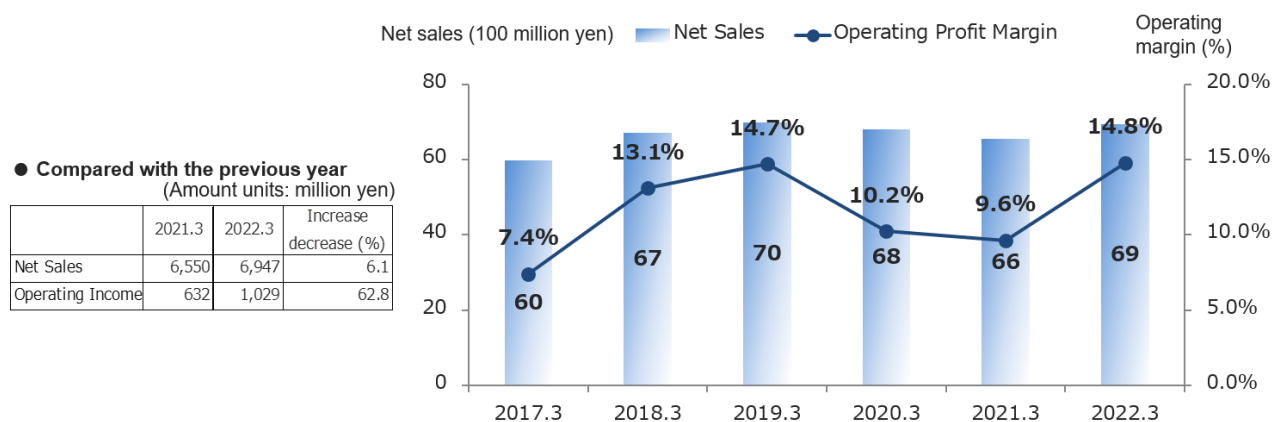
Catalysts sales increased by 24.9% in real terms under the former standard.

Sales of nickel catalysts increased due in part to a sharp rise in the price of raw nickel, although the start-up of new plants by existing users was delayed.

In the deNOx catalysts business, large-scale overseas projects made a significant contribution to sales and profit throughout the fiscal year, driving a return to profitability compared to the previous fiscal year.

Contract processing

Chemicals



Key Points for FY 2022 * Decrease in sales of 510 million yen due to the application of new revenue recognition standards

- Sales and profits of processed pigments increased due to strong sales for use in automobiles and daily supplies.
- Sales and profits of contracted processes such as calcination, mixing, and drying increased due to an increase in highly profitable contracted products.
- **YoY sales +397 million yen (+6.1%), operating income +397 million yen (62.8%)**

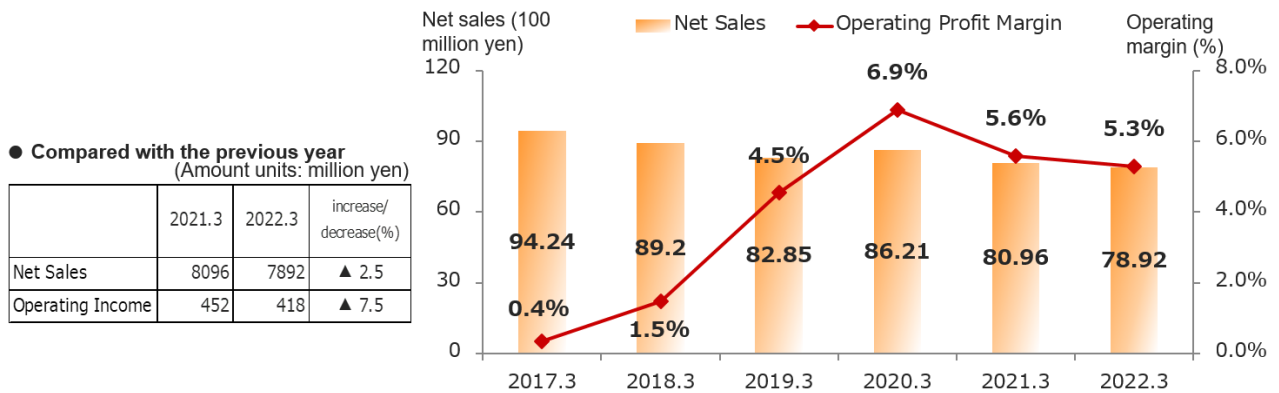
24

Next is contract processing.

Processed pigments recovered mainly for use in automobiles, while contracted processes achieved higher sales and profits due to an increase in highly profitable contracted products.

Medical business

Medical



Key Points for FY 2022 * Decrease in sales of 38 million yen due to the application of new revenue recognition standards

- Sales of barium contrast media increased due to growth in exports, mainly to South Korea, despite the impact of the decline in medical examinations due to the COVID-19 pandemic that has been ongoing since last year.
- Although net sales and profits of Alloid G declined due to the significant impact of NHI price reductions, sales volume was maintained due to steady demand.
- Sales of medical equipment were strong as sales volume recovered thanks to successful sales promotion activities.
- Sales and profits of over-the-counter drugs, such as the cold remedy Kaigen, decreased due to weak sales as colds did not spread due to thorough measures to prevent COVID-19 infection.
- **YoY sales -204 million yen (-2.5%), operating income -34 million yen (-7.5%)**

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Next is the medical segment.

As for the medical business, I have explained it in detail earlier, so I will skip the explanation at this time. We continue to face a difficult situation in the COVID-19 pandemic.

Forecast for FY 2023

(Monetary unit: million yen)

	2022.3		2023.3			
	Full-year Results		First-half Forecast		Full-year Forecast	
		Change From the Previous Year		Year-on-year Comparison		Change From the Previous Year
Net Sales	80,135	-5.6%	42,500	6.5%	85,000	6.1%
Operating Income	7,494	74.1%	3,700	-15.1%	7,000	-6.6%
Ordinary Income	8,840	120.3%	3,700	-19.5%	7,100	-19.7%
Profit (loss) attributable to owners of parent	6,747	—	2,600	-18.3%	5,000	-25.9%

Although price revisions will be implemented, the impact of high prices for raw materials and fuel is unavoidable, and sales are expected to increase while profits decrease.

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I will now move on to the forecast for the fiscal year ending March 2023.

The forecast for the fiscal year ending March 2023 is as shown. We forecast an increase in sales and a decrease in income. As will be explained later, the main reason is that the large increase in raw fuel prices has a large impact on the firm top line, and the price increase will follow.

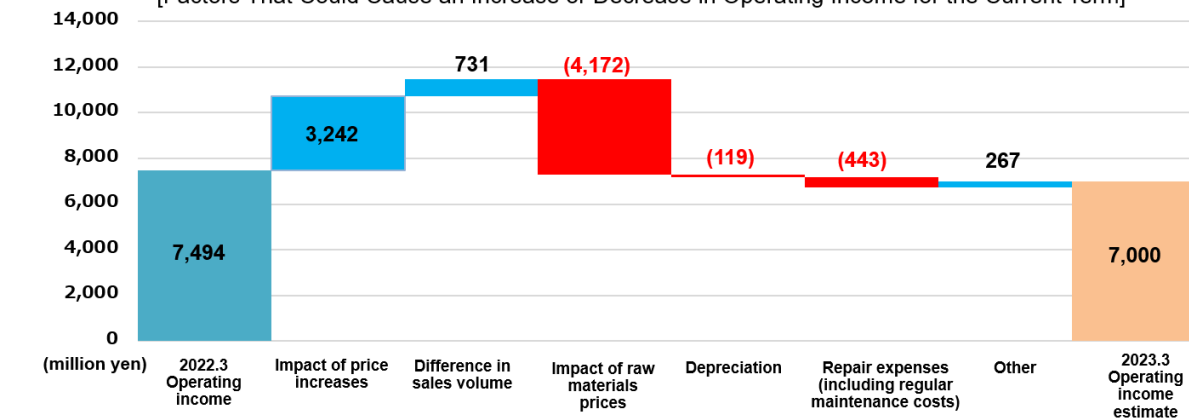
The main reasons for the decrease in profit attributable to owners of parent are that, in addition to the decrease in operating income, non-operating income from subsidies for capital investment, which was recorded this fiscal year, and extraordinary income from the sale of cross-shareholdings will decrease in the next fiscal year.

Toward the second half of the medium-term management plan

[Measures]: Use the following measures to strive to maintain business performance

- (1) **Sales: Secure revenues by implementing price revisions as necessary**
Effect of increasing sales unit prices: approximately 3,242 million yen/year
- (2) **Operations: Benefits of increasing the production of electronic materials and cosmetic materials, which are our focus areas**
Expected effect on revenue: Approximately 350 million yen/year

[Factors That Could Cause an Increase or Decrease in Operating Income for the Current Term]



- [Risks]:
- (1) Further increases in procurement costs due to high prices for raw material and fuel, caused by a worsening of the situation in Ukraine
 - (2) An overall cooling down of the economy, including electronic materials, due to a major slowdown in the Chinese economy caused by the prolonged lock-down in Shanghai, China

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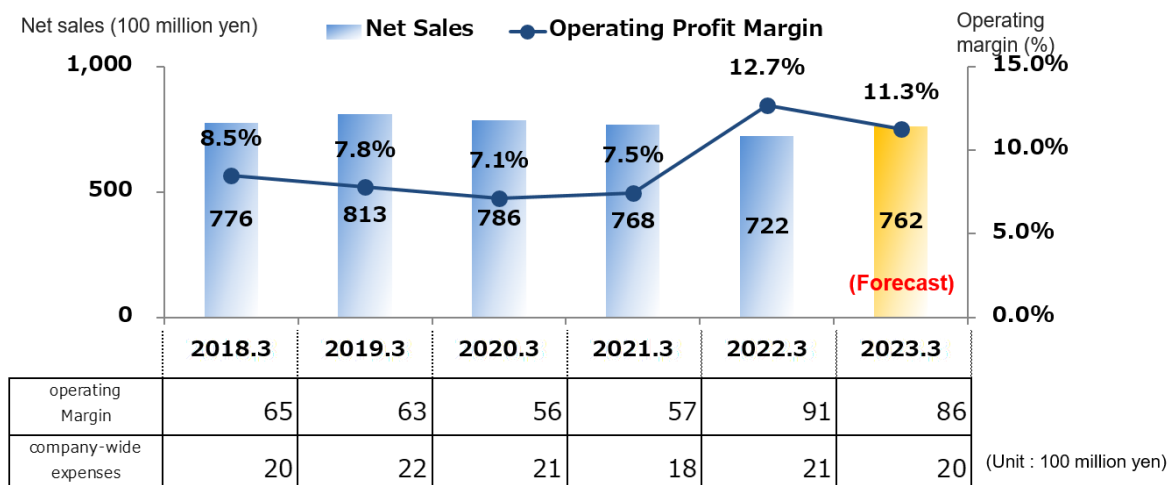
The following chart illustrates the factors behind the increase or decrease in operating income.

The left-hand side of the table shows the starting point for the operating income forecast for the current fiscal year at JPY7,494 million which will increase by JPY3,242 million due to the effect of price hikes and significantly decrease by JPY4,172 million due to soaring raw fuel prices, despite the positive sales volume difference. As a result, operating income is projected to be JPY7 billion.

Further risks include, as noted at the bottom, further increases in raw fuel prices due to the prolonged situation in Ukraine and disruptions in the supply chain. Although the global economy may deteriorate due to the impact of the Shanghai lockdown in China and other factors, these have not been factored into this forecast plan.

Business performance trends and forecast

Chemicals



* The operating margin is the amount before removal company-wide expenses

Strong performance is expected in all businesses, including electronic materials and the cosmetics business, which has been recovering mainly in overseas markets.

Sales are expected to increase due to the effect of price revisions, but profits are expected to decrease due to the unavoidable impact of high prices for fuel and raw materials.

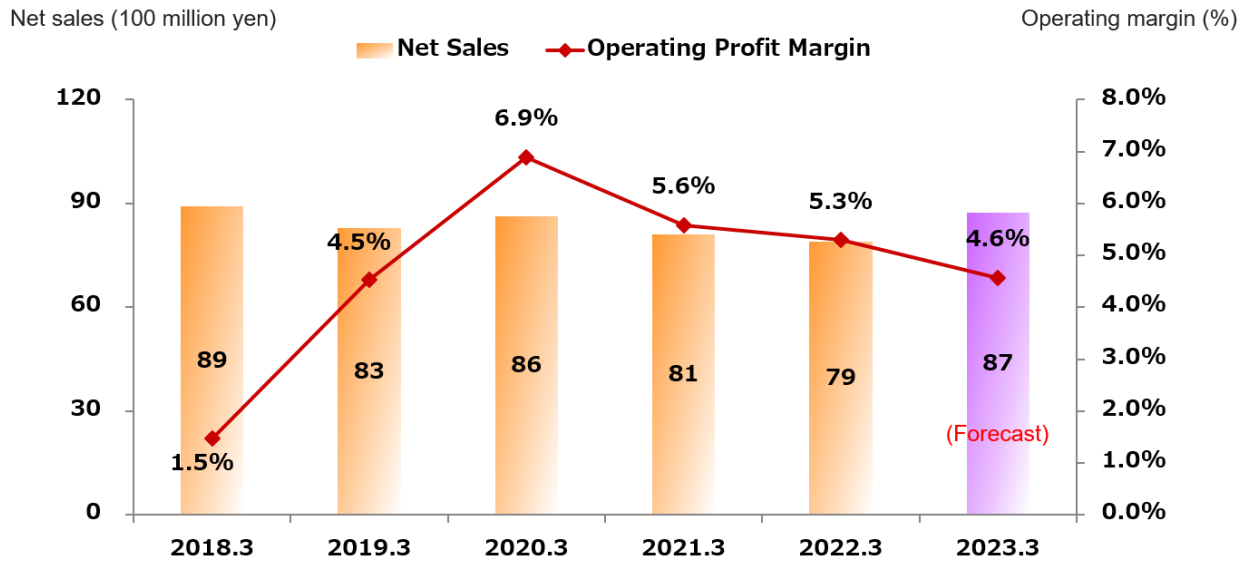
29

Next is the performance trend by business segment.

The chemical segment is projected to post higher sales and lower income. Most of the decrease in profit on a consolidated basis will be attributable to the chemical segment. The steep rise in raw material and fuel prices will have the greatest impact on the chemical segment. We plan to hold company-wide expenses flat to slightly lower.

Business performance trends and forecast

Medical



We are focusing on promising new businesses, such as the medical equipment business, which is not affected by the NHI price devaluation, but it will require time, and difficult conditions are expected to continue during the current period.

Next is the medical segment. The medical segment also plans to increase revenues, but unfortunately, profits will remain mostly unchanged.

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

	2017.3	2018.3	2019.3	2020.3	2021.3	2022.3	2023.3
Capital Investment	4,636	3,771	6,891	8,403	9,567	5,967	4,000
Depreciation	2,877	3,005	3,189	3,686	4,243	4,331	4,500
Research and Development Expenses	2,909	3,217	2,951	2,898	2,487	2,376	2,500

Forecast

- Capital investment

In FY 2019 and FY 2020, strategic investments were made, mainly in the fields of electronic materials and cosmetics materials, resulting in a large increase.

Because the payback period begins from this fiscal year, no major investments are currently planned during FY 2023.

- Depreciation

Although the company has made strategic investments as mentioned above, because of the 7,041 million yen impairment loss recorded at the end of FY 2020, the depreciation burden is not expected to increase.

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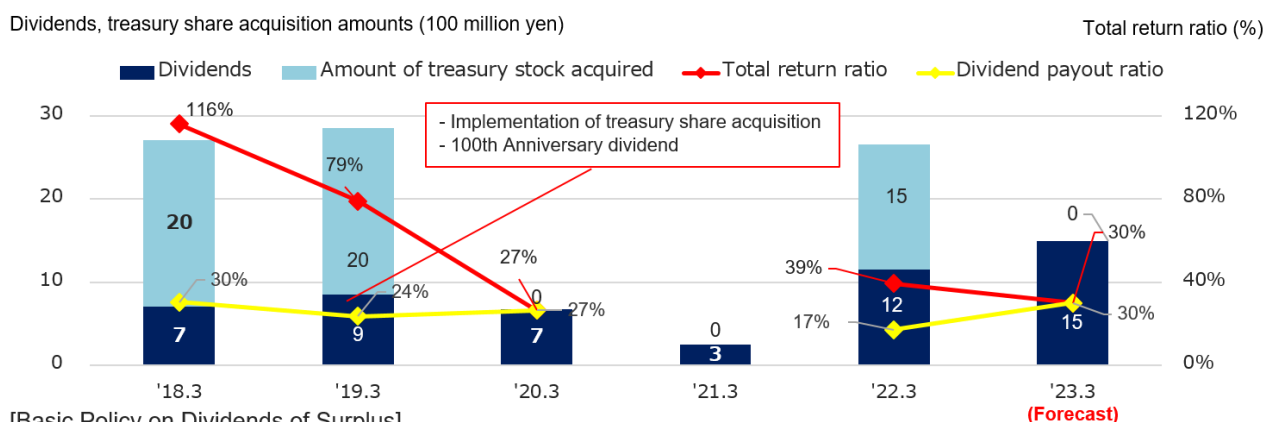
Next, I will explain changes in capital expenditures, depreciation and R&D expenses.

First, in terms of capital investment, large-scale capital investment has peaked out. Accordingly, we have set a restrained capital investment plan for the fiscal year ending March 2023.

Depreciation will increase only slightly, partly due to a JPY7 billion impairment at the end of FY2020.

R&D expenses are planned to increase slightly.

Shareholder Return



[Basic Policy on Dividends of Surplus]

The Company considers the stable return of profits to shareholders to be one of our highest management priorities, and we will pay dividends twice yearly, taking into consideration profit trends and the business environment, as well as the need to strengthen our financial position and increase internal reserves for proactive business development.

About the Fiscal Year Ending March 2022

In consideration of the recovery of business performance, we will pay dividends of **35 yen per share for the interim period and 35 yen per share for the year-end period**.

Taking into account the acquisition of treasury shares associated with the sale, **the total return ratio was 39%**.

About the Fiscal Year Ending March 2023

The Company will revise its total return ratio, aiming for a dividend payout ratio of 30% or higher.

Based on the earnings forecast, the Company currently plans to pay **an interim dividend of 45 yen per share and a year-end dividend of 45 yen per share**.

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Next, I will explain shareholder returns.

For the fiscal year ended March 2022, the Company plans to pay an annual dividend of JPY70 per share, consisting of JPY35 for both the interim and year-end dividends. The dividend payout ratio is 17%, and the total return ratio, including a JPY1.5 billion share buyback, is 39%, achieving more than 30% of the current policy.

For the fiscal year ending March 2023, we plan to change our dividend policy to a dividend payout ratio of 30% or more. We have decided to adopt a policy that emphasizes dividend payments and strengthens shareholder returns compared to our past performance.

Based on the earnings forecast, the Company plans to pay an annual dividend of JPY90 per share, consisting of JPY45 per share for both interim and year-end dividends, for a payout ratio of 30%.

Sakai Chemical's sustainability activities

Third-party evaluation by
EcoVadis

- Received a Gold rating for two consecutive years following FY 2021
Evaluation subjects: Sakai Manufacturing Site & Onahama Manufacturing Site



- What is EcoVadis?

With the goal of improving corporate environmental and social practices, EcoVadis conducts surveys and evaluations covering four aspects: environment, labor and human rights, ethics, and sustainable procurement of materials, and is currently evaluating more than 90,000 companies around the world.

→ There is a growing trend to refer to the results of the EcoVadis's sustainability survey as one of the selection criteria from an ESG perspective when selecting suppliers. In response to requests from our customers, **we will continue to request evaluations by EcoVadis to maintain and improve our sustainability activities.**

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Next, I would like to explain our sustainability activities.

Both Sakai and Onahama Manufacturing Sites have been awarded Gold in EcoVadis' evaluation for two consecutive years. This is awarded to the top 5% of the 90,000 companies evaluated by EcoVadis worldwide, and in that sense, we are highly regarded.

Sakai Chemical's sustainability activities

Materiality and each KPI

We will endeavor to achieve the KPI targets for materiality identified based on our mission, organizational vision, and social issues.

Materiality		KPI
Theme: Making people happy		
1	Foster an environment that enables the development and growth of human resources	Stress check implementation results Matters that deviate in consideration of careers Above average for the chemical industry
2	Creating a comfortable working environment	Frequency and intensity rate (occupational accidents) Below average for the chemical industry DX promotion to make work easier
3	Contributing to local communities	Community dialog through Responsible Care, etc. Participation in social contribution activities by supporting member organizations
Theme: Protect the global environment		
4	Manage chemical substances appropriately, reduce environmental impact, and implement measures to improve product safety	CO2 emission reduction rate: 30% reduction by FY 2030 (compared to FY 2013) Number of serious environmental accidents: 0
5	Reducing industrial waste emissions	Industrial waste reduction rate: 25% reduction by FY 2025 (compared to FY 2021)
6	Giving consideration to biodiversity	Conduct an ecological survey in conjunction with construction of an industrial waste disposal site
Theme: Solving social issues through manufacturing		
7	Create products and services that help solve environmental and social issues	Development of "Smart Material ® certified products" 5 products on the market by FY 2030
8	Promote responsible procurement	Customer satisfaction survey for business partners 100% of requests
Theme: Build a strong, transparent management system		
9	Increasing the effectiveness of the Board of Directors	Identify issues based on effectiveness survey results and implement improvements
10	Understanding risks and taking countermeasures	Number of serious compliance violations: 0 Maintain the company-wide risk management system
11	Timely and appropriate information disclosure	Provide an integrated report or equivalent content starting from FY 2022

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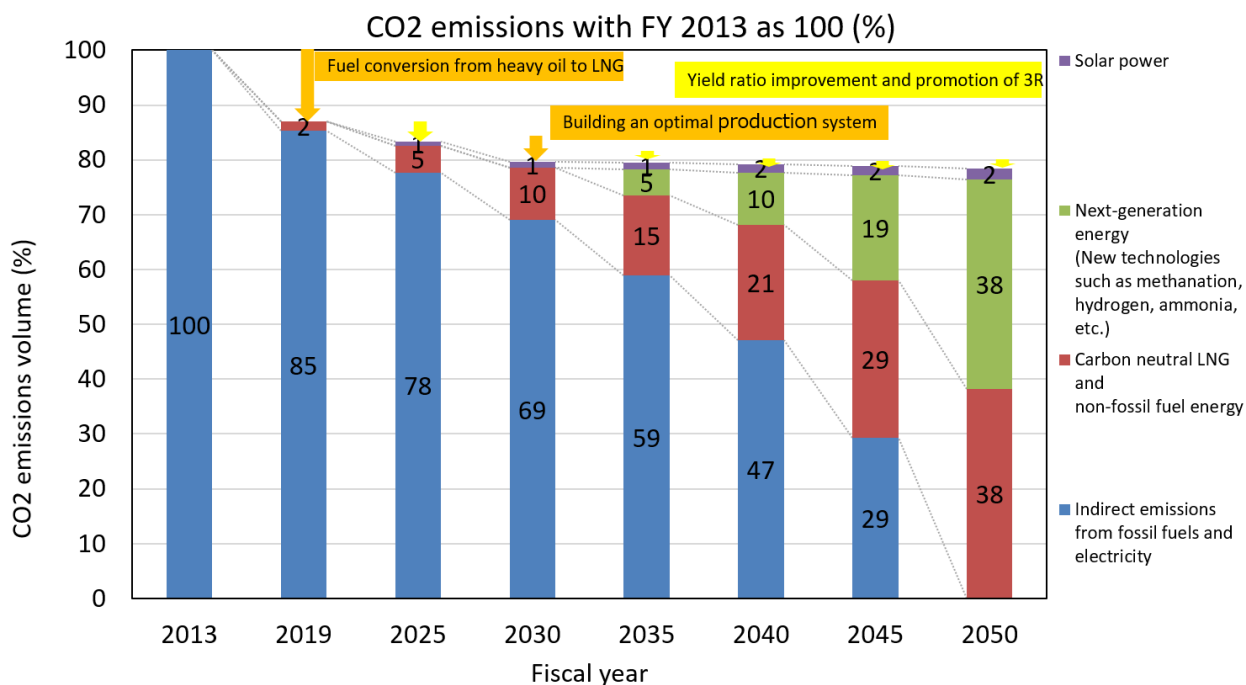
Next is materiality.

Based on our mission and organizational vision, in July 2021, we established 11 material issues, or so-called materialities, divided into four themes that we should prioritize in order to both solve social issues and enhance corporate value. Since then, we have been conducting awareness-raising activities by posting the materialities in the company newsletter and other means to inform and educate employees.

In addition, we have established specific targets and KPIs for each materiality, and have begun working toward achieving these targets this fiscal year.

We plan to disclose these materialities and KPIs on our website, in our Corporate Governance Report, and in our Environmental and Social Report after June.

We will promote decarbonization as innovations are realized, and take on the challenge of becoming carbon neutral by 2050.



Next, we have developed a CO2 reduction road map.

If the Group's CO2 emissions in FY2013 are set at 100, the goal is a 30% reduction by FY2030 and carbon neutrality by FY2050.

Fuel conversion from heavy oil to LNG has already been implemented. In addition, we have begun using carbon-neutral LNG. In the future, we will build an optimal production system, improve yields and promote the 3Rs, or Reduce, Reuse, and Recycle, introduce solar power generation, and utilize new technologies such as methanation, hydrogen, and ammonia, which are catalysts. We also intend to further reduce CO2 emissions and go carbon neutral through the increased use of carbon-neutral LNG and non-fossil energy sources.

That concludes my explanation.

Moderator: Thank you for your explanation.

Question & Answer

Moderator [M]: We would like to start with a question-and-answer session from the audience.

The full transcript of this IR meeting, including the Q&A portion, will be made available to the public. If you wish to remain anonymous, please do not give your name when asking a question.

Now, do you have any questions? Please.

[Q1]: I have three questions.

The first is about the electronic materials. How do you see the growth in volume last year and this fiscal year, divided into dielectric materials and dielectrics? According to the document, it looks like dielectric materials probably increased by about 50% last year, but please tell us about dielectrics as well, in addition, the outlook for this year.

Why did it grow so much last year when it had been almost flat until then? If it is going to grow even more this year, I think it is at a very different level than it has been in the past. Could you give us some background on this sudden growth?

Yabe [M]: To confirm your current question, are you asking about the reason for the growth in the last year?

[Q1]: First of all, I would like to know the figures for last year, and on page seven of this document, the sales volume index of dielectric materials was almost flat at 1 until 2021, but last year, it came to 1.5.

If it grows further this year, in short, you are now in a completely different world of 1, and I just don't think that MLCC production has actually increased that much over the past year or two. So, what is the difference? Why is there such an increase? This is what I think all of us are most interested in.

Yabe [A]: Specifically, we made an investment because we expected a growth for our customers. As for the second year, it did not grow as we expected due to the pandemic. As for the third year, the level may be still low compared to the plan, but there are some new dielectric materials that have been adopted. Also, I think the market share has increased. I will tell you the specific numbers now. Excuse me, we do not have the actual numbers at hand.

[Q1]: You have shown the dielectric materials here, and I am totally fine with this level of information. How about the outlook for dielectrics for this year? What will happen in FY2022? Is this just a temporary increase or will we see a bit more this year?

Yabe [A]: We don't think it will grow as much as it did last year, but it will still grow this year.

[Q1]: How far do you think dielectric materials will go in this red bar graph?

Yabe [A]: It will be about 10% as a quantity.

[Q1]: About 10% this year?

Yabe [A]: Yes.

[Q1]: Then, although the growth is much milder than last year, it is still positive. Is that right?

Yabe [A]: Yes.

[Q1]: So, that is about dielectric material. What do you think about last year's growth and this year's outlook for dielectrics?

Yabe [A]: It's about 10% growth.

[Q1]: How about last year?

Yabe [A]: It grew a lot last year. It has grown by about 30%.

[Q1]: If possible, please let me know, for example, which customers are growing. Could you explain the situation by customer? And you mentioned high-end and middle-end products for dielectrics earlier, but what kind of applications are high-end and what kind of applications are middle-end?

Yabe [A]: The biggest growth was probably the increase in automotive applications. We have always had a strong overseas clientele, and we have grown there.

And as for the high-end product, it took a long time, but it has finally been actually put on the market and adopted by two companies. The volume is still not that large, but the unit price is reasonably good, so in terms of monetary value, it is now about 15% of total sales.

[Q1]: What do you think high-end products are used for?

Yabe [A]: The high-end product is a thin film, so it is probably for smartphones. Also, we are working on some applications that are used for high reliability, so I have heard that it will still take some more time for those applications.

[Q1]: I understand. Just one more question, please. This is about titanium dioxide. As for general-purpose titanium dioxide, there is probably not much room for growth in terms of volume and capacity. How much will the high cost of raw materials affect in the current fiscal year? Other companies have explained that the market for spot ilmenite is USD450 and some spots are doubling YoY, so what should we keep in mind?

In addition, for microfine titanium dioxide and ultrafine zinc oxide in cosmetics, sales returned considerably last year, but will they grow further this year? You mentioned earlier that some are in the process of obtaining customer approvals. Is the number of projects that are obtaining approval increasing?

Yabe [A]: Regarding the titanium dioxide content, it is true that ilmenite and titanium slag have gone up, and the price of LNG has also gone up, so both raw materials and fuels have risen.

We had talked about the possibility that we could not first get any more stuff in and we would not be able to supply the product unless the customer agreed to a price increase, and we were able to correct the price in advance. We believe that we can continue to negotiate such a deal in the future if there is no economic downturn. Now that we have also announced the third price increase. However, if the economy slumps a bit, I suspect that negotiations will become more difficult.

As for cosmetics, we are concerned about demand for cosmetics because of the lockdown in Shanghai and the poor economy in China, as mentioned in the risk section.

However, skin care is spreading in Europe, the US and throughout the world, and as I explained earlier, organic products still tend to be disliked. Therefore, there is the possibility of increasing the amount of inorganic materials in the formulation, so I see them increasing in the future.

However, when I mentioned earlier about getting approval, I did not mean that we are getting more and more new items, but rather that we are getting approval for a new line of equipment for items made with existing equipment. I mean that we can increase production on the new line if there is such an increase.

[Q1]: Excuse me. Is there a visible shift away from organic products?

Yabe [A]: In Europe and the US, for example. The US does not want to see any leakage due to the coral issue, so they are trying to be as organic as possible. I'm not sure which one is this, but especially with regard to UVA, probably the only alternative of A was zinc oxide. It's not visible because I don't see it in my eyes either, but I heard so.

[Q1]: I understand. Thank you very much. That is all.

Moderator [M]: Thank you very much. Do you have any other questions? This is a valuable opportunity for you. Please go ahead.

[Q2]: Thank you for your explanation. Let me ask you two questions.

The first is about the forecast for the fiscal year ending March 2023, and here, the price increase tends to follow. Regarding the impact of high raw material prices, for example, I have heard that for manufacturers of blue sheets made from naphtha, there is a time lag of three months or even six months before their price increases are announced. As for your company's rising raw materials, how much of a time lag is there for the penetration of the price pass-on to the products?

In conjunction with this, for the fiscal year ending March 2023, operating income is projected to be JPY7 billion, JPY3.7 billion in H1 and a decrease in profit even though sales are expected to increase in H2. If so, do you see any further difficulty in penetrating price increases, or are your suppliers resisting quite strongly, for example, refusing to accept any more price increases this fiscal year?

Secondly, the total return ratio has been changed to aim for a payout ratio of 30% or more, and I was wondering what the reason is for this change. In the case of your company, the price-book value ratio is currently 0.38x, and I feel that if anything, a share buyback would provide a higher rate of return for the same cash outflow.

Floating stock is not that low, so I would like to know your thoughts on whether there are any disadvantages to buying back shares.

Yabe [A]: I will answer the first half of your question, and Mr. Nakanishi will explain the second half about shareholder returns.

As for the time lag between price increases, we always keep raw materials in stock for our operation. For example, we always have about three months' worth of titanium dioxide in stock.

Since it was made three months ago, the time lag in raw fuel being that much cheaper is also an advantage for us. So, if we can pass on the price during that period, there will be no negative impact.

However, we are looking at a little weaker in H2 partly because of the organic intermediates of our affiliates. This is inevitably a H1 type, and earnings may decline slightly in H2.

As you say, I am surprised that you are reading so much into it, but we don't know the state of the economy, so we won't know how far we can go with this price increase until we actually do it. We expect that we may not be able to raise prices sufficiently in H2, so the figures are a little low. I hope this answers your question.

Nakanishi [A]: As you can see in our past documents, we have bought back a considerable amount of our own shares. One reason is that the current net assets of the Company are quite large considering its size, and of course, this entails a cash outflow, so we do not currently have any plans for a major share buyback or regular share buybacks.

In fact, we have heard from various institutional investors that it is easier for them to understand the return of their investment if it is made clear in the form of dividends. The timing and scale of share buybacks will vary on a case-by-case basis, so I will refrain from commenting on whether or not we will buy back our own shares at this time, but at least in terms of dividends, this is a change in policy to clarify shareholder returns.

In that sense, with the total return ratio of 30% in the past and the current dividend payout ratio of more than 30%, we recognize that we have at least enhanced shareholder returns.

Moderator [M]: Thank you very much. Do you have any other questions? Please.

[Q3]: I would like to ask about high-end MLCC products for automotive applications. Currently, I think your high-end products for automotive applications are [Inaudible] made by oxalic method.

Could you explain the timing of the adoption of your hydrothermal synthesis method, what kind of customers you expect, what kind of technological superiority you have, to begin with, and the background of the adoption of your method, for example, because of the current shortage of dielectric materials for automotive applications?

Yabe [A]: Automotive applications are not necessarily high-end products. High-end is also difficult to define, but the key point is that automotive applications emphasize reliability. For example, for capacitors that have been used for a long time, highly reliable products are also used for automotive applications.

In addition, it does not have to be very small, and barium titanate does not necessarily have to be so fine. However, it seems that customers are making them smaller as a strategy.

Our automotive applications have been in use for a long time, and currently our focus is mainly on fields where our customers are not likely to change anymore. It is a strategy of the customers to gradually reduce the size of their products. We do not know the details of how this is happening.

Moreover, our high-end product is highly crystalline with very fine particles and uniform particle size, which is really thin. In MLCC, the film thickness per layer is getting thinner and thinner, and they are piled up.

What kind of barium titanate can be used for MLCCs made with such thin films? Our product should be suitable for such applications. We understand that this is why they have begun to use ours.

So I hope you understand that this is not necessarily used for automobiles. I hope this answers your question.

Moderator [M]: Thank you very much. Do you have any question online? Now, the IR person is putting it all together, so I will leave the rest to you.

Company Representative [M]: Please speak.

It is audible on the web, but for some reason there seems to be no audio at the venue. We apologize for the inconvenience.

Moderator [M]: I'm afraid we have passed the scheduled end time. For those of you who have asked questions on the web, your questions will be answered if you send them to the IR staff by e-mail or other means. I would appreciate your patience.

The scheduled time is just about up, so we will conclude the financial results briefing.

Thank you very much for your explanation. We would also like to thank all the analysts for taking time out of their busy schedules to participate.

Yabe [M]: Thank you 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].*
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