堺化学工業株式会社

Sakai Chemical Industry Co., Ltd.

Financial Results Briefing for the Fiscal Year Ended March 2023

May 23, 2023

Event Summary

[Company Name]	Sakai Chemical Industry Co., Ltd.
[Company ID]	4078-QCODE
[Event Language]	JPN
[Event Type]	Earnings Announcement
[Event Name]	Financial Results Briefing for the Fiscal Year Ended March 2023
[Fiscal Period]	FY2023 Annual
[Date]	May 23, 2023
[Number of Pages]	35
[Time]	17:15 – 18:11 (Total: 56 minutes, Presentation: 45 minutes, Q&A: 11 minutes)
[Venue]	Webcast
[Venue Size]	
[Participants]	41
[Number of Speakers]	2 Toshiyuki Yagura President, Representative Director Atsuya Nakanishi Senior Managing Director

Presentation

Moderator: As we have reached our start time, we will now begin the financial results briefing for Sakai Chemical Industry Co., Ltd. for the fiscal year that ended March 31, 2023. This session will be held in a hybrid format, with live streaming online in addition to the on-site meeting.

First, I would like to introduce the two speakers from the Company. Mr. Toshiyuki Yagura, President and Representative Director. Mr. Atsuya Nakanishi, Senior Managing Director. Today, these two gentlemen will give explanations. After the presentation, there will be time to take questions from the audience. After that, we will take questions from those participating online.

Now, let's begin.

Contents

Yagura: I am President Yagura. This is my second time giving this presentation. I appreciate your cooperation. Thank you very much for joining us today despite the late hour.

We will now begin this earnings presentation for the fiscal year that ended March 31, 2023. Today, we will follow the flow of one to five shown on this slide.

We will conclude by explaining our alliance with IA Partners, which was announced yesterday, and the TOB to make Sakai Trading a wholly owned subsidiary, which we announced on May 12. Therefore, I will focus on the first and second items in the table of contents, and Mr. Nakanishi, who is in charge of IR, will explain three, four, and five. Thank you for your cooperation.

First, I will explain the deviation from the initial earnings forecast in the actual results for the fiscal year that ended March 31, 2023. Let's go through the slides together.

Summary of Results for FY 2023.3 (compared to initial forecast)

(million yen)

	2022.3 Results (1)	2023.3 Initial estimate (2)	2023.3 Results (3)	Year-on-year Comparison ((3) - (1))		Initial estimate vs. actual result ((3) - ((2))	
Net sales	80,135	85,000	83,861	3,725	4.6%	(1,139)	(1.3%)
Operating income	7,494	7,000	4,407	(3,086)	(41.2%)	(2,593)	(37.0%)

- **Net sales generally met the forecast.**
- **Operating income was significantly below the initial forecast.**

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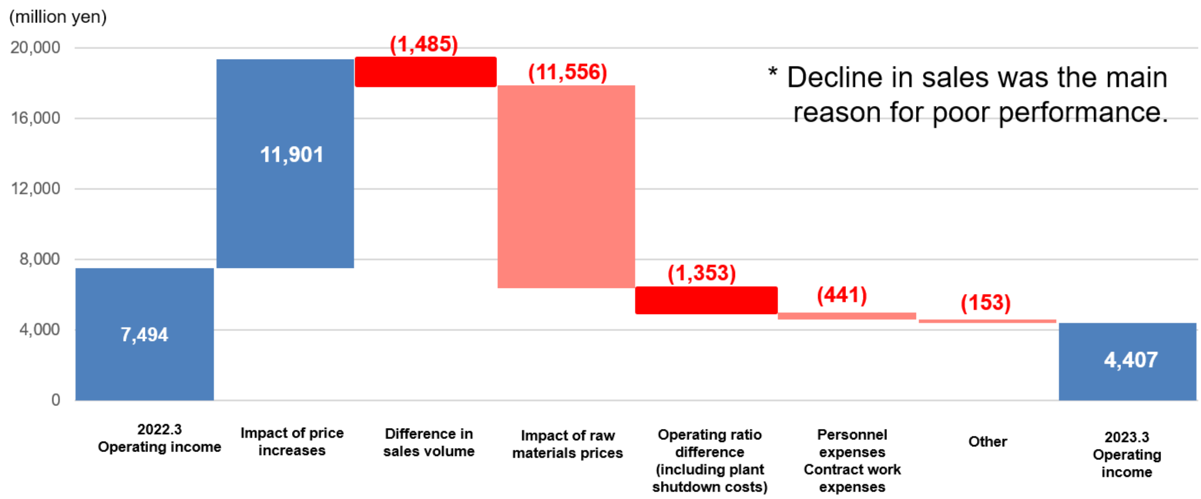
Here is the first one. Firstly, on the left-hand side, is section number one. This shows actual sales and operating income for the fiscal year that ended March 31, 2022. Next to that, number two is the initial sales and operating income estimates for the fiscal year that ended March 31, 2023. And next to that, number three shows actual sales and operating income for the year ended March 31, 2023.

Please see the red box on the righthand side of the table. Compared to the initial forecast, net sales were down 1.3%, which was generally in line with the forecast. Unfortunately, however, operating income was down 37%, resulting in a large discrepancy.

Factors causing operating income increase/decrease (year-on-year comparison)



Effect on sales prices: Yes (+)	Effect on sales volume: Yes (-)	Operating ratio difference: Yes (-)
On a consolidated basis, the sharp increase in raw material and fuel costs was largely offset by price revision efforts. * Including correction of falling prices	The decline in sales volume from the second half of the year pushed down operating income significantly.	In response to declining market conditions, the Company implemented production adjustments to reduce inventories. From the second half of the year, plant utilization rates were reduced as needed, which pushed down profits by a corresponding amount.

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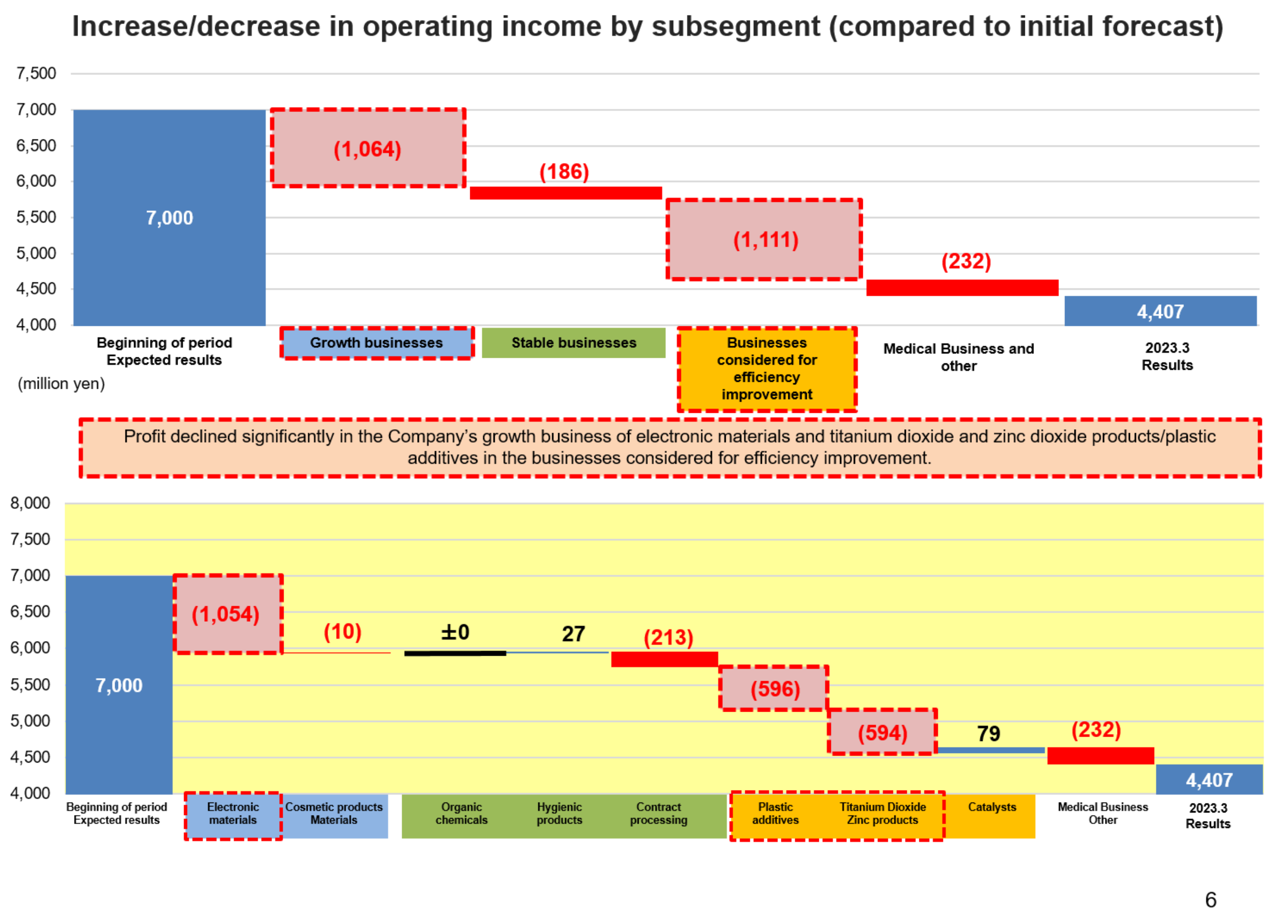
So why did operating income fall so far? Please see the factors behind the change in operating income shown here. The figures are operating income on a consolidated basis and are listed in millions of yen.

The left-hand side of the chart shows operating income of JPY7,494 million for the previous year, then shows what factors led to an increase or decrease in profit that resulted in the final operating income result of JPY4.4 billion.

The second column from the left shows that the JPY11.9 billion from price increases canceled out the JPY11.5 billion cost increase caused by the sharp rise in raw material and fuel prices, which is the fourth column. However, we were not able to reflect everything in price increases. This price increase does not include raw material and fuel prices, but rather a considerable amount of correction of the sinking of low unit prices.

Next, the third column from the left is the sales volume difference, which was down about JPY1.4 billion due to the decrease in sales volume. The fifth row from the left shows a fall of approximately JPY1.3 billion due to the difference in capacity utilization, i.e., the increase in costs brought about by the suspension of operations due to production cutbacks. Various negatives weighed down operating income, resulting in a final operating income of JPY4.4 billion.

In other words, I hope you can understand that our operating income dropped significantly due to poor product sales.



Next, I will explain how we did by business and subsegment. Two waterfall diagrams are shown above and below.

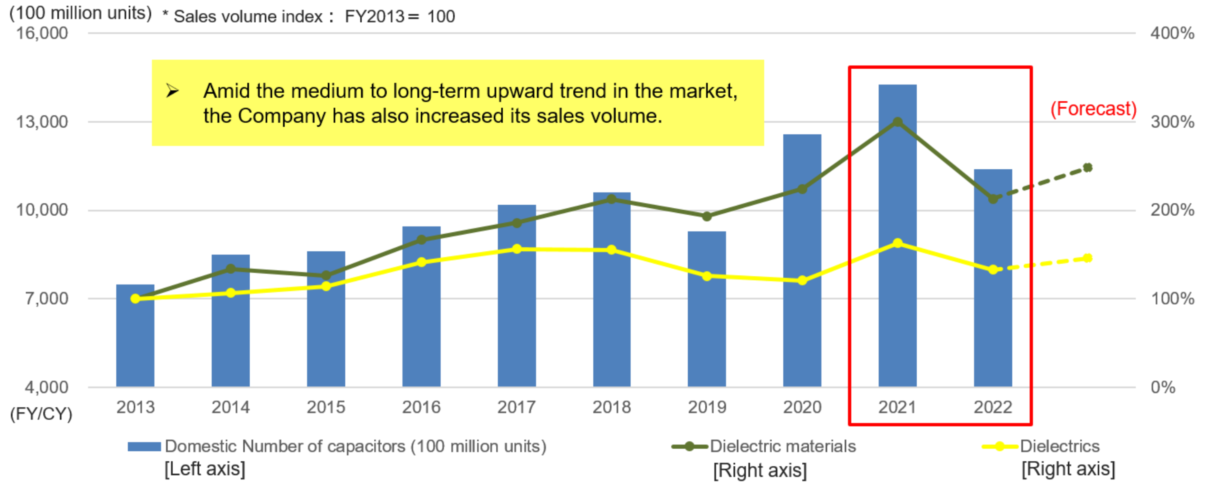
First, please see the flow chart by business, shown above. The red dotted line shows that the growth business and the efficiency improvement study business each lost about JPY1 billion and JPY1.1 billion in operating income, respectively.

The diagram below shows a further breakdown. We can see that it is mostly electronic materials that is losing profit in the growth business. We can also see that in the efficiency improvement study business, plastic additives and titanium dioxide and zinc products reduced profits.

So, why did this happen? In the next and subsequent slides, I would like to focus on these three businesses that reduced profits.

Electronic Materials: Sales volume is closely linked to the number of capacitors produced in Japan

Growth businesses



Source: Domestic capacitor production: JEITA
(Japan Electronics and Information Industries Association) Statistics
[Fiscal year for market data: January-December]
[Fiscal year for the Company's sales volume data: April to March]

	2018	2019	2020	2021	2022
Market (100 million units)	10,608	9,280	12,579	14,260	11,404
Company sales volume index (*)	198.1	176.3	198.1	265.7	193.1
Increase/decrease (year-on-year comparison)				+13%	(20%)
Company increase/decrease (year-on-year comparison) (vs. Index)				+34%	(27%)

[(*) Dielectrics + dielectric materials sales volume index: (FY2013 = 100)]

➢ Due in part to disruptions in the supply chain, freight movements were temporarily irregular.

First, I would like to discuss electronic materials. As the title indicates, the sales volume is closely related to the number of capacitors produced in Japan.

The blue bars indicate the number of capacitors produced in Japan. Units are in billions and are shown on the left.

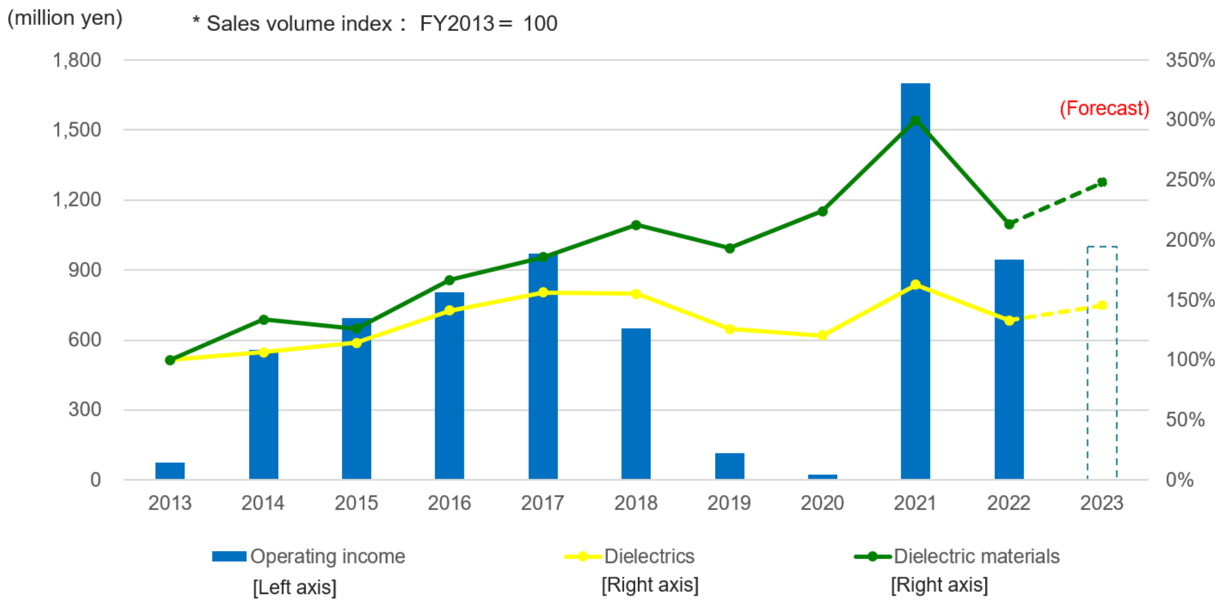
The two line graphs show the movement of our electronic materials sales volume index. It is expressed as a percentage, with FY2013 as 100, and the righthand axis shows the percentage rate. The green line shows the sales volume index for dielectric materials, and the yellow line shows the sales volume index for dielectrics.

As you can see, the blue bar graph and the two line graphs are generally in agreement. This is a medium- to long-term upward trend, and we have also been increasing our sales volume, which shows that there is a close relationship between the two.

However, in the red box in the table shown on the lower right, our sales volume grew more than market conditions in FY2021. While the market grew by 13%, Sakai Chemical's products grew by 34%.

However, in FY2022, this changed drastically, and even though market conditions were down 20%, our products were down 27%, which is significantly lower than the market. We see this as a temporary, albeit irregular movement due in part to supply chain disruptions.

[Electronic materials] **Increases/decreases in sales volume will affect operating income.** **Growth businesses**



* The factors that caused operating income to decline significantly from FY2018 to FY2020 were eliminated in FY2021.
(Please refer to the Interim Financial Results Briefing for the Fiscal Year Ending March 2023.)

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So, how does this sales volume relate to the all-important operating income? Please see the next slide.

The blue bar graph shows operating income, in millions of yen, on the left axis.

As before, the two line graphs show the sales volume index for dielectric materials in green and for dielectrics in yellow. Units are again shown in percentage, as before, with FY2013 as 100.

Between 2018 and 2020 our profit dropped significantly. I explained this slump at the interim financial results meeting held on November 29 last year, so I will skip it this time. As you can see from this table, it may be obvious, but you can see that fluctuations in sales volume have a large impact on operating income.

As you can see, in 2022, we experienced a significant drop in sales volume and a significant drop in operating income here.

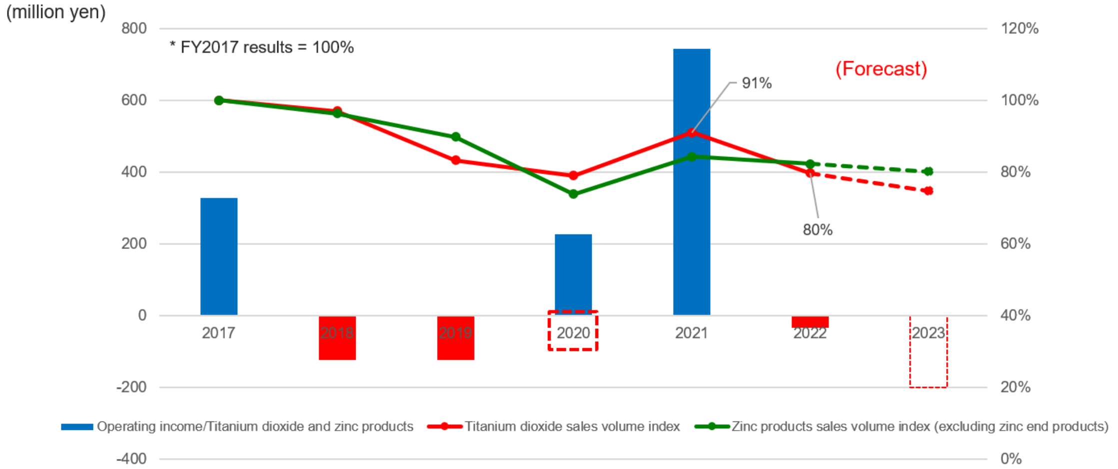
As for the current fiscal year, sales volume is expected to remain sluggish in H1, and we expect it to recover from H2, but the sense of uncertainty remains strong. However, the number of capacitors will surely increase due to the shift to EVs, and other factors, so we believe that now is a time to be patient.

Titanium Dioxide Zinc products

Relationship between sales volume (index) and operating income

Businesses considered for efficiency improvement

(Excluding cosmetics materials)



(* In FY2020, 333 million yen of plant shutdown costs due to the COVID-19 pandemic were recorded as non-operating expenses. Therefore, net operating income is in the red)

- Currently, the impact of market fluctuations on sales volume is significant, and operating income tends to fluctuate.

The Company will continue its efforts to improve efficiency while considering the consolidation and reorganization of grades.

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Let’s move on to the next segment. I will explain about titanium dioxide and zinc products. In this segment, I would like to explain in terms of the two factors of sales volume and unit sales price.

First, regarding sales volume, please take a look at this graph. The bar graph shows changes in operating income in millions of yen. That is the left axis.

The two line graphs show the sales volume index as a percentage on the right axis, with FY2017 as 100. The red line is titanium dioxide, and the green is zinc products. These zinc products exclude zinc dust products, which the business withdrew from in FY2021. Both of these products are greatly affected by market conditions since they are used in a lot of consumer goods. Therefore, I think that the market conditions from this past year have cast a large shadow over this business.

We are continuing our efforts to discontinue unprofitable grades, and our sales volume has been gradually decreasing, despite slight repetition of increases and decreases.

For FY2022, market conditions especially affected titanium dioxide, and the index also dropped from 91% to 80%, resulting in a large drop in sales volume and a drop in earnings.

In addition, a major European titanium dioxide manufacturer has recently filed a Chapter 11 application. The global economic downturn has caused major global turmoil. It remains unclear what the consequences of this impact will be for Japan.

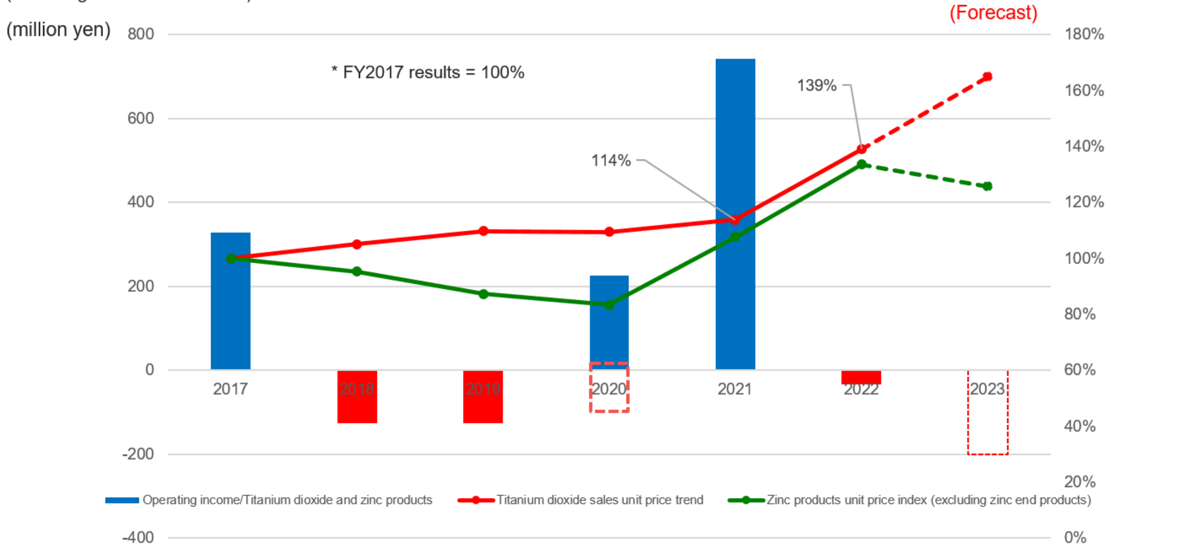
Our business policy is to continue to improve efficiency by appropriately reducing sales volume without pursuing sales volume while considering price adjustments and consolidation of grades.

Titanium Dioxide Zinc products

Trends in sales unit price (index) and operating income

Businesses considered for efficiency improvement

(Excluding cosmetics materials)



(* In FY2020, 333 million yen of plant shutdown costs due to the COVID-19 pandemic were recorded as non-operating expenses. Therefore, net operating income is in the red)

- Earnings declined due to higher costs and higher-than-expected raw material and fuel prices resulting from production cutbacks.

Ongoing price corrections will be carried out.

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Next, let's look at the unit sales price. Please take a look at this diagram.

The following table shows changes in the unit sales price index and operating income. As before, the bar graph shows operating income, in millions of yen, on the left axis.

The right axis shows the unit sales price index when FY2017 is set at 100. The red line is titanium dioxide, and the green line is zinc products.

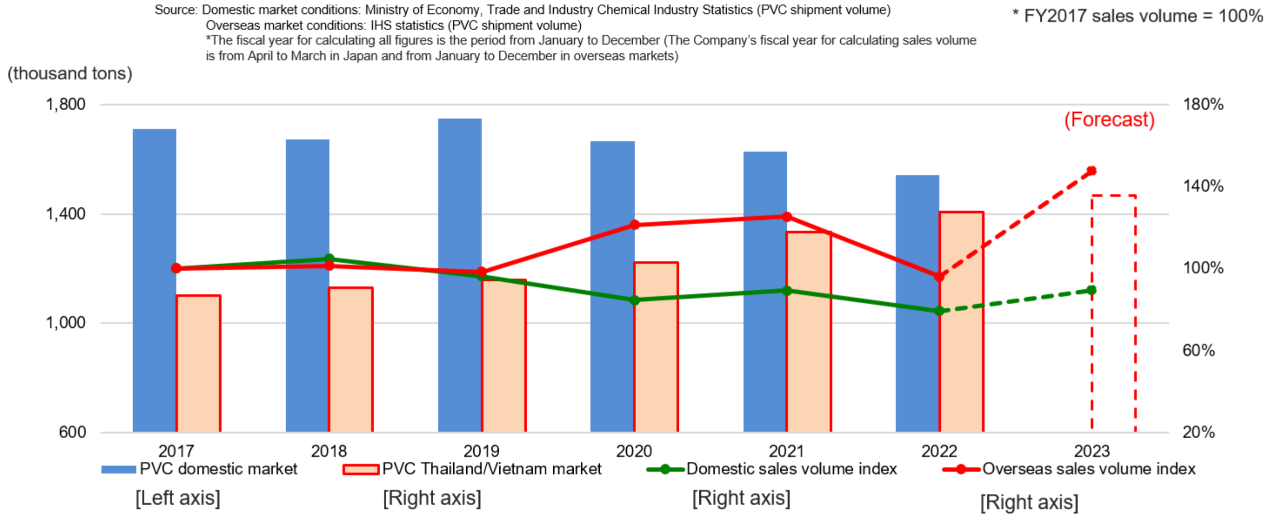
Unlike the sales volume I explained earlier, you can see that the unit sales price has been rising steadily. With regard to unit sales prices, in addition to revising raw material and fuel prices, we have continued to revise prices mainly for unprofitable items. However, due to a decline in sales volume, cost increases due to production cutbacks, and recent higher-than-expected raw material prices, the Company revised its prices from 114% to 139% on an index basis from FY2021 to FY2022, a 25% price revision.

Nevertheless, price correction has not yet caught up. Unfortunately, the current fiscal year continues to be difficult, with no signs of recovery, especially in H1. We intend to continuously and persistently implement price corrections and cost reductions.

[Plastic additives]

Mainly in the growing markets of Thailand and Vietnam, we will focus on increasing sales in line with the growth curve of PVC demand.

Businesses considered for efficiency improvement



- Demand for PVC will expand over the medium term due to increased demand for irrigation facilities and infrastructure development in Southeast Asia, particularly in Thailand and Vietnam.
- Although there will be fluctuations, the Company aims to further increase its sales ratio in growing overseas markets over the medium term.

	2017	2018	2019	2020	2021	2022	2023
* Overseas sales ratio	32.6%	31.8%	33.1%	40.9%	40.4%	36.9%	44.4%

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

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Finally, we have plastic additives. Please see this graph.

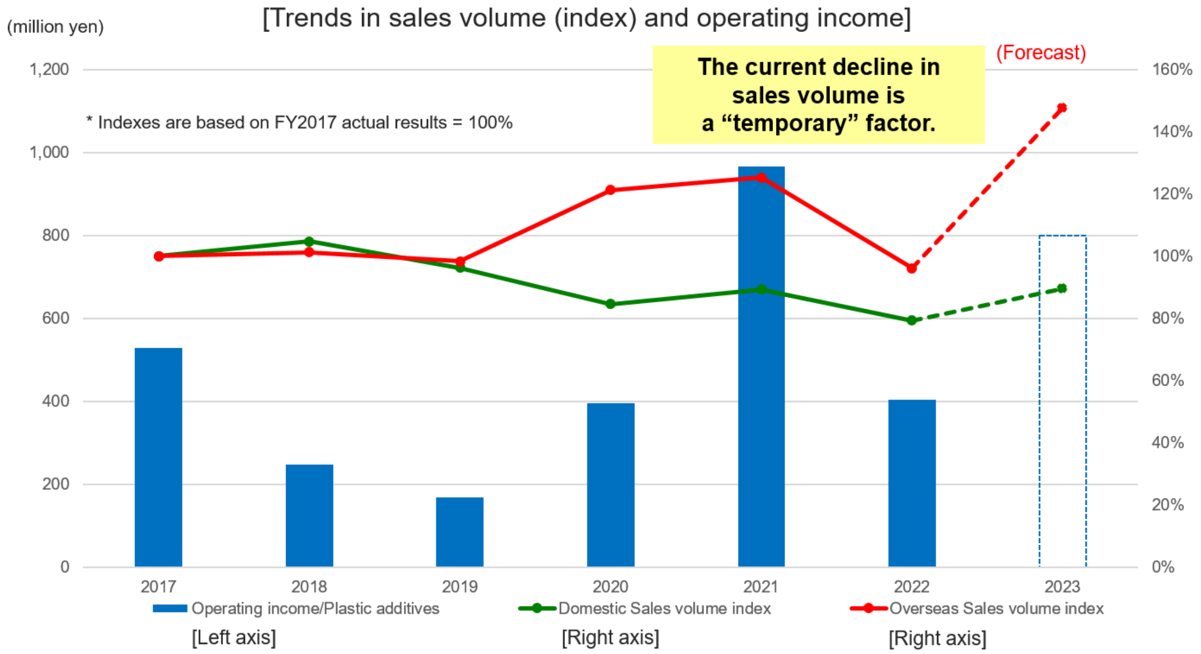
The blue bar graph shows the domestic PVC market, and the pink graph with red borders shows the PVC market in Thailand and Vietnam, both shown in thousands of tons on the left axis.

The two line graphs show the sales volume of our plastic additives, which uses the sales volume index of 2017 as 100, and is shown as a percentage on the right axis. The red line shows sales volume in overseas markets by local subsidiaries in Vietnam and Thailand, and the green line shows sales volume in Japan by our group.

While the domestic market in blue is already saturated and either stable or steadily declining, the Thai and Vietnamese markets in red have seen a marked increase in demand for irrigation facilities and infrastructure development. As shown in the graph, demand will continue to increase in the future.

Although there may be short-term fluctuations, as indicated by the red line graph, we intend to increase sales volume in overseas markets and, as shown in the table below, increase the ratio of overseas sales to total sales in this business as well.

[Plastic additives] **The key to operating income is to "increase sales volume in overseas markets that are growing."** **Businesses considered for efficiency improvement**



- Although there will be short-term fluctuations, by maintaining domestic sales to the extent possible and increasing overseas sales volume, operating income will also increase.

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With that sales strategy, how did the all-important operating profit fare? Please see the next slide.

Getting straight to the point, as stated in the title, we believe that an increase in sales volume overseas, which is an expanding market, will be the key to operating income.

Please see the graph. Similar to the previous page, the two line graphs show changes in the index of local sales volume of overseas subsidiaries in red and domestic sales volume in green. The blue graph shows operating income overlaid on this graph.

As you can see, the red overseas sales volume index line and the blue plastic additives operating income line are generally the same. Unfortunately, in FY2022, sales overseas fell due to temporary factors, and operating income also dropped. However, we expect a recovery in the current fiscal year and an increase of approximately JPY400 million compared to the previous fiscal year.

That concludes my explanation of the discrepancy between the forecast and the actual results for this period.

Finally, I will explain the business alliance with IA Partners Inc. and the TOB of Sakai Trading Co.

For a “break from the current situation” and “further growth in the future”

- FY2024.3 is the final year (5th year) of the current medium-term management plan
- We will work to address current management issues (review of business portfolio).

Growth Businesses	Active expansion of development and sales by focusing management resources
Stable Businesses	Continuation of stable earnings
Businesses Considered for Efficiency Improvement	Consolidation of factories, downsizing of production scale, and significant improvement in profitability

- **In our next medium-term management plan, we will accelerate the review of our business portfolio, taking advantage of M&A as appropriate.**
- **We aim to achieve operating income of 11 billion yen in FY2027.3 and ROE of 12% in 2030.**

E.g., active investment in growth businesses
- Electronic Materials: Growing sales of new materials in EV/6G and the expanding semiconductor and capacitor markets.
- Cosmetic materials: Expand into areas other than sunscreen materials
- Organic chemicals: Make a leap from a stable business to a “growth business”
- Catalysts: Develop catalyst materials that contribute to carbon neutrality (mid- to long-term initiatives), etc.

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Before that, this fiscal year will be the final year of the current medium-term management plan that we are operating now. I would like to mention what we are currently working on for the next mid-term management plan.

At the presentation of the interim financial results in November, we introduced our business portfolio, which is divided into three categories: growth businesses, stable businesses, and businesses under consideration for efficiency improvement. We also started various initiatives last year to promote the review of these businesses.

In growth businesses, we will concentrate management resources to aggressively develop and expand sales. In our stable businesses, we have continued to earn stable earnings, and in businesses under study for efficiency improvement, we have aggressively promoted plant consolidation, downsizing of production scale, and significant price revision.

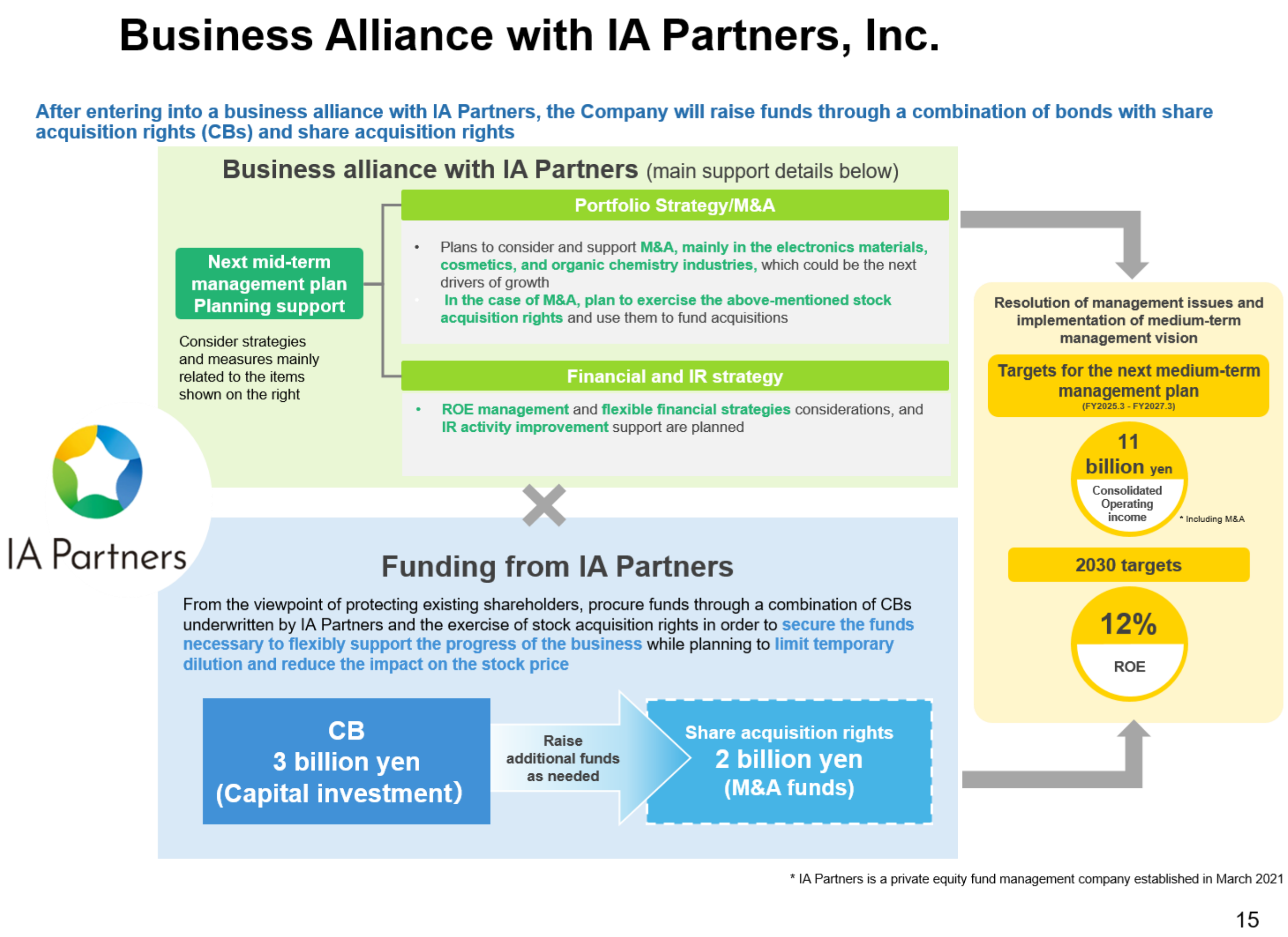
Unfortunately, we were not able to achieve the desired results in FY2022, as the economy was swept away and profits declined significantly, but we believe that our current efforts are not misguided in terms of direction. We will continue to promote these projects.

At the same time, we recognize that our organic business growth requires greater speed. In addition, to further increase operating income and improve ROE, we believe it is essential to create and expand new businesses in addition to our current businesses.

In the next medium-term management plan starting next fiscal year, we intend to execute strategic business alliances and M&A for business expansion as appropriate, strive to expand into new areas in new businesses, and further accelerate the review of our business portfolio that we are currently undertaking.

By doing so, in the next mid-term management plan, we plan to target operating income of JPY11 billion in the fiscal year ending March 31, 2027, and ROE of 12% in 2030.

As a new initiative, as an example, we are expanding sales of new materials in our electronic materials in the semiconductor and capacitor market, which is still expanding due to EV and 6G. In cosmetics materials, we are developing cosmetics materials in the field of cosmetics other than sunscreens. The high-profitability organic chemicals business is now a stable business so we will boost it into a growth business. Regarding mid- to long-term initiatives, we are also committed to developing catalyst materials that contribute to carbon neutrality.



Therefore, we have decided to enter into a business alliance with IA Partners Inc. as a strategic partner to implement the aforementioned plan, to resolve our management issues and execute our mid-term management vision.

We would like to receive from the company the necessary M&A studies and advice to accelerate the speed of our business portfolio strategy, which is a management issue, as well as support for our financial and IR strategies, so that we can more actively manage funds and aim for further growth from both organic and discontinuous perspectives.

We also intend to further enhance our dialogue with you and the market.

Now, regarding the fundraising from IA Partners, we plan to raise JPY3 billion in the form of CBs and JPY2 billion in the form of warrants, as described on the slide.

As already disclosed for CBs, we intend to invest approximately JPY2.4 billion in cosmetics materials, which is a growth business, and approximately JPY600 million in organic chemicals, which is an area that we aim to boost from a stable business to a growth business, to increase manufacturing capacity for active pharmaceutical ingredients and intermediates.

We consider the JPY2 billion in warrants to be mainly for M&A, so we will continue to consider such deals in the future.

TOB for Shares of Sakai Trading Co., Ltd.

- A TOB is being executed to take the shares of Sakai Shoji private, as announced in a release on May 12, 2010.
- Below, we will take full advantage of Sakai Trading's strengths to generate synergies for further growth.

Sakai Trading strengths	Expected synergy effects
Ample overseas sales channels	Strengthen overseas sales network, especially in Asia
Electronic materials business raw material procurement and product sales	Further reinforce the supply chain for electronic materials, a growing business, from raw material procurement to sales service
Legwork for creating new businesses	Acquiring new customers and entering new fields. Establish a more effective sales structure for Sakai Chemical Group products.

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Next, I would like to discuss the TOB of Sakai Trading Co. We consider the company to be an important partner in our efforts to promote business reforms, including further growth in the next mid-term business plan, and have decided to incorporate their strengths.

In particular, as shown in this slide, they have abundant overseas sales channels, raw material procurement and product sales in the electronic materials business, and the footwork to create new businesses. We see these as important strengths of the company, and by incorporating them, we expect to further accelerate overseas expansion, further strengthen our business growth through the entire supply chain of electronic materials, and cultivate new customers and enter new fields for further growth.

This concludes my explanation. I will now hand over to Nakanishi for the second half. Thank you very much.

Summary of Interim Results for FY 2023.3
(compared to the same period of the previous year)

(million yen)

	2022.03	Net sales comparison	2023.03	Net sales comparison	Increase/decrease	
Net sales	80,135	—	83,861	—	3,725	4.6%
Operating income	7,494	9.4%	4,407	5.3%	(3,086)	(41.2%)
Ordinary income	8,840	11.0%	4,854	5.8%	(3,985)	(45.1%)
Net income attributable to owners of parent	6,747	8.4%	2,344	2.8%	(4,402)	(65.2%)

- Factors for increased revenue

Increase in revenue due to the penetration of price revisions. (mainly titanium dioxide and plastic additives products)

- Factors for reduced revenue

Particularly since the second half of the fiscal year, due to the abrupt slowdown in the electronic materials business and the slump in the titanium dioxide and plastic additives businesses,
sales volume declined, and manufacturing costs rose as a result of production adjustments.
The sharp rise in raw materials and fuel prices was covered by price increases.

- Supplemental information

Due to the reversal of deferred tax assets (1,049 million yen), net income declined significantly.

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Nakanishi: I am Nakanishi. I am in charge of IR. I will now explain our financial results for the fiscal year that ended March 31, 2023, followed by an explanation of each subsegment and the projected financial results for this fiscal year. Finally, I will explain our policy on returns to shareholders.

First of all, in the overview of the previous fiscal year's results, as President Yagura has already explained up to the operating income, I would like to skip that section. I will explain a little about areas below operating income, like ordinary income, and then about net income attributable to owners of the parent.

As shown in the table, ordinary income was down approximately JPY4 billion compared to the fiscal year that ended on March 31, 2022. The main reason for this is that the subsidy income of approximately JPY770 million recorded in the fiscal year through March 2022 was not available in the fiscal year that just ended in March 2023. Unfortunately, the negative impact on operating income compared to the same period last year increased from JPY3 billion to JPY3.9 billion or approximately JPY4 billion.

As for net income attributable to owners of the parent, there was a reversal of deferred tax assets of approximately JPY1,050 million in the fiscal year ended March 31, 2023. The implementation of this resulted in an approximately JPY4.4 billion or 65.2% decrease in profit compared with the same period of the previous year.

Net sales and operating income by business (compared with the same period of the previous year)

(million yen)

		2022.03	2023.03	Increase/decrease	
Chemical Business	Net Sales	72,243	75,992	3,749	5.2%
	Operating Income	9,190	6,372	▲ 2,818	▲30.7%
Medical Business	Net Sales	7,892	7,868	▲ 24	▲0.3%
	Operating Income	418	272	▲ 146	▲34.9%
Company-wide Expenses	Net Sales	—	—	—	—
	Head Office Expenses	▲ 2,114	▲ 2,236	▲122	—
Total	Net Sales	80,135	83,861	3,725	4.6%
	Operating Income	7,494	4,407	▲ 3,086	▲41.2%

- **Chemical business operating revenue**
  Although price increases covered the impact of higher raw material and fuel prices, profits declined due to the significant drop in sales volumes in electronic materials, titanium dioxide, and plastic additives.

- **Medical Business: decrease in sales and profit**
  Since the COVID-19 pandemic, the core barium contrast media business remained weak due to weak demand for medical checkups and the impact of NHI price reductions, resulting in lower sales and profits.

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Next, I will explain each segment. We have two major segments, the chemicals business and the medical business.

As you can see, the chemicals business posted higher sales and lower profits. The increase portion is mainly due to a certain degree of penetration of product price increases, as explained earlier. In the medical business, sales remained almost flat, while profits declined.

The impact of the decrease in profits on a company-wide basis is largely attributable to the chemicals business.

Balance sheet: Inventories increased substantially

Consolidated balance sheet	2022.3	2023.3	Increase/ decrease
Current assets	65,496	72,101	6,605
Cash and deposits	10,800	12,409	1,609
Inventories	23,110	30,125	7,015
Non-current assets	58,423	55,920	▲ 2,503
Property plant and equipment	48,134	46,761	▲ 1,373
Intangible assets	1,519	1,368	▲ 151
Investments and other assets	8,769	7,791	▲ 978
Total assets	123,919	128,021	4,102
Current liabilities	26,771	29,237	2,466
Non-current liabilities	14,439	14,066	▲ 373
Total liabilities	41,211	43,304	2,093
Net assets	82,708	84,717	2,009
Liabilities and net assets	123,919	128,021	4,102
Equity-to-asset ratio (%)	63.6	62.9	▲ 0.7
Interest-bearing liabilities (total)	16,959	21,642	4,683

- Mainly due to the impact of unit price increases
- Excluding the impact of unit prices, the main impact was an increase in raw material inventory volume. (Approx. 1,400 million yen)

→This was the result of raw material purchases as a measure to avoid supply chain disruptions and to ensure stable production activities.

- Borrowing undertaken to provide working capital.

Next, I will move on to a description of the balance sheet.

As you can see in the YoY comparison, there was a marked increase in inventories. Of this increase of approximately JPY7 billion, the majority, approximately 80%, is due to unit cost factors. The main volume factor is raw materials, and the main reason is that we secured a generous supply of mainly imported raw materials to avoid supply chain disruptions.

The decrease in fixed assets was mainly due to the fact that depreciation exceeded the increase in additional investment due to lower capital expenditures and also due to the decline in the price of securities holdings.

The equity ratio declined slightly. However, it still remains high.

To cover the increase in inventories, the Company increased its borrowings, mainly of short-term funds. However, we believe we still maintain a stable balance sheet.

Cash Flow: Operating CF decreased significantly

	2022.3	2023.3	Increase/ decrease
Cash balance at start of period	11,153	10,549	▲ 604
Profits before tax	9,223	4,977	▲ 4,246
Depreciation	4,333	4,417	84
Inventories	▲ 2,168	▲ 6,833	▲ 4,665
Other	▲ 4,821	▲ 1,788	3,033
Operating CF	6,567	773	▲ 5,794
Capital investment	▲ 5,064	▲ 2,658	2,406
Sale of shares	3,591	193	▲ 3,398
Other	▲ 181	▲ 155	26
Investment CF	▲ 1,654	▲ 2,620	▲ 966
FCF	4,913	▲ 1,847	▲ 6,760
Financial CF	▲ 5,654	3,284	8,938
Cash balance at end of period	10,549	12,188	1,639

- Due to weak sales and an increase in inventories, operating CF decreased significantly
- Significant increase due to the execution of:
  Long-term borrowings: 2,000 million yen
  Short-term borrowings:due to the execution of 5,669 million yen in short-term borrowings, increased significantly.

(FCF = CF from operations + CF from investments)

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Next is cash flow.

Cash flow from operating activities was significantly reduced by pre-tax income due to poor performance. In addition, the large increase in inventories outlined here in red, which I mentioned earlier, has resulted in a large negative operating cash flow.

Cash flow from investment was positive because capital investment was restrained compared to the previous fiscal year, but there was almost no cash flow from investment in the fiscal year that ended March 31, 2023, because considerable progress was made in the sales of strategic stock holdings, which were intensively conducted in the fiscal year that ended March 31, 2022. This part of the business has created a large negative investment cash flow.

As a result, free cash flow turned around from the fiscal year that ended in March 2022 to a significant negative figure. Negative free cash flow was covered by increasing long-term debt, and our financial cash flow was a positive JPY9 billion. As a result, the cash balance at the end of the period was a positive JPY1,639 million.

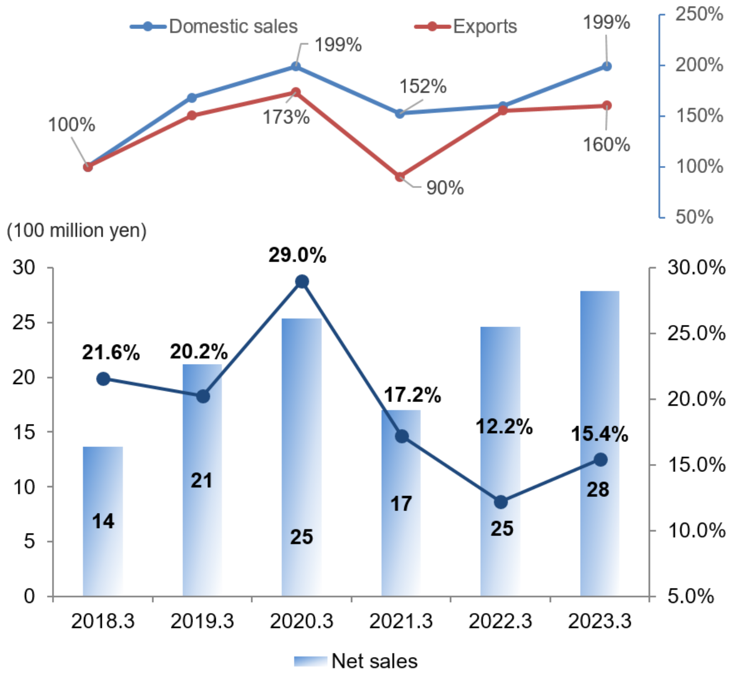
In the current fiscal year, we hope to increase pre-tax income, as well as reduce the increase in inventories, to achieve positive free cash flow.

Next, I would like to explain our subsegments. Electronic materials, plastic additives, and titanium dioxide and zinc products were explained earlier by President Yagura, so I will omit them.

Cosmetics Materials

Growth businesses

(*Trends in domestic and overseas sales volumes, with the shipment volume in FY2018.3 as 100)



Key points of the financial results for the fiscal year ending March 31, 2023

- Demand recovered, mainly in Japan, due to an increase in the frequency of outings.
- Sales and profits increased, and sales volume increased 14.9% year-on-year.

- Year-on-year Comparison (million yen)

	2022.3	2023.3	Increase/decrease	
Net sales	2,460	2,790	330	13.4%
Operating income	301	430	129	42.9%

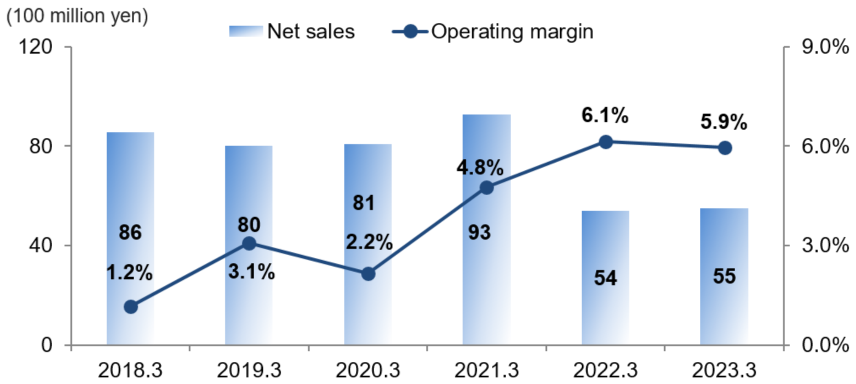
First is cosmetics materials. The sales volume of cosmetics increased both in domestic sales and exports amid the backdrop of the end to the COVID-19 pandemic.

In the top graph, the blue line shows domestic sales, and the red line shows exports.

Sales increased approximately 13.4% from the same period last year. Operating income increased by 42.9%. The operating margin, as shown here, is 15.4%, and although we are still only midway through on that, we have managed to regain 15%. In the current fiscal year, we aim to further increase the operating profit margin by bringing the new plant into full-scale operation.

Hygienic products

Stable businesses



- Year-on-year Comparison (million yen)

	2022.3	2023.3	Increase/decrease	
Net sales	5,388	5,496	108	2.0%
Operating income	331	327	(4)	(1.2%)

Key points of the financial results for the fiscal year ending March 31, 2023

- Regarding sales, the market remained strong and sales increased.
- Although the operating profit margin declined in the first half due to high raw material and fuel costs and a sharp rise in export freight rates at the Indonesian subsidiary, this was resolved from the second half onward, with operating profit generally on par with last year's.

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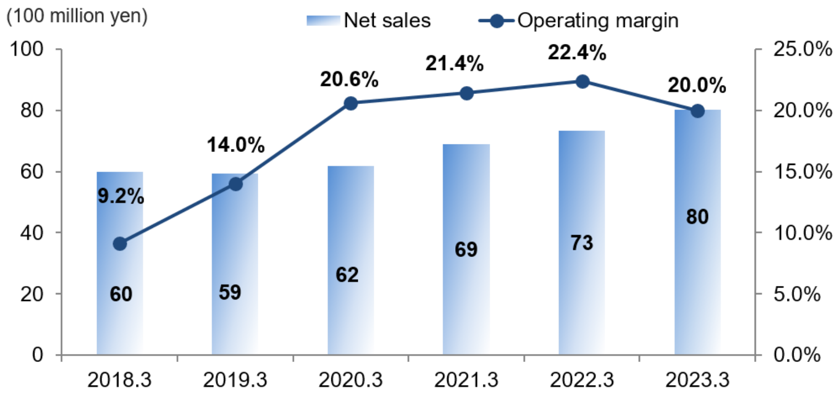
Next, hygienic products. Sales and profits of hygienic products remained almost flat.

Although profitability temporarily deteriorated due to soaring export freight rates in H1 of the fiscal year, a recovery in H2 enabled us to achieve results that were almost on par with the previous fiscal year.

For the current fiscal year, we expect to see continued growth and increase in profit and sales due to the contribution from the enhancement of facilities implemented in the previous fiscal year at our Indonesian subsidiary.

Organic chemicals

Stable businesses



- Year-on-year Comparison (million yen)

	2022.3	2023.3	Increase/decrease	
Net sales	7,321	8,014	693	9.5%
Operating income	1,639	1,600	(39)	(2.4%)

Key points of the financial results for the fiscal year ending March 31, 2023

- Regarding production of active pharmaceutical ingredients and intermediates, revenue and profit increased due to an increase in the shipment volume of pharmaceutical intermediates.
- Sales of thio products increased due to strong sales for plastic lenses and price revisions. However, the impact of high raw material and fuel prices could not be avoided, and profit declined.

Next is organic chemicals.

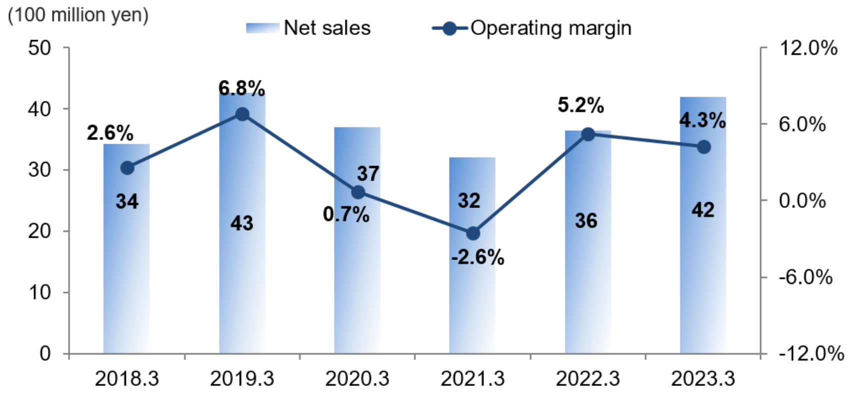
Organic chemicals reported an increase in sales and a decrease in income, as shown here. Unfortunately, high raw material and fuel prices affected earnings.

The operating margin declined slightly but still remains high at 20%.

In the contract manufacturing of pharmaceutical intermediates, shipments of our main intermediates were strong. As for our main products, we achieved an increase in sales by revising prices, but unfortunately, as mentioned earlier, the high cost of raw materials and fuel led to a slight decrease in profit.

Catalysts

Businesses considered for efficiency improvement



- Year-on-year Comparison (million yen)

	2022.3	2023.3	Increase/decrease	
Net sales	3,644	4,139	549	15.1%
Operating income	190	179	(11)	(5.8%)

Key points of the financial results for the fiscal year ending March 31, 2023

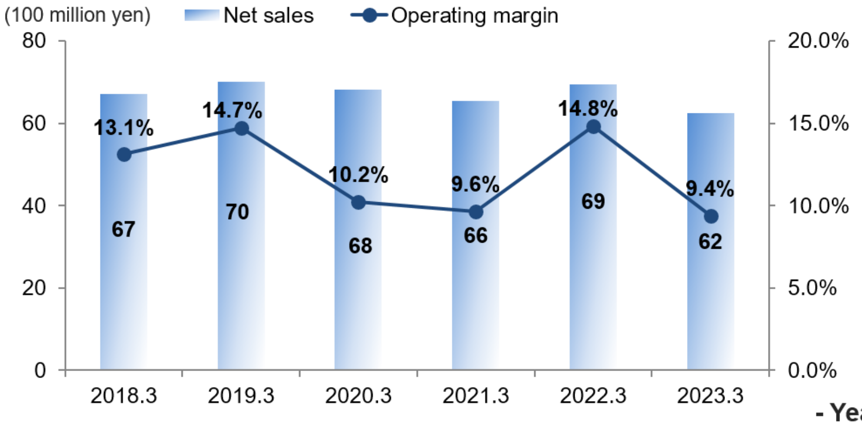
- Sales of nickel catalysts used in the hydrogenation process of plastics increased due to a sharp rise in raw material nickel prices and price revisions.
- Sales and earnings of De-NOx catalysts used in thermal power plants and waste incineration facilities, which contributed to business performance in the previous full fiscal year due to large overseas shipments, contributed to business performance only in the first half of the fiscal year under review, resulting in a decrease in both revenue and profit.

Next is the catalyst business.

In the catalysts business, sales of nickel catalysts increased due to a sharp rise in nickel prices and price revisions, but sales and profits of de-NOx catalysts decreased as large projects for overseas customers, which contributed to the full-year sales in the fiscal year that ended March 2022, only made a contribution in H1 of the fiscal year that just ended in March 2023.

Stable businesses

Contract processing



- Year-on-year Comparison

	2022.3	2023.3	Increase/decrease	
Net sales	6,947	6,244	(703)	(10.1%)
Operating income	1,029	587	(442)	(43.0%)

Key points of the financial results for the fiscal year ending March 31, 2023

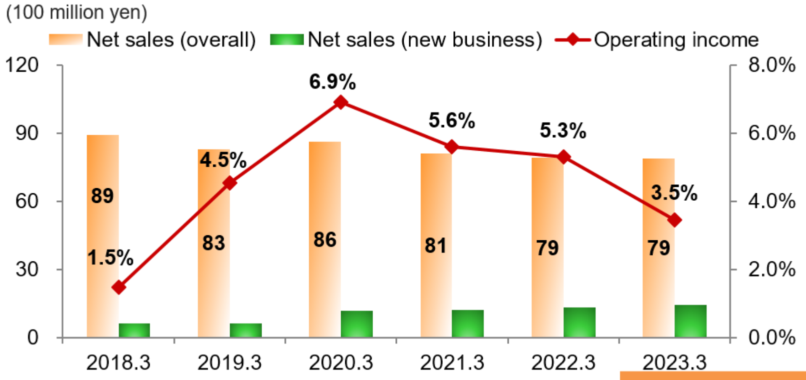
- Regarding processed pigments, both revenue and income decreased due to the impact of the lockdowns in China and weak sales, particularly in the automotive industry, compared to the previous fiscal year.
- Revenue and income form contracted processes such as calcination, mixing, and drying decreased due to weak sales of highly profitable contract products and lower operating profit margins.

Next is contract processing.

In contract processing, processed pigment sales and income declined due to the lockdown in China and sluggishness in automotive-related applications. In process outsourcing, high-margin projects were sluggish, resulting in a decline in overall sales and profits. In particular, the profit margin dropped significantly from 14.8% to 9.4%.

Medical Business

Medical



- Year-on-year Comparison (million yen)

	2022.3	2023.3	Increase/decrease	
Net sales	7,892	7,868	(24)	(0.3%)
Operating income	418	272	(146)	(34.9%)

Key points of the financial results for the fiscal year ending March 31, 2023

- Sales and profits of barium contrast media declined due to a lack of recovery in demand for medical checkups after the COVID-19 pandemic.
- Both revenue and income from Aluloid G declined due to the impact of NHI price reductions and lower sales volume.
- Regarding medical devices, sales of endoscope cleaning and disinfection equipment decreased due to the shortage of semiconductors, but revenue increased due to the implementation of price revisions for electrolysis accelerators and other equipment-related products.
- Sales of over-the-counter pharmaceuticals, such as the cold remedy KAIGEN, increased due in part to large purchases by foreigners.
- Revenue and income increased due to strong sales of products for beauty salons (ultraviolet light supplements), which are a new business focus.

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Finally, we have the medical business.

Overall, sales were flat and operating income unfortunately declined 34.9%.

Although there were delays in the recovery of barium contrast media after COVID-19, a reduction in National Health Insurance drug prices, and a decline in unit sales of endoscope cleaning and disinfection equipment due to a shortage of semiconductors, sales of Kaigen cold remedies to foreign customers and products for cosmetic medical institutions were strong. Unfortunately, however, the overall result was a decrease in profits.

Forecast for FY 2024.3

Amount units: million

	2023.3		2024.3					
	Full year results		First half forecast		Second half forecast		Full year forecast	
		Net sales comparison		Net sales comparison		Net sales comparison		Compared to previous period
Net sales	83,861	—	43,000	—	48,000	—	91,000	8.5%
Operating income	4,407	5.3%	1,200	2.8%	3,300	6.9%	4,500	2.1%
Ordinary income	4,854	5.8%	1,200	2.8%	3,300	6.9%	4,500	(7.3%)
Net income attributable to owners of parent	2,344	2.8%	400	0.9%	3,200	6.7%	3,600	53.6%

[Supplemental information]

Amount units: million yen

2022.3		2023.3		2024.3	
First half	Second half	First half	Second half	First half	Second half
4,356	3,138	3,267	1,140	1,200	3,300
Approx. 7,500		Approx. 4,500		4,500	
Total: 12,000 = 6,000 x 2 fiscal years				(Forecast)	

- There was excess inventory in FY2022.3, mainly of electronic materials, and FY2023.3 was an adjustment period in reaction to the excess inventory.
- An operating income level of 6,000 million yen/year has been maintained

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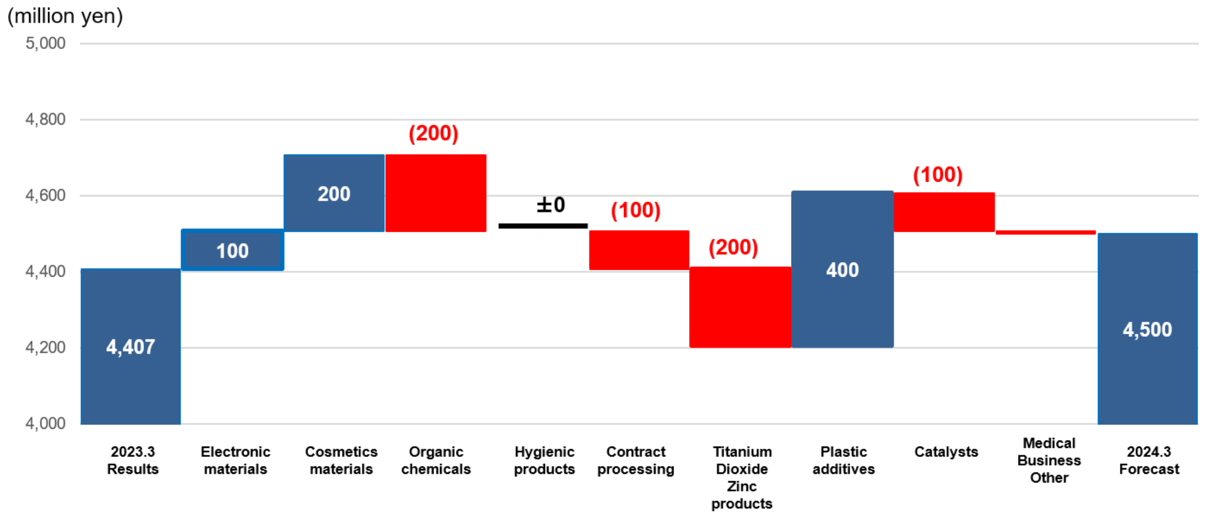
Next is the forecast for the current fiscal year.

The Company plans to increase revenues this fiscal year, but its profit plan up to ordinary income is almost unchanged from the underperforming fiscal year ended March 2023. This is a result of our expectation that market deterioration, particularly in electronic materials, will continue for the foreseeable future.

However, as you can see from the above, especially from the operating income section, we expect JPY1.2 billion out of JPY4.5 billion to be posted in H1, and JPY3.3 billion in H2. We plan to achieve a V-shaped recovery in H2 of the fiscal year, focusing mainly on electronic materials and cosmetics materials, which tends to perform stronger in H2 anyway.

Unfortunately, the fluctuation of our business performance in each period is larger due to the increase in the ratio of electronic materials, but if we divide the total of these two periods, it comes to about JPY6 billion. This is the operating income figure, but I think it is about the same level as our actual current performance.

Forecast increase/decrease in operating income by subsegment (approximate figures)



Positive factors

- Demand for electronic materials is expected to recover from the second half of the year.
- The sales volume of cosmetic materials is expected to increase steadily.
- Overseas sales of plastic additives are expected to recover.

Negative factors

- The sales volume of titanium dioxide and zinc dioxide products will remain sluggish in spite of efforts to improve sales prices.

Next, I will explain the forecast for this fiscal year by subsegment.

This JPY4,407 million is the actual result for this fiscal year, and the projected operating income for this fiscal year is JPY4,500 million. This chart shows the increase or decrease in the forecast for this year from the profit that each subsegment posted for the fiscal year that ended March 31, 2023.

Electronic materials is in the black. Unfortunately, the recovery will take place in H2. Conversely, H1 of the previous year was very good and H2 declined, but even with the pluses and minuses of H1, we expect that the recovery will be slightly higher than the previous year.

Cosmetics materials is projected at a positive JPY200 million. Unfortunately, organic chemicals will also be affected by the high cost of raw materials and fuel this term, and pharmaceutical intermediates and active pharmaceutical ingredients will suffer a small shipping gap, resulting in an expected JPY200 million decrease in profit.

In addition, we expect the current market conditions for titanium dioxide and zinc products to continue to deteriorate for the foreseeable future, resulting in a JPY200 million decrease in profit.

With regard to plastic additives, we are planning a significant increase in profit mainly due to the revival and increase in demand for PVC in Southeast Asia, especially in Vietnam and Thailand, where we have our bases.

That concludes my explanation of the earnings for the current fiscal year, the results for the previous fiscal year, operating income, and fluctuations in each subsegment in the operating income plan for next fiscal year.

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

Amount units: million yen

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

(Forecast)

- Capital investment
  Although there will be no large-scale investments such as those made in the first half of the current mid-term business plan, we plan to make necessary investments for growth.

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

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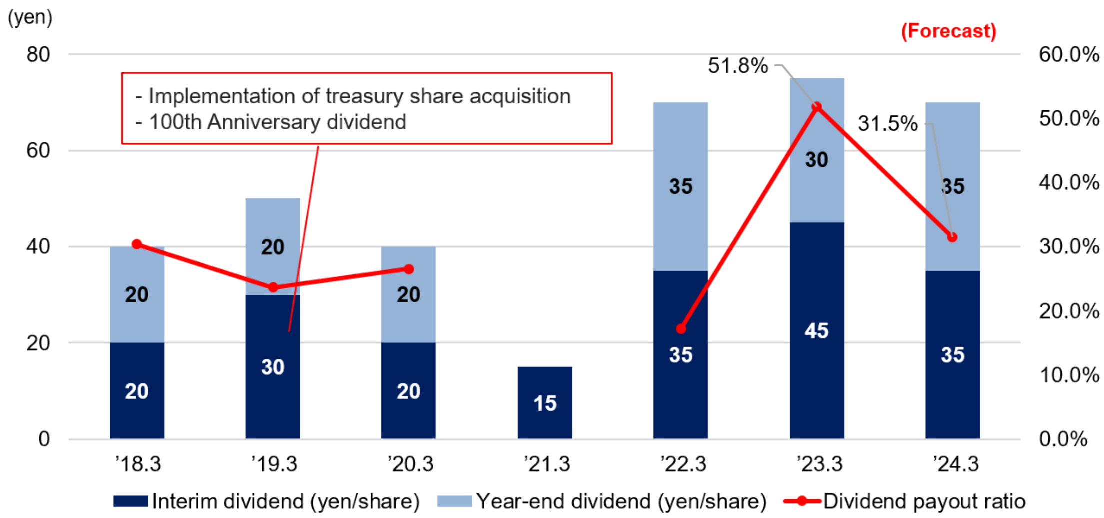
I will now explain capital investment and R&D expenses.

Capital expenditures are shown in the red box, but they were quite restrained in the fiscal year that ended March 31, 2023. Depreciation costs were almost flat.

For the fiscal year ending March 31, 2024, we will continue to manage capital investment somewhat conservatively. However, on a construction start basis, there will probably be a significant increase.

We plan to increase R&D expenses in consideration of enhancement of future R&D.

Shareholder Return



Basic Policy on Dividends of Surplus

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

About the Fiscal Year Ending March 2024

Annual dividend of **70 yen per share (interim 35 yen, year-end 35 yen)** (estimated)

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Finally, I would like to explain our shareholder return policy.

The red line shows the dividend payout ratio, and we plan to maintain the dividend payout ratio of 30% or more, which was our basic policy in the past.

As a result, we are now disclosing an annual dividend of JPY70 based on the earnings forecast for this fiscal year.

That concludes my explanation.

Question & Answer

Moderator [M]: Thank you very much. As indicated, we will now begin the question-and-answer session by first taking questions from those in the audience. Please raise your hand if you have any questions.

The IR meeting, including the Q&A portion, will be transcribed and made available in its entirety. If you wish to remain anonymous, you may omit your name.

Let's take the first question from the person in the very front.

Participant [Q]: Thank you for taking my questions. I would like to ask three questions.

Firstly, you have just announced the new medium-term business plan through to the fiscal year ending March 31, 2027, and I would like to know the contents of the JPY11 billion in operating income by business segment and how much of the JPY11 billion is attributable to each segment. In the fiscal year that ended March 31, 2022, operating income was JPY7.5 billion, but compared to that figure, how do you plan to expand the business?

Also, you mentioned that M&A will be utilized this time, but how much contribution do you expect from such discontinuous effect? To be honest, however, I think it is unclear how much impact a JPY2 billion M&A fund will have, so basically, the focus will be on organic growth. Please tell us about this issue.

Also, what is your image of ROE if JPY11 billion is achieved? I have a general idea of the equity capital, but I would like to know how you plan to control this area, especially the equity. This is my first question.

Yagura [A]: Thank you for your questions. The new medium-term plan has not yet been finalized, but we believe that operating income of JPY11 billion is necessary, and within this JPY11 billion, we expect that growth businesses will account for approximately 70% of operating income.

Simply for organic growth, we are thinking of JPY9 billion. We are considering an additional JPY2 billion for discontinuous growth, not only through M&A but also through strategic business alliances, such as outsourcing production or forming new sales partnerships.

We do not believe that JPY2 billion in stock acquisition rights will cover that. Therefore, we do not believe that M&A can be accomplished without a considerable increase in borrowings, and we naturally do not believe that we can secure that operating income at JPY2 billion.

To answer your question, the ROE of JPY11 billion is roughly 8%, which is a figure that we believe is achievable.

Participant [Q]: So, you are thinking of the equity capital as increasing naturally, is that correct?

Yagura [A]: Yes, that's right.

Participant [Q]: In terms of that, what are your thoughts on share buybacks?

Yagura [A]: First of all, as Nakanishi explained earlier, the most pressing issue for our company right now is to increase operating cash flow first.

If we increase operating cash flow first, we will be able to make new capital investments, and within that range, we will be able to aggressively buy back our own shares. I am sure that we will be able to consider share buybacks if we can achieve the JPY11 billion figure.

Participant [Q]: I understand. My second question is about electronic materials on slide seven, which shows two graphs, one in green for dielectric materials and the other in yellow for dielectrics. The image for dielectric materials is that it is increasing considerably, but the growth rate of dielectrics is quite low.

Looking at other companies, I think your company uses the hydrothermal synthesis method, but I also feel that companies using the oxalic acid method are not growing very fast. There's a bit of a difference here. I think that your company has invested in facilities quite a bit, but it hasn't grown much. What is the background to this and how will the next five years look for dielectrics in particular? Please tell us about this.

Yagura [A]: As you pointed out, it was the dielectric materials that dropped in volume in FY2020, and the drop was severe. We think that is why from FY2020 to FY2021, there was quite a bit of activity in in-house production using the solid-phase method. We believe that this is where the damage occurred this time, leading to the decline in dielectric materials.

On the other hand, we use a hydrothermal synthesis method for dielectrics, so there will be no decrease in volume, especially for the high-end part. Therefore, we believe that we can still be aggressive in this area if we take advantage of this feature.

Participant [Q]: For example, the image is that as the number of EVs and such increases, the hydrothermal synthesis method will increase, but I don't see that happening yet.

Yagura [A]: We discuss this point with our customers in various ways, but depending on one's point of view, it is difficult to say whether a product can be used for EVs or not, because it is decided at the design stage on the customer side. It appears that it is not a matter of because it is the hydrothermal method it will be used in EVs or not.

I have a sense that it increases or decreases depending on the strategy of the customer who uses it. I cannot give you a good answer directly, but I recognize that this is the situation.

Participant [Q]: I understand. Finally, my third question is that cosmetics raw materials will see a JPY200 million increase in profit this fiscal year. Is it correct to understand that that is JPY200 million after absorbing depreciation costs? And I wonder how much the sales volume will increase this year. Is there a shift away from oxybenzone and the like due to the tightening of regulations in Hawaii and other places? That is the last thing I would like to ask.

Nakanishi [A]: With regard to cosmetics, as you know, there was a large impairment loss in the fiscal year that ended March 31, 2021. In this sense, although depreciation and amortization expenses were somewhat reduced in the plant area, the associated depreciation and amortization expenses are still increasing. I hope you understand that that is profit increase after meeting to some degree depreciation and amortization expenses that are increasing.

Also, as asked earlier, regarding a shift from organic to inorganic materials, some organic UV absorbers are said to be causing coral reef bleaching, but unfortunately, there has not yet been a major shift from organic to the inorganic materials that we have.

However, as I mentioned earlier, the zinc products are gradually gaining recognition, and in that sense, the cosmetic variations of our products are gradually beginning to be recognized by our customers. We believe that the shift from organic to inorganic will continue in the future and will continue in a mild manner, so the market we are considering will continue to grow and expand.

Participant [M]: I understand. Thank you very much.

Moderator [M]: Thank you very much. Are there any other questions? There are no more? Since there does not seem to be any more questions here, I will now take questions from those of you who are participating online. An IR representative has summarized your questions and will take over proceedings now. Have they been included? There do not seem to be any questions from online participants.

After the briefing, if you have any questions, we ask that you email them to our IR personnel. The Company will reply to you.

Is there anything the Company would like to add?

Yagura [M]: No, it's fine. Thank you very much.

Moderator [M]: We now conclude today's briefing. Thank you all very much.

[END]

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