

Financial Results Briefing for the Fiscal Year Ended March 31, 2023 Q&A

[Date] May 26, 2023

[Time] 10:00 – 11:00

[Speakers] Hiroyuki Ueshima Representative Director, President and CEO

[Contents] FYE March 2023 Results, FYE March 2024 Earnings Projection

Medium-Term Management Plan **ACE 2.0**

Assuming the Position of President

[Q1]

Within your presentation, you emphasized the idea of resolving manufacturing challenges through materials. Could you provide further detail on what led you to focus on this particular message?

[A] (Ueshima): NAGASE possesses an exceptional corporate philosophy. We are committed to delivering services and products that society demands, while maintaining the highest standards of integrity. This philosophy has been the backbone of NAGASE's operations for 190 years and forms a key part of our mission.

Given that the average lifespan of Japanese companies is roughly 30 years, the reason for our 190-year existence, I believe, is undoubtedly the trust we have built up with our customers. This trust constitutes our core strength. It serves as the backbone of our global network, enabling us to engage customers worldwide, and we deeply value these trust-centric relationships and the credibility we have earned.

We are a company that customers can rely on in times of difficulty. It's because of their trust in us that we can grasp what they're struggling with and identify their challenges.

In facing these challenges, we leverage our long-standing commitment to uncovering and nurturing potential. We aim to discover new products, build relationships with new suppliers, and identify innovative technologies, ensuring they align with the challenges and needs of our customers. We perceive this alignment as our true formula for success, our main strength, and our fundamental essence. Therefore, we've decided to circulate this approach among all our employees in this simple format.

[Q2]

Could you elaborate on your approach to managing ROIC? Specifically, could you discuss the number of businesses you're managing, the businesses currently facing challenges, and those with significant growth potential?

[A] (**Ueshima**): Regarding our approach to managing ROIC, we currently do this at the business unit level, but we're working towards a more granular approach that will enable us to calculate the ROIC for each individual business, and we're building the infrastructure to make this possible.

Once this infrastructure for ROIC is fully established, we'll be able to precisely identify the positive and negative aspects of each business's ROIC. For those businesses that aren't achieving a ROIC above their WACC, we plan to proceed with the policy of rebuilding and improving.

As for the businesses where we anticipate growth, we've pinpointed the bio, food, and semiconductor sectors as our focal areas. However, I would like to refrain from going into greater detail about each of these at this moment.

[Q3]

In the plan for this fiscal year, the gross profit margin of the Prinova Group is expected to improve. Could you elaborate on the factors behind this expectation?

[A] (**Masaya Ikemoto Representative Director and Senior Managing Executive Officer**): The gross profit margin improvement in the Prinova Group, as you may have seen in our materials, is largely attributed to the significant growth of our trading business, particularly in H1 of last year.

Although this normalized in H2 due to inventory adjustments, we anticipate further capacity utilization at the new Utah factory that was launched in the latter half of last year. Combined with the expected increase in manufacturing-related sales, including the Utah factory, we project a rise and development in businesses with higher profit margins this year, leading to an increase in gross profit margin.

In other words, the balance between manufacturing and trading is shifting towards an increased profit weight in the manufacturing business.

[Q4]

Cross-shareholdings are projected to still amount to JPY30 billion even after three years. Aren't there plans to expedite the reduction process?

[A] (Ueshima): As I mentioned earlier, we intend to proceed with selling these shares while considering the balance between growth investment, profit, and capital. As for the acceleration of this process, I would like to refrain from commenting at this time.

[Q5]

Can you shed more light on the reasons for the projected flat performance of Nagase ChemteX in the upcoming fiscal year?

[A] (Ueshima): Nagase ChemteX had a particularly challenging fiscal year in 2022. Initially, we hoped to report robust figures for FY2023. However, the recovery of the smartphone market in China has been slower than anticipated, leading to a slower rebound for our sheet materials for SAW filters. Nonetheless, we believe we have reached a turning point and are seeing gradual improvements.

Also, our liquid sealing materials, another major product, haven't been recovering as swiftly as we first thought, mainly due to the slower rebound in the semiconductor industry. We were initially expecting an upturn in H1, but the tough market conditions have persisted. Now, we are anticipating recovery to start much later, in H2 of the fiscal year.

Given these conditions, we are projecting growth for our business overall. However, we have transferred the sales and profits from the enzyme business in Fukuchiyama to Hayashibara. This shift will result in a decrease in profits, resulting in a net outcome that essentially maintains the status quo, hence the forecast for flat performance.

[Q6]

There's an increase in the burden of company-wide expenses in the segment-by-segment operating income. Could you provide some insight into what this investment entails for sustained growth in the future, and your projection for future returns?

[A] (Ueshima): I'll clarify regarding the Company-wide expenses. Although I won't go into specific numbers, a significant portion of the growth investment included here pertains to the cost of infrastructure development for digital transformation, or DX, which we are currently pursuing. As I previously mentioned, we intend to leverage digital marketing through digital transformation, not only with clients we can meet face-to-face, but also with the long tail of our customer base.

I apologize, but I do not have specific numbers for expected returns at my disposal, so I must refrain from sharing them.

[Q7]

Could you provide measures and a timeline to address the P/B ratio falling below 1x?

[A] (Ueshima): Regrettably, our P/B ratio is currently below 1x. However, we acknowledge that we cannot control the stock price. On the other hand, the ROE, which is highly correlated with the stock price, is currently targeted at 8%.

That said, we view this as a mere checkpoint, not a final goal. Our intent is to pass this checkpoint as soon as possible and progress to the next stage.

[Q8]

Considering the business model of a trading company, doesn't a D/E ratio of 0.38x and a target of less than 0.5x seem overly conservative?

[A] (Ueshima): While it might seem conservative when compared to the overall trading industry, NAGASE has historically set a target of keeping the ratio less than 0.5x. We believe this is a balanced approach for our growth investment strategy at this stage.

[Q9]

How long and on what scale do you plan to proceed with your DX investment?

[A] (Ueshima): Your question about the duration and scale of our DX investment is quite challenging. At present, we are implementing DX with the aim of setting up an infrastructure for digital marketing.

Regrettably, it will take some time, and there are considerations such as compatibility with our existing infrastructure. While we cannot specify an exact amount, we are committed to advancing in a way that ensures cost-effectiveness.

[END]