

## FY2023 Second Quarter Financial Briefing Q&A

[Date] November 27, 2023

[Time] 10:00 – 11:00

[Speakers] Hiroyuki Ueshima Representative Director, President and CEO  
Masaya Ikemoto Representative Director, Senior Managing Executive Officer

[Contents] FY2023 Second Quarter Results and FY2023 Earnings Projections  
Medium-Term Management Plan **ACE 2.0**

[Q1] What is your approach to P/B ratio of 1x?

[A] (Ueshima): I would like to explain our approach to achieving a P/B ratio of 1x.

We have set a target of 8% for ROE, which is very closely linked to P/B ratio of 1x.

However, this 8% is just a passing point, and we would like to continue to grow after 2025.

Incidentally, then, how do we raise ROE? As I explained in the spring, we would like to proceed with both business and financial strategies.

With regard to financial strategy, we will take measures including enhancement of shareholder returns. As for our business strategy, as I mentioned earlier, our first priority is to expand the scale and efficiency of our trading function, which is our base business, in order to generate more profits.

In addition, we intend to utilize cash efficiently and invest capital in manufacturing functions in our focus fields of food, life science, and semiconductor industries to generate more efficient earnings in the future.

On the other hand, as a measure that can be taken more immediately and effectively during the next two years, we will liquidate unprofitable businesses in the improvement area, minimize the JPY8 billion and JPY9 billion figures of last year to one-tenth, and promote a total business strategy for the fiscal year ending March 2026. As a result, we believe that these two factors will lead to ROE of more than 8% and P/B ratio of more than 1x.

[Q2] What is different about CVC from previous investments or investments in new businesses? Please tell us about the special features, the target area of the fund, the size of the amount, the management, and how to arrange professional human resources.

[A] Ueshima: As one of our objectives in setting up the CVC, we believe NAGASE is very strong in growing from 1 to 10 or 10 to 100. On the other hand, we have taken on a number of “creating from nothing” challenges and have made investments in our past business departments, but we recognize that the results have been mostly unsuccessful.

In this environment, the world is changing at a very fast pace, and we believe that the way of thinking about investment has changed considerably. This time, we have decided to start CVC not only in our existing areas of work, but especially in areas such as unique, data-driven, IoT, or companies with agility. We started with the intention of casting our net as widely as possible in areas where NAGASE has never worked before.

We are also willing to invest in disruptors that will disrupt our existing way of thinking, as we have been entrenched in our existing way of thinking for our 190-year history.

As for professional human resources, we are currently in the process of acquiring. Regarding the scale, we are considering implementing dozens of projects per year, each costing several tens of millions of yen, and as I mentioned earlier, we would like to cast our net over a wide range of areas. We believe this will allow us to find the pillars for the next generation.

[Q3] Could you give us a rough idea of the scale of earnings and future growth prospects for semiconductor-related materials? Also, FOWLIP itself is a technology that has been gaining popularity for several years now, but do you mean the adoption of your materials is increasing here?

[A] Ueshima: Thank you. As for FOWLIP itself, it is a widespread technology, but we are constantly developing our products according to the needs of customers, and even within the same category, new products are constantly emerging. In this respect, we intend to invest more resources in R&D of FOWLIP and maintain a high market share.

We are unable to provide information on the scale of earnings from the semiconductor-related business because, in addition to the electronics and energy segment I explained earlier, we have a wide range of business departments in terms of upstream materials or process materials.

However, as I mentioned earlier, we have positioned this as an area of focus, and we expect to expand the manufacturing function, which is the main earnings driver, in the future, so we are confident that you can count on us.

**[Q4]** The main reasons for the slowdown in business are described as intensified competition in the digital printing-related business and a global decline in demand for resin sales. If the recession in China is the main cause of this, it may seem somewhat structural. Including reduction of business size to an appropriate level, please tell us whether these businesses are included in the areas for improvement in the four quadrants of the growth strategy, and what kind of improvement measures will be implemented.

**[A] Ueshima:** Thank you. I am not sure if this is an appropriate response, but the digital printing-related, or color former business, is becoming very competitive, or rather, the market has stopped growing at present, while the number of suppliers on the supply side is increasing. In particular, Chinese manufacturers have been recovering production since the environmental problems, resulting in an oversupply situation, and Chinese manufacturers are selling at low prices to thermal paper manufacturers around the world.

As the only Japanese manufacturer, we have a certain priority in sales to Japanese customers, but the Japanese market is only a fraction of the world market, and in the main markets of the US and Europe, we are outnumbered by Chinese companies.

In that aspect, we recognize there is a high probability that we cannot expect growth in this industry.

On the other hand, the reality is that the Chinese market, which has been a growth driver for resins up to now, has been in a cloud of uncertainty. As you all know, the US-China problem and the switch from Japanese products to made-in-China products are accelerating, and we are affected by such factors.

However, the resin market is always traveling around the world, and as for Chinese manufacture, manufacturers are shifting to manufacturing in Asia or the Global South. We intend to shift resources to this area in order to increase market share, acquire new specification, and expand volume and earnings.

Therefore, in the first three areas I mentioned earlier, or the Prinova Group business, the color former business, and the resin sales business, we believe that the Prinova Group will be able to return to growth as expected after 2025, and in the resin business, we will be able to improve profitability by shifting markets and shifting our resources accordingly.

On the other hand, the color former business is in a very difficult situation, and we would like to consider this as one of the areas for improvement as you mentioned earlier in your question.

Of course, in addition to this digital printing-related business, some of the businesses that we have been involved in for many years are not expected to generate future earnings. We intend to take remedial measures for these businesses with a sense of speed in the future as they are placed in the area of improvement.

**[Q5]** You mentioned that delayed profit contribution from the new Utah plant in the Prinova Group is due to lower manufacturing volumes at key customers. When do you expect to be able to offset this negative impact? You explained that earnings are improving in H2, but could you be more specific?

**[A] Ueshima:** Thank you. I apologize for the great concern regarding the Prinova Group's business. Ikemoto, who is in charge of the project, will explain the details, but to give an overview, in H2, we are replacing or automating personnel onsite and increasing the top line, and we are making new sales efforts to attract customers. The top line is steadily increasing.

Ikemoto will explain the details.

**[A] Ikemoto:** I am Ikemoto and I am in charge of the Prinova Group. I will explain further.

The new Utah plant was launched in October of last year, and since then, we have been gradually installing more equipment. However, the introduction of automation equipment was delayed by a shortage of semiconductors, and the hurricane in the US caused a significant delay in the introduction of power supply equipment, both of which have been declared force majeure. The main reason was a significant delay in the fulfillment of production facilities.

As a result, personnel expenses have skyrocketed due to the inevitable need to add manpower to the automated equipment part. As for the future, automated facilities are now in operation sequentially, and we believe it will be possible to significantly reduce personnel expenses from next year onward.

At present, we are on track to almost clear the break-even point, and have already cleared the break-even point for this quarter. In the future, we will continue to review expenses and reduce personnel to ensure stable earnings, and also promote new measures for the top line, as the President just mentioned.

We have already begun to materialize some major targets, and we believe that it will be possible to recover these negative aspects in the next fiscal year.

**[Q6]** I have a question about page 35. What are the systems in place to reduce unprofitable businesses and impairment losses? How will the Board of Directors, the management committee, and the investment and M&A review processes be improved?

**[A] Ueshima:** Thank you. First of all, we are taking new measures to avoid creating unprofitable businesses and companies at risk of impairment, such as reviewing investment guidelines and reorganizing conference body to facilitate speedy decision making.

In addition, we have already encouraged each department, division, and section to filter all monthly individual transactions for unprofitable businesses so that the revenue of those businesses exceeds the WACC allocated to each business unit, and for those that are below that, we are listing them and encouraging them to improve their business. Naturally, we cannot expect immediate improvement, but we believe that the results of our efforts are definitely starting to show.

In terms of reducing impairment losses, as we have already mentioned, we will not follow the conventional approach to investment, but rather will take the initiative in determining the industries in which we will conduct M&A with a clear objective, and carefully select investments that are necessary for us, such as acquiring missing parts and new areas of business that we truly aim for.

As I mentioned earlier, we currently have a management committee under the Board, and under the management committee, we have S1, which is a weekly meeting of only president and Director and Executive Officers. By conducting a close examination of the projects that emerge in this context and by monitoring them precisely, we are already working to minimize such risks.

**[Q7]** Isn't it possible to optimize capital by selling off large cross-shareholdings to invest in the business and return capital toward a P/B ratio of 1x?

**[A] Ueshima:** Thank you for your suggestions. We consider ROE as an indicator linked to stock price. As you mentioned, it is true that we still hold cross-shareholdings, and we are pursuing our financial strategy by selling them, repurchasing our own stock, and paying dividends.

As I explained earlier, new funds will be needed for investments. Naturally, as we move forward with a net D/E ratio of less than 0.5x, we would like to consider, without ruling out, the sale of policy shareholdings as a means to achieve this ratio, should the need arise.

[Q8] Please provide a breakdown of the JPY80 billion investment shown on page 32 of the document. I would also appreciate any specific examples of unprofitable projects and paths to improvement. In addition, you mentioned that the semiconductor market will remain difficult until H1 of next year, but could you share President Ueshima's thoughts on the current market and future prospects?

[A] Ueshima: Thank you. We had a few questions, so please excuse me if I left them out. First of all, we have not disclosed the breakdown of the approximately JPY80 billion, so I will not go into details. As a rough image, we will invest approximately JPY10 billion in the North American food business, and over JPY10 billion in the semiconductor business centered on Nagase ChemteX and the recovery business with SACHEM, which I have already mentioned.

In addition, we are considering investments, including further expansion of Hayashibara products and overseas manufacturing, although we did not give you the figures earlier.

Moreover, we are considering several mergers and acquisitions to acquire new manufacturing functions in specific areas of focus, so tens of billions of yen for those parts. Sorry, please forgive me for the details.

As for the semiconductor market, actually in April, we had expected the market to recover around October, but the market bottomed out around March of this year and was on a gradual recovery trend. However, information has been circulating that a major manufacturer of NAND memory and other products would suddenly stop their operation, and especially with regard to the production of general-purpose semiconductors, the current situation has remained severe since this summer.

Although we have heard various reports that it will be in December this year or March next year, due to a variety of factors, not only in the Chinese market and the US-China relations, but also in other areas, we have not been able to break out of this situation.

From what I have heard from the major players, I believe that the economy will recover considerably from June to July, and that growth will return to a steady increase from H2 or next year onward, and I am hoping for that.

[Q9] What is the Prinova Group's profit picture for the next fiscal year? Operating income for the Prinova Group is JPY2.6 billion for H1, JPY3.6 billion for H2, and JPY6.2 billion planned for the full year. The profit contribution from the new plant in Utah will be fully realized in the next fiscal year, so is it probable that profits will increase in the next fiscal year?

[M] Ueshima: Thank you very much. Ikemoto will explain.

[A] **Ikemoto:** Thank you for your question. Profitability of the Prinova Group was very poor in H1 of this fiscal year. As mentioned several times in the explanation, we carried inventories last fiscal year in order to maintain and protect our supply chain, and we have reduced these inventories in H1 of this fiscal year. This has led to a reduction of over JPY10 billion in inventories, but in the process, we have had to sacrifice some profitability.

That is, the unit price of materials has been falling at a tremendous rate, falling by 20% in a couple of months, which is something that has not happened in decades. We made efforts to catch up as quickly as possible, but the speed of our efforts was not fast enough, and our earnings deteriorated in H1.

In H2, the decline in the unit price has calmed down, but there is still a slight decline toward the end of the year. We do not know how far the reversal will go from bottoming out to stabilizing prices over the next fiscal year, but we believe that prices will stabilize.

We have already taken most of the measures to control profits, and profitability is recovering through various measures.

In addition, we believe that the negative impact of the new Utah plant will soon clear the break-even point next year, so we have drawn a picture in which such negative impact will be eliminated and profits will recover, so we believe that the probability of profit increase in the next fiscal year is high. That is all.

[A] **Ueshima:** If I may add something, the new Utah plant is lagging slightly behind as a profit model, but the NAGASE Group will continue to invest aggressively in the food business in North America and utilize their M&A know-how to further expand.

Regarding the new Utah plant, as Ikemoto explained earlier, we hope to have it fully operational in 2025. All employees of the Prinova Group are thinking the same way, and they are also creating a new picture, so we at NAGASE would like to actively invest our resources in this area.

[END]