

FY2024 Third Quarter Financial Briefing Q&A

[Date] February 7, 2025

[Time] 10:00 – 11:00

[Speakers] Representative Director, Senior Managing Executive Officer Masaya Ikemoto

Director, Managing Executive Officer Masatoshi Kamada

Director, Executive Officer Tamotsu Isobe

Executive Officer, General Manager of Corporate Planning Dept. Koichi Sagawa

Executive Officer, General Manager of Corporate Management Dept. Kazuhiro Hanba

[Contents] FY2024 Third Quarter Results and FY2024 Earnings Projections

[Q1]: There are concerns in the stock market about the impact of DeepSeek-R1 on the semiconductor industry. Please tell me what kind of impact to your business you are assuming at this stage.

Kamada [A]: I believe that the emergence of DeepSeek-R1, with its low cost, will lead to an ever-expanding base of generative AI, and this is precisely the democratization of generative AI. I believe that we are at the dawn of a period in which more and more applications will be developed, and that generative AI will become the very norm.

Therefore, packaging so-called GPUs, CPUs, and HBMs in a limited space is required for energy-saving and high-efficiency, and this is exactly the packaging of AI semiconductor, cutting-edge semiconductor. In this area, Nagase ChemteX's liquid molding compound, LMC, has become the de facto standard.

In addition to our own products, we are about to launch a variety of products in the same area in the Trading business. We believe that the expansion of the base of generated AI will lead to the growth of the NAGASE Group, especially Nagase ChemteX.

[Q2]: The progress rate of the full-year plan for operating income in the cumulative Q3 is 85%, which looks good. For Q4, you mentioned Chinese New Year factors, office factors, improved labor

environment, et cetera, but the forecast still looks conservative. What is your assessment of the progress of each segment and the likelihood of their performance outperforming the plan?

Ikemoto [A]: Seasonal factors are discussed every year at this time of the year, but we are also anticipating fixed costs such as repair and maintenance expenses in the Manufacturing business, as well as the various items that come in and out toward the end of the fiscal year. I factored in these assumptions in my earlier explanation of the forecast.

We believe that each of our businesses, as you noted, are still in a strong position. However, since Q1 and Q2 were strong partly due to some transitory factors, we take it into consideration in our view on Q3 and Q4. We will continue to make every effort to pull our performance upward, and continue to move our business forward firmly, but at this time, we ask for your understanding that we are leaving our outlook unchanged.

[Q3]: Prinova Group does not appear to be increasing its sales in local currency terms. I believe that this is partly due to soaring labor and transportation costs as well as productivity problems at the Utah plant. However, in terms of profit, I think the problem lies in the fact that you have not been able to increase sales sufficiently. Please give us your views on this point. Also, is it possible to accelerate sales in the coming year?

Ikemoto [A]: The problem surrounding the Utah plant is still a very serious one, and we are working hard to improve the situation as soon as possible.

Regarding your point that sales on a local currency basis have not increased overall, the unit price of materials is still declining. Although prices of some materials are recovering, the unit price itself is low among many materials due to the various views on the US economic trend in addition to the recession in China. The business for European market accounts for 30% to 40% of the Prinova Group business as a whole. The recession in Europe, especially in France and Germany, has affected unit prices to some extent.

On the other hand, the overall sales volume has been increasing YoY, breaking records every year, and we believe that if unit prices recover, sales in the local currency will also increase. We are beginning to see some of these trends, and we hope that you can look forward to more of them in the future.

On the other hand, we fully understand that sales are not growing sufficiently and that this is a problem with regard to the productivity of the Utah plant. We are now in the process of leveraging our sales efforts, and I believe that the reason I will be in charge of the Prinova business, including local operations, is to focus on how we can promote sales. From the next fiscal year onward, we will focus our efforts on the recovery of the Utah Plant and boosting overall profits, and we ask for your continued support.

[Q4]: It's a little early, but could you tell us about your thinking for the coming year? In terms of profit and loss, the effect of actuarial differences in retirement benefits to boost profit may over. Can this be offset by a real increase in profits?

Ikemoto [A]: We are about to start the discussion on the next fiscal year, FY2025, but it is possible that elimination of actuarial differences may result in a decrease. At the same time, we expect existing businesses to grow for the next fiscal year and the year after that.

In addition, Nagase Viita, which has a full-year depreciation of approximately JPY1.2 billion for its technology assets, will finish it this fiscal year, a decrease of approximately JPY1.1 billion in depreciation expense compared to FY2024. Since these items will contribute to profit next year, we believe that these increases in profit resulting from the Company itself will cover the absence of the boosting effect of actuarial differences.

[Q5]: What is the impact of the Trump tariffs and what measures, if any, are being taken? Could you answer based on the assumption that tariffs other than Mexico, Canada, and China may be imposed in the future. Also, what exactly do you have in mind for expanding investment in the US?

Ikemoto [A]: The Trump tariffs are something we are concerned about, as it is not foreseeable. Regarding tariffs, the US is likely to delay tariffs on Mexico and Canada for a month, as if it were some kind of negotiation requirement, but as for China, it has begun to implement a 10% increase in tariffs.

There are various perspectives and opinions on how these will affect the domestic economy. In particular, the Prinova business accounts for the largest portion of our business, but when I visited the US last week, I heard that the factors in the market are not all negative, and that market prices will probably rise and the market will absorb the impact to some extent. If this happens, we believe it will be a tailwind for us.

In addition, we will actively consider expanding our investment in the US if there are investment opportunities in the US in our stated Focus Areas of Food, Semiconductors, and Life Sciences. Various studies are still being conducted in parallel at this time. While tariffs are going up, perhaps, although we don't know yet, President Trump also promised to cut corporate taxes during his election campaign, so I think these things will come back into focus in the US. We believe that this would be a follow-wind to the business.

[Q6]: I have a question about TOTAKU INDUSTRIES, INC. The Saitama cave-in accident may increase demand for infrastructure redevelopment. Do you think this will have a positive impact on the business of TOTAKU INDUSTRIES, INC? Since the sewer line is said to be a factor, does it not have much of an impact?

Ikemoto [A]: It has been reported daily that this is a very tragic accident, and I can only pray from the bottom of my heart that the victim is safe and sound. We have also heard that the residents in the surrounding area are also suffering greatly, and we can only pray for their speedy recovery. You are asking whether various requests may come in for products of TOTAKU INDUSTRIES, INC in relation to this kind of infrastructure development.

Kamada, who is in charge, will explain the current situation.

Kamada [A]: Among the value-added products in which TOTAKU INDUSTRIES, INC excels, there are many products that require special technology, such as rainwater treatment for land development and pre-installation of electric lines. However, I am afraid that we do not have many products that can respond to inquiries related to so-called public sewage systems at this time and it would be difficult to respond to them. However, I believe that we can respond to various inquiries regarding reviewing infrastructure in the existing built-up areas, et cetera.

[Q7]: How do you view the risk of further deterioration in US-China relations and the expansion of restrictions on semiconductor sales to China? Also, what is the expected impact on your company's performance, and what measures do you have in place to reduce the impact?

Ikemoto [A]: I am certainly concerned about the US-China relationship and what will happen. I believe that this is an issue and problem for the Japanese semiconductor industry as a whole, as the supply of various semiconductors from the US to China may be restricted, or the export of materials, equipment, et cetera, for these semiconductors may be restricted. Kamada will explain this point, including our semiconductor business in China and our position in the semiconductor industry.

Kamada [A]: We have some business in the area of advanced semiconductors, which is restricted. We are currently proceeding in accordance with the law, but our current business model in China semiconductors is a business model of selling chemicals and various products for semiconductors, mainly middle and low end. In that sense, we do not think it will have a very large impact.

Over the past several years, in the US-China relationship, there has been a move to localize suppliers in China, and there have been some cases where the Japanese products we sell have lost competitiveness and have been replaced by local products. However, the business that remains today is reasonably competitive and will continue to be so.

The other thing is that another new export restriction on HBMs has now come into effect. We believe that this matter will have some impact on some of our customers, memory manufacturers, but at this time the forecast has not been lowered. We continue to monitor the situation closely, but we believe the impact will be minimal.

[Q8]: Could you give us a little more detail on the current status of the Life & Healthcare segment, particularly the Prinova Group, and the outlook and expected timing of its recovery? You also explained the decline in unit prices in the industry. Could you tell us what the pace of that decline in unit prices has been and what the outlook is for the future?

Ikemoto [A]: In the Life & Healthcare segment, in addition to the Prinova Group, Pharmaceutical intermediates and raw materials are doing well, and we believe that we have secured a certain share of the domestic market for cosmetic products. Therefore, we believe that we can continue to maintain our strong performance in the Trading business.

However, as for the Prinova Group's prospects for recovery and the expected timing, I believe that now is precisely the right time to assess the situation. In fact, we believe that the current fiscal year is the bottom of the performance, and we are currently working hard toward FY2025. We have yet to see the signs of upward trend in unit price, but sales including sales volume have been strong.

In addition, the solutions business, which supplies bulk products called "premixes" in the manufacturing business, and the flavor ingredients called "flavors" are on a growth recovery trajectory. We are now in the process of achieving even higher figures than those for FY2024, as we are seeing such improvements in the manufacturing business, and although unit prices are falling, this is being covered by sales volume.

The biggest point is the recovery of the Nutrition business, including the Utah plant, and among them, how to respond to the deteriorating market situation and how to increase our market share, including sales, are the issue. I will work on these issues once I am in charge of the Prinova business.

[Q9]: Could you tell us a little more about the background of Director Ikemoto's assignment to the Prinova Group? Specifically, are there many other improvement issues besides the Utah plant?

Ikemoto [A]: The Prinova Group is the largest group company within the NAGASE Group in terms of size. A total of 22 group companies, mainly in the US and Europe, are included in the Prinova Group. As a business, sales of commercial products, which account for more than half of our business, are meticulously marketed in the US and Europe, including South America, and are a major foundation for the NAGASE Group.

You are asking whether there are many other improvement issues besides the Utah plant. However, the Nutrition business is already in the process of recovery except for the Utah plant, and we are making efforts to further advance this pace of recovery. We expect this area to grow accordingly in the coming year. Again, I will work to ensure that the Utah plant, its recovery, and the Prinova

Group, which is the foundation of the larger NAGASE Group, will become solid by my being in charge of them.

[Q10]: I have a question about Nagase ChemteX. I understand that the increase in molding compound profit is absorbed by the decrease in LCD-related profit. Will this situation continue in the next fiscal year? Or will the growth of molding compound lead to an increase in overall Nagase ChemteX profits in the next fiscal year?

Kamada [A]: As reported in the press, we have supplied Nagase ChemteX chemicals to Sakai Display Products Corporation for many years in their plant, but we withdrew from this business due to the discontinuation of production at the end of August 2024. You are correct that this has worked to the negative side of the current fiscal year by reducing business and the cost of withdrawal.

In the next fiscal year, we expect Nagase ChemteX to grow as a result of the growth of generated AI, in addition to the absence of the impact of expenses related to the withdrawal, as well as the price increases we are working on.

[Q11]: Could you give us any upbeat comments on the current state of inquiries for related products except high-end, such as generative AI, and any sense of recovery or outlook for the future?

Kamada [A]: It is a future outlook, so there are still uncertainties. In particular, the current situation is that notebook PCs, smartphones, and industrial equipment have not yet reached the level of a major recovery. The market often talks about the possibility of a recovery in the next fiscal year from the current fiscal year, with high expectations.

However, there are some who believe that it will continue to be low. However, in the field of generative AI, terms such as edge AI, so-called AIPC, or AI smartphones are beginning to appear. We expect that by adding AI functions to a variety of terminals, new demand will emerge.

[Q12]: Pilot production is planned by Rapidus Corporation. Will your company start a related business?

Kamada [A]: The business we do with Rapidus Corporation is that we do both sides of logistics, especially chemicals, where we are the organizer, and actual support to the business. I have heard that various important facilities came in at the end of last year, and trial production will start around April of this year. We also understand that raw material shipments have started gradually. We are looking forward to supporting Rapidus Corporation with our full support, despite the many difficulties that may arise in the future.

[Q13]: Am I correct in understanding that the numerical target for ROIC is 8% or more, which is the cost of capital?

Ikemoto [A]: The ROIC target is currently targeted at 5% to 5.5% under the **ACE 2.0** Medium-Term Management Plan. In addition, we aim to achieve a ROE of 8% or more, so we have set our targets at these levels.

[Q14]: Are your initiatives with new global suppliers progressing smoothly through the previously mentioned initiatives with Rapidus Corporation?

Kamada [A]: We have many Japanese suppliers, and global suppliers are in addition. We are in the process of working firmly toward Rapidus Corporation as a new supplier, and we will utilize that new network to acquire business, including new other customers, and pursue synergies. We are working on it and are making good progress in this regard.

[Q15]: Please tell us about the Prinova Group's performance. Could you please disclose the breakdown of the JPY2.8 billion increase in gross profit YoY and the JPY2.3 billion decrease in operating income YoY for the cumulative Q3 separately for the trading business and the manufacturing business? Also, is it safe to assume that at least the worst is behind us, in terms of cost issues in the manufacturing business such as the productivity of the Utah plant?

Ikemoto [A]: I hope you understand that we do not disclose the breakdown of profit in the manufacturing business and trading business. The worst is over for the trading business, as they have escaped from the bottom, or rather, they have considerably increased sales volume while unit prices are stuck at a very low level.

The worst is over for the manufacturing business as well, which is on the way to recovery at a faster pace than the previous year. As a result, we believe that the worst is over for the Prinova Group, and we will be able to boost overall profits in the next fiscal year and beyond by firmly promoting productivity and sales strategies at the Utah plant.

[Q16]: Regarding shareholder returns, you have committed to a 100% total return ratio for the fiscal year ending March 2026, but in light of the fact that the P/B ratio is currently around 0.8 times, what is your policy for returns for the fiscal year ending March 2027 and beyond?

Ikemoto [A]: We have committed to a 100% total return ratio during the current **ACE 2.0** period, and we would like to explain our new policy on the total return ratio in the next Medium-Term Management Plan, along with the end of the **ACE 2.0** period in March 2026. Discussions have already begun on the next Medium-Term Management Plan, and we would like to have another opportunity to explain the contents of the plan, which will probably take a little longer.

[Q17]: What are some of the challenges your company faces in the future development of business related to Rapidus Corporation? Also, how should we understand sales and profitability?

Kamada [A]: I will refrain from discussing sales and profitability because it is with our customers and is confidential. Many things will start from now.

The issues in the future are that the process will be very complicated as we will be responsible for ensuring timely and proper supply in line with their policies and for coordinating and supplying various chemical products. Since this will be our first experience, we would like to build the structure to ensure smooth operation, including our cooperation with customers.

[Q18]: I understand well the expansion of production capacity for semiconductor molding compound, but what is the status of technological development issues and solutions? Do you have sufficient development resources?

Kamada [A]: Expansion of production capacity is progressing well. It is difficult to say how much I should go into the detailed technical issues, but the packaging is becoming very complex. We are working day and night on how we can propose solutions to technical issues such as stress and warping in order to cope with such increasing complexity. We have applied human resources to development with the highest priority, so we do not expect any problems.

Talking about technology, liquid LMC is now the main product and we have become the standard, but we have proposed a-SMC, advanced sheet molding compound, as a material that will greatly increase productivity for our customers. I believe that evaluations of this a-SMC are progressing at various customers, and I am very much looking forward to seeing them.

[Q19]: In AI semiconductors, I believe that moves toward the introduction of PLP, panel level package, are taking shape. Please tell us how the requirements for resins will change as substrates become larger, and whether liquid or granular resins will be chosen, and how this will affect your company's business opportunities.

Kamada [A]: The PLP movement is a very key technology trend in advanced semiconductors, and we are closely monitoring it. With the increasing size of substrates, we are proposing a-SMC, sheet molding compound. We are now proposing to our customers that by doing this, they will be able to produce more efficiently and dramatically increase their productivity, including equipment. We believe that this is a differentiated product that no other company has, and we are very excited about it.

[END]