

# FY2025 First Quarter Financial Briefing Q&A

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[Time] 10:00 – 11:00

[Speakers] Director, Executive Officer Yoshihisa Shimizu

Director, Managing Executive Officer Masatoshi Kamada

Director, Executive Officer Tamotsu Isobe

[Contents] FY2025 First Quarter Results and FY2025 Earnings Projections

[Q1]: You explained that the Company's overall Q1 operating income progressed favorably at 26%, with the Life & Healthcare segment making a particularly strong contribution with a progress rate of 34%. If you look at page 12 of the presentation material, we can see the transition of operating income by quarters. I think that there has been a considerable improvement on a monetary basis from JPY300 million in Q4 of the previous fiscal year to JPY2.4 billion in Q1 of the current fiscal year. You mentioned earlier that the Prinova Group is making progress in cost reduction and product mix compared to the plan. Could you tell us a little more about what you are doing in terms of these cost reductions and what the effects of this will be from Q2 onward? Another thing is that you explained that the product mix is also showing good movement, and I think this will continue to build up from Q2 onward. Please let us know the situation.

Shimizu [A]: As I explained earlier about Q1, regarding Life & Healthcare segment, we are making improvements in the trading business, Nagase Viita, and Prinova Group, respectively. As you indicated, we see the improvement in the Prinova Group as having the broadest impact. Director Isobe would like to explain the details.

Isobe [A]: You have just seen page 12, and I would like you to refer to page 15 as well.

Regarding the total numbers, the Prinova Group is currently performing very well in Q1 of the current fiscal year after a very low operating profit in Q4 of the previous fiscal year. For breakdown of this, as Shimizu explained earlier, there are a number of things in the mix, but first of all, personnel reductions have had a major impact. In particular, the number of personnel involved in the Nutrition business has been reduced by several hundred compared to the previous fiscal year.

The fact that we have been able to maintain the status quo even with that many fewer people is due in large part to the effects of automation. An introduction of automation in packing has resulted in a considerable reduction in the number of workers.

The manufacturing process is also quite efficient. We are currently seeing the effect of the current numbers, while we have improved everything from the placement of the smallest details. In the past, the Prinova Group, especially in the Nutrition business, was very much in the business of manufacturing products with a fixed formulation on consignment from end users. However, we are now shifting to high-value-added products. This is due in part to sales efforts that have continued in the past, but also to the introduction of quite high value-added products such as stick packs, for example.

On the other hand, the Solutions business is performing very well, but the reason for the overall increase in profits is because of the high-value-added business of providing customers with our own formulations or formulations that we have proposed. However, in the Nutrition business, although operating income has improved by several hundred million yen, operating income is still in the red. We would like to make further improvements and move forward with the goal of returning to profitability as soon as possible.

[Q2]: With regard to Electronics and energy, as you explained earlier, we are aware that the operating income this time is actually about JPY300 million higher. However, considering the strength of liquid encapsulants for AI servers, hereafter LMC, I think the increase in profit should be more, but if we add back the impact of JPY400 million of M&A-related expenses you explained earlier, the actual increase in Q1 alone is about JPY300 million plus JPY400 million, JPY700 million in total. In addition, there is also a negative figure for the Sakai Plant, so if we include that, there was an increase of JPY800 million in Q1. Since the annual plan is to increase profits by JPY600 million, can you explain a little more about whether Electronics and energy is going as planned or better than planned, especially the sales situation of LMC and the pace of line expansion?

Kamada [A]: First of all, the generated AI-related business has been very strong, and another thing related to semiconductors is that the semiconductor business in China has been strong. While it is said that the semiconductor industry as a whole is still in the process of recovery, we believe that these two factors are the main reasons for our strong performance. As for LMC, there were restrictions on HBM and H2O exports to China in December of last year, and the volume was adjusted somewhat. On the other hand, the fact that the US tariffs have resulted in a buildup of inventories due to the advance from China has been a positive factor. With that in mind, LMC grew by double-digit percentages in the current Q1.

With regard to the semiconductor business in China, we are engaged in trading business in various processes, including LMC. This means that differentiated products among them performed well. As you know, the Chinese government is taking the initiative in providing subsidies for smartphones, PCs, home appliances, and EVs in order to stimulate domestic demand and expand the Chinese market. In addition, China's semiconductor manufacturers have been performing well, as a result of China Manufacturing 2025, which calls for the strengthening of in-house semiconductor manufacturing in China, and strong instructions to use Chinese semiconductors as much as possible in China. In this environment, our trading and manufacturing businesses performed well in Q1.

The negative impact is the JPY400 million in M&A expenses mentioned earlier, and NCX's withdrawal from the Sakai Plant business for displays, which will have a negative impact of about JPY100 million on a consolidated basis. The other is that the SAW filter business for smartphones is lagging considerably in Q1 of the current fiscal year compared to the previous year. Our sales are down here because our main customer is losing out to Chinese competition. We have received information that these customers will regain market share from Q2 onward, so we believe that the SAW filter business will be on a recovery trend from Q2 onward.

In total, Q1 was slower than expected, and this was due to various negative factors, but since our LMC has become the de facto standard for generative AI, we recognize that double-digit percentage growth will continue and that the market will remain strong in the future. As you mentioned, the expansion of LMC capacity, we will quadruple the capacity from H2 compared to FY2023 level, so we are already prepared to respond to the increased demand from our customers.

[Q]: There were three negative factors in Q1 of the current fiscal year: JPY400 million in M&A expenses, JPY100 million for the Sakai Plant business that existed until the previous fiscal year, and a slowdown in the SAW filter business for smartphones, but these three factors will basically disappear after Q2. In other words, is it correct to say that the difference between the previous year and the current year will improve from Q2 onward?

Kamada [A]: We have a forecast that LMC will remain strong in Q2 and beyond, and that the SAW filter business will also remain strong.

[Q3]: Regarding the Prinova Group, there was a significant improvement in Q1 with an operating income of JPY900 million. Q2 of the previous fiscal year was also in the red due in part to the allowance for doubtful accounts. I would like to ask if you will be able to make a steady profit in Q2 and beyond in the current fiscal year. Also, regarding the Nutrition business, you say that you

are getting new, high-value-added products, but how much are they growing in sales? I would also like to know if there are any other factors that would lead to further growth in Q2 and beyond.

Isobe [A]: Regarding the Prinova Group's situation from Q2 onward, as you mentioned, the previous year was quite sluggish, partly due to the bad debt provision. For the current fiscal year, we are underway, and we have been making good progress. In particular, with regard to activities to acquire new business, there is a significant amount of new business in the current pipeline, and while I cannot say for certain whether or not there will be results for Q2, there are some things that we can expect in the future. In this sense, we believe that the Prinova Group Nutrition business will continue to perform well.

In addition, I would like to answer the question as to whether there is a possibility that sales in the Nutrition business will grow further in Q2 and beyond. It is related to the product mix, and although it does not account for such a large percentage of total sales, we believe that it will at least be a hit to profits because of its high profit margin. In this area as well, I believe that so far things are going well from Q2 onward.

[Q4]: With regard to LMC, I think it will be quite a significant increase in capacity, as you are going to quadruple the capacity, but in how many years will the capacity be filled, are you getting a lot of new orders, and is there a possibility that this growth will accelerate in the next six months or a year or so?

Kamada [A]: Since the growth of generated AI is linked to the growth of LMC, I guess the question is how to look at the growth potential of LMC, and from various data we have seen, we expect a fairly large growth, mainly in data centers, until 2030. Based on this, we are increasing capacity in order to be able to respond to demand. In particular, the year 2025 is said to be the first year that PCs will be equipped with generative AI, and we can expect to see more and more generative AI in PCs and Edge. Then there will be a need for generative AI for smartphones and automated cars. I believe that the use of generative AI in our daily lives will increase at an accelerating pace. It is not that we have such a forecast in hand from our customers now, but when we think about three or five years from now, we estimate that the growth will be quite rapid and will continue at this pace until at least 2030.

[Q]: Would it be correct to say that you expect to quadruple the number of plants by 2030, growing at an annual rate of about 50% or 60%?

Kamada [A]: We are planning to quadruple our capacity in H2 of this fiscal year compared to the capacity in FY2023, so it does not mean that the demand for us will quadruple from now on, but

in any case, we have enough capacity to meet the demand of our customers over the past few years.

[Q5]: I understand that you have described the Prinova Group's new product line as a new initiative on page 27. I think that this is a result of your company's marketing efforts, but does such a change in raw materials result in new investment in the production line, or does the change in product cost the factory a great deal of money?

Isobe [A]: Originally, the Prinova Group focused on health-focused sports nutrition and exercise products. Of course, we will continue to do so, but we are also expanding our product lineup in an effort to further broaden our scope. In fact, we have been taking new business for customers we have developed in each of our businesses, and we continue to propose and introduce new commercial products while changing our target customers. In this context, we are increasing our product lineup as shown on page 27, and since this move will be made while using existing lines, there will be no major new investment. There may be minor investments like adjusting the lines, but they are not major investments. We would like to continue to increase the acquisition of these new products, and we would like to grow in this area in the future.

[Q6]: One more point, please tell us about Nagase Diagnostics Co., Ltd., which joined your group on July 1. Since you have set a target of JPY4 billion in gross profits by 2030, I understand that this is not a business where you are trying to contribute to profits right now. I would appreciate any thoughts you may have regarding synergies with your existing business that you have in mind for the immediate future, or any ideas you may have for growth of this company itself.

Shimizu [A]: Nagase Diagnostics Co., Ltd., which joined NAGASE Group on July 1, will generate synergies in various ways. Profit and loss will be consolidated from Q2, and Director Isobe will explain the current situation and future prospects.

Isobe [A]: We are moving forward with the goal of achieving gross profit of JPY4 billion in 2030. We are in the process of examining the impact on the PL, but at the current situation, the business will generate approximately JPY4-plus billion in consolidated sales for the nine months of the current fiscal year. We are proceeding with our estimate of a gross profit level of approximately JPY1.6 billion to JPY1.7 billion.

In the diagnostic enzyme and diagnostic reagent businesses that we have acquired, we will naturally maintain our existing customers for diagnostic enzymes, but we will also continue to acquire new customers and expand our business areas. As for the diagnostic reagents themselves,

they are very strongly related to diabetes testing, and we believe that they have great growth potential, especially in Southeast Asia, where health awareness has been growing very high, as it is in other regions as well.

In addition, I believe that collaboration with our group companies, Nagase Viita and Nagase Bio Innovation Center of Nagase & Co., will be an important point to speed up the development of new products and to create new commercial products in the Group by collaborating in areas other than what we have been doing in the past with Asahi Kasei Pharma corporation. We have already begun to collaborate on research and development and to exchange ideas, and we are making great efforts to use the facility as a base for development work being carried out by other group companies. Through these efforts, we hope to achieve a gross profit of JPY4 billion in 2030.

[Q7]: Regarding SAW filters for Electronics and energy segment, even if the part for smartphones did not do so well after Q2, do you still expect to achieve the profit forecast for this segment? I know this is hypothetical, but if you have any suggestions, could you please tell me your thinking? Also, let me reconfirm whether LMC is correct in interpreting that even if there are export restrictions on Chinese semiconductors, there is not much to worry about because they are de facto standards.

Kamada [A]: Regarding SAW filters, our main customers are often further down the middle and low end of Chinese smartphone manufacturers. Our direct customers are struggling in the market. This has led to a decrease in our products, but now our customers are taking back the market by implementing various new strategies. And it is paying off. The increase in market share for our customers means an increase in our products as well, and we have actually increased our forecasts since Q2. So, although Q1 was sluggish, we are confident that it will recover in Q2.

Regarding LMCs for Chinese semiconductors, I cannot go into details at this time, but there is a movement in China to produce generated AI in their own country. Even then, there are areas where only our materials can be used. It is possible that competitors are working behind the scenes, but there is no doubt that our materials are the standard at this point, and we believe that our LMCs will be competitive against Chinese semiconductors for the time being.

[Q8]: Let me reconfirm whether you are progressing according to the Company's plan for the Mobility segment.

Kamada [A]: With regard to the progress in Mobility is that in Q1, in addition to the impact of the strong yen, in the high-margin, high-value-added product business, profits have fallen in Q1 due

to the termination of models adopted by some customers. China has also been slow so far, in part because Japanese OEMs are our main customers, and among them, our customers have been slow. In Q1, we can say that such special factors were also combined. We are closely examining the situation onsite, and we expect production in the automobile industry to recover from around Q3. Since Q3 and Q4 are the main production periods of each year, we are forecasting that the full-year forecast for the year will look like this, in line with this production plan.

[Q9]: Let me check on Electronics and energy segment. You mentioned earlier that there is strong demand for LMC for local Chinese customers. What is the current weighting for local semiconductor manufacturers in China? Also, while I totally agree that the competitive situation is favorable for the time being, I wonder if you have in mind that there are various risks in the long term, given the trend of by China as a medium- to long-term future risk. Could you please explain how you are watching for long-term risks and how you plan to respond to them?

Kamada [A]: We are also in the trading business. I am wondering if you are referring to LMC as a weight for China, as you just asked.

[Q]: I meant, about LMC.

Kamada [A]: Regarding LMCs, the majority of our exports are not destined for China. Our business has recently started in China, mainly in OSAT, so as far as the percentage in China is concerned; it is not that large yet. We do not have detailed numbers with us, but it is not that many yet. However, since the Chinese government is taking the lead in domestic production, by China, I think it is a risk that our potential competitors may be researching similar materials. However, at this time, we are not yet aware of any such information or any specific information about such material, so we expect our material to remain the standard for the time being.

In the mid- to long-term, the Chinese government is promoting a domestic production plan called China Manufacturing 2025, which initially called for 70% domestic production. Actually, it is said that in 2025, it will be roughly 40% by value and 20% by volume. They have issued an order to increase this to 70% by 2030, and I believe this figure is in relation to the volume, so the trend toward domestic production and by China cannot be stopped. However, we have LMC as a manufacturer position, which is one of the various Japanese materials, equipment, and we are also one of them and as for the differentiated products, they still have to be used. Materials and other items that are differentiated from the competition, such as materials that remain in business in our trading business today, are used by our customers, so some can be localized, and some cannot. At this point, we believe that it is essential to properly promote differentiation, but we also believe that localization is a major trend that cannot be stopped.

[Q10]: I would like to confirm the expansion of the LMC line. I think what you explained earlier is that it will quadruple in H2 of this fiscal year compared to FY2023. Please let me confirm that it is my understanding that the ratio has already tripled compared to FY2023 around April of this year and will quadruple in H2 of the current fiscal year.

Kamada [A]: Regarding the LMC line, it is currently three times larger than the FY2023 level, and there is no problem in understanding that it will quadruple from H2 of this fiscal year.

[Q11]: I would like to know a little more about the current trends, since there is a lot of talk about semiconductors and they are moving very fast. There are reports now that President Trump will make another announcement regarding tariffs on semiconductors. The US semiconductor regulations originally came from the Biden administration, and there were obstacles in many places, including one ban on H2O. However, there is a view that the US and China have toned down their discussions on rare earths and other issues. Also, there is a view that they may not be able to produce something that strong in the future. Regarding future moves, please tell us how likely you see them at this stage. Please tell us about US semiconductor regulations, including tariffs.

Kamada [A]: I would like to answer another question regarding the US-China approach to semiconductors. I will tell you my personal opinion. Semiconductors have become quite important in terms of economic security, and I believe it is true, as reported, that the US has been weak in this negotiation, citing rare earths. However, if we combine the two factors of reducing the US trade deficit and the importance of semiconductors for economic security in the mid- to long-term, I believe that the movement to subsidize the production of semiconductors in the US will accelerate. How we will relate our business to this is another point of contention.

Another move by Chinese semiconductor manufacturers is to move forward with by China, under the leadership of the Chinese government. For them, this is a story that affects their economic security and national defense, so I believe that their move to escalate domestic production and become independent in the semiconductor business without relying on the US in any way is completely unwavering in the medium- to long-term. With this in mind, we are now thinking about how we will do business and what our future business will be. Speaking personally, I think that China's trend toward domestic production will never change, and the US will also promote domestic production with some subsidies, polarizing the two.

[Q]: The two countries you just told us about, domestic production. After all, the US and China are going to assemble their products separately so that they can manufacture them themselves, and



you mentioned that your company should be able to respond to this situation. Has that already been discussed to some extent in your company as to how it should be done?

Kamada [A]: We already have a divisional structure within China for semiconductors since the rise of semiconductors in China around 2018, and we launched the China Semiconductor Division in 2018. Since all of our customers are Chinese companies, we have localized the semiconductor business by appointing a Chinese person as the head of the semiconductor division, and thanks to our proper response to the Chinese semiconductor industry, we have been able to obtain business for various differentiated components from Japanese companies. In that sense, things are going according to plan. We would like to continue to proceed as planned by linking various problems that arise as localization progresses to our business.

In the US, SACHEM's high-purity chemicals are used in various areas of semiconductor manufacturing, and we have acquired the Asian business of that company. SACHEM in the US will continue to work with us as a partner, and we will support them where there are business opportunities in the US and take new business. In addition, we are currently expanding our network with various Japanese chemical manufacturers. The manufacturer is now considering entering the US market, and we are now considering the possibility of supporting or investing together with them. We have not yet reached the point where we can give you specifics, but we have decided to collaborate with SACHEM. We also have one expatriate representative stationed in Arizona, so we are in the process of preparing for the expansion of our business by obtaining various information from him. We will eventually report back to you each time the project becomes more concrete.

[END]