FY2026 First Quarter Financial Briefing Q&A

[Date] August 5, 2026

[Time] 10:00 – 11:15

[Speakers] Director, Executive Officer Yoshihisa Shimizu

Director, Executive Officer Tamotsu Isobe

Senior Executive Officer Masatoshi Kamada

[Contents] FY2026 First Quarter Results and FY2026 Earnings Projections

*To enhance information disclosure to investors and shareholders and to ensure accuracy, necessary supplements and adjustments to expressions have been made to the actual statements from the briefing.

[Q1]: Regarding the impact of the situation in the Middle East, you mentioned that alternative procurement of chemical products contributed positively to profit. Could you elaborate on what specific products you procured as alternatives? In addition, could you provide more detail, to the extent possible, on any changes made to your procurement routes?

Shimizu [A]: While we refrain from mentioning specific product names due to our relationships with customers, we have a diverse network of suppliers globally, including in China and Southeast Asia, and we leveraged that network to procure alternative products. Director Isobe will provide further details.

Isobe [A]: As tensions in the Middle East have escalated, we have received inquiries from many customers regarding raw material procurement. We believe that our ongoing efforts to identify raw materials—leveraging our global network even under normal circumstances—have borne fruit during this contingency by enabling us to maintain our supply chain.

While we cannot disclose specific chemical names, the main items were solvents and similar materials that show no significant differences from existing products, particularly in terms of quality. At that time, Japan was facing a severe shortage of raw materials for paint thinners, and the solvents that serve as their primary raw materials were central to our alternative procurement efforts.

For certain products—particularly those sourced from China—direct imports were difficult due to legal regulations and dual-use restrictions. However, we responded flexibly by securing alternative procurement routes not only from China but also from India, other parts of Asia, and the United States.

[Q2]: First, regarding the electronics segment, could you provide more detail on the trends in Q1 for LMC, CMP slurry, and SAW filters, as well as your outlook going forward?

Second, regarding the JPY3 billion share buyback. Given that your recent performance has been exceptionally strong compared with past levels, could you explain the rationale behind setting this JPY3 billion limit and how you determined the scale?

Shimizu [A]: First, I will address the share buyback. Over the past two years, we have carried out share buybacks and dividend increases with the aim of achieving a total payout ratio of around 100%. Although the new medium-term management plan does not specify a numerical target for the total payout ratio, it sets forth a policy of consecutive dividend increases and flexible share buybacks.

Regarding the scale of the JPY3 billion limit, the primary reason is that we believe the current share price is undervalued in the capital markets. Second, in order to demonstrate our agility to the market, we set the limit at JPY3 billion—an amount that could be executed within a short period of just over one month.

Kamada will address the question regarding the electronics segment.

Kamada [A]: First, regarding the trends in our electronics products, I will begin by explaining the products manufactured by Nagase ChemteX, our manufacturing division.

Regarding epoxy sheet materials for SAW filters, these are primarily adopted in the mid- to low-end smartphone market in China. However, the global memory shortage and demand decline associated with price increases are clearly reflected in our forecast. For this fiscal year, we expect a revenue decline of around 20% to 30%, and we are prepared for the fact that this decrease will be unavoidable.

On the other hand, LMC, our liquid epoxy molding compound, continues to perform extremely well. Until recently, the bottleneck for semiconductors used in generative AI had been back-end capacity, but our largest customer has significantly expanded its capacity this fiscal year. As a result, our shipment volume has increased to more than 1.5 times the level of the previous year. We expect this strong performance to continue throughout the current fiscal year, and based on our customers' forecasts, we anticipate that double-digit growth will be sustained through around 2030. We are fully prepared to accommodate this growth, including in terms of production capacity.

Next, I’ d like to discuss the CMP slurry handled by the trading division. This product is widely used in front-end processes and is also shipped to markets such as China. While we do not expect growth as rapid as that of generative AI, we anticipate that performance will exceed the previous fiscal year’ s results.

[Q3]: The first point concerns the sustainability of profits from trading operations in the materials and electronics segments, both of which performed exceptionally well this time. Prices surged due to the situation in the Middle East, boosting profits, but market conditions are now beginning to stabilize. Given your efforts to address substitute demand and strengthen trading functions, do you expect to maintain profits at the same level or even higher once market conditions have settled?

The second point concerns trends in logistics costs within the Prinova Group. Will these cost burdens—including expenses related to the AI- and robotics-enabled laboratory in San Diego, as well as organizational restructuring to comply with global regulations—continue from Q2 through H2 of the fiscal year. I would also appreciate hearing about the expected timing of improvements from logistics optimization.

Kamada [A]: Regarding the sustainability of trading operations in the materials and electronics segments, let me begin with the engineering plastics and related businesses within the materials segment. Our main markets are Asia, China, and ASEAN. While sales volume is currently stable, higher prices are contributing to our profits.

As for future price trends, even if the situation in the Middle East stabilizes, diversification of naphtha procurement sources—resulting in higher transportation costs and insurance premiums due to sourcing from the US and other regions—is continuing. In addition, Japanese chemical manufacturers, who serve as suppliers, are shifting toward management that prioritizes ROIC and are not in a position to readily accept price reductions. Therefore, even if prices decline to some extent, we do not expect them to fully return to last year’ s levels. While we expect to maintain a certain level of profit, we do anticipate a corresponding negative impact from lower unit prices.

Next, I would like to discuss the trading business in the electronics segment.

In the Chinese market, mature semiconductors with process nodes of 28 nm and above account for roughly 90% of the market, and their global market share is also expanding. Within China, there are moves to double production capacity by 2030, so concerns that our trading business will lose momentum are extremely limited. In addition, our major customers in South Korea and Taiwan continue to make large-scale investments, primarily in generative AI, and we are confident in our medium- to long-term growth.

Isobe [A]: In the chemicals sector, front-loaded demand was particularly evident for products involving container transport, such as drums and cans, driven by uncertainty on the customer side. This procurement surge is expected to settle at some point in H2 of the fiscal year, shifting to a phase in which customers work through their inventories; as a result, volume growth is expected to slow temporarily. While we anticipate a certain degree of decline in H2 of the fiscal year, we intend to minimize the extent of the decrease by strengthening the expansion of high-value-added functional materials both domestically and internationally.

Regarding logistics costs for the Prinova Group, the sharp rise in shipping costs—particularly for ocean freight—has had a significant impact. The Prinova Group' s trading division, which accounts for 80% of its total volume, relies on imports from China and other countries. While it is unlikely that the surge in logistics costs will ease rapidly in H2, we expect the situation to gradually stabilize depending on developments in the Middle East and the actions taken by shipping companies.

Meanwhile, with regard to inventory management, we have intentionally maintained high inventory levels since the end of the previous fiscal year in order to sustain our supply chain. Going forward, in line with our company-wide management priority of improving ROIC, we will work to reduce inventory levels to appropriate levels and curb holding costs and the risk of price increases.

Shimizu [A]: I' d like to add that, as you can see from the consolidated income statement, while gross profit has progressed to 28% of the full-year forecast, operating income has reached 38%, and overall expenses are moving within a very tightly controlled range. Although rising labor costs—primarily overseas—and the impact of yen depreciation when converted into Japanese yen are present, these remain within our expected range. Although we anticipate expenses such as those related to the relocation of our headquarters in H2 of the fiscal year, we will continue to rigorously control costs. Furthermore, in the materials segment, we are driving our business with ROIC as our highest priority, and we aim to present concrete improvement results to our investors at the earliest possible opportunity.

[Q4]: The first point concerns the acquisition of new substitute products in the materials segment. Director Shimizu explained that securing substitute products is synonymous with securing new business. Will this become a sustainable business rather than a short-lived one? Or is there a risk that, once the situation returns to normal, customers will revert to their original suppliers?

The second point concerns Prinova' s logistics costs. Please provide an update on the progress made in flexibly passing on the increased logistics costs incurred by the trading division to customers.

Shimizu [A]: Our efforts to procure substitute products were highly valued by customers as a demonstration of our ability to respond in times of contingency, and this provided an opportunity to further strengthen our relationship of trust. We believe that this strengthened customer relationship will serve as a solid foundation going forward. Isobe will provide further details regarding the outlook for continuity.

Isobe [A]: When initiating new transactions involving chemical substitutes, there were many cases in which the counterparties strongly requested continuous supply. We continue to monitor the domestic supply-and-demand balance while maintaining these relationships and conducting sales activities aimed at further expanding sales. Therefore, we are focusing our efforts on ensuring that these transactions do not remain one-time events, but instead continue and expand as ongoing business relationships.

However, among the temporary spot supplies provided as part of our customers' BCP measures, some have already been discontinued. Because circumstances vary widely depending on each individual product, not all initiatives will continue; however, based on the results achieved in Q1, we will work to maintain and expand overall transaction volume, including by rolling out these successes to other regions.

Furthermore, within the Prinova Group, we are generally passing on logistics costs in line with our basic policy; however, due to existing contracts, there is inevitably a time lag before these adjustments can be reflected. The effects of these price adjustments are expected to become apparent from Q2 onward, and the negative impact of rising logistics costs is expected to gradually diminish.

[Q5]: The first point concerns the performance trends of the Nagase ChemteX Group and the electronics segment as a whole. While the Nagase ChemteX Group saw YoY increases of JPY2.3 billion in net sales, JPY1 billion in gross profit, and JPY800 million in operating income, operating income in the manufacturing division rose by only JPY700 million, despite a JPY7.6 billion increase in net sales for the electronics segment as a whole. What is the reason operating income has not grown sufficiently? Also, were there any effects resulting from changes in the number of subsidiaries due to acquisitions or similar events?

My second point is about the Pac Tech Group. Although page seven of the presentation materials states that performance is strong, it does not appear to be contributing significantly to profit growth. Is it holding steady compared to the same period last year?

My third point concerns the product breakdown for Nagase ChemteX. Please explain the overall trend, taking into account the negative impact from the epoxy sheet material for SAW filters and the positive impact from LMC. Please also provide details on the specific growth rate associated with the increase in production resulting from LMC's capacity expansion in back-end processes, the impact on gross profit margins during the transition to a-SMC (next-generation sheet-type encapsulant), and the growth outlook through 2028.

My fourth point concerns the solutions business within the life sciences segment. I understand that performance is exceeding the initial plan. Could you please tell me specifically which countries are seeing growth and which products are driving that growth?

Shimizu [A]: First, I will explain the Nagase ChemteX Group. The Group has not acquired any new subsidiaries; rather, it consists of existing companies related to Nagase ChemteX. Beginning this quarter, we have changed our disclosure format to present these companies collectively as the Nagase ChemteX Group. Note that approximately 80% of the total consists of figures for Nagase ChemteX alone.

Next, regarding the stagnation in operating income. Nagase ChemteX itself has been steadily increasing its profits, benefiting from high-growth products such as LMC. On the other hand, since the combined profits of our other manufacturing subsidiaries remained largely unchanged YoY, the overall increase in profits for the electronics segment amounted to JPY700 million.

Major manufacturing subsidiaries within the segment include the Pac Tech Group, which provides contract bumping services, and Nagase Circrea, which recycles and manufactures TMAH—a developer used in the front-end process of semiconductor manufacturing.

It should also be noted that the JPY7.6 billion increase in net sales was partly driven by higher sales of semiconductor materials through our trading operations.

Shimizu [A]: As for Pac Tech, it posted exceptionally strong results in Q3 of the previous fiscal year, which helped boost the overall figures. While the increase in profit is not particularly significant compared with the high level recorded in the previous fiscal year, the Company has maintained stable results in line with the same period last year—taking into account seasonal factors and other considerations—and is performing well.

Kamada [A]: Regarding Nagase ChemteX's product breakdown, the significant decline in sales of epoxy sheet materials for SAW filters used in mobile devices was fully offset by the positive impact of LMC, which recorded a 1.5-times increase in shipments, resulting in a substantial overall increase in profits.

Thanks to increased capacity in our customers' back-end processes, shipments of our LMC have surged 1.5 times this fiscal year. As for the outlook, following a temporary sharp surge, growth is expected to stabilize at a low double-digit annual rate, which is projected to continue through around 2030.

I’d also like to add some additional information about a-SMC. This is not intended to replace LMC; rather, it is a new material designed for a completely different application—namely, as an encapsulant for high-performance IC package substrates. After several years of development, our efforts have borne fruit: the material has been recognized by end users as essential for achieving energy efficiency and enhanced performance in cutting-edge semiconductors and generative AI, and we have begun small-scale production this fiscal year. The project is expected to transition to the mass production phase in the latter half of 2027, with full-scale revenue contributions anticipated in 2028.

At our company, we have long regarded LMC as a growth driver for the electronics manufacturing business, and we are confident that a-SMC has the potential to become a new pillar of growth on a comparable scale. We will accelerate the establishment of our production system and the expansion of our business with a view to 2028.

Isobe [A]: Let me provide some additional clarification on the differences between the nutrition and solutions businesses within the Prinova Group.

The nutrition business primarily focuses on sports nutrition products and involves contract manufacturing of final packaged goods for customer brands, using a relatively simple set of about 10 to 15 ingredients.

In contrast, the solutions business—which is performing strongly—goes beyond supplying finished products. It provides customers with customized formulations and blends designed to deliver specific functions and effects. The solutions business handles two to three times more raw materials than nutrition, and customers use our customized blends directly in their own manufacturing processes to produce finished products.

Currently, markets such as premium pet food, energy drinks, and women’s sports nutrition are expanding in Europe and the US (particularly in the US), and our high-value-added solutions for these applications are contributing to the acquisition of new customers. At the beginning of the fiscal year, we expected annual growth of around 10%. However, Q1 performance significantly exceeded our plan, progressing at roughly 120% of the target and marking an exceptionally strong start.

[Q6]: My first question concerns shareholder returns. I recognize that the greatest appeal of your stock lies in its strong profit growth potential. As your earnings expand, how much do you expect dividends to increase in practice? Could you share the basic principles within the Company regarding how dividend levels are determined—such as your target payout ratio, DOE, or other benchmarks?

My second question concerns the future growth outlook for Prinova's manufacturing operations, the status of new order acquisition, and trends in the utilization rates at its plants.

Shimizu [A]: Regarding specific levels of shareholder returns, while we do not publicly disclose numerical targets such as the dividend payout ratio, our internal discussions consistently place strong emphasis on two metrics—the dividend payout ratio and DOE—and we evaluate shareholder returns from multiple angles using these indicators.

Based on our historical track record, we generally consider a dividend payout ratio of around 30% as a reference point. Furthermore, in light of changes in the macroeconomic environment—such as the rise in long-term interest rates in Japan—we are continuing discussions with a view to considering the adoption of stable dividend criteria based on DOE, which indicates the level of dividends relative to net assets, as one of the options for our future shareholder return policy.

Isobe [A]: First, regarding the nutrition business.

While our investors had been hoping for an earlier return to profitability, the improvements to production processes, optimization of staffing, and investments in factory automation that we have been decisively implementing since the previous fiscal year have fully borne fruit in the current fiscal year. We have also secured a substantial number of new orders, and, with solid net sales performance, we are now in a position where we can be confident of achieving full-year profitability.

Next, regarding the rapidly growing solutions business.

In addition to the high-value-added applications mentioned earlier, Prinova has recently been successful in capturing new market share by proposing materials that leverage its proprietary formulation technology to address trends such as ready-to-drink beverages (canned or bottled beverages that can be consumed as is). Beyond its existing markets in Europe and the United States, the Company is also expanding into regions such as Brazil—where it acquired Aplinova last fiscal year—as well as other areas where demographic trends indicate strong market growth potential. Currently, the manufacturing division accounts for approximately 40% of Prinova's total profits, and this proportion is expected to increase further going forward.

Regarding capacity utilization, at the Utah plant—which had been a major source of losses during the initial investment phase—utilization has risen from a low level of around 30% to 40% in the early stages of operation to roughly 60% to 70% today. Including the Tennessee plant, another major production site, we have maintained sufficient spare capacity to respond effectively even to sudden surges in demand through efficient management of shift schedules, such as three-shift and two-shift systems.

[Q7]: It concerns Nagase ChemteX's LMC. While LMC has been growing steadily YoY, when compared with the previous quarter, it appears that the figures have risen sharply over the past three months. Is this because the expansion of the customer's back-end production facilities—which had been a concern—has now been completed and full-scale operations have begun? Also, please share your outlook on whether we can expect this high level of earnings to continue beyond Q2.

Kamada [A]: That is correct. At our largest customer, a semiconductor manufacturer, the investment to expand back-end production capacity—which had been a bottleneck—was completed earlier this fiscal year. In response to this, shipments of our LMC have expanded rapidly, and this increase is not merely a temporary spike in spot demand. This is based on a strong forecast from the customer, and we expect this high level of shipments and profitability to be sustained beyond Q2.

[Q8]: How quickly do you plan to sell your policy shareholdings from Q2 onward? Do you recognize that the large amount of policy shareholdings is a factor contributing to the current undervaluation of your stock price?

Shimizu [A]: We are fully aware of the criticism that our substantial holdings of policy shareholdings, together with the increase in their unrealized gains, have boosted our equity capital, resulting in lower metrics such as ROE and negatively affecting our stock valuation.

Although our current medium-term management plan does not specify a concrete divestment policy, we intend to proceed with divestments and reduce the ratio of policy shareholdings to net assets to around 8% over the three-year period, based on the stock price at the time the plan was announced. To achieve this, we will need to promote divestments on a scale exceeding the JPY30 billion sold over the five-year period under the previous medium-term management plan.

In addition, regarding the proceeds from these sales, our policy is to align their timing as closely as possible with funding needs for growth investments that contribute to enhancing corporate value, and to efficiently redirect those proceeds toward reinvestment. Accordingly, while closely monitoring market conditions and the progress of investment opportunities, we will steadily advance divestments from Q2 onward.

[Q9]: You mentioned that a-SMC has been adopted as an encapsulant for high-performance IC package substrates used in cutting-edge semiconductors, and that this will drive further growth going forward. How do you plan to build out your production structure? Please share as much information as possible regarding investment amounts, production scale, expansion of production sites, and other relevant details.

Kamada [A]: Regarding the production system for a-SMC, we have fully equipped our Harima Plant with mass-production facilities and are prepared to meet full-scale commercial mass-production requirements starting in FY2026.

Regarding our future plans for increased production and facility expansion, we will invest in doubling our existing capacity within this fiscal year to meet strong demand. Furthermore, by around spring of FY2027, we plan to complete additional investments that will expand our production capacity to three times its current level.

While we are unable to disclose specific investment amounts due to competitive considerations and confidentiality obligations with our customers, we are steadily preparing our production infrastructure to fulfill our supply responsibilities ahead of the full-scale expansion in demand expected in 2028.

[Q10]: I'd like to ask about the composition of major products within the materials segment and the impact of future market fluctuations.

Looking at trends at other companies, market conditions differ significantly between basic materials and performance chemicals; prices for basic materials appear to have fallen sharply following a surge in demand in March and April.

In your case, how do you expect front-loaded demand and the price increases seen in Q1 to develop from Q2 onward. In light of the strong performance in Q1, is there a risk that you may face a significant profit decline in Q2, or do you expect results to remain relatively stable? Could you share the outlook for each business division and your sense of how this will translate into the overall financials?

Shimizu [A]: Regarding the approximate composition by former segment within the materials segment, it is as shown in the graph on page six of the presentation materials. These are chemicals (formerly the functional materials segment), electrical and electronic equipment (formerly the advanced materials & processing segment), and automotive (formerly the mobility segment). The financial implications of these detailed market trends will be explained by the respective department heads.

Kamada [A]: I will explain our plastic-related businesses in the mobility and electrical and electronic equipment sectors.

Plastics used in the automotive industry and other areas consist of general-purpose resins, whose prices are linked to naphtha prices, and engineering plastics, which feature unique high-performance characteristics. For general-purpose resins, sales prices are expected to decline in line with falling naphtha prices, resulting in a narrowing of spreads.

However, for engineering plastics—our main profit driver—there is limited concern about a sharp price drop in Q2, given supply-and-demand conditions and high specification requirements. We expect prices to remain stable.

By region, in the Chinese market, local chemical manufacturers are expanding their share by leveraging low prices. As downward pressure on prices for general-purpose polycarbonate and other products is strong, we may be required to make certain price adjustments, which could affect our Q2 results. On the other hand, for businesses serving Japanese customers concentrated in regions such as ASEAN, stable contract-based transactions with suppliers and customers are being maintained, limiting the impact of market declines. Overall, we are shifting from general-purpose products toward high-value-added businesses such as high-performance engineering plastics, and we believe the risk of a significant profit decline in Q2 is low.

Isobe [A]: I'd like to add some additional comments regarding the chemicals sector.

With regard to the general chemicals handled by the performance chemicals division (primarily for paint and ink raw materials), there was an element of excessive front-loaded demand in Q1 due to uncertainty on the customer side. Since final demand for products such as paints is not growing rapidly, we expect that while these front-loaded orders will be maintained in Q2, shipments will slow in H2 of the fiscal year as customers adjust their inventories, leading to a gradual decline in profits.

Meanwhile, the specialty chemicals division (high-value-added chemicals for semiconductor process materials and related applications) is expected to continue performing well in H2 of the fiscal year, supported by the recovery trend in end markets.

Looking at the materials segment as a whole, while the positive effects of the temporary market surge and the procurement of substitute products—amounting to approximately JPY2 billion in Q1—will gradually fade due to falling prices and demand adjustments from Q2 onward, we will minimize the extent of this decline through initiatives such as the global expansion of high-performance materials.

[END]