堺化学工業株式会社

Sakai Chemical Industry Co., Ltd.

Financial Results Briefing for the Fiscal Year Ended March 2024

May 28, 2024

Event Summary

[Company Name]	Sakai Chemical Industry Co., Ltd.
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[Venue]	Webcast
[Venue Size]	
[Participants]	
[Number of Speakers]	2 Toshiyuki Yagura President, Representative Director Shinji Ogama Executive Officer

Presentation

Moderator: It is now time to commence the financial results briefing session of the fiscal year ended March 2024 and new medium-term management plan of Sakai Chemical Industry Co., Ltd.

Thank you very much for taking time out of your busy schedule to attend our briefing session today.

Today's event is a hybrid of those who attended in person at the main venue and those who participated online.

As for the schedule for the rest of the day, I would like to begin with an explanation regarding the financial results for the fiscal year ended March 31, 2024, and then I would like to receive your questions at this point. We will try to keep you until 4:00 PM.

After that, I will explain the new medium-term management plan, and likewise, I would like to receive another round of questions afterward.

We apologize for the limited time, but we do not plan to take any breaks in between.

I will now begin to explain the financial results. President Yagura, please.

Yagura: Hello, I am Yagura, President of Sakai Chemical Industry Co., Ltd. Thank you very much for coming today in spite of the bad weather.

I will now present our financial results for the fiscal year ended March 31, 2024. Yagura will give a general overview at the beginning of the presentation, followed by details from our IR manager, Mr. Ogama.

First, regarding the full-year results for the fiscal year ended March 31, 2024, in addition to the reversal of deferred tax assets announced at the time of the interim results, impairment losses were recorded in the titanium dioxide business and other businesses, resulting in a net loss for the year.

Although operating income exceeded the forecast revised at the time of the interim results, the targets for the final year of the mid-term management plan "SAKAINNOVATION 2023," operating income of JPY8 billion and ROE of 6%, were not achieved.

As stated in our new medium-term management plan, "Transformation: BEYOND 2030," which will be explained later, we have placed emphasis on replacing our business portfolio, improving ROE and PBR, and have started asset reduction during the fiscal year ended March 31, 2024.

The main reasons for the poor performance were, in part, the lack of growth in electronics materials and cosmetics materials, which are growth businesses that must drive profits, and the fact that efforts in titanium dioxide and other businesses under consideration for efficiency improvement lagged behind the intense external environment.

Therefore, the new medium-term management plan focuses on this area. I would like to explain the new medium-term management plan again later.

Now, Mr. Ogama, our IR representative, will explain the details of the financial results.

Summary of Financial Results for FY 2024

• Year-on-Year (decline in sales and income)

The ongoing harsh business environment, partly due to external factors, has led to lower sales volume acros several subsegments. With the ensuing reduction in operating ratio, sales and profit were down from last yea

External Factors		Internal Factors	
Positive Factors	Negative Factors	Positive Factors	Negative Factors
• Steady movement in automotive-related market	• Prolonged economic stagnation in China • Slump in semiconductor market • Sluggish demand for building materials in Japan • Drop in zinc market	• Price revisions	• Lower operating ratio

• Vs. Forecast (net sales unmet, operating income achieved)

Although the effect of external factors remained largely unresolved, and sales did not reach the target, operati income exceeded the forecast. This was due to price revisions, especially in businesses considered for efficiency improvement, and the gradual recovery of the semiconductor market after bottoming out.

External Factors		Internal Factors	
Positive Factors	Negative Factors	Positive Factors	Negative Factors
• Steady movement in automotive-related market • Bottoming out of semi-conductor market	• Prolonged economic stagnation in China • Sluggish demand for building materials in Japan • Drop in zinc market	• Price revisions • Improvement in sales composition difference	

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Ogama: I am Ogama, in charge of IR. I will now explain the financial summary for the fiscal year ended March 31, 2024.

Compared to the same period last year, sales and profits decreased due to lower sales volumes in many sub-segments, partly due to external factors, with a corresponding decrease in capacity utilization.

Compared to the forecast revised during the period, the impact of external factors was not eliminated to a large extent and sales did not reach the target, but operating income exceeded the plan, partly due to progress in price correction mainly in the efficiency study business and partly due to the impact of the semiconductor market hitting bottom and beginning a gradual recovery.

Summary of Financial Results for FY 2024 (YoY/vs. Forecast)

	FY23 Actual		FY24 Forecast		FY24 Actual		YoY		Vs. Forecast	
	million yen	%	million yen	%	million yen	%	million yen	%	million yen	%
Net sales	83,861	100.0	84,000	100.0	82,105	100.0	(1,755)	(2.1)	(1,894)	(2.3)
Operating income	4,407	5.3	1,900	2.3	2,942	3.6	(1,465)	(33.2)	1,042	54.9
Ordinary income	4,854	5.8	1,900	2.3	3,066	3.7	(1,788)	(36.8)	1,166	61.4
Net income attributable to owners of parent	2,344	2.8	(7,000)	(8.3)	(7,092)	(8.6)	(9,436)	(402.5)	(92)	1.3
EPS	¥144.85		(¥432.10)		(¥437.65)		—	—	—	—

	YoY	vs. forecast(updated forecast for 3Q/FY24)
Net sales	Despite the penetration of price revisions in each sub segment, sales declined by 2.1% due to lower sales volume in several subsegments, especially titanium dioxide and electronic materials.	Despite the penetration of price revisions, shipments in each sub-segment fell below the sales plan. Together with the dro in the zinc quotation market, sales fell short by 2.1%.
Operating income	Due to the significant impact of sluggish sales in electronic/cosmetics materials, which are positioned as growth businesses, and the resulting lower operating ratio, the profit decreased by 33.2%.	Profit increased by 54.9% against the forecast. This was due to the penetration of price revisions in titanium dioxide and plastic additives, positioned as businesses considered for efficiency improvement, and in the growth business of electronic materials, as well as the impact of improved sales composition in electronic materials and plastic additives.
Other	Reversal of deferred tax assets (1,932 million yen) and impairment losses (6,661 million yen) resulted in a net loss of 7,092 million yen.	

*The sales impact of the quality issues at KaigenPharma was insignificant, at approx. 200 million yen.

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Now, let me give you a summary of the financial results for this fiscal year ended March 31, 2024.

Net sales were JPY82,105 million, operating income was JPY2,942 million, ordinary income was JPY3,066 million, and net income attributable to owners of the parent was a negative JPY7,092 million.

The overall feeling is as Yagura mentioned earlier, but as for other topics, the net loss was JPY7,092 million due to the impact of a reversal of deferred tax assets of JPY1,932 million and impairment losses of JPY6,661 million.

The impact on sales due to the quality issue at Kaigen Pharma was approximately JPY200 million, which was minor compared to the overall experience.

Impairment Losses Recorded in FY 2024

(Unit: million yen)

	Breakdown of Impairment Losses in FY24	Impaired Amount	Remarks
Chemical business	Titanium dioxide/zinc	3,791	Collectible value of titanium dioxide facilities assessed as zero
	Plastic additives	432	Collectible value of facilities in Japan assessed as zero
	Electronic materials	55	Impairment loss on inactive facilities
	Catalysts	57	Same as above
	Other	1,863	Collectible value of barium sulfate production facilities assessed as zero
	Medical business	464	Loss on impairment of pharmaceutical manufacturing facilities to net realizable value
	Total impairment losses	6,661	

- Impairment losses were recorded for assets with "indications of impairment" and part of dormant assets
- Impact on financial statements:
  - B/S: Decrease in property, plant and equipment and accumulated profit carried forward by the above amount
  - P/L: Expenses recorded as "impairment losses" under extraordinary losses
  - C/F: Unaffected
- Impact on subsequent fiscal years:
  Decrease in annual depreciation by approx. 600 million yen

We will continue with an explanation of the impairment loss recorded for the fiscal year ended March 31, 2024.

Impairment losses were recorded for those assets that showed signs of impairment, mainly in the efficiency improvement study business, and for some dormant assets. The largest monetary impact was on titanium dioxide. As for the impact on the current fiscal year and beyond, annual depreciation and amortization expenses are expected to decrease by approximately JPY600 million.

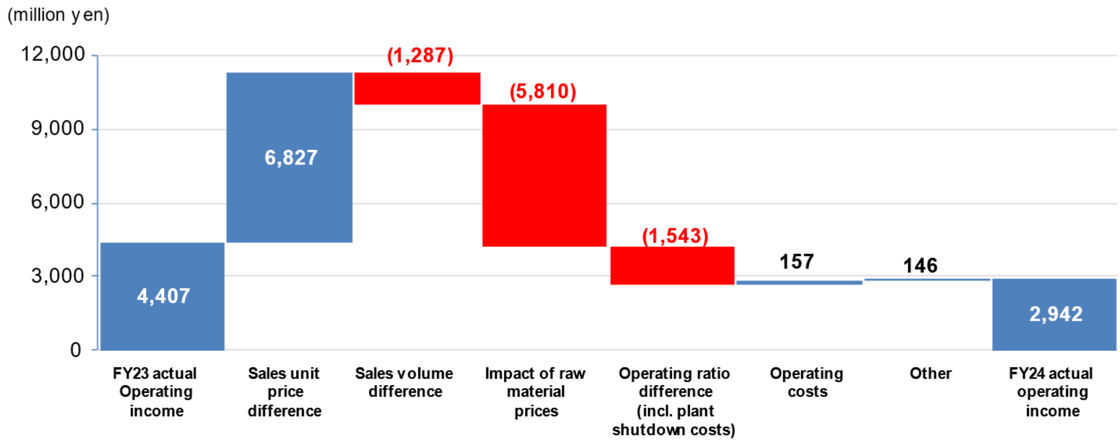
Net Sales/Operating Income by Segment (YOY/vs. Forecast)

		FY23 Actual		FY24 Forecast		FY24 Actual		YoY		vs. Forecast	
		million yen	%	million yen	%	million yen	%	million yen	%	million yen	%
Chemical business	Net sales	75,992	—	75,437	—	74,110	—	(1,882)	(2.5)	(1,327)	(1.8)
	Operating income	6,372	8.4	4,268	5.7	5,083	6.9	(1,288)	(20.2)	815	19.1
Medical business	Net sales	7,868	—	8,563	—	7,995	—	126	1.6	(568)	(6.6)
	Operating income	272	3.5	120	1.4	86	1.1	(185)	(68.0)	(34)	(28.3)
Adjust-ment	Head office expenses	(2,236)	—	(2,488)	—	(2,227)	—	8	—	261	—
Total	Net sales	83,861	—	84,000	—	82,105	—	(1,755)	(2.1)	(1,895)	(2.3)
	Operating income	4,407	5.3	1,900	2.3	2,942	3.6	(1,465)	(33.2)	1,042	54.8

The next section shows sales and operating income by segment.

This one is listed under chemicals and medical business, and I will explain the details later in the sub-segments.

Factors for Change in Operating Income (YoY)

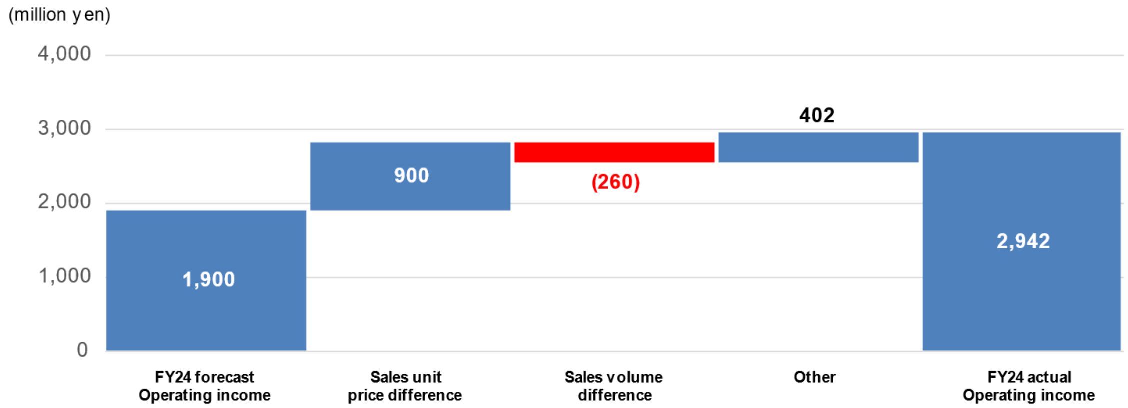


Positive Factors	Negative Factors
• Efforts in price revisions (sales unit price difference) Soaring raw material and fuel prices was largely offset by price revision efforts. *This was not the only factor, as profitability restoration and sales composition improvement also contributed.	**• Decrease in sales volume/operating ratio** A decline in sales volume in several sub-segments, including electronic materials and titanium dioxide, lowered operating income. Production adjustments were made to reduce inventories, which increased fixed expense costs and caused a difference in the operating ratio.

The following chart shows the factors behind the increase or decrease in operating income compared with the same period of the previous year.

The increase in the cost of raw materials and fuels was less than JPY6 billion, but this was largely offset by the price correction. However, the profit was boosted by the difference in capacity utilization due to the decrease in sales volume. Also, profit decreased due to the operation difference.

Factors for Change in Operating Income (vs. Forecast)



Positive Factors	Negative Factors
• **Penetration of price revisions, improved sales composition difference (sales unit price difference)** Compared to the forecast, progress in price revisions, primarily for electronic materials, and improving sales composition in dielectric materials contributed to the success.	• **Decrease in sales volume** The results fell short of the forecast due to slower sales volume growth, especially for electronic/cosmetics materials.

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This is the reason for the change from the forecast revised during the period.

Price correction progressed mainly in electronic materials and cosmetics, and an improved sales mix in dielectric materials was also successful.

Balance Sheet Comparison

(Unit: million yen)

Comparative Consolidated B/S	FY 2023	FY 2024	Change
Cash and deposits	12,409	16,590	4,181
Notes/accounts receivable	27,555	29,570	2,015
Inventories	30,125	28,747	(1,378)
Other	2,010	1,133	(877)
Total current assets	**72,101**	**76,042**	**3,941**
Property, plant and equipment	46,761	40,463	(6,298)
Other	9,158	8,938	(220)
Total non-current assets	**55,920**	**49,402**	**(6,518)**
Total assets	**128,021**	**125,445**	**(2,576)**
Notes/accounts payable	8,610	9,066	456
Short-term borrowing	13,175	15,108	1,933
Other	7,452	7,582	130
Total current liabilities	**29,237**	**31,757**	**2,520**
Long-term borrowing	8,467	8,930	463
Convertible Bonds	-	3,000	3,000
Other	5,598	6,290	692
Total non-current liabilities	**14,066**	**18,220**	**4,154**
Total liabilities	**43,304**	**49,978**	**6,674**
Shareholder's equity	78,863	71,183	(7,680)
Other	5,854	4,282	(1,572)
Total net assets	**84,717**	**75,466**	**(9,251)**
Total liabilities/net assets	**128,021**	**125,445**	**(2,576)**

Details of major change:

• Trade receivables: +2,015 million yen (+7.3%)

1. Increase in sales level immediately before the end of period (Jan.–Mar.)
   2023: 20,102 -> 2024: 21,350 (+6.2%)
2. As March 31, 2024 was a bank holiday, deposits for part of the accounts receivable were delayed to the next business day. (March 31, 2023 was a Friday)

• Inventories: −¥1,378 million yen (-4.6%)

1. Inventory quantity: Decreased by approx. 15% from the end of the previous FY due to efforts in reduction
2. Inventory unit price: Slight increase in raw materials and a larger uptick in products

• Property, plant and equipment: -6,298 million yen (-13.4%)

Impairment losses: Impact of -6,592 million yen

Indicators	FY23 Year-End	FY24 Year-End
Equity-to-asset ratio	62.9%	59.3%
CCC	210 days	216 days

(*CCC: cash conversion cycle)

The following is the balance sheet.

Let me explain the main points.

The main reasons for the increase/decrease are as follows: Trade notes and accounts receivable increased by JPY2,015 million. The increase in the sales level just before the end of the fiscal year was about JPY1.2 billion higher than last year, and the payment of some accounts receivable was delayed to the next business day.

Inventories decreased by JPY1,378 million. We are working on and have started to improve the cash conversion cycle here, and the inventory volume decreased by about 15% at the end of the previous period.

With regard to inventory unit prices, raw materials prices increased slightly, while product prices rose.

Tangible fixed assets decreased by JPY6,298 million. This is due to the impact of JPY6,592 million in impairment losses.

As a result, the equity ratio is 59.3%, and the cash conversion cycle, here calculated on a monthly sales basis, is 216 days. We recognize that the cash conversion cycle remains high and will continue to improve.

Cash Flow Statement Comparison

(Unit: million yen)

Comparative Consolidated C/F	FY 2023	FY 2024	Change
Cash/deposit balance at start of period	**10,549**	**12,188**	**1,639**
Current net profit before taxes and adjustments/current net loss	4,977	(3,703)	(8,680)
Depreciation	4,417	4,354	(63)
Change in trade receivables	2,374	(1,868)	(4,242)
Change in inventories	(6,833)	1,501	8,334
Change in accounts payable	(1,065)	385	1,450
Impairment losses	40	6,661	6,621
Corporate income tax, etc., and refunds	(2,866)	(620)	2,246
Other	(271)	155	426
Cash flow from operating activities	**773**	**6,866**	**6,093**
Purchases of property, plant and equipment	(2,658)	(4,024)	(1,366)
Other	38	61	23
Cash flow from investment activities	**(2,620)**	**(3,963)**	**(1,343)**
FCF (operating CF + investment CF)	**(1,847)**	**2,903**	**4,750**
Change in short/longterm borrowings	4,653	2,383	(2,270)
Income from issuing bonds with stock acquisition rights	-	3,000	3,000
Dividend payments	(1,289)	(1,055)	234
Purchases of subsidiary stocks	(0)	(3,067)	(3,067)
Other	(77)	1	78
Total financial C/F	**3,283**	**1,259**	**(2,024)**
Total translation adjustments on cash/deposits	**202**	**124**	**(78)**
Change in cash/deposits	**1,638**	**4,286**	**2,648**
Cash/deposit balance at end of period	**12,188**	**16,475**	**4,287**

- **Operating CF**

  Increased due to the reduced inventory assets and decreased corporate tax, etc. (incl. refunds).

- **Investment CF**

  Investment in acquiring property, plant, and equipment was primarily made to enter the CDMO market for active pharmaceutical ingredients and intermediates for organic chemicals, which will be focused on in the future.

-> As a result, FCF increased by 4,750 million yen.

- **Financial CF**

  Decreased by 2,024 million yen YoY due to expenses for acquiring subsidiary shares (TOB for shares of Sakai Trading Co. Ltd.), although unsecured convertible bonds were issued to raise funds.

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We will explain the statement of cash flows.

Operating cash flow was JPY6,866 million. The increase from the previous year was due to reduction of inventories and decrease in income taxes paid.

Investment cash flow was negative JPY3,963 million. We are acquiring property, plant, and equipment mainly for the purpose of entering the bulk pharmaceutical intermediates of organic chemicals, which we will focus on in the future, and CDMO here. As a result, free cash flow was approximately JPY2.9 billion, an increase of JPY4.75 billion from the previous year.

As for financing cash flow, we raised JPY3 billion through the issuance of convertible bonds. This was due to the TOB of Sakai Trading Co. Ltd. As a result, the amount was JPY1,259 million, a decrease of JPY2,024 million compared to the previous year.

Financial Forecast for FY 2025

	FY 2024		FY 2025					
	Full Year Results		First Half Forecast		Second Half Forecast		Full Year Forecast	
	(million yen)	Net sales comparison	(million yen)	Net sales comparison	(million yen)	Net sales comparison	(million yen)	YoY
Net sales	82,105	—	42,000	—	45,000	—	87,000	6.0%
Operating income	2,942	3.6%	2,400	5.7%	3,000	6.7%	5,400	83.5%
Ordinary income	3,066	3.7%	2,300	5.4%	2,900	6.4%	5,200	69.6%
Net income attributable to owners of parent	(7,092)	(8.6%)	1,600	3.8%	2,700	6.0%	4,300	—

Net sales	Sales volume varies between the sub-segments, with a lower variation on a consolidated basis. However, sales unit prices are expected to increase based on continued price revisions for the current period.
Operating income	Increased profit is expected due to price revisions, which contributed to earnings in the second half of the previous period, and a volume recovery of the growth business of electronic materials.

External Factors (estimate)		Internal Factors (estimate)	
Positive factors	Negative factors	Positive factors	Negative factors
• Continued steady business in automotive-related market • Gradual recovery of semiconductor market • Bottoming out of zinc market	• Prolonged economic stagnation in China • Sluggish demand for building materials in Japan	• Continued price revisions • Improvement of operating ratio	—

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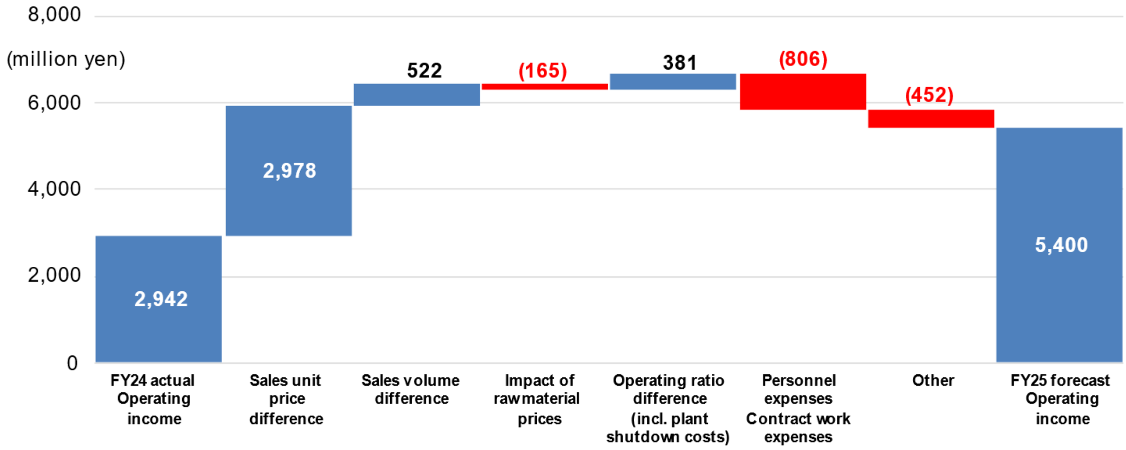
Next is the forecast for the fiscal year ended March 31, 2025.

For the full year, we forecast net sales of JPY87 billion and operating income of JPY5.4 billion.

As for net sales, while sales volume will not change significantly on a consolidated basis, we expect an increase in sales per unit since we will continue the price correction from the previous fiscal year in the current fiscal year.

Operating income is expected to benefit from the effect of price correction, which has been contributing to profits since H2 of the previous fiscal year, and a recovery in volume in the growing electronic materials business. And we expect to increase profit.

Forecast of Change in Operating Income (YoY)



Positive Factors	Negative Factors
• **Effect of price revisions (sales unit price difference)** With progress on revising remaining prices, boosted profit YoY is expected due to the effect of continued price revisions, primarily on businesses considered for efficiency.	• **Increased personnel expenses** Increased wages in base pay.

This is the forecast for increase/decrease in operating income.

We expect an increase of approximately JPY3 billion due to the effect of sales price correction and the difference in sales unit prices.

Although we will continue to correct prices that have been left on the backlog, we expect to boost profits compared to the previous fiscal year due to the effects of price corrections, mainly in the efficiency improvement study projects that we have been continuing.

Trends/Forecast for Capital Investment, Depreciation, and R&D Expenses

(Forecast)

Units: million yen	FY 2020	FY 2021	FY 2022	FY 2023	FY 2024	FY 2025
Capital investment	8,403	9,567	5,967	2,658	4,024	8,500
Depreciation	3,686	4,243	4,331	4,417	4,354	4,000
R&D expenses	2,898	2,487	2,376	2,674	2,722	3,000

- Capital investment

  Expected to increase to 8,500 million yen for FY 2025 based on the plan to spend on office restructuring following portfolio transformation, safety measures, and improvements to production facilities for developed products.

- Depreciation

  Expected to reduce to 4,000 million yen due to the significant impact of impairment losses recorded in FY 2024.

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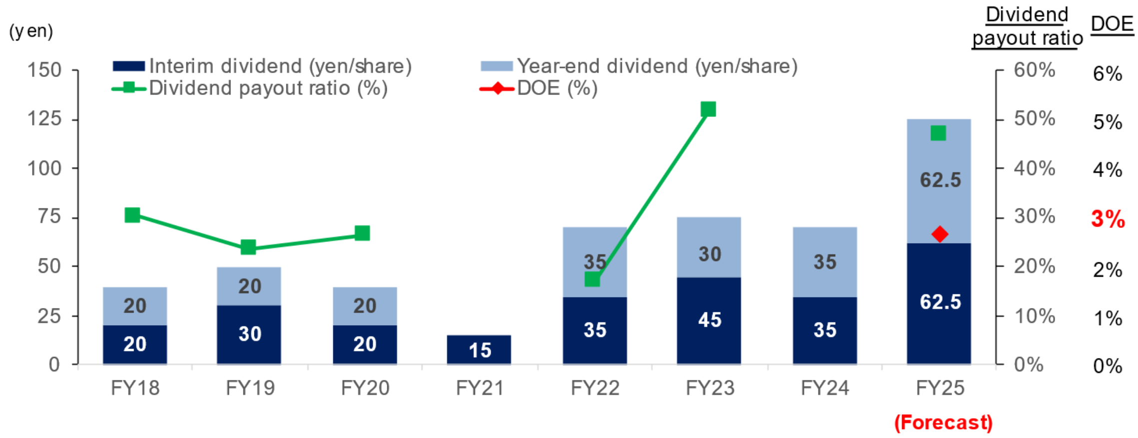
Continued below are the trends and forecasts for capital expenditures, depreciation, and research and development expenses.

Capital expenditures are expected to increase to JPY8.5 billion in the fiscal year ending March 31, 2025, due to planned expenses for restructuring of business sites in line with portfolio transformation, investment in safety measures, and improvement of production facilities for developed products.

Although not mentioned, we plan to make certain investments in growth businesses.

Depreciation and amortization expenses are expected to decrease by JPY4 billion due to the significant impact of impairment losses implemented in the fiscal year ended March 31, 2024.

Shareholder Return



FY 2024:

Annual dividend of **70 yen per share (35 yen for interim, 35 yen for year-end)**

Basic policy on dividends of surplus for FY 2025 –FY 2027:

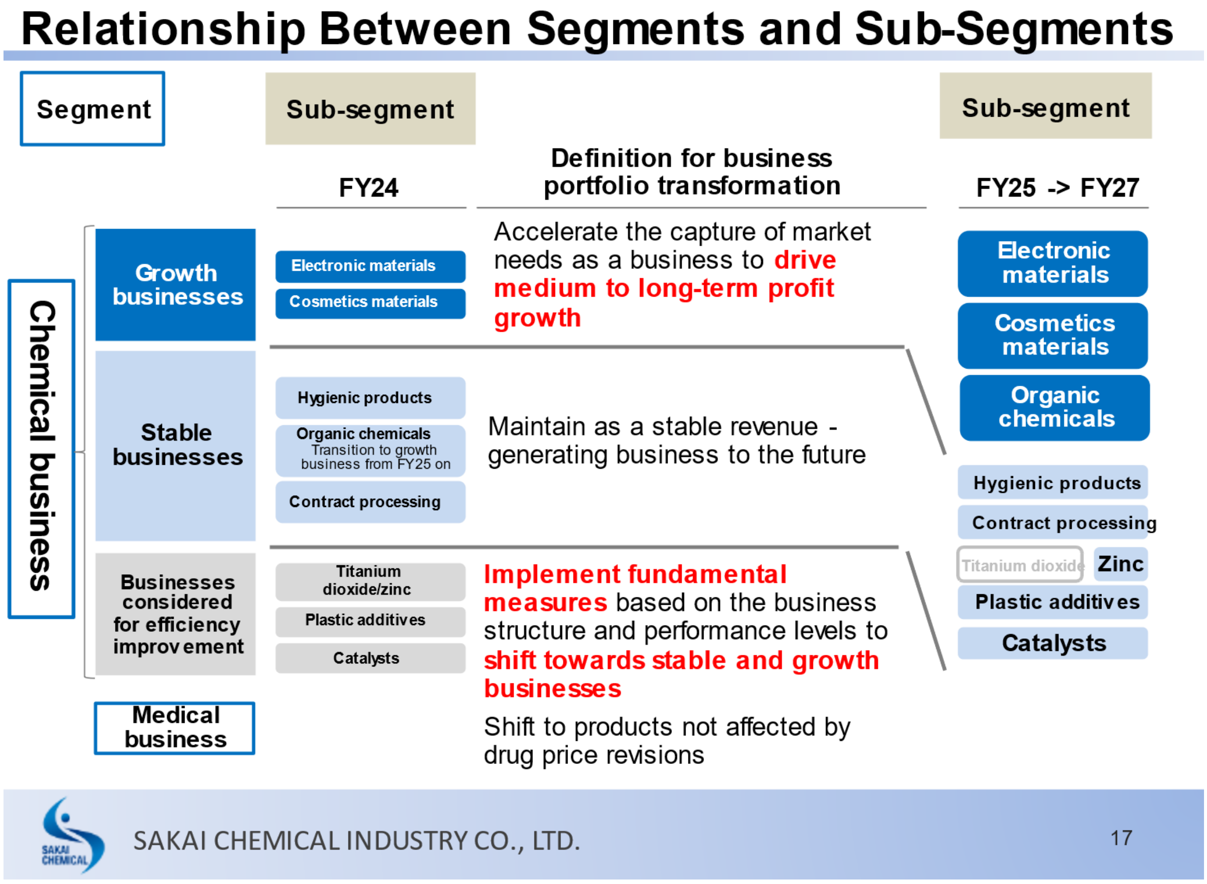
Dividend payouts based on a **target DOE of 3%** instead of a payout ratio of at least 30% (2 payments per year)

Next, we will discuss shareholder returns.

For March 2024, we will pay an annual dividend of JPY70 per share.

As we will explain later in the new medium-term management plan, from the fiscal year ending March 31, 2025, to the fiscal year ending March 31, 2027, we plan to revise our basic dividend policy of aiming for a dividend payout ratio of 30% or more, and we plan to return profits to shareholders with a target DOE of 3%.

With regard to our dividend policy, we have paid a stable total dividend to date. In light of this track record, we have decided to introduce DOE. During the period of this medium-term management plan, we will aim for a DOE of 3% and return profits to shareholders twice a year.

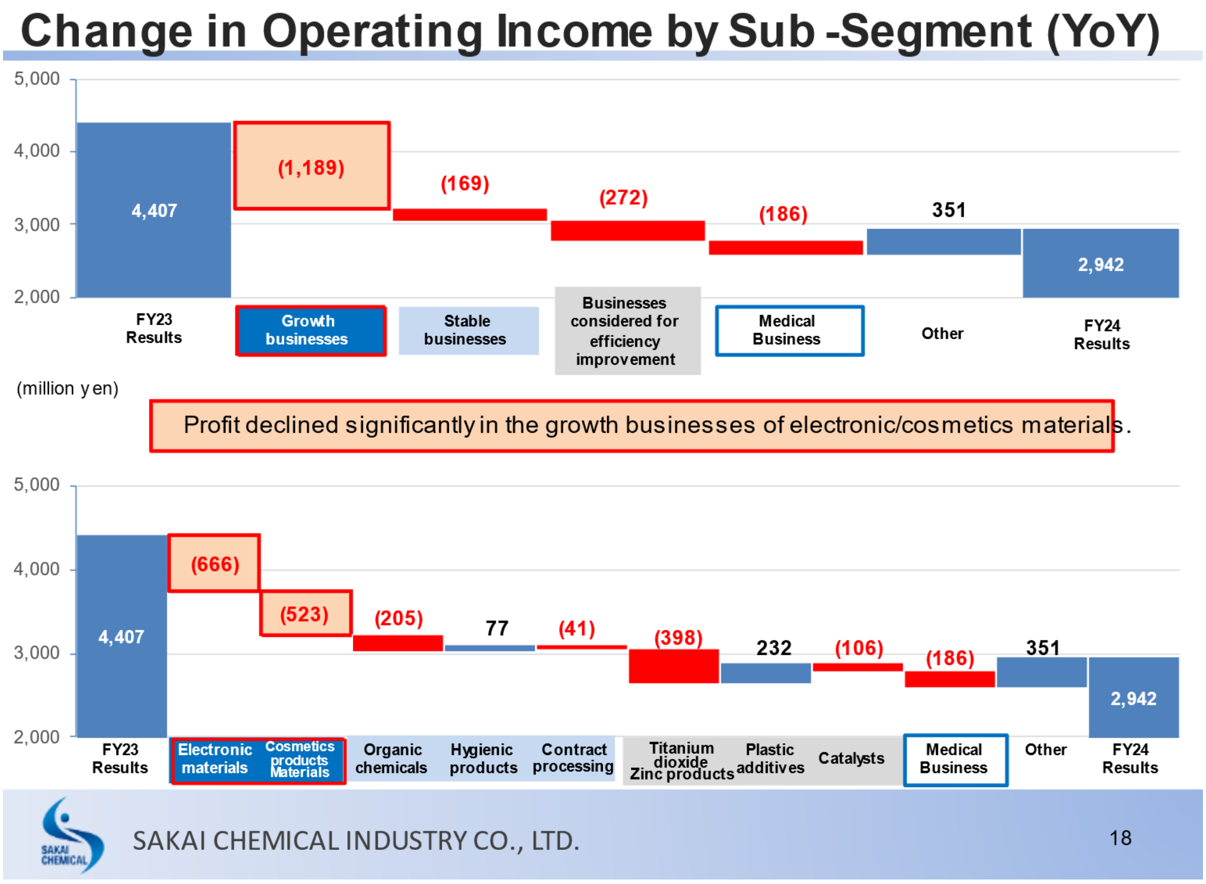


I will now continue with the segment results for the fiscal year ended March 31, 2024.

This shows the relationship between segments and sub-segments.

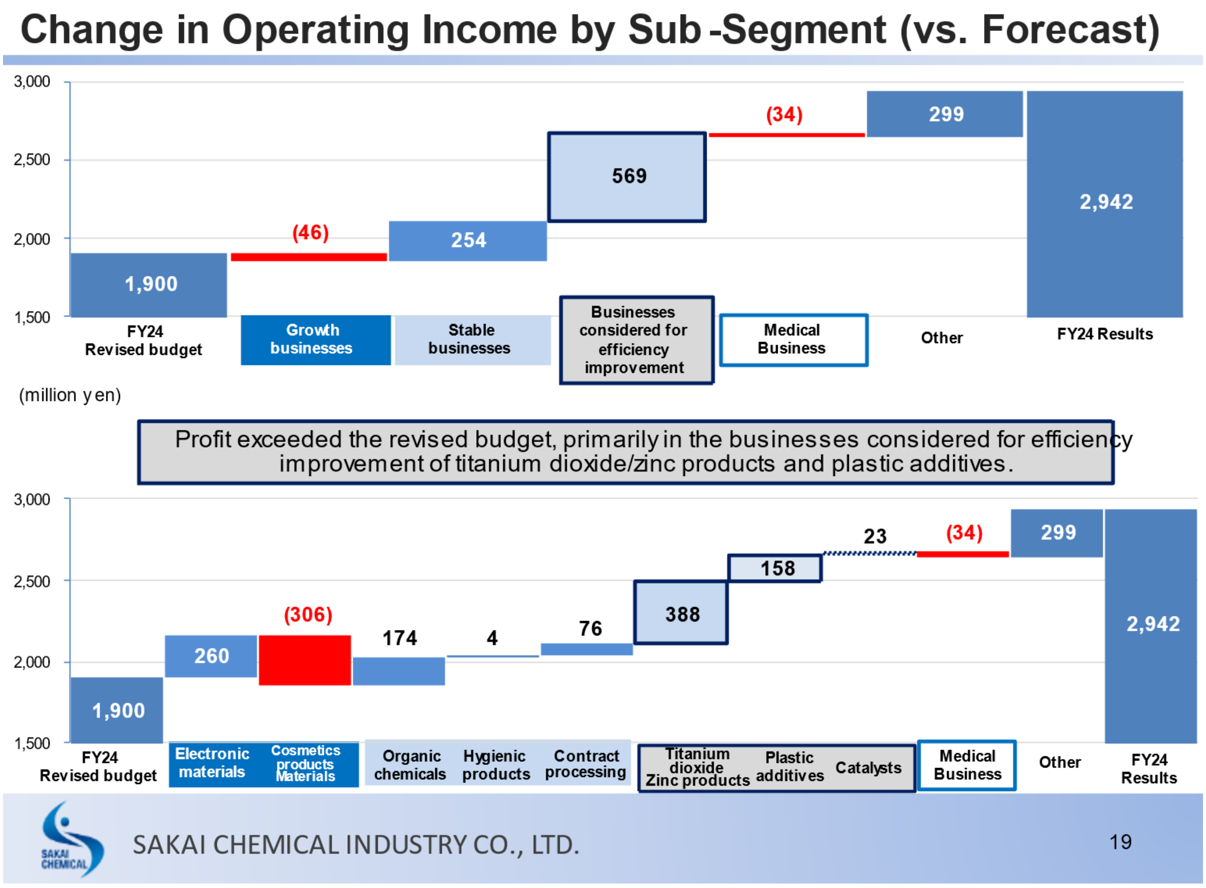
We have used the division on the left until the fiscal year ended March 31, 2024, but as announced in the new medium-term business plan, we will continue to reform our business portfolio, so from the fiscal year ending March 31, 2025, onward we will use the division on the right.

In the chemicals business, we plan to shift organic chemicals, which are stable businesses, to growth businesses, and zinc, resin additives, and catalysts to stable businesses, and we will eliminate businesses that we are considering streamlining.



This is the change in operating income of the sub-segment. This is compared to the same period of the previous year.

As mentioned by Mr. Yagura earlier, operating income from the growth businesses of electronic materials and cosmetics materials has declined significantly.



This is the forecast ratio.

As for the forecast, the results exceeded the revised forecast mainly for titanium dioxide and zinc products and plastic additives in the efficiency improvement study business, but cosmetics materials did not perform well, resulting in lower-than-expected income and profit.

We will now continue with an explanation of each of the sub-segments.

Electronic Materials

Growth Businesses

• Year-on-year

	FY23 Actual		FY24 Actual		Change	
	million yen	%	million yen	%	million yen	%
Net sales	8,939	—	8,978	—	39	0.4
Operat-ing income	946	10.6	280	3.1	(666)	(70.4)

• Year-on-year

Net sales	**(+) Penetration of price revisions** The sluggish market for consumer electronics semiconductors, which began in the second half of the previous period, resulted in decreased sales volume in dielectrics and dielectric materials. However, sales remained unchanged due to the penetration of price revisions, particularly for dielectrics.
Operating income	**(−) Decrease in sales volume, deterioration in sales composition difference** Profit significantly fell, as declined demand that began in FY23 continued until 2Q of FY24, causing a prolonged adjustment in operating ratio, a decrease in sales volume year-on-year, and a deterioration in the sales composition of dielectric materials.

• Vs. forecast

*Forecast refers to the forecast revised in 2Q/FY 2024

	FY24 Forecast		FY24 Actual		Difference	
	million yen	%	million yen	%	million yen	%
Net sales	9,415	—	8,978	—	(437)	(4.6)
Operat-ing income	20	0.2	280	3.1	260	1,300.0

• Vs. forecast

Net sales	**(−) Decrease in sales volume** Contrary to our assessment that demand for MLCCs, closely linked to the semiconductor market, would bottom out in 2Q/FY2024 and gradually recover, the market recovery was slower than expected, and sales fell short of the forecast due to sluggish growth in sales volume.
Operating income	**(+) Penetration of price revisions, improved sales composition difference** Results exceeded the forecast as price revisions progressed mainly in dielectrics, resulting in a more significant improvement of sales composition than the sales plan, especially in dielectric materials.

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Electronic materials.

Compared to the same period last year, sales volume of both dielectrics (barium titanate) and dielectric materials (high-purity barium carbonate) declined due to the sluggish semiconductor market. However, some price corrections, mainly in dielectrics (barium titanate), also penetrated the market, and sales remained almost unchanged.

Operating income declined significantly, partly because of a drop in sales volume due to prolonged adjustment of capacity utilization, and partly because of a deteriorated sales mix.

In terms of sales volume, we had expected sales volume to bottom out in Q2 of the previous year and gradually recover, but the market recovery was slower than expected, and as a result sales volume growth was sluggish, resulting in lower sales than expected.

Operating income exceeded the forecast as a result of price correction mainly in dielectrics (barium titanate) and an improved sales mix, especially in dielectric materials (high-purity barium carbonate) , compared to the sales plan.

Cosmetics Materials

Growth Businesses

• Year-on-year

	FY23 Actual		FY24 Actual		Change	
	million yen	%	million yen	%	million yen	%
Net sales	2,790	—	2,498	—	(292)	(10.5)
Operat-ing income	430	15.4	(93)	(3.7)	(523)	(121.6)

• Year-on-year

Net sales	**(−) Decrease in sales volume** Despite the steady recovery in demand in Japan, sales volume declined due to the sluggish consumption of sunscreen products overseas, particularly in China. Results were also impacted by production that was not performed as planned due to temporary factors such as implementing quality improvements.
Operating income	**(−) Decrease in sales volume, recording of factory shutdown costs** Profit primarily declined as the factory was shut down longer than usual during scheduled maintenance due to sluggish sales, which resulted in the recording of factory shutdown costs (approx. 100 million yen).

• Vs. forecast

*Forecast refers to the forecast revised in 2Q/FY 2024

	FY23 Forecast		FY24 Actual		Difference	
	million yen	%	million yen	%	million yen	%
Net sales	2,830	—	2,498	—	(344)	(11.7)
Operat-ing income	213	7.5	(93)	(3.7)	(306)	(143.7)

• vs. Forecast

Net sales	**(−) Decrease in sales volume** Results fell short of the forecast because sales volume grew lower than expected. This was caused by weak demand in China and other overseas markets, and production that was not performed as planned.
Operating income	**(−) Decrease in sales volume** Results fell below the forecast significantly due to sluggish sales caused by weak sales volume and the record of valuation losses on defective products (approx. 100 million yen)

SAKAI CHEMICAL INDUSTRY CO., LTD. 21

Next is cosmetics materials.

Compared to the same period last year, net sales decreased due to a decline in sales volume affected by sluggish consumption of sunscreens in China and other countries, and the inability to produce as planned due to temporary factors such as quality improvement work, despite a steady recovery in domestic demand.

Operating income decreased significantly due to a decline in sales volume and the recording of approximately JPY100 million in plant shutdown expenses resulting from a longer than usual shutdown for periodic repairs.

Compared to the forecast, net sales fell short of the forecast due to lower-than-expected growth in sales volume as a result of continued sluggish demand overseas and the inability to produce as planned.

Operating income also fell far short of the forecast, due in part to the lack of sales growth and, although this was a one-time factor, a JPY100 million loss on valuation of defective products.

Organic Chemicals

Stable Businesses

• Year-on-year

	FY23 Actual		FY24 Actual		Change	
	million yen	%	million yen	%	million yen	%
Net sales	8,014	—	7,813	—	(201)	(2.5)
Operat-ing income	1,600	20.0	1,395	17.9	(205)	(12.8)

• Vs. forecast

*Forecast refers to the forecast revised in 2Q/FY 2024

	FY24 Forecast		FY24 Actual		Difference	
	million yen	%	million yen	%	million yen	%
Net sales	8,080	—	7,813	—	(267)	(3.3)
Operat-ing income	1,221	15.1	1,395	17.9	174	14.3

• Year-on-year

Net sales	**(−) Decrease in shipments of active pharmaceutical ingredients/intermediates** Although shipments of additives for plastic lens monomers (eyeglass lens materials) increased steadily due to strong demand for eyeglass lenses, profit decreased due to a decrease in shipments of active pharmaceutical ingredients/intermediates.
Operating income	**(−) Decrease in shipments, impact of high raw material/fuel prices** Profit declined due to the impact of high raw material/fuel prices for additives for plastic lens monomers and a decrease in shipment volume for active pharmaceutical ingredients/intermediates.

• Vs. forecast

Operating income	**(−) Decrease in sales volume** Results fell short of the forecast as the sales volume of products other than additives for plastic lens monomers did not reach the target.
Operating income	**(+) Increase in shipments** Shipments of additives for plastic lens monomers exceeded the forecast as demand for eyeglass lenses remained strong, resulting in higher sales volume than the target.

SAKAI CHEMICAL INDUSTRY CO., LTD. 22

Next is organic chemicals.

Compared to the same period last year, sales of additives for plastic lens monomers, which are eyeglass lens materials, showed a steady increase in shipment volume due to strong demand for eyeglass lenses, but the shipment volume of bulk pharmaceutical intermediates decreased, resulting in a decline in total sales.

Operating income decreased due to the unavoidable impact of high raw material and fuel prices for eyeglass lens materials, while operating income decreased in active pharmaceutical ingredients and intermediates due to a decrease in shipment volume.

Sales of these products other than eyeglass lens materials and organic chemical products fell short of the forecast because the sales volume of these products fell short of the plan.

Operating income was boosted by strong demand for plastic lenses and eyeglass lens materials. As a result, sales volume increased more than planned and exceeded the forecast.

Hygienic Products

Stable Businesses

• Year-on-year

	FY23 Actual		FY24 Actual		Change	
	million yen	%	million yen	%	million yen	%
Net sales	5,496	—	5,455	—	(41)	(0.7)
Operat-ing income	327	5.9	404	7.4	77	23.5

• Year-on-year

Net sales	**(−) Decrease in sales of imported goods** Despite the sluggish movement in imported goods for sanitary materials caused by the weakening yen, sales remained at the previous period's level.
Operating income	**(+) Contributions from improved production yields and reduced distribution costs** Profit increased due to a drop in manufacturing costs caused by improved yields, and a decrease in operating expenses resulted from a fall in export rates compared to the previous period.

• Vs. forecast

*Forecast refers to the forecast revised in 2Q/FY 2024

	FY24 Forecast		FY24 Actual		Difference	
	million yen	%	million yen	%	million yen	%
Net sales	5,923	—	5,455	—	(468)	(8.0)
Operat-ing income	400	6.7	404	7.4	4	1.0

• Vs. forecast

Net sales	**(−) Slower movement in imported goods and manufactured products** Results fell below the forecast due to lower sales of manufactured products resulting from slower movement in imported goods than the target caused by the weakening yen. The diaper market also remained sluggish due to rising prices in Indonesia.
Operating income	**(+) Improved production yields and reduced distribution costs** Despite a decline in the operating ratio caused by weaker sales, results reached the target level due to decreased operating expenses resulting from improved yields, lower export rates, etc.

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It is a hygienic product.

Compared to the same period of the previous year, net sales were at the same level as the same period of the previous year due to the weak yen, which resulted in a slowdown in the movement of imported commercial products related to hygienic products.

Operating income increased due to lower manufacturing costs resulting from improved yields and lower operating expenses resulting from lower export freight costs.

Sales fell short of the forecast due to slower-than-planned sales of manufactured goods, as the weak yen caused a downturn in cargo movements of imported commercial products and soaring prices in Indonesia caused a slump in the diaper market.

Operating income was almost in line with the forecast, as operating expenses decreased due to the effect of yield improvement and lower export freight costs, despite lower capacity utilization due to lower sales.

受託加工

安定事業

●対前年同期比

	23.3 実		24.3 実		増　減	
	百万円	%	百万円	%	百万円	%
売上高	6,244	−	6,177	−	▲67	▲1.1
営業利益	587	9.4	546	8.8	▲41	▲7.0

●対前年同期比

売上高
(−) 販売数量の減少
工程受託では、大型案件の受託終了で減収となり、加工顔料では、建材関連や浴用剤関連での販売数量の減少はあったもの、価格是正の浸透もあり、売上高は概ね維持した。

営業利益
(−) 販売数量の減少
工程受託、加工顔料ともに販売数量の減少で、減益となった。

●対予想比

＊予想は、2024.3期２Q時に見直した修正予想です。

	24.3 予		24.3 実		差	
	百万円	%	百万円	%	百万円	%
売上高	6,961	−	6,177	−	▲784	▲11.3
営業利益	470	6.7	546	8.8	76	16.2

●対予算比

売上高
(−)販売数量の減少
加工顔料での建材向けやOA機器向け顔料での販売が振るわず、予想を下回った。

営業利益
(+) 新規案件の獲得、価格是正の浸透
工程加工では受託終了した大型物件の代わりに、想定以上に新規案件を受託できたこと、また加工顔料での価格是正の浸透もあり、予想を上回った。

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Next is contract processing.

YoY, sales decreased due to the completion of large projects in contracted processes. Sales of processed pigments were generally maintained on a YoY basis due to the penetration of price correction, despite a decrease in sales volume of building materials and bath additives.

Operating income decreased due to lower sales volume.

Sales fell short of forecast due to sluggish sales in processed pigments for building materials and pigments for office automation equipment.

Operating income exceeded the forecast due to new orders received for process processing that exceeded expectations in place of large projects that had been terminated, as well as the penetration of price correction in the processing pigment business.

Titanium Dioxide/Zinc Products (Excl. Cosmetics Materials)

Businesses considered for efficiency improvement

• Year-on-year

	FY23 Actual		FY24 Actual		Change	
	million yen	%	million yen	%	million yen	%
Net sales	15,068	—	14,269	—	(799)	(5.3)
Operat-ing income	(34)	(0.2)	(432)	(3.0)	(398)	—

• Vs. forecast

*Forecast refers to the forecast revised in 2Q/FY 2024

	FY24 Forecast		FY24 Actual		Difference	
	million yen	%	million yen	%	million yen	%
Net sales	14,949	—	14,269	—	(680)	(4.5)
Operat-ing income	(820)	(5.5)	(432)	(3.0)	388	—

• Year-on-year

Net sales

(−) Drop in zinc quotation market in Japan (approx. 700 million yenYoY)
Sales of zinc products decreased sharply due to the decline in the zinc quotation market in Japan. Titanium dioxide sales declined despite efforts to offset volume drop due to competition for lowpriced Chinese products through price revisions.

Operating income

(−) Decrease in sales volume of titanium dioxide, impact of high raw material/fuel prices
Despite the efforts to revise prices, the impact of high raw material/fuel prices persisted. Prioritizing price revisions while being hit by competition for low -priced Chinese products resulted in lower sales volume and operating ratio due to the ensuing inventory adjustments, and profit declined. (Impact on profits from zinc products is limited as the business relies on processing fees.)

• Vs. forecast

Net sales

(−) Decrease in sales volume of titanium dioxide
Results fell below the forecast due to a weaker sales volume than planned, resulting from competition for low priced Chinese products while progressing with price revisions in titanium dioxide.

Operating income

(+) Penetration of price revisions in titanium dioxide/zinc products
The deficit was smaller than the forecast, given the ongoing price revisions and the impairment losses recorded in the 3Q/FY 2024 financial results.

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Next, titanium dioxide and zinc products. This excludes cosmetics materials.

The YoY sales decline in the domestic zinc quotation market was about JPY700 million compared to the previous year. As for sales of titanium dioxide, the decline in sales volume due to the aggressive sales of inexpensive Chinese products was offset by price adjustments, but sales declined.

Operating income decreased due to a decline in sales volume as a result of prioritizing price correction in the face of the remaining impact of high raw material and fuel prices and the inexpensive offensive by Chinese companies, although we have been pushing forward with price correction. This is a strategy of not chasing low-priced products. The decrease in profit was due in part to lower capacity utilization resulting from inventory adjustments.

Sales were lower than forecast due to lower-than-expected sales volume in titanium dioxide as a result of the greater-than-expected impact of the offensive of inexpensive products from China amid price correction efforts.

However, the deficit in operating income was smaller than expected due to the penetration of continuous price correction and the disposal of impairment losses that were executed at the time of Q3 closing of the fiscal year ended March 31, 2024.

Plastic Additives

Businesses considered for efficiency improvement

• Year-on-year

	FY23 Actual		FY24 Actual		Change	
	million yen	%	million yen	%	million yen	%
Net sales	13,354	—	13,418	—	64	0.5
Operat-ing income	404	3.0	636	4.7	232	57.4

• Vs. forecast

*Forecast refers to the forecast revised in 2Q/FY 2024

	FY24 Forecast		FY24 Actual		Difference	
	million yen	%	million yen	%	million yen	%
Net sales	15,772	—	13,418	—	(2,354)	(14.9)
Operat-ing income	478	3.0	636	4.7	158	33.1

• Year-on-year

Net sales	**(+) Penetration of price revisions, expansion in sales overseas** Sales were level with the previous period. This was due to lower sales in Japan due to a decline in housing starts, while overseas sales of products for the Chinese market declined. However, price revisions progressed in Japan and overseas, and sales of non-lead stabilizers expanded in overseas markets.
Operating income	**(+) Penetration of price revisions, expansion in sales overseas** Profit increased as the sales composition improved due to the expansion of sales of non-lead stabilizers in overseas markets on top of the penetration of price revision in Japan.

• Vs. forecast

Net sales	**(−) Decrease in sales volume** Results fell below the forecast. This was due to lower sales volume than the target, impacted by weak PVC demand for construction materials and joints in Japan and the prolonged economic stagnation in China.
Operating income	**(+) Penetration of price revisions, increase in non-lead stabilizers** Profit increased both in Japan and overseas as sales of non-lead stabilizers in Vietnamese and Thai markets expanded and price revision progressed in Japan.

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Next is plastic additives.

In terms of YoY sales, domestic demand was affected by a decline in housing starts and other factors, while overseas, sales volume of products for China declined. However, sales were almost on par with the previous year due to price correction both in Japan and overseas, and sales expansion of non-lead stabilizers in overseas local markets.

Operating income increased due to the penetration of price correction in Japan, as well as an improved sales mix due to expanded sales of non-lead stabilizers in overseas local markets.

Compared to the forecast, sales to the domestic market were sluggish for PVC demand. However, due to the prolonged economic stagnation in China overseas, both sales volumes did not grow as much as planned and were lower than expected.

However, operating income exceeded the forecast due to the penetration of price correction both in Japan and overseas and sales expansion of non-lead stabilizers at overseas sites in Vietnam and Thailand.

Catalysts

Businesses considered for efficiency improvement

• Year-on-year

	FY23 Actual		FY24 Actual		Change	
	million yen	%	million yen	%	million yen	%
Net sales	4,193	—	3,527	—	(666)	(15.9)
Operat -ing income	179	4.3	73	2.1	(106)	(59.2)

• Year-on-year

Net sales	**(−) Decrease in sales volume** Sales volume fell as nickel catalysts were significantly impacted by regular maintenance for customers in Japan. In contrast, large overseas projects for denitration catalysts, which contributed to the previous period's results, were completed.
Operating income	**(−) Decrease in sales volume** Despite the penetration of the price revisions, the decline in sales volume was not covered, resulting in decreased profit.

• Vs. forecast

*Forecast refers to the forecast revised in 2Q/FY 2024

	FY24 Forecast		FY24 Actual		Difference	
	million yen	%	million yen	%	million yen	%
Net sales	3,707	—	3,527	—	(180)	(4.9)
Operat -ing income	50	1.3	73	2.1	23	46.0

• Vs. forecast

Net sales	**(−) Decrease in sales volume** Results fell short of the forecast. Sales volume in nickel catalysts grew lower than planned as the starting of customer's new plant was delayed. Sales volume of denitration catalysts fell below the forecasts due to avoiding excessive price competition following a sales policy prioritizing profitability.
Operating income	**(+) Penetration of price revisions** Operating income exceeded the forecast due to price revisions, especially in nickel catalysts.

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Next is the catalysts.

Compared to the same period last year, sales volume decreased. This was largely due to the impact of periodic repairs by domestic customers of nickel catalysts, and a drop in sales volume of deNOx catalysts due to a lull in large overseas projects that had contributed to the previous year's results.

Operating income decreased, despite the penetration of price correction, as it could not offset the decline in sales volume.

Sales volume of nickel catalysts fell short of the forecast due to a delay in the start-up of customers' new plants than expected, and sales volume of deNOx catalysts fell short of the forecast as a result of avoiding excessive price competition based on a sales policy that emphasizes profitability.

Operating income exceeded the forecast due to the penetration of price correction mainly in nickel catalysts.

Medical Business

Medical

• Year-on-year

	FY23 Actual		FY24 Actual		Change	
	million yen	%	million yen	%	million yen	%
Net sales	7,868	—	7,995	—	127	1.6
Operating income	272	3.5	86	1.1	(186)	(68.4)
Net sales (new businesses)	1,303	—	1,615	—	312	23.9

*New businesses are those unaffected by drug price revisions

• Vs. forecast

*Forecast refers to the forecast revised in 2Q/FY 2024

	FY24 Forecast		FY24 Actual		Difference	
	million yen	%	million yen	%	million yen	%
Net sales	8,563	—	7,995	—	(568)	(6.6)
Operating income	120	1.4	86	1.1	(34)	(28.3)
Net sales (new businesses)	2,069	—	1,615	—	(454)	(21.9)

• Year-on-year

Net sales	**(+) Medical device business, OTC drugs, new businesses** Sales increased slightly. Although sales of the barium contrast medium business and Alloid G declined due to drug price revisions, sales of OTC drugs increased due to renewed medical devices and an increase in the number of people with the common cold following the relaxation of COVID-19 countermeasures, which boosted sales of new businesses.
Operating income	**(−) Drug price revisions, high raw material/fuel prices** Despite profits from medical devices and OTC drugs, profits declined due to unavoidable margin compression from drug price revisions and high raw material/fuel prices.

• Vs. forecast

Net sales	**(−) Barium contrast medium, Alloid G, new businesses** Although the decline in sales of the existing barium contrast medium business and Alloid G was to be covered by new businesses, results fell short of the forecast due to the dela in part of launches, etc.
Operating income	**(−) High raw material/fuel prices** Operating income fell below the forecast due to the unavoidable impact of soaring raw material/fuel prices.

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This is a medical business.

Sales of barium contrast media and Aluloid-G (ethical pharmaceuticals) decreased due to the NHI price revision, but sales of medical devices and OTC drugs increased, resulting in a slight YoY increase in total sales.

Operating income will also decrease due to the inevitable impact of lower margins from NHI drug price revisions and the high cost of raw materials and fuel.

Compared to the forecast, sales were expected to be lower than expected due to the existing barium contrast media business, Aluloid G, and some delays in the launch of some products in these areas, although the decline in these prescription drugs was planned to be covered by new businesses.

Operating income was lower than forecast due to the unavoidable impact of higher raw material and fuel prices.

Understanding the Business Environment

	Sub-segment	Assumptions for the FY25 forecast
Growth Businesses	Electronic materials	The semiconductor market is on a recovery trend since the second half of the previous period and will continue into the current period.
	Cosmetics materials	Demand in Japan: Continues to recover steadily. Demand in overseas: Gradually starts to recover.
	Organic chemicals	Eyeglass lens market remains strong.
Businesses considered for efficiency improvement	Titanium dioxide /zinc products	The oversupply of titanium dioxide continues, and sales will remain challenging as cheap overseas products continue to flow into the Japanese market.
	Plastic additives	Demand in Japan: The PVC market is on a downward trend; increasing sales is expected to be difficult. Demand in overseas: As the PVC market expands, the shift from lead based to lead-free stabilizers progresses.

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Finally, before we discuss the sub-segment forecasts for the fiscal year ending March 31, 2025, we present here our perception of the business environment.

We expect an overall recovery in growth businesses. However, in the efficiency improvement study business, first of all, for titanium dioxide and zinc products, we expect the severe sales situation to continue, with an oversupply of titanium dioxide and the continued inflow of inexpensive overseas products into the domestic market.

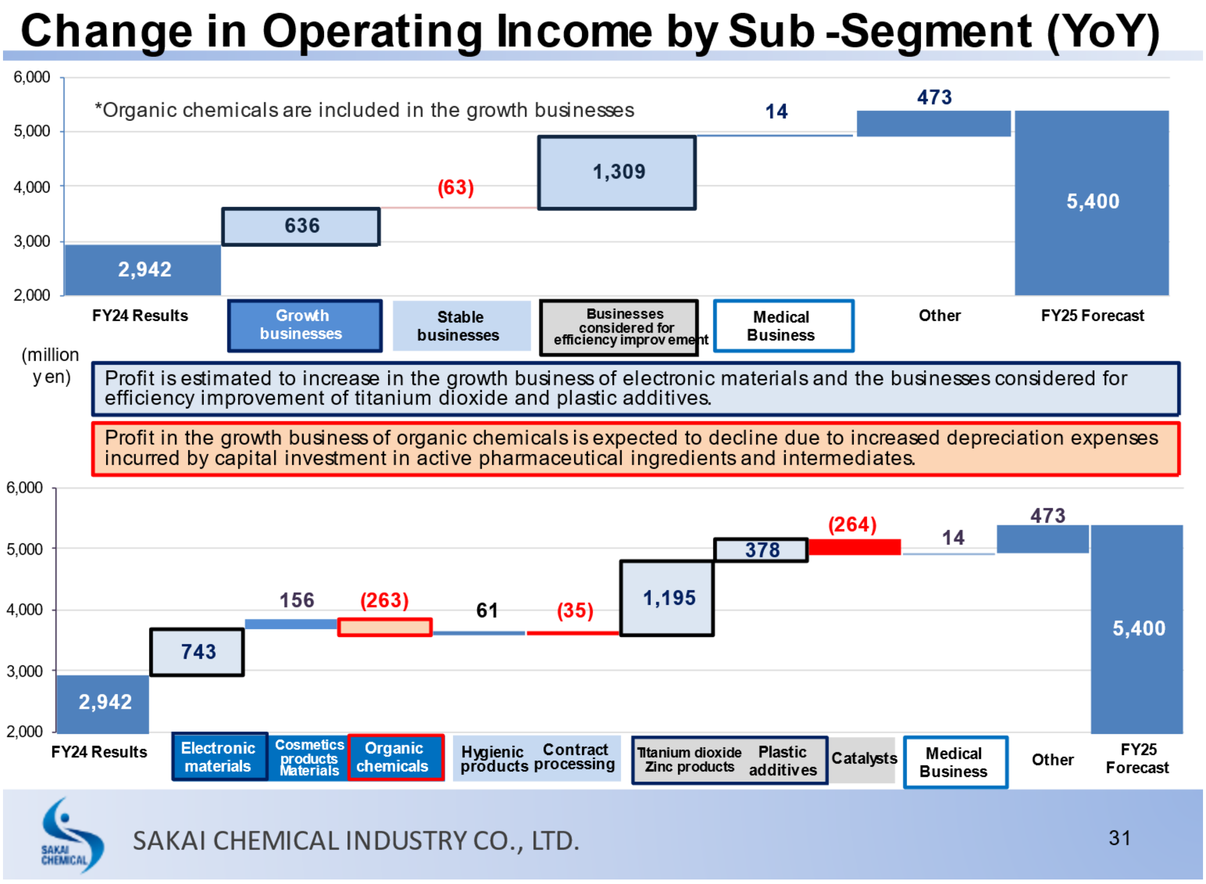
Domestic demand for plastic additives is still sluggish and sales growth is expected to be difficult, but overseas demand will expand. We expect the switch from lead-based stabilizers to non–lead-based stabilizers to proceed accordingly.

Forecast by Sub -Segment

	FY23 results			FY25 full year forecast			Difference			
	Net sales	Operating income	Income ratio	Net sales	Operating income	Income ratio	Net sales		Operating income	
	million yen	million yen	%	million yen	million yen	%	million yen	%	million yen	%
Electronic materials	8,978	280	3.1	10,913	1,023	9.4	1,935	21.6	743	265.4
Cosmetics materials	2,498	(93)	(3.7)	3,016	63	2.1	518	20.7	156	(167.7)
Organic chemicals	7,813	1,395	17.9	7,377	1,132	15.3	(436)	(5.6)	(263)	(18.9)
Hygienic products	5,455	404	7.4	5,966	465	7.8	511	9.4	61	15.1
Contract processing	6,177	546	8.8	6,303	511	8.1	126	2.0	(35)	(6.4)
Titanium dioxide Zinc products	14,269	(423)	(3.0)	13,845	763	5.5	(424)	(3.0)	1,186	(280.4)
Plastic additives	13,418	636	4.7	14,308	1,014	7.1	890	6.6	378	59.4
Catalysts	3,527	73	2.1	3,544	(191)	(5.4)	17	0.5	(264)	(361.6)
Pharmaceutical business	7,995	86	1.1	8,175	100	1.2	180	2.3	14	16.3
Other	11,975	38	0.3	13,553	520	3.8	1,578	13.2	482	1,268.4
Consolidated	**82,105**	**2,942**	**3.6**	**87,000**	**5,400**	**6.2**	**4,895**	**6.0**	**2,458**	**83.5**

The forecast by sub-segment is as follows.

The new medium-term plan also shows an image of going from JPY2.9 billion to JPY5.4 billion, and the profit amount can be found here by sub-segment.



Finally, the table shows the projected changes in operating income for the sub-segments.

First of all, compared with the same period of the previous year, we expect an increase of JPY5.4 billion due to an increase in sales volume of electronic materials and the effect of price correction in titanium dioxide and zinc, which is a business under consideration for efficiency improvement.

However, for organic chemicals, we expect capital investment in active pharmaceutical ingredients and intermediates. With that, we expect an increase in depreciation expenses, so we expect a decrease in profit for this organic chemical.

That is all for the explanation. Thank you very much for your kind attention.

Question & Answer

Moderator [M]: Now, I would like to receive questions on the contents of the financial statements that I have just explained.

As indicated at the meeting and on the web, we would like to receive questions first from those present at the meeting, and then from those on the web.

Please note that this briefing is being transcribed for the record. We do not disclose the name of the company or the name of the transcriber on our website, but we would appreciate your understanding that the transcription of your question will be recorded.

Now, I would like to start with those of you in the audience. If you have any questions, please raise your hand and I will bring the microphone to you.

Thank you.

Participant [Q]: Thank you for your time today. Let me ask three questions on electronic materials.

The first point is, please tell us what the sales composition is for the period that ended for dielectrics (barium titanate) and dielectric materials (high-purity barium carbonate). This is the first point.

The second point is the image of their respective profit margins. I think the profit margin is changing a bit now, but could you tell me what the variation is?

Third, I understand that there was a deterioration in the mix of dielectric materials (high-purity barium carbonate) in this fiscal year's results. Can you tell us what exactly was meant by this worsening of the mix? I ask for the above three points.

Moderator [M]: Thank you. Now, Ogama will answer.

Ogama [A]: Thank you for your questions. First of all, the composition ratio of dielectric materials (high-purity barium carbonate) and dielectrics (barium titanate) is not disclosed in detail, but I will give you a rough idea of the ratio. In terms of sales, the ratio is roughly three to two. Sales of dielectric materials are higher than those of dielectric materials (high-purity barium carbonate) , although this varies from YtoY.

Your second question, I think you asked about operating margin. This also varies considerably from YtoY, and it is difficult to give an approximate figure, but the profit margin is higher for dielectrics (barium titanate).

In terms of operating profit margin, the difference between the spread of dielectrics (barium titanate) and dielectric materials (high-purity barium carbonate) is approximately 10%. I will refrain from giving an exact operating profit margin, but you can imagine that the operating profit margin for dielectric materials (high-purity barium carbonate) is lower.

The third point is the difference in the composition of dielectric materials (high-purity barium carbonate), and there are several types of dielectrics (barium titanate). Relatively old products, or products that have been around for a long time, have relatively low unit selling prices, while more recent products, or capacitors used in middle-end and high-end applications, have high unit selling prices.

Since we often ship in response to customers' requests, the composition difference has improved due to the relatively large number of items with high sales unit prices. That is all.

Participant [Q]: Thank you very much. I have an additional question.

In the results for the fiscal year ended March 2024, sales were almost flat, but was there a difference between dielectrics (barium titanate) and dielectric materials (high-purity barium carbonate)? Also, you are forecasting a considerable increase in sales for the current fiscal year, but please tell us if there is any difference in the growth rate for each of the two. That is all.

Ogama [A]: Flat, yes, in terms of composition, there was a slight increase in sales of dielectrics (barium titanate) in the fiscal year ended March 2024. However, the level is not so different from the ratio I mentioned earlier, so I hope you understand that this was not a reversal of the composition ratio.

In the current fiscal year ending March 31, 2025, it is not a question of which will have more sales, but since market conditions have recovered considerably, we expect that the volume base, volume, and sales themselves will grow at about the same rate.

Participant [Q]: The results for the fiscal year ended March 2024 were almost flat in terms of sales, which means that dielectrics (barium titanate) grew, and dielectric materials (high-purity barium carbonate) slightly decreased, although not by that much. Is that correct?

Ogama [A]: Yes, it is. However, because of the effect of the price correction, in terms of volume, both are falling, March 2020, compared to the previous year.

Participant [M]: Okay. Thank you very much.

Moderator [M]: Thank you very much. Does anyone else in the audience have any other questions? Is it all right with you?

Now, I would like to pass the baton to those of you who are participating via the Web.

Now I would like to move on to questions from the online audience. Mr. Ishibashi, who has raised his hand, please remove your microphone mute and comment.

Participant [Q]: Excuse me, I would like to ask you two questions.

The first is that I have the impression that performance has picked up considerably in Q4 of the fiscal year that ended. Looking only at chemicals, the Company's operating income was JPY1.2 billion, before deducting company-wide expenses, of course, but it came back to JPY1.9 billion. Of course, the organic chemicals business was biased toward Q4, but I wonder if it is safe to assume that the profits for Q4 of the fiscal year will basically continue to be based on the Q4 profits from the new fiscal year onward. I would like to confirm whether this is not due to a transitory factor or not.

The other thing is, you mentioned the price correction effect in the electronic materials area, what is the situation? Does this mean that the margins were a little low to begin with and have come through belatedly? I would like to ask if there has been any change in the attitude of acceptance on the part of customers.

Ogama [A]: Thank you very much. The first point, that Q4 has picked up considerably, is as you have indicated. We are aware of this as well.

As for market conditions, electronic materials bottomed out in Q2 of the last fiscal year, ended March 31, 2024, and have been recovering. It is not as much of a V-shaped recovery as expected, but it is still showing in volume terms that it is picking up in Q3 and Q4. Currently, we see that situation continuing, and we expect this situation to continue, especially for electronic materials.

Of course, in Q2 of the previous fiscal year, we usually see a slight shift to H2 of the fiscal year when there are scheduled maintenance projects, but since the market seems to be moving based on the assumptions I mentioned earlier, I expect that Q4 will continue to see a similar trend.

Participant [Q]: One more thing, please.

Ogama [A]: Regarding the status of the price increase, in the last fiscal year, the environment was quite receptive to our request, and it is not necessarily true that 100% of our request was approved, but last fiscal year, the situation was much more favorable.

However, the timing was a little later than we had planned, and the penetration of this system finally progressed in Q4, leading to a recovery in business performance in Q4.

As for the future, the situation regarding the price of raw materials and fuels has calmed down somewhat, so we anticipate that negotiations will be quite difficult.

However, as we have stated in the new medium-term management plan, there are still some areas in which we need to make firm progress on price correction as part of our management policy, and we will continue to negotiate with them.

Participant [Q]: I see. This may be a bit of a mid-term plan, but is it correct to say that you will continue to correct the prices of electronic materials and improve profitability over the next three years, regardless of raw material increases?

Ogama [A]: Yes, we are going to proceed with that.

Participant [M]: I understand very well. Thank you very much. That is all.

Moderator [M]: Thank you very much. Is there anything else?

Since there do not seem to be any other questions online, I would like to conclude the financial results briefing session.

[END]

Document Notes

1. *Portions of the document where the audio is unclear are marked with [Inaudible].*
2. *Portions of the document where the audio is obscured by technical difficulty are marked with [TD].*
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