堺化学工業株式会社

Sakai Chemical Industry Co., Ltd.

Cosmetics Raw Materials Business Strategy Briefing

December 2, 2024

Event Summary

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[Participants]	52
[Number of Speakers]	2 Koichiro Magara — Director and Executive Officer Sales representative — Cosmetic Innovation Department

Presentation

Moderator: We will now move on to explain our business strategy for cosmetic materials. Then, Director Magara, please go ahead.

Magara: My name is Magara, and I am in charge of the cosmetic materials business. I will now explain the business strategy of our cosmetic materials business.

As explained earlier, the cosmetic materials business is currently in a difficult situation. However, we recognize that the market environment for achieving medium- and long-term growth has been ready, and we are now in a situation where we can fully utilize and fully demonstrate our strengths.

In addition, our activities to date that take advantage of our strengths, coupled with changes in the market environment, are actually being adopted by our clients, albeit gradually. I will explain our strategy for future growth to take advantage of this opportunity. Thank you for your cooperation.

Points for Discussion

Since April 2024, we have been implementing Transformation: BEYOND 2030, our medium-term management plan.

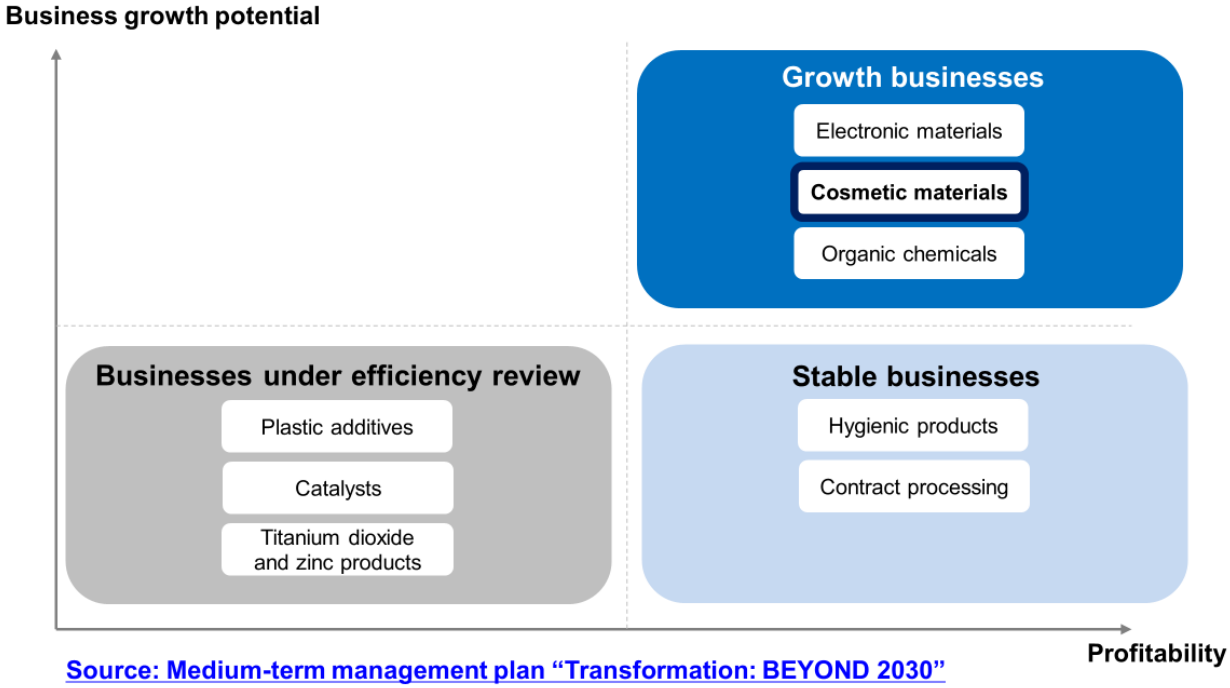
Through this briefing, we will introduce the distinguishing characteristics and strengths of Sakai Chemical's cosmetics raw materials business (a growth business) while providing an overview of structural changes and trends in the market.

As mentioned earlier, we are working on our medium-term management plan, Transformation: BEYOND 2030, which started in April 2024. We will introduce the characteristics and strengths of Sakai Chemical Industry and the structural changes and trends in the market for cosmetic materials, which we have positioned as a growth business in this field.

I will start with an overview of our external environment and corresponding strategies. Afterward, a frontline sales representative will provide a more detailed explanation.

Positioning of the Cosmetics Raw Materials Business Within Our Portfolio

We anticipate the cosmetics raw materials business will centrally contribute to our expansion as a core growth business moving forward.



Source: Medium-term management plan "Transformation: BEYOND 2030"

First of all, I would like to talk about the positioning of the cosmetic materials business in our portfolio. As mentioned earlier, we reviewed our business portfolio in the mid-term business plan and classified it into three major categories from the viewpoints of profitability and growth potential: businesses for efficiency improvement, stable businesses, and growing businesses.

The cosmetic materials business is positioned as a growth business along with electronic materials and organic chemicals and is positioned as a core business for the future.

Promoting a Differentiation Strategy Centered on Powder Processing Technology

By delivering a wide range of cosmetic materials worldwide, we promote beauty and health while enriching the lives of our employees.

		Sunscreen materials		Makeup materials
External environment		• **Movement targeting reduced impact on the environment and human health** →Transitioning from organic to inorganic materials • **Rising demand for anti-aging products** →Growing need for UVA protection Increasing focus on **zinc oxide**		• **Movement targeting reduced environmental impact** →Phasing out microplastic beads (MPBs) • **Rising demand for improved texture and additional functionality** Growing need for inorganic texture-enhancing agents other than silica, which has been a leading alternative to microplastic beads
Strengths		**Advanced powder processing technology capable of modifying and adapting a wide range of materials to meet specific needs or applications**		
		• High-quality ultrafine particle zinc oxide		• Additional functionality centered on skincare properties
Strategy	Existing	We will steadily capture growing anti-aging demand by leveraging our ultrafine particle zinc oxide as a core strength while also encouraging clients to use our products across more of their brands or product lines.	Existing	Instead of merely marketing our makeup materials as simple ingredients, we also leverage our powder processing technology to offer cosmetics manufacturers new formulations or combinations that generate finished products with additional functionality.
	New	Leveraging our strong focus on quality and the trust our products have established through their utilization among major overseas companies, we will push forward with efforts aimed at developing new customers for our ultrafine particle zinc oxide products.	New	By strengthening our production capacity through capital investment, we will target further sales expansion while capturing demand for MPBs/silica alternatives by offering additional functionality.

From here, I will explain our specific strategy for the future. The Cosmetics SBU is in charge of cosmetic materials, and its vision is "to provide the world market with numerous cosmetic materials to make people more beautiful and healthier, and to enrich the minds of our employees." The key words will be beauty and health.

In order to achieve this, our strategy is to expand our market share by differentiating ourselves with powder processing technology, which is our forte.

Now, I will explain specifically the external environment of the cosmetics sector and our strategy accordingly.

There are many types of cosmetics, but our target is sunscreen materials and makeup materials, especially foundation.

First, regarding sunscreen, see the left side of this table. As for the external environment, in recent years, the movement to reduce the burden on the environment and people against the backdrop of the SDGs has accelerated, and there has been a shift from organic materials to inorganic materials such as zinc oxide and titanium dioxide, which we own.

In particular, the growing demand for anti-aging products has increased the need for UVA protection, and zinc oxide, which excels in this area, has been attracting more attention. We will discuss this point in more detail later.

Against this backdrop, with our advanced powder processing technology and high-quality ultrafine zinc oxide particles, we will increase the adoption of our products by existing customers in response to anti-aging

demand and leverage the trust we have gained through our adoption by major overseas cosmetics manufacturers to develop new customers.

Next, look at the right side of the table. Make-up materials. Similar to sunscreens, the makeup market is also experiencing an acceleration in the global movement to reduce environmental impact against the backdrop of the SDGs. That would be MPB, microplastic beads, and this will be an activity to avoid using them.

In addition, there has been a demand for materials that not only function to improve the feel of cosmetics, but also add other additional functions. Silica, an inorganic material originally used as a substitute for microplastic beads, has taken the lead, but there is a growing need for a material with functions that silica does not have.

In contrast, we will compete with barium-based materials that add skincare functions not found in inorganic materials such as silica, and unique calcium-based materials that take advantage of our powder processing technology.

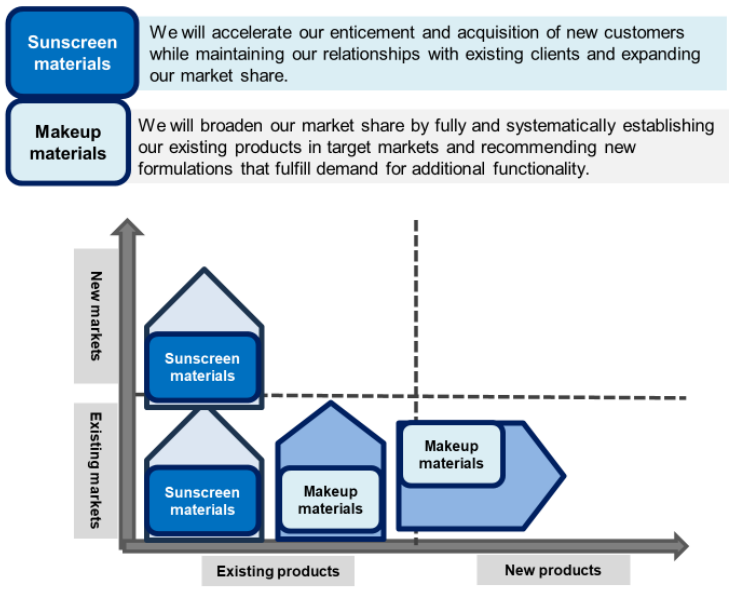
With these backgrounds, we will appeal to existing cosmetics manufacturers by actually making the final cosmetics and proposing their formulations. Furthermore, we will take advantage of our strength in increased production capacity through capital investment to attract new customers with demand for microplastic beads and silica-free products.

The cosmetics industry takes its own brand image very seriously. In light of the recent SDGs, cosmetics manufacturers have been placing extreme importance on consideration for the environment and people. We plan to take these changes in the external environment as an opportunity to go on the global offensive with a strategy that leverages our strengths.

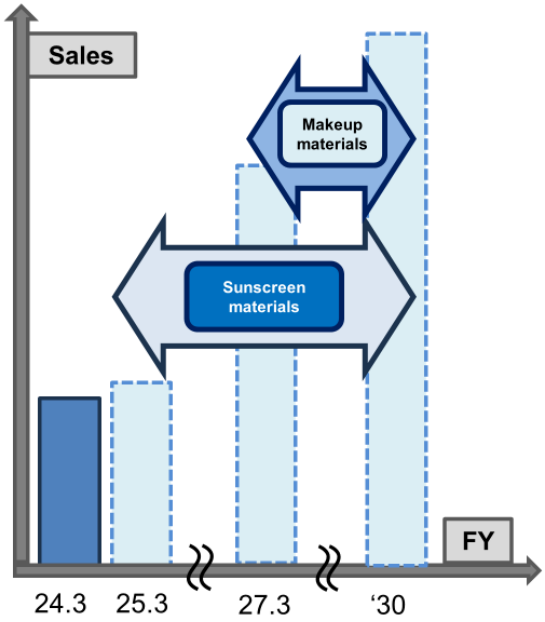
Vision for Expansion in the Cosmetics Raw Materials Business

We will target medium- to long-term sales growth through a strategy focused on sunscreen and makeup materials.

Expansion of target markets and product application



Sales Performance



Next, I will explain the image of business expansion in the cosmetic materials business.

The first figure on the left shows the target market and product expansion. We have been working to increase our share of the existing sunscreen market, but we will work to increase the number of new customers by leveraging our ultrafine zinc oxide particles and the trust we have gained from major overseas cosmetics manufacturers who have adopted our products. Furthermore, with unique makeup materials with added skin care functions, we will make a full-scale entry into the new market of products that use neither microplastic beads nor silica from the existing market.

The right side shows our forecast of the sales transition. In the fiscal year ending March 31, 2027, we will expand mainly in sunscreen materials, but we also aim to double or triple our current sales in the fiscal year 2030 by adding sales of makeup materials.

Sales representative: Now then, I will explain our specific business strategy. Thank you for your cooperation.

Sunscreen materials

Growth Potential of the Market and the Spreading Use of Inorganic Materials

Change one

The sunscreen market is growing overall, and the use of inorganic materials (titanium dioxide and zinc oxide) is expanding due to heightened awareness of impact on the environment and human health.

Target market

UV-blocking materials

Overall market size

Approx.110 billion yen

Growth potential

Approx. 5% annually
(*Estimate from Sakai Chemical)

Recent market trends

Sakai Chemical	Material	Shipment volume growth rate by material (Indexed to FY2018) 2018	2023	Market share by material 2023
	Organic materials	100	114	64%
○	Titanium dioxide	100	122	26%
○	Zinc oxide	100	117	10%

Source: KLINE (provided through an intermediary agency and partially modified by Sakai Chemical)

This page shows the growth potential of the market for sunscreen materials. The market we are targeting will be zinc oxide for UV protection. The overall market for UV-blocking materials for sunscreen applications is JPY110 billion. We estimate an annual growth rate of about 5%.

This table shows the most recent trends in the market. There are two types of sunscreen materials: organic materials and inorganic materials such as titanium dioxide and zinc oxide, which we handle. Among these, we are particularly strong in zinc oxide for cosmetics, which we have handled for more than 100 years since our establishment.

Looking at the percentage increase by shipment volume, if 2018 is set at 100, shipments of all materials has increased in 2023, indicating that the overall sunscreen market is growing.

As you can see, the share by material in 2023 is dominated by organic UV absorbers, but we believe that the ratio will change, and inorganic titanium dioxide and zinc oxide will grow in the future.

Sunscreen materials

Environmental Policies of Individual Cosmetics Manufacturers

Awareness of the need to reduce environmental impact is growing, particularly among major cosmetics manufacturers.

Change one

	Excerpted comments
Major European company A	By 2030, we will switch to sustainable minerals or bio-based ingredients produced through environmentally sustainable, circular processes.
Major Japanese company B	Out of consideration for our impact on coral, we have adopted product formulations that reduce runoff into the sea.
Major Japanese company C	Our products are designed to minimize ecological risks to aquatic environments, accounting for wash-off occurring during daily use and environmental runoff taking place during leisure activities.

Due to change one, we are observing growth in both inquiries from new customers and requests for a transition away from organic materials.

Here is an example of a cosmetics manufacturer with a policy on reducing environmental impact.

The market leader, a major European-based company, A, has stated that by 2030, it will switch approximately 95% of the ingredients used in its formulations to non-depleting minerals or bio-derived ingredients derived from circular processes. This implies that synthetic, organic UV absorbers and microplastic beads will be used less, and inorganic materials will be used more.

Major Japanese companies B and C have established policies on formulation design to reduce marine pollution of sunscreen products used by people on the beach.

In both cases, there is a growing awareness among major cosmetics manufacturers of the need to create products that reduce environmental impact. Against this backdrop, we are receiving an increasing number of inquiries from new customers and projects to replace organic UV absorbers. In fact, we have begun to make concrete moves such as switching from formulation design that used UV absorbers alone to formulation design that mainly uses our zinc oxide.

Sunscreen materials

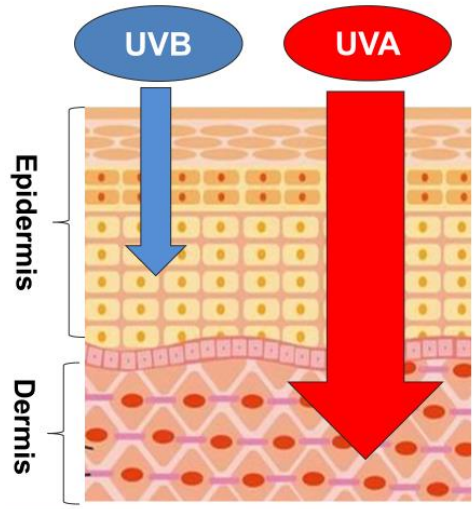
Evolving Sun Protection Needs

Focus on both UVA and UVB protection continues to grow.

Change two

- UVB rays are responsible for causing sunburn during leisure activities such as sports.
- UVA rays cause age spots, wrinkles, and freckles over the medium to long term.

Effects of UV Rays on the Skin



	UV rays	
	UVB	**UVA**
Effects on the skin	Sunburn, skin cancer	Age spots, wrinkles, and freckles
UV ray-blocking materials	Organic materials Titanium dioxide	Organic materials **Zinc oxide**
Performance metrics	SPF Sun Protection Factor Range: 1–50+	PA Protection Grade of UVA Rays Range: PA+ – PA++++
Wavelength	280–320 nm	320–400 nm
Light intensity	○	◎

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Next, here are some of the changes in sun protection needs. The illustration on the left shows a cross-sectional view of the skin, which is composed of two types of ultraviolet rays: UVB and UVA.

UVB waves only reach the surface of the skin because of their short wavelengths, but because of their high energy, they can cause general so-called sunburn or, in the worst case, skin cancer. On the other hand, UVA waves reach deep into the dermis due to their long wavelengths. UVA waves do not have the same immediate sunburn-like effects as UVB waves, but they are known to cause spots, wrinkles, and freckles over a long period of time.

Nowadays, there are many products on the market that are based on the concept of anti-aging, or the prevention of skin aging, such as skin spots and wrinkles. As a result, UVA countermeasures are increasingly gaining attention. Incidentally, the packaging of sunscreens has SPF and PA marks, which are numerical values or marks that indicate the effectiveness of the sunscreen in blocking UVB and UVA.

Sunscreen materials

Characteristics of Individual Deployment Areas and Current Developments

Change three

Change four

- **Overseas zinc oxide markets are less developed than the market in Japan.**
- **Zinc oxide is attracting attention in Europe (due to its inclusion in regulatory lists) and the US (due to its highly transparent properties)**
- **High quality will be necessary for achieving expansion in sales of zinc oxide in Europe and the US (marine pollution countermeasures and FDA compliance).**

Area	Materials used			Characteristics (inorganic UV scattering materials)
	Organic	Titanium dioxide-based	Zinc oxide-based	
Japan	◎	○	○	• **High-quality sunscreen is in demand worldwide** (with enhanced UV protection properties, high transparency, and superior sensory attributes). →**Sakai Chemical has responded to this demand by leveraging its strong powder processing technology.**
Europe	◎	○	▲	• **European markets tend to prefer UV-blocking materials formulated using titanium dioxide.** →**Geographical factors**: Titanium dioxide can be procured more easily than zinc oxide. →**Chemical substance regulations**: The use of zinc oxide was previously discouraged due to **concerns regarding marine pollution**. However, it was added to regulatory lists of approved cosmetic ingredients in 2016, and **its use is gradually spreading**.
US	◎	○	▲	• **The US is the largest market for sunscreen products.** • **Demand for highly transparent sunscreen is growing.** • **Certification from the FDA (U.S. Food and Drug Administration) required** In the United States, sunscreens are categorized as pharmaceutical products, necessitating high-level manufacturing and quality control systems.
China	◎	○	▲	• **Industry players in China tend to closely monitor trends in Europe.** In particular, they demonstrate a strong awareness concerning regulations governing materials used.

※ ◎ > ○ > ▲ : Degree of usage by area

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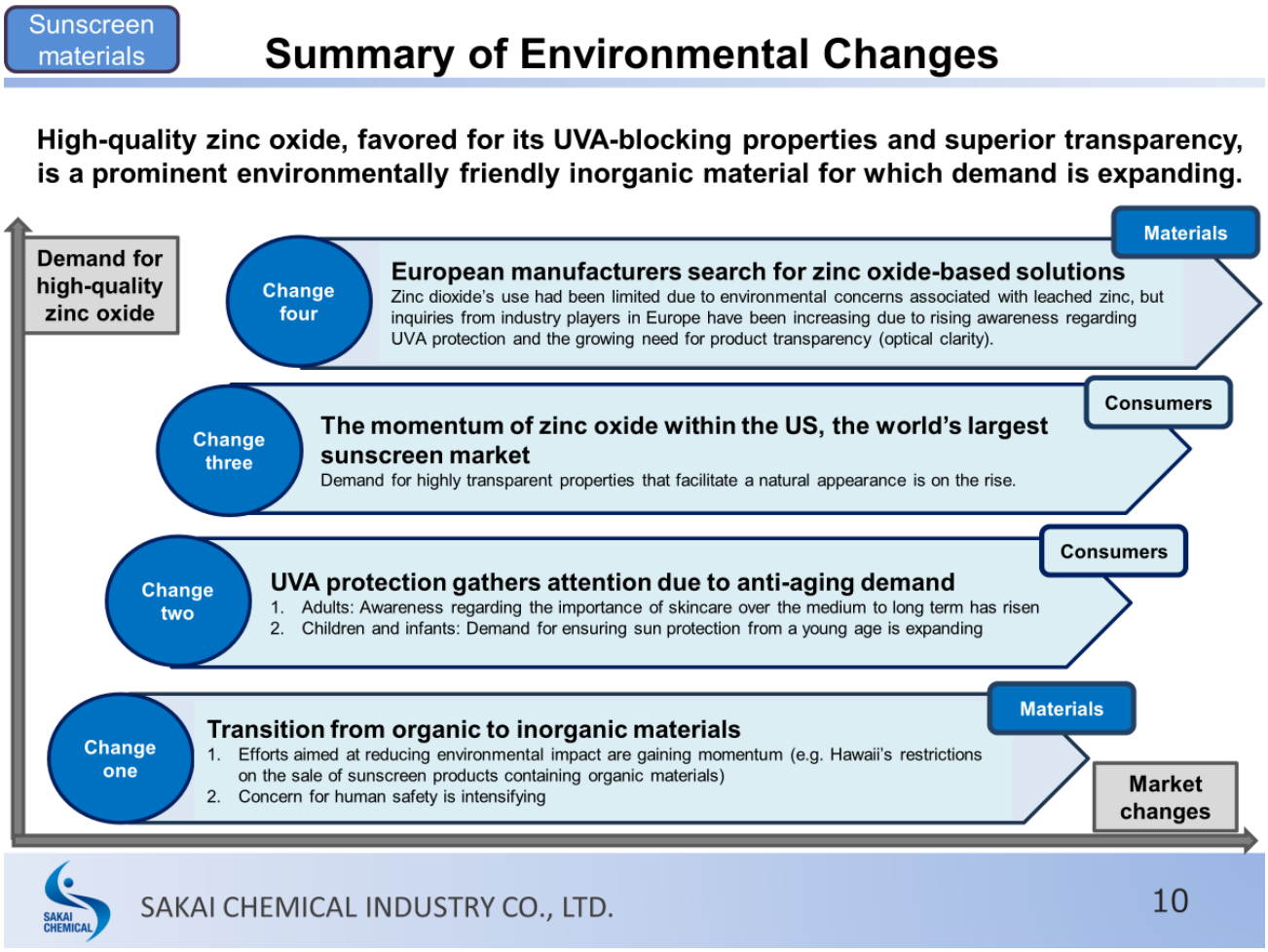
I will continue by explaining the characteristics of each of the areas in which we operate and the changes in our current situation. In all areas, organic absorbents are used most often, followed by titanium dioxide and zinc oxide. On the other hand, only in Japan are titanium dioxide and zinc oxide used in equal amounts, and many products are marketed that use both or use them in combination, depending on the product.

Japan is said to have one of the most challenging formulation designs in the world to meet consumer preferences. Therefore, cosmetics manufacturers are demanding not only UV protection but also total high quality in terms of feel and transparency from the raw material side. We have cultivated our technological capabilities by responding to such requests from our customers.

On the other hand, titanium dioxide has been widely used as an inorganic material in Europe, as there have been many titanium dioxide manufacturers there for a long time. On the other hand, the use of zinc oxide had been discouraged due to concerns about marine pollution, but in 2016 it was registered on the European list of cosmetic ingredients, and its use is gradually spreading.

The US is the largest consumer of sunscreen products, and major cosmetics manufacturers around the world are competing to expand their market share. In the US, pure white sunscreens have been the norm in the past, but recently there has been a growing demand for more transparent sunscreens that match the skin of various people, and the use of zinc oxide rather than titanium dioxide is increasing. In addition, the US is the only country in the world where sunscreens are treated as medicines, so certification by the US Food and Drug Administration (FDA) is required. Therefore, strict manufacturing and quality control equivalent to that of pharmaceuticals is required for raw materials at GMP-approved plants.

China tends to keep a close eye on European trends and regulations. Therefore, rather than performance, the first barrier is whether the product meets regulations.



The four environmental changes we have discussed are summarized below. The first change is the accelerated replacement of organic materials with inorganic materials for the purpose of reducing environmental impact. The second change is the increased focus on UVA protection due to anti-aging demand. And as for the third change, zinc oxide is gaining momentum as the US market demands higher transparency sunscreens. Finally, the fourth change is that European manufacturers, who had previously refrained from using zinc oxide, have begun to consider it in earnest.

In fact, in recognition of our technical capabilities, a major cosmetics manufacturer in Europe, which has not used ultrafine zinc oxide until now, has adopted our product for the first time this year, and will start full-scale shipments next year. We see this as a very significant point of change.

In response to these market changes, we believe that ultrafine zinc oxide particles with excellent UVA-blocking and transparency properties will be increasingly used.

Sunscreen materials

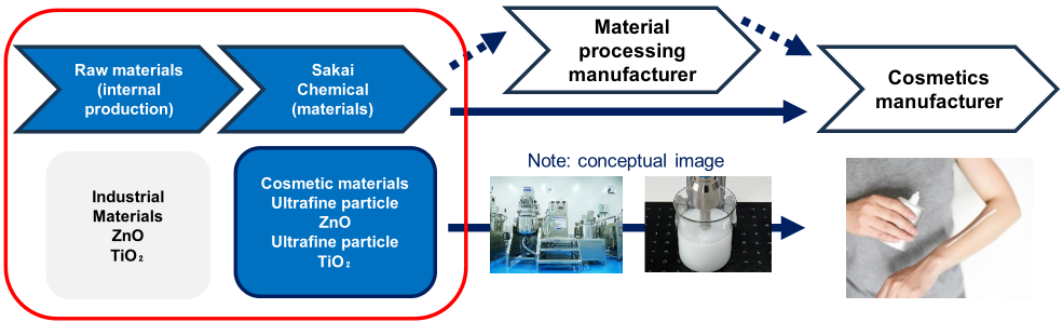
Our Advantages in the Field of Sunscreen Materials

We are capable of delivering high-quality, ultrafine particle zinc oxide.

Advantage one

- Our **advanced powder processing** technology creates ultra-fine particles and facilitates high dispersibility.
- We ensure high safety by complying with the regulatory requirements of the U.S. Food and Drug Administration.
- Our end-to-end production process starts with raw materials and ensures both low costs and a stable supply.

■ **Supply Chain**



ZnO: zinc oxide; TiO_2: titanium dioxide

I would like to continue by introducing our strengths in sunscreen materials. First, our major strength is our advanced powder processing technology, which allows us to synthesize ultrafine particles and easily disperse them. In addition, our advanced manufacturing and quality control system, which complies with US FDA regulations, guarantees a high level of safety. Another feature of this product is its low cost and stable supply, which can be achieved through integrated production from raw materials.

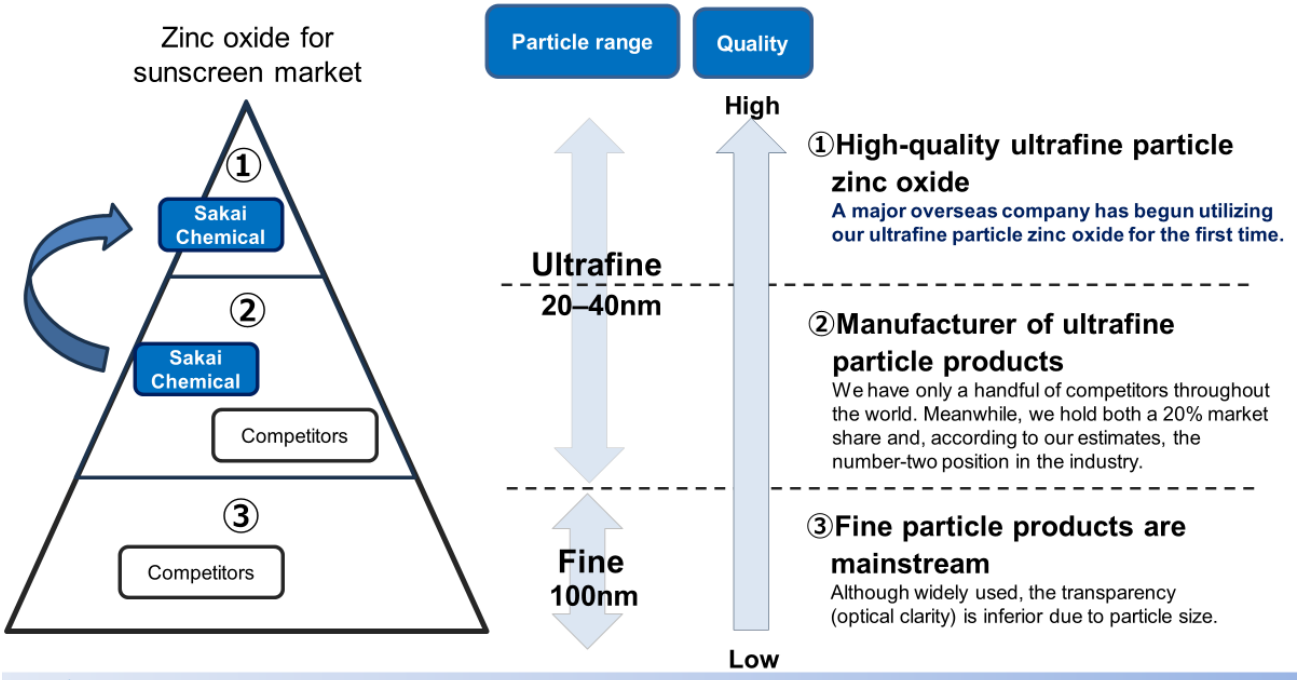
Taken together, our strength lies in our ability to supply high-quality ultrafine zinc oxide. As part of our supply chain, we use our powder processing technology to produce ultrafine particles of zinc oxide and titanium dioxide, which we produce for industrial use, and sell them to end-user cosmetics manufacturers, OEM manufacturers, and material processors that are one step ahead of these manufacturers.

Sunscreen materials

Relationships with Competitors and Competitive Advantages

We stay ahead of competitors by providing ultrafine particle zinc oxide of exceptionally high quality.

Advantage two

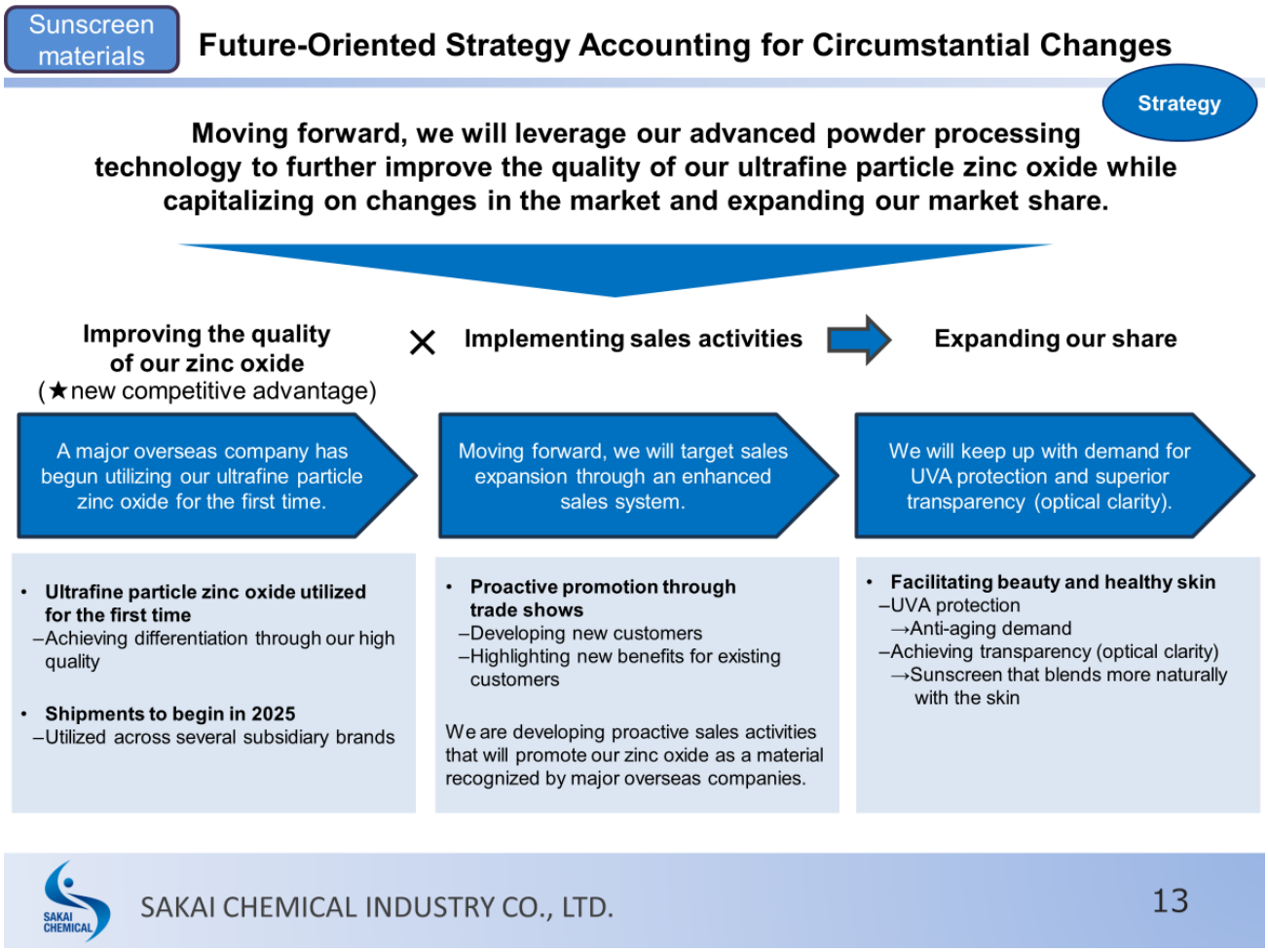


Next, we will explain the competitive advantage of our relationship with our competitors. This pyramid shows the lineup and quality of the particle system, where quality refers to transparency.

The fine particles supplied by our competitors are around 100 nanometers in diameter and are not very transparent. On the other hand, the ultrafine particles we supply are 20 nanometers in size, and there are only a few companies in the world that can offer this level of particle size. Among these, our products are said to have the highest transparency.

The use of this particle size has been mainly in the Japanese market until now. We believe that we are the second largest company in the industry with a market share of approximately 20%.

Most recently, our ultrafine zinc oxide particles were adopted for the first time by a major overseas cosmetics manufacturer. We believe that the global recognition of our technological capabilities will differentiate us from our competitors in this (2) category.



Magara: This sheet is a summary of the sunscreen. I will explain this part.

To summarize our strategy, we will use our advanced powder processing technology to achieve higher quality ultrafine zinc oxide, seize market changes as an opportunity, and increase our market share.

Our product is a high-quality zinc oxide that can respond to changes in the market, and by differentiating ourselves from our competitors, we were the first to be adopted by a major overseas cosmetics manufacturer. Shipments to overseas will begin in earnest next year, followed by rollout to multiple brands.

With this as a new competitive advantage, we intend to increase our market share by aggressively expanding sales to existing and new customers around the world. As a result, we believe we can contribute to the beauty and healthy skin we aim for.

Next, our sales representative will explain our makeup materials.

Makeup materials

Market Growth Potential and the Evolution of Makeup Materials

1. **Petrochemical resin powder-based (microplastic beads [MPBs]) continue to dominate the market.**
2. **Driven by regulations from the European Chemicals Agency and efforts targeting reduced environmental impact, a shift from MPBs to biodegradable resins or silica is underway, particularly in Europe.**

Change one

Target market

Markets for MPB and silica alternatives

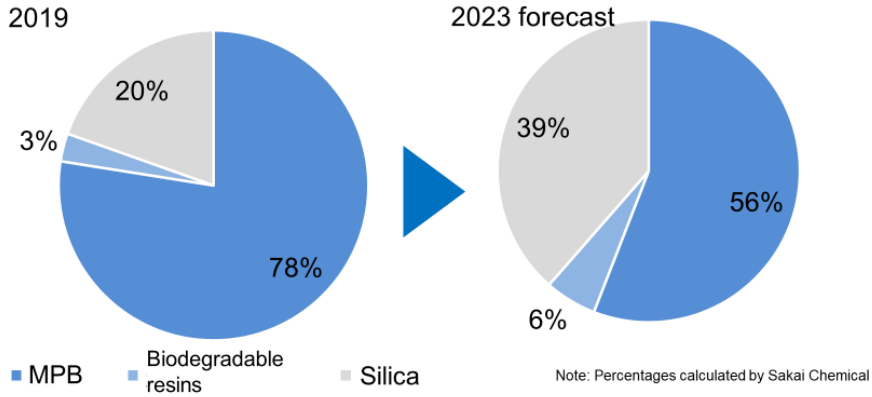
Overall market size

Approximately 20 billion yen
(calculated by Sakai Chemical)

Growth potential

Approximately 5% annually
(Sakai Chemical estimate)

Recent Market Shares (Based on Shipment Volumes)



Note: Percentages calculated by Sakai Chemical

MPB: Depicts internally aggregated values for cosmetic powders (for texture enhancement), petrochemical resins, acrylics, silicones, urethanes, polyamides, and polyethylenes
Biodegradable resins: Marine biodegradable resin powder (cellulose, cellulose acetate)

Source: Fuji Chimera Research Institute, Inc. (2023 Fine Powder Market: Current Trends and Future Prospects); Global Market Forecast for Cosmetic Microbead Alternatives in 2023

Sales representative: Now, I would like to introduce the growth potential of the market related to make-up materials and the changes in materials.

The make-up materials we handle include barium sulfate and calcium carbonate, which are so-called feel-improving agents intended to improve the feel of makeup products. The main feel-improving agents used are petrochemical resin powder and microplastic beads. These microplastic beads are very soft to the touch and are very much preferred for use in the feel they give to the cosmetics themselves.

However, as mentioned earlier, when these microplastic beads flow out into the ocean, they accumulate and have a negative impact on marine life. This led to regulations in Europe, and the movement began to spread throughout the world. Therefore, we are targeting the market for this alternative to microplastic beads.

And now, silica is the raw material that is attracting the most attention as a substitute for this product. We are also looking at alternatives for this silica.

The size of the market for these products is expected to be approximately JPY20 billion, with an annual growth rate of approximately 5%.

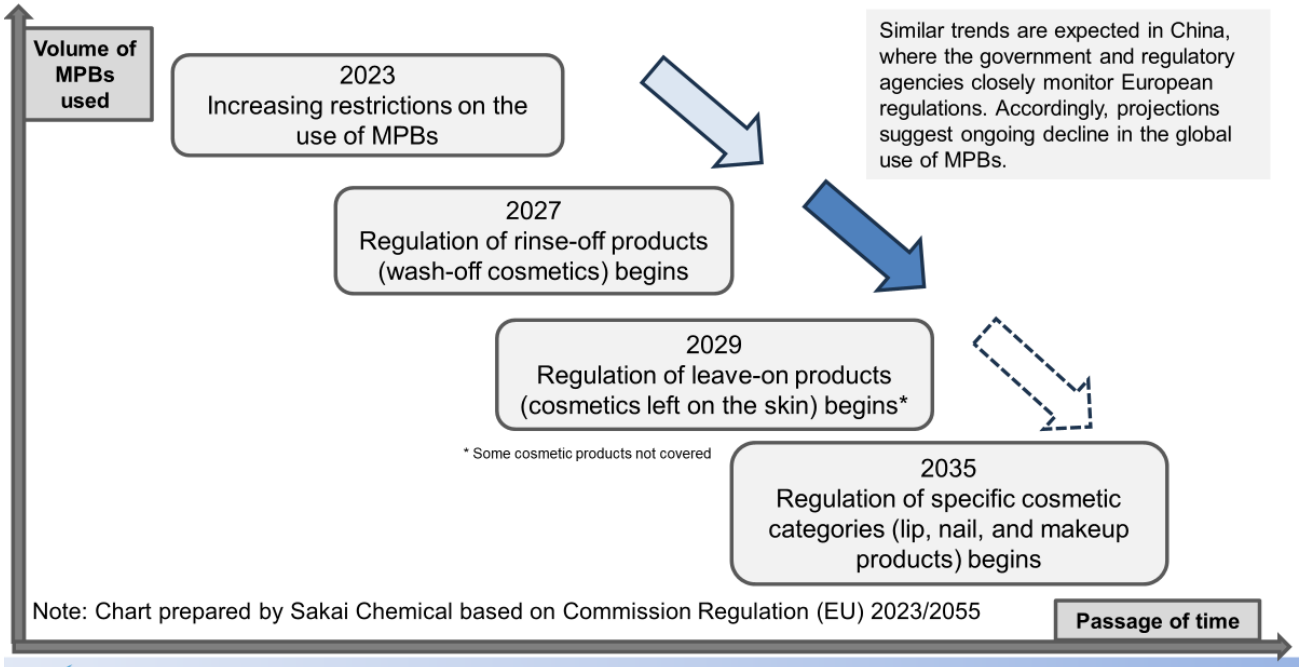
The chart on the right shows recent market trends in terms of shipment volume. Compared to 2019, the shipment volume of microplastic beads has declined in 2023, while silica and biodegradable resins will grow.

Makeup materials

Regulations from the European Chemicals Agency (ECHA)

Change one

Restrictions on the sale of cosmetic products containing MPBs within Europe are tightening.



Similar trends are expected in China, where the government and regulatory agencies closely monitor European regulations. Accordingly, projections suggest ongoing decline in the global use of MPBs.

Note: Chart prepared by Sakai Chemical based on Commission Regulation (EU) 2023/2055

Here we have shown you the regulations of the European Chemicals Agency, ECHA. ECHA has decided to start the microplastic beads regulation in 2023, and to gradually impose restrictions on the use of microplastic beads, product by product, beginning in 2027. And since the regulation will start in 2035 for all cosmetics, many cosmetics manufacturers are now starting to replace these microplastic beads.

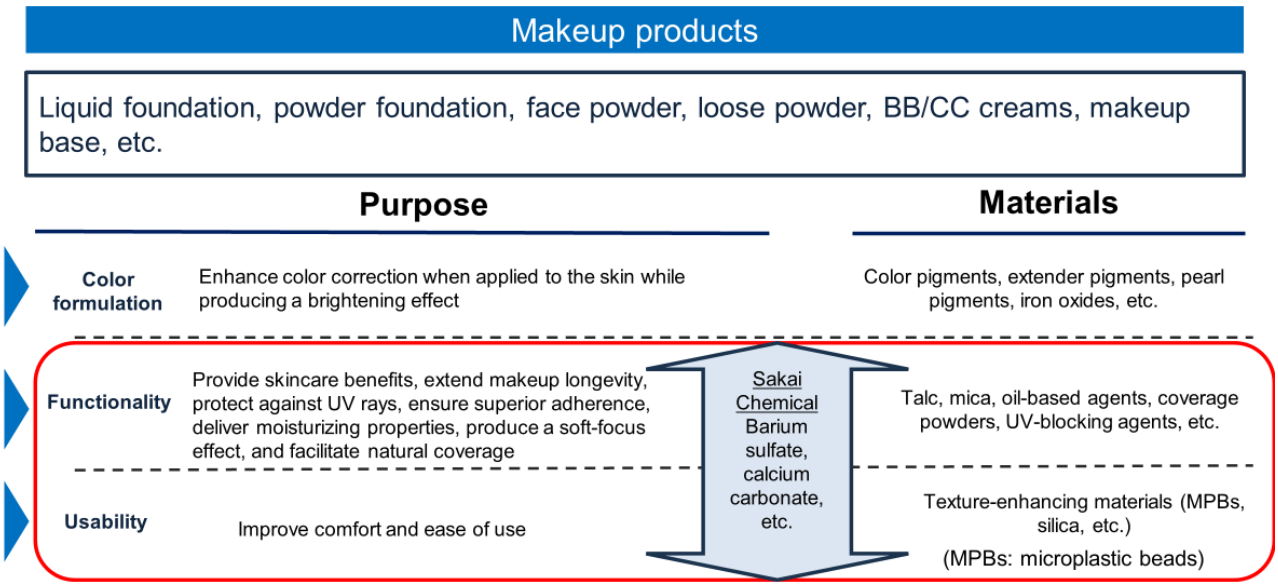
We see a great business opportunity in this change and are targeting the market for microplastic bead substitutes.

Makeup materials

Growing Demand for "Functionality"

Change two

- **Makeup products are diverse and use many different materials, each serving specific functions and purposes.**
- **<u>We aim to enhance usability and provide additional functionality, achieving two functions with a single material.</u>**



Here we will explain the growing demand for functionality in makeup materials. Although there is a wide range of make-up products, we are targeting the product groups shown here.

The components of a makeup product are color tone, functionality, and feel, as shown here, and there are materials suitable for each of these roles. It consists of many materials.

In our products, one material combines good usability with added functionality. The extra features include the soft-focus effect, natural coverage, and skin care effects described here.

In particular, inorganic powders with this skin care effect are extremely rare, and we intend to compete with microplastic beads and silica by focusing on these inorganic powders.

Changes in Consumer Trends

Change three

The range of applications for makeup products is expanding.

- Growth in opportunities to share photos and videos across multiple platforms
- Young consumers are quick to embrace newly emerging trends such as Korean cosmetics

Rising aesthetic awareness among male consumers

Makeup routines becoming more common among younger individuals

Next, we discuss changes in consumer trends. The proliferation of social networking has brought about a major change in consumers. First, the spread of social networking has improved men's sense of beauty. And you can see that even men are now enjoying makeup. Major cosmetics manufacturers are using male celebrities and male idols in their cosmetics advertisements one after another, and there are probably men around you who have already started wearing makeup.

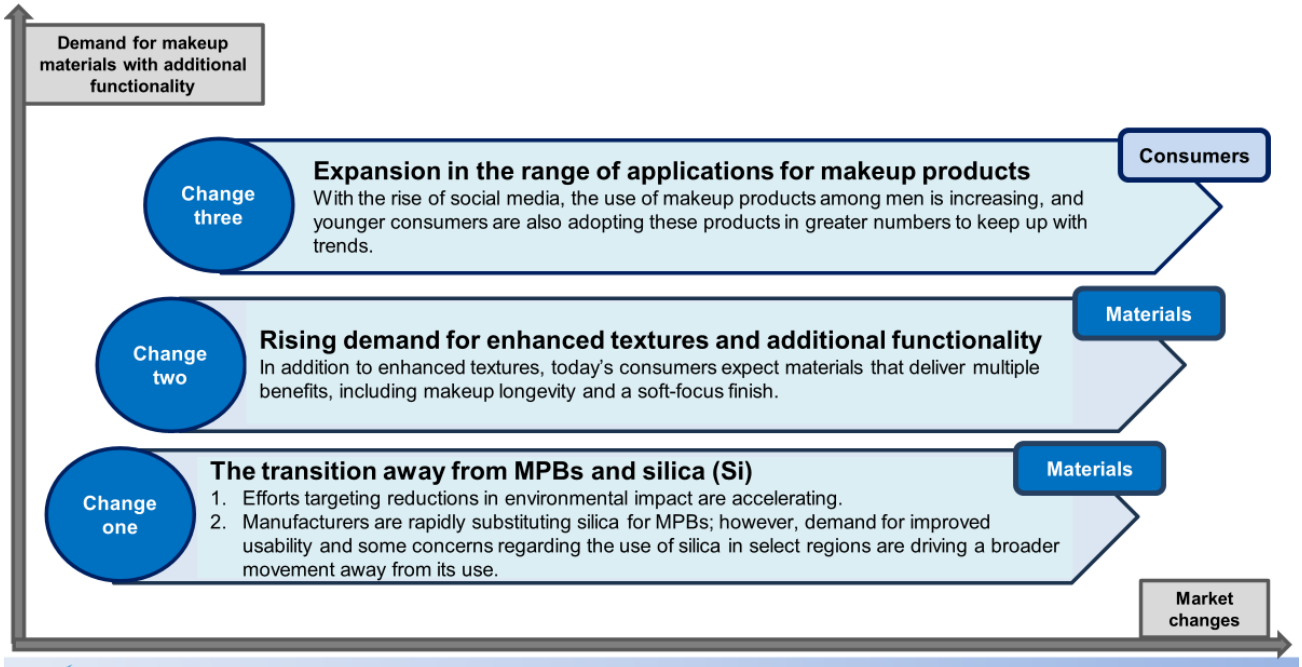
Another factor is the trend toward younger makeup wearers. The availability of cosmetics such as Korean cosmetics, which are affordable and easy to start wearing, has allowed parents and children to enjoy cosmetics together, and some cosmetics brands are targeting elementary school students.

These have led to an ever-expanding range of applications for make-up products.

Makeup materials

Summary of Changes in Market Conditions

Markets are changing due to shifts in both materials and consumer preferences, and demand for additional functionality is on the rise.



To summarize the changes in the target market up to this point, change one is the accelerating trend to replace microplastic beads due to their negative impact on marine life. For this reason, silica is used for replacement, and its use is increasing. However, silica itself is also a cause for concern in some areas, and there is now a trend toward going free of microplastic beads and silica.

The second change is that more and more functions are required from a single material. Ingredients with multiple functions, including not only feel but also cosmetic longevity and engineering properties, have become important factors sought by cosmetics manufacturers to facilitate the design of cosmetic formulations.

Change three would be a change in consumer behavior. Men are enjoying makeup and using makeup at a younger age, as we have explained.

Under these circumstances, we believe that the market for our materials, which are neither plastic nor silica, will expand greatly.

Makeup materials

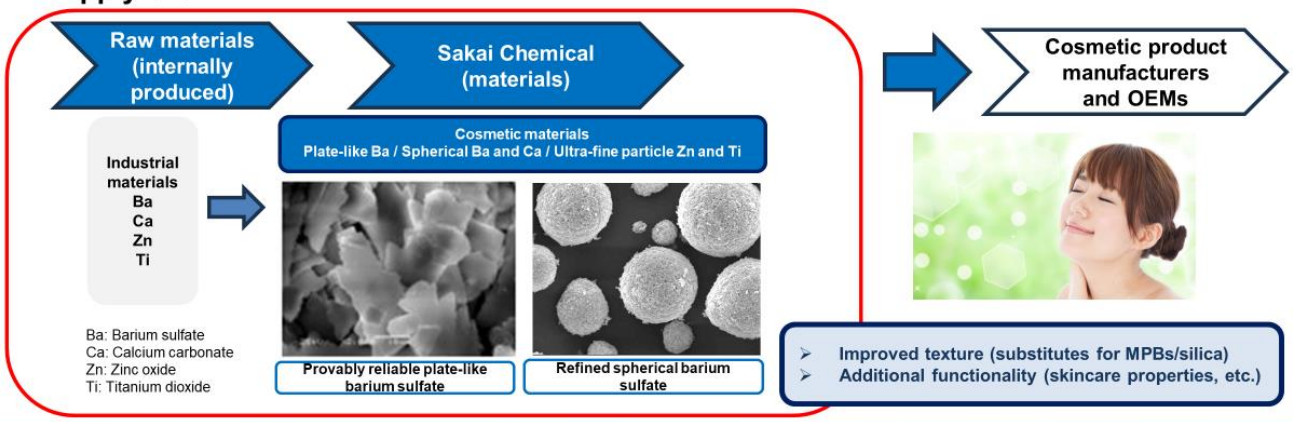
Our Advantages in the Field of Makeup Materials

Advantage one

Our products are capable of delivering more than just a pleasant texture, which is crucial for makeup products; they also provide a varied range of additional functionality.

- We handle a wide selection of inorganic materials.
- **Our advanced powder processing technology** enables precise customization of particle size and shape.
- The formulations we create and propose are presented in the form of finished makeup products.

■ **Supply chain**



SAKAI CHEMICAL INDUSTRY CO., LTD. 19

We would like to continue by introducing our strengths in make-up materials. Our raw materials are not only capable of imparting a good feel, which is important for makeup products, but also of providing a variety of additional functions.

This is because we handle a wide variety of inorganic materials, and our powder processing technology allows us to freely arrange particles of these materials. The cosmetics are then made using these ingredients and proposed to the customer, or "formulation proposal".

In terms of the supply chain, makeup materials, like sunscreen materials, also use powder processing technology. Barium sulfate, calcium carbonate, zinc oxide, and titanium dioxide, which are originally produced for industrial use, are made into plates as shown in the photo on the left to improve their slipperiness, or into spheres to create a rolling feel.

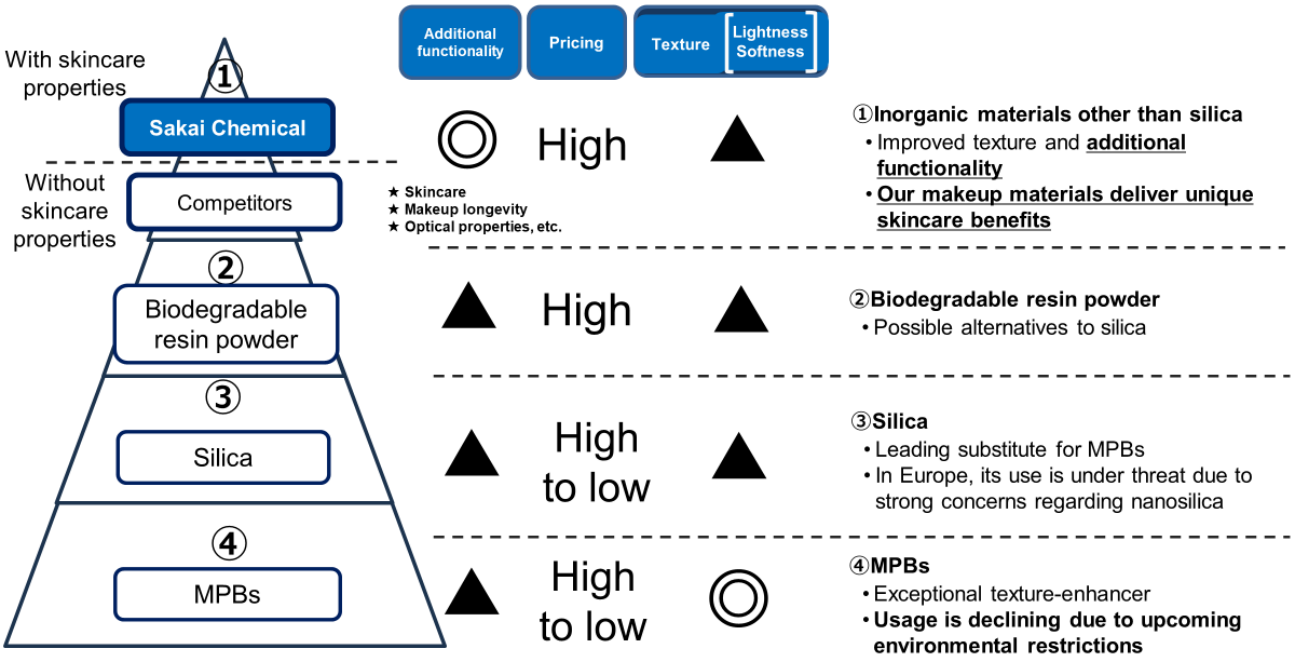
In addition, we have improved the soft-focus effect and skin care functions of our products and sell them to end-user cosmetics manufacturers and OEM manufacturers as raw materials with multiple functions in a single product.

Makeup materials

Relationships with Competitors and Competitive Advantages

Advantage two

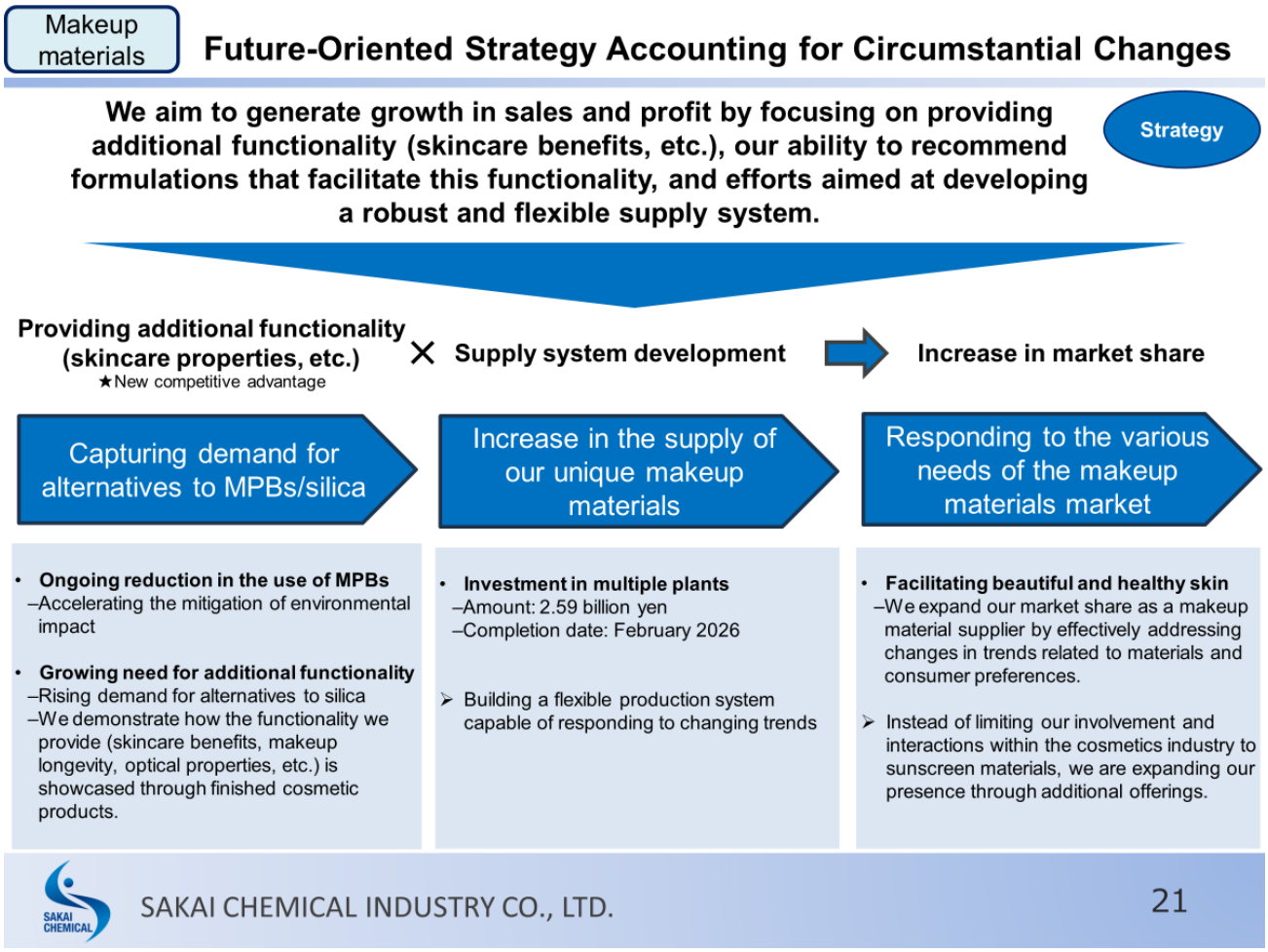
We have strengthened our market position with inorganic materials offering distinctive skincare benefits unavailable from competitors.



Next, we will explain our relationship with our competitors and our competitive advantage. Microplastic beads, the fourth circle at the bottom of the pyramid, are still a major raw material, but we believe that this trend will eventually spread to the entire world as they are no longer used in Europe due to the European law I explained earlier.

Silica, which is located in the third circle, is increasingly being used as a substitute for microplastic beads, but there are concerns about its use in some areas. On the other hand, regarding the biodegradable resin powder in the second circle, the feel is not much different from silica or inorganic powders, but on the other hand, the functionality that would be an added benefit is considered to be small.

Therefore, we would like to differentiate ourselves from our competitors by strongly emphasizing the skin care functionality of inorganic substances other than silica, which is very rare among inorganic substances, as an additional element.



Magara: This will be the last sheet. This is a summary of the makeup materials.

First of all, the strategy is to expand sales of the skincare function and other add-on functions through its formulation proposal capabilities and flexible supply system.

We will capture the demand for products that do not use microplastic beads and silica in response to the changing market trend of reducing environmental impact. We will also use our powder processing technology to differentiate our products from competitors' products with materials that have the added functionality of skin care, which silica does not have.

In order to increase the supply of these unique materials, we will invest in multiple plants and build a flexible supply system that responds to trends. As a result, we will respond to various customer needs and increase our market share in the make-up materials market.

In addition to sunscreen, we would like to increase our presence in the cosmetics industry.

That is all for the explanation. Thank you for your attention.

Question & Answer

Moderator [M]: Now I would like to take your questions regarding the strategy of the cosmetic materials business. As before, we would like to ask questions first from those of you in the audience, and then from those of you participating via the web.

Now, first of all, to those of you in the audience, if you have any questions, please feel free to ask them. Any questions? Now I would like to ask once more to those of you who are participating on the web.

Participant [Q]:

First of all, regarding zinc oxide, you said that the number of zinc oxide products for European customers will increase from next year, but is it my understanding that this will already start in January?

You mentioned one company for now and other brands, but when will the second and subsequent companies start? Please let us know if you will be able to meet the final year of the medium-term plan for the fiscal year ending March 31, 2027.

Also, since transparency is so important in the US, at what point will there be more products for customers there? In short, please tell us when sales of these products will come in for the fiscal year ending March 31, 2027.

Magara [A]: Thank you for your question. I will answer your question.

First of all, we have been adopted by a major overseas manufacturer, and although it is not clear whether the month will be January or February, we expect shipments by March. We have heard that the brand will be adopted by other brands in 2025 and beyond.

As for the second and subsequent companies, I apologize for the ambiguity of the wording, but we have already received almost all of them. We are in the process of finalizing the details with the company. As for that, it will be released in 2026, so it will be available as early as H2 of the 25th fiscal year. That is the plan at this time.

We are in the process of evaluating other customers. We have not yet received a definite answer as to the timing.

In fact, it seems that many of our customers in the US, or rather, many of our major customers who go abroad, sell their products in the US as their first market. Although we have not been explicitly told that this product will be sold in the US, it seems that business is proceeding on the assumption that the product is FDA compliant for the US market. Therefore, I have the impression that many European manufacturers are also targeting the US market.

Therefore, we are aware that the current trend is for European manufacturers to enter the US rather than American manufacturers.

Participant [Q]: I would like to ask an additional question. I believe that you have annual sales of JPY2.5 billion to JPY3 billion, probably including titanium dioxide. If possible, could you tell us about the ratio by region?

Also, in the final year of the medium-term plan, you said that you would generate JPY1.5 billion in operating income from cosmetics. This year's profit will probably not be much, but I think you said that you would

increase it by JPY1.5 billion over the next two years. In what areas do you expect to increase profits? Also, to what extent do you have a clear vision of this?

And, am I correct in understanding that there is currently only one company that has adopted your product?

Magara [A]: I would like to answer your last question first.

Participant [Q]: So, it is the second company to adopt your product.

Magara [A]: Yes. First of all, by region, of course, up until now we have mainly dealt with manufacturers in Japan. However, we are also actively working with manufacturers in Europe and the US Our current sales expansion activities are rather aggressive toward European and US manufacturers and overseas manufacturers, and in fact, we expect our products to be adopted in these areas.

However, the final consumption areas where cosmetics manufacturers sell their products are in various places, such as China, the US, and Europe, and we do not have a clear understanding of these areas.

Therefore, as for cosmetics manufacturers, we will expand sales mainly to European manufacturers, American manufacturers, and Japanese manufacturers. However, we do not have a complete picture of which regions the cosmetics manufacturer will end up selling their products in, so we are unable to say for sure.

Participant [Q]: To put it another way, if we have sales of JPY2.5 billion to JPY3 billion now and increase JPY1.5 billion of operating profit in two years, you probably have to increase additional sales by about JPY3 billion from now, even if we assume a marginal profit of 50%. In addition to the one company that has already been confirmed, there is another company that has almost completely adopted your products, and we expect one more company to join. However, will that really be enough to increase sales by about JPY3 billion?

Magara [A]: I feel that it is difficult to work with only those two companies, but we are actually working with other major companies as well. Evaluation is already underway.

After all, we are now thinking of working not only with those two companies but also with other major companies, aiming for a profit of about JPY1.5 billion as a result.

Participant [Q]: However, I don't think they will make it as sales in 2027 unless they decide to adopt the product right now. they may be able to get by until the second company, but sales after the third company will be tough.

Magara [A]: I think you are right, but the clients who are adopting now are not necessarily those who did the work last year or this year, but those who have been planting the seeds for three or four years and are finally bearing fruit. We have already done work for other major companies at the same time. This medium-term plan assumes that this will come to fruition in the future.

Participant [Q]: So, those sales will definitely come in during the fiscal year ending March 31, 2027?

Magara [A]: I think we have done the work in time for March 2027.

Participant [Q]: I understand. And the second point, the feel enhancer. I think it is true that there has been a considerable shift from MPB to silica over the past five years. Am I correct in understanding that the shift has been this drastic?

Magara [A]: These figures and statistics are a drastic change, and in fact, this is part of the law, not just about rumors. Europe is strictly restricted by law, so by law they will not be allowed on the market from 2035. Since

that has been opened as of 2023, we have heard that each cosmetics manufacturer has begun research and consideration in the direction of not using it too much.

We will continue to use plastic until we have no choice but to switch over to what is currently on the market, but I believe that these figures reflect the recognition that the trend of not using plastic for new products as much as possible is accelerating.

Participant [Q]: I think the next step is to replace silica, but I wonder if barium-based materials are that different from silica in terms of safety, for example.

Also, you mentioned the law this time, but maybe the law doesn't give us any shift from silica, so please explain about that.

Magara [A]: You are right, silica is not a plastic, so it is used in the same way as our materials, as a material that would replace plastics, like barium-based materials.

But as was also explained earlier, some areas are trying to use less silica. This is not a regulation. In other words, it is not restricted by law, so there is no legal penalty for using it. However, due in part to influence from consumer groups and other organizations, manufacturers in the cosmetics industry, and the broader industry in general, have become concerned about potential reputational risk arising from rumors or anxieties surrounding the use of silica. These concerns also tend to have a greater impact than comparable apprehensions in other industries.

So, I do not believe that silica will become unusable as you say, but I think that even in areas where it is not, barium and silica alone can make significant profit as substitution of plastics.

However, we have been receiving an increasing number of requests for non-silica products, and we see this as another opportunity.

Participant [M]: Okay, we are expecting you. Thank you very much. That is all from me.

Moderator [M]: Thank you very much. Do you have any other questions from the web?

Participant [Q]: Thank you very much for your detailed explanation of the cosmetics business. Although the cosmetics business is positioned as a growth business, I feel that it has been stagnant for some time now. This explanation has made the future direction very clear to me, and I am now aware that it may be very promising.

So, let me ask two questions, not in detail, but in the general business environment.

First of all, as to the news questions I have seen and heard on TV or on the Internet, last week one of the largest cosmetics manufacturers in Japan announced business structure improvement, or in layman's terms, restructuring, and announced a business environment that is becoming quite severe.

I am a little concerned that this kind of business restructuring and restructuring by a cosmetics manufacturer will have a certain impact on your cosmetics business. I would appreciate any clarification on this point.

As far as I have seen on the TV news, one of the major reasons for the restructuring of these major cosmetics makers is the intensifying competition with Chinese cosmetics makers.

When it comes to titanium dioxide, I wonder if China actually had an impact until last year, but in regard to the cosmetics business, will your business be affected in any way by the rise of Chinese cosmetics makers? Or, conversely, is it an opportunity? I would be happy to hear from you about that as well. It's a long story, but that's the first question.

Second question. It may not be appropriate to say that the cosmetics business will stabilize in the future because it is a growth business, but I think that the cosmetics business is about to get out of its current slightly difficult position and stabilize. In the same growth business, like the electronic materials business, there is no such thing as a cyclical cycle, where volatility increases, and sales will be stable, or rather, grow. Am I correct in thinking that way?

For example, if it is electronic materials, there may be a large volatility due to adjustments in the semiconductor market, etc. Should we not think too much about such things? It would be helpful if you could speak to this point as well.

These are the two points I would like to ask. Best regards.

Magara [A]: Thank you for your question. First of all, the environment for major Japanese cosmetics manufacturers is extremely severe, and we believe that this may or may not have an impact on them. As the largest company in Japan, we have worked with them in the past, and they are still helping us today, so they have an influence on us.

We will answer the question about the impact of this and what to do about it later, but we are aware that one of the reasons for the difficult environment for major Japanese cosmetics manufacturers is competition with Chinese cosmetics manufacturers. In fact, the decline in our Q2 sales is partly due to such effects.

There is no doubt that Chinese cosmetics manufacturers are gaining competence in this area. China has adopted a policy of disclosing all the ingredients of cosmetics it imports, even though it is a national policy, so now major companies from overseas are importing products into China, and they are able to know what is in them. By combining them, it becomes something that a Chinese manufacturer could produce.

Conversely, we can also use this as an opportunity to approach major Chinese companies and local manufacturers that are currently growing. Therefore, Japanese and overseas manufacturers are considerably influenced by China, and we are also affected in this respect, but on the other hand, it is also an opportunity for us to join local manufacturers in China.

Until now, it has been difficult to disclose such detailed information, but we believe that this is an opportunity for us.

Secondly, in terms of volatility in the cosmetics and stable businesses, I do not see as many ups and downs as in the electronic materials. However, we do not expect the growth to be as large as that of electronic materials. I think it will grow by about 5%, or something realistic like that.

As you explained earlier, the driving force behind this is that people who did not originally wear makeup are starting to do so. As the global population grows, people in areas that have never had the custom of wearing makeup will do so. We estimate that this area is growing at an annual rate of about 5%.

Therefore, even if there is a slight decline due to various economic conditions, I do not think that the volatility of electronic materials is so extreme, so even if it does not grow high, I do not think that it will fall so drastically. Does that answer your question?

Participant [M]: Thank you very much. Thank you so much for your kind response to my question on the news that I just saw and heard on TV.

Moderator [M]: Thank you very much.

Since there seems to be no other questions, and since time is running out, I would like to return the microphone to the venue.

Moderator [M]: Thank you. Last call for any questions? Thank you very much.

Since there seem to be no further questions, we will conclude today's briefing. Thank you very much for your attendance today. Thank you for your continued support.

Please be careful on your way home, everyone. Thank you very much to all those who participated via the web. This will be the end of the meeting. Thank you very much.

[END]

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