FY2024 Financial Briefing Q&A

[Date] May 9, 2025

[Time] 10:00 – 11:00

[Speakers] Representative Director, President and CEO Hiroyuki Ueshima

Representative Director, Executive Vice President Masaya Ikemoto

Director, Managing Executive Officer Masatoshi Kamada

Director, Executive Officer Tamotsu Isobe

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

General Manager of Corporate Planning Dept. Kimiaki Saito

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Medium-Term Management Plan **ACE 2.0**

[Q1]: There is a great deal of uncertainty regarding the tariff and other policies of the US Trump administration. What kind of negative or positive impact do you think can be expected at this point, and how do you assess the total impact on the Company?

Ueshima [A]: We have already seen various effects in our business, and I would like to explain in detail. On the downside, as has already been the case since last year, Chinese goods that have lost their way in the US market are expected to flow into the Asian market. We also export semiconductor-related materials to China, but exports to the US, the final consumption market, have been extremely disrupted. Q1 of this fiscal year has also been affected by the request to stop some deliveries. However, we expect annual consumption to proceed largely as planned.

In addition, there is a growing discussion with our customers, manufacturers, as to how to consider the additional cost of taxes and how to pass this on. In any case, there is a possibility that consumer confidence will cool and the distribution of end products will deteriorate, but at the moment, there is not much direct impact on trading companies that handle upstream materials such as ours.

On the other hand, as a positive factor, I believe that there are always opportunities in change. For example, a change of manufacturing location from China to Asia is occurring. We have already begun to take measures since last year in anticipation of such a trend. Alternatively, between countries with relatively high tariff differentials, transfers from higher to lower tariffs are also in progress, and we are working on measures to address each of these issues. In addition, for the export of Chinese products to the US, we have been asked to switch to other suppliers for products handled by other companies, and we have begun searching for other suppliers, mainly in India and Asia, and spec-in activities.

While there has been such impact on our businesses, what I am most concerned about is that cash flow is deteriorating at all companies, including ours, and the risk of credit management has increased significantly. And there is confusion about what inventory is tariffed and what inventory is not. We are proceeding with caution to ensure thorough inventory control.

I know there are time differences, but to some extent, I expect that things will settle down by summer and the economy will recover in H2, and the impact will not be as great throughout the year.

[Q2]: Regarding shareholder returns, you have set a target of 100% for the total return ratio in fiscal 2025, the final year of the current medium-term plan. What kind of discussions have been taking place internally regarding the shareholder return level after FY2026?

Ueshima [A]: We are committed to a 100% total return ratio until FY2025. We are currently discussing the medium-term management plan starting from FY2026, and the overall concept will be almost finalized by the beginning of fall. Among others, we regard the shareholder return policy as an extremely important management issue and are discussing it and will provide an explanation once it has been decided.

[Q3]: It appears that the growth rate of earnings in the Electronics and Energy segment for this fiscal year has been set to slow down suddenly compared to the trend up to the previous Q4. Could you tell me the background behind it?

Please also tell us about the current demand trend for formulated epoxy resins for AI server semiconductors and whether there has been any change in the competitive environment.

Kamada [A]: First, we continue to do well and expect double-digit growth this fiscal year with regard to Nagase ChemteX's liquid molding compound (LMC) for generative AI, which is one of our strengths. In FY2024, our group company Pac Tech's wafer bumping equipment sales were very strong, and we had spot business from that, which boosted profits. In addition, Sakai Display Products Co., Ltd. was closed as a display-related company, but since we had been producing displays until last August, the profit from this will be zero for this fiscal year. Finally, taking into account the impact of strong yen, the plan has come out in this way overall.

[Q4]: Could you please summarize the one-time factors included in the increase or decrease in operating income for the current fiscal year? Is there anything else significant besides: a JPY3.8 billion increase in retirement benefit expenses, a JPY1.3 billion decrease in Prinova's provision for individual bad debts, a JPY1.1 billion decrease in Nagase Vita's amortization of intangibles?

Ueshima [A]: There are no significant transitory factors. Retirement benefit actuarial differences will be a loss of JPY300 million this year, which is an increase of JPY3.8 billion from the previous year. I believe the tax refund incurred in Q1 of the last fiscal year is less than half of last year's amount, but we expect a little over JPY200 million for the current fiscal year as well. Other than that, there will be a non-operating tax effect from the withdrawal from the thin glass substrate processing business in China. This is around JPY1 billion. In addition, one of the three acquisitions will have a positive effect of approximately JPY1 billion in negative goodwill.

[Q5]: Why was Prinova's Q4 FY2024 operating income result limited to a JPY 100 million loss?? As a matter of fact, the situation seems to have become even more difficult toward the latter half of the fiscal year. Considering the impact of the Trump tariffs, the operating income plan of JPY4.9 billion for FY2025 looks quite difficult. Is this a figure that incorporates the effects of each measure to a considerable extent in H2 of the fiscal year, and the view that the profit level will remain low in H1 of the fiscal year?

Ikemoto [A]: Q4 of the previous fiscal year, from October to December last year, was very difficult in the US, including the market. As a result, it posted an operating loss of JPY100 million. In these markets, we see some impact from the brakes that were applied in November and December, especially in Europe. In the US, the vacation season from November to December had a direct impact. Currently, since January of this year, the trading business has been showing a rapid recovery and we were able to start at a higher pace than originally expected. At the same time, in the manufacturing business, nutrition business has begun to recover, albeit slightly. Manufacturing business other than the nutrition business are also recovering and performing well. You pointed out that H1 of the current fiscal year may be tough, but we are working to further grow and recover in H2 under the circumstances where we are off to a rather strong start, through further manufacturing business efficiency, productivity efficiency in the nutrition business, pipeline management, and expansion into new business areas. Our new CEO officially arrived in April of this year and has been leading us in the field. I am prepared to go there myself and take the lead as well.

[Q6]: On the slide 38, you mentioned that the loss from the profit structure reform is JPY5.5 billion in FY2024. Of this amount, how much is included in operating expenses? How much will this be in FY2025?

Hanba [A]: In FY2024, the amount included in operating expenses in the improvement area was approximately JPY500 million for loss-making subsidiaries and JPY400 million for unprofitable transactions. In FY2025, improvements will be made, but a small amount will remain. We will continue our efforts to improve the situation.

[Q7]: Why are you sticking to your medium-term management plan and selling only JPY4 billion while recognizing that your strategic shareholdings are excessive? If we are serious about improving ROE and PBR, shouldn't you act now to reduce your strategic shareholdings to zero?

Ueshima [A]: I am aware that your point is correct. First, we are placing emphasis on the first step of executing the JPY30 billion sale set forth in **ACE 2.0**, but as you say, the situation is changing rapidly. We intend to continue to improve ROIC, increase shareholder returns, and use debt to invest in growth, all while keeping an eye on the balance.

[Q8]: With regard to the semiconductor-related business, a few months have passed since Deepseek-R1 was announced. What kind of impact have you seen? What is the anticipated impact on your liquid molding compound business?

Kamada [A]: With the advent of Deepseek-R1, it has become possible to provide low-cost generative AI services, which has led to the democratization of generative AI and spurred the development of various applications. This is expected to further expand the generative AI market globally. Nagase ChemteX's LMC has become the de facto standard, and we believe that our business will grow along with the expansion of the generative AI market, regardless of which country becomes the country of production.

[Q9]: You mentioned that Prinova Group's operating income will increase by JPY2.3 billion. I understand that the difference in the allowance for doubtful accounts is JPY1.3 billion and the planned increase in the nutrition business is about JPY2 billion. Do you expect a decrease in profit of about JPY1 billion in the food ingredients sales business?

Ikemoto [A]: The allowance for doubtful accounts for the last fiscal year was provided based on the situation of customers in the nutrition business, and the nutrition business includes a recovery of JPY1.3 billion. We plan to recover the nutrition business by eliminating this bad debt allowance and other one-time costs, as well as by improving efficiency and the top line. With regard to food ingredient sales in the trading business, the business continues to recover steadily from the slump that began in Q4 of the previous fiscal year, and is progressing at a record pace in terms of volume. We are concerned about the impact of the introduction of Trump tariffs, etc., but we also expect that the market price, which has been remained low, will turn upward again, encouraged by the Trump tariffs, and we believe that we can proceed under stronger conditions. We cannot be happy or sad because there are still economic trends and other concerns, but we are not expecting a decline in food material sales because of this outlook.

[Q10]: How much profit contribution do you expect from the expansion of key-end market and sales areas for cosmetics, as you indicated on page four? Also, can you tell us as much as possible about the key-end market?

Isobe [A]: As Ueshima explained earlier, demand for cosmetics is declining in China. This is still the case today, but our business is proceeding mainly in the US and Europe. The regions mentioned in this document are considered to be mainly in Southeast Asia. Many cosmetics manufacturers, including Japanese manufacturers, are shifting to South East Asia. We are considering following this trend and acquiring new business as well. We will refrain from explaining the details of the impact, but we believe it to be in the lower range of several hundred million yen.

[Q11]: Regarding the Prinova Group, will the increase in US tariffs have a positive effect on the Company?

Ikemoto [A]: The Trump tariff impact is a two-tiered structure, with an overall tariff of 145% on Chinese goods. Of these, 125% consist of the reciprocal tariffs on China by President Trump this time, and the remainder are conventional tariffs. However, these 145% tariffs are not applied to all the goods we handle, but to a few items. The US has a policy to protect food and nutritional materials, and they have not indicated a policy to tariff all of food and nutritional materials, including pharmaceuticals. Although this policy changes from day to day, only a certain percentage of the total will be tariffed. We are managing tariff based on these points, and we proceed with the import and sales contract only after the customer has agreed to these duties. As I mentioned earlier, we are hopeful that the Trump tariffs will lead to some increase in unit prices in the market, and we hope that this will have some stimulative effect on prices, not all of which are negative. The issue is in the next step, the market. It will depend on whether the overall US economy will fall into stagflation in the future, and there are still some uncertainties. We will continue to pay attention, promote dialogue with our clients, and accurately grasp the market situation.

[Q12]: It has been reported that the US Trump administration is reviewing tighter regulations on AI semiconductor exports. What do you envision at this point as a point to settle down? Please explain the impact on your semiconductor-related business and your countermeasures in such a case.

Kamada [A]: This is a very difficult question, but export restrictions on AI semiconductors have been in effect since before President Trump took office with HBM's export restrictions to China.

It has consequently had a minor impact on our overall sales. A recent regulatory review of NVIDIA Corporation's H20 has resulted in even more stringent results. It is very difficult to predict how AI semiconductor export restrictions from the US will be enforced in the future, and I believe there is a non-zero possibility that they will become even stricter. Therefore, I personally expect that domestic production within China is underway, although it is still unknown how we will be involved in that area. However, since our LMC has become the de facto standard, we believe it is less susceptible to the influence of any country of production. We recognize that as long as AI semiconductors grow, it will grow.

[Q13]: Regarding the nutrition business on page 20 of the document, is it correct to assume that the production expansion and efficiency improvement shown in the lower right graph is a level that can be achieved without major additional investment? Also, please let us know if you have a simulation of the profit level in FY2029 if efficiency gains are made according to this graph.

Ikemoto [A]: Regarding the recovery of the nutrition business, we are not planning any major capital investment at present. By promoting the efficient operation of automated lines, in which we have already invested, and by improving overall productivity, we hope to achieve an increase in sales and profit and a recovery in profits. In terms of profit simulation for the year 2029, we have shown the gross profit figures for the food sector around 2030 on page 33. This is the level we are expecting. We will continue to improve our accuracy and strive to go above and beyond this level in the future, so we ask for your understanding.

[Q14]: Regarding Nagase ChemteX's forecast for FY2025, you plan to increase operating income by JPY900 million. How much of this increase will come from LMC? You also plan to increase SG&A expenses by JPY800 million. What is the reason for this increase?

Kamada [A]: I would like to refrain from giving an answer regarding the figures for Nagase ChemteX's individual businesses.

[END]