Business Results Meeting for the Fiscal Year Ended March 31, 2023: Main Questions and Answers

Settlement of Accounts in the Period Ending March 2023 (Fiscal 2022)

Q1: What is the reason for the fixed costs listed on page 8 of the "Financial Results for the Fiscal Year Ended March 31, 2023" being 1.1 billion JPY lower than the planned fixed costs?

A1: Although we upwardly revised the earnings forecast in November last year, shipments of the product group in the Functional Chemicals segment were reduced toward the year end versus the estimated shipments as of the point of that forecast. Accordingly, costs such as labor costs and transportation/storage costs fell, which resulted in a profit increase of 1.1 billion JPY.

New Mid-term Business Plan NOF VISION 2030

2022 mid-term business plan

Q2: The sales and operating profit goals in the 2022 mid-term business plan have been achieved by large margins. Which measures success greatly contributed in comparison to the initial estimate?

A2: It is certain that demand related to COVID-19 vaccines in the DDS business contributed to some degree. On the other hand, our assessment is that departments implemented measures to strengthen the revenue foundations of less profitable businesses at a stage positioned as the stage to strengthen the foundation, and contributed to achieving the business profit goal ahead of schedule. Specifically, the departments implemented price revisions of products centering around commoditized products for the purpose of profit improvement as well as abolished and consolidated individual products to accelerate the metabolism. In addition, as a product group, withdrawal from the functional film business, which has been unprofitable, also greatly contributed.

Q3: What percentage of cosmetic raw materials did ODM products account for in the period ending March 2023 (fiscal 2022)?

A3: Although we cannot disclose the specific percentage, the percentage of ODM products among cosmetic raw materials has been increasing.

General

Q4: President Miyaji will be Chairman in June, and Sawamura will be the next President. What challenges, if any, do you expect the new president to solve?

A4: I (Miyaji) served as President for five years. During this period, I believe I was able to lead the business in a certain direction, including the development of the new mid-term business plan. As I have said before, I think that the life/healthcare field, particularly the life science (DDS) business, will lead our business through to 2030. During the five-year period, Sawamura, the next president, led the growth of the DDS business as the person in charge of that business. With the expectation that Sawamura will make good progress in measures to expand the business, I asked Sawamura to be the next President.

Q5: According to page 10 of the New Mid-term Business Plan NOF VISION 2030, the expected annual growth rate in business profit is 4 to 5%. However, considering that profit is forecast to fall in fiscal 2023, the increases in fiscal 2024 and fiscal 2025 seem large. Is this because in the DDS business,

which is suffering from a temporary profit decrease, the temporary effect will weaken during the next term? Or do you expect profit to increase through M&A, which is among the strategic investments? What are the factors behind the profit increase in fiscal 2024 and 2025?

A5: In fiscal 2023, we are planning to proactively make investments, including strategic investments. Although business profit will temporarily fall to an amount lower than that of fiscal 2022, we plan to increase profits in fiscal 2024 and 2025. Concerning the strategic investments, costs will rise first and, based on those costs, we will be able to secure profits in fiscal 2024 and later. Meanwhile, during the 2025 mid-term business plan period, the life science business, which is taking the lead in growth, will grow stably. Furthermore, as the profits of both the Functional Chemicals and Explosive & Propulsion segments are expected to grow, we have developed a sales profit plan as described.

Strategic investments

Q6: As the breakdown of the production investments of 47.9 billion JPY shown on page 16 of NOF VISION 2030, the main five facility investments are listed on page 17. What are the approximate investment amounts and scheduled completion times of each facility investment?

A6: We would appreciate if you would allow us to keep the individual investment amounts undisclosed. As part of the strategic investments, we are planning to make facility investments of 41.0 billion JPY in total over three years during the 2025 mid-term period, and in fiscal 2023, we plan to invest 25.6 billion JPY, including ordinary facility investments. Although not all cases have been determined at this point and some cases are under discussion, we plan to complete the five cases listed on page 17 by fiscal 2025. The construction of the facility in Aichi Plant, for which we have already announced that we would make a DDS-related investment of over 10.0 billion JPY, is underway with a goal of completion within fiscal 2024. Concerning the facility related to cosmetic materials, construction is in progress toward completion in fiscal 2024.

Q7: We would like to ask about how the increased research and development investment will be used. We consider that investments will also be made to facilities and human resources, and we would like to know about any plans for venture investment toward open innovation, including planned investment amounts.

A7: Basically, human resource investments account for a large proportion. Concerning future investments to venture capital, we have no specific cases that we can present at this point. However, if it becomes necessary in the course of our business development, we will discuss and consider the matter.

Q8: How about M&A? Should we understand that during the 2025 mid-term business plan period and toward fiscal 2030, the plan does not specifically consider increased profit through M&A?

A8: The costs are included in the strategic investment framework. We will discuss profit while keeping areas with high affinity for our business in sight, and include profits in the plan once specific cases take shape.

Business environment

Q9: Do you consider that the targets in the 2025 mid-term business plan are achievable so long as the current profit expansion is reliably implemented? Can these targets be achieved only when the expansion of business areas, including the start of new businesses, contributes? How difficult is it

for you to achieve the goal?

A9: We set the targets of the 2025 mid-term business plan to include reaping the rewards of the measures to strengthen the foundation in the 2022 mid-term business plan and the growth of new businesses.

Q10: The operating income of the Pharmaceuticals, Medicals and Health segment (the former Life Science segment) has been extremely high over the past several years. How will you maintain this high profit rate? Do you have any in-house goals concerning the segment's operating income?

A10: The segment's operating income rate has been increasing year by year thanks to the growth of the DDS business. We aim to maintain the operating income rate by ensuring the growth of this business into the future.

Q11: What are the prospects of the DDS business during the 2025 mid-term business plan period? We think that you originally had the view that annual growth would be 10%. Is that still your view? In addition, should we understand that while demand related to COVID-19 vaccines will decline, the sales of other products will grow to achieve sales in fiscal 2023 equivalent to those of fiscal 2022?

A11: In the biopharmaceutical market, where as we have announced we are planning to market products, we still hold the view that sales will grow at an annual growth rate of 10%. In fiscal 2022, sales did well partly because of the influence of the delay of the shipment of some products including products related to COVID-19 vaccines from the initial schedule of within fiscal 2021 to fiscal 2022. In fiscal 2023, we forecast that although the influence of the above delay of the shipment and demand for COVID-19 vaccines will settle down, as shipments of products for other biopharmaceuticals will grow, sales will remain at the same level as fiscal 2022. According to our forecast, sales from fiscal 2024 onwards will far exceed the sales of fiscal 2023 as the market grows, and this view is also reflected in the 2025 mid-term business plan.

Q12: Stern tube bearing oil was introduced as a new eco-friendly product several years ago, and page 30 of NOF VISION 2030 states that its sales will grow. What is the current situation for the bearing oil? While the plan initially expected substantially high growth, have the sales grown as per the plan?

A12: In the first half of 2022, demand for maintenance decreased due to the influence of continued worldwide interruption of shipping services. In the second half onwards, however, demand for maintenance has been gradually recovering, and we predict that this trend will continue this fiscal year as well. In the first half of fiscal 2023, we plan to market new products and exceed the fiscal 2022 results. We will continue to focus on implementing various sales expansion measures and new plans, and will aim to further expand sales during the 2025 mid-term business plan period.

Q13: Why are you strengthening the anti-fog agent production facility? We understand that LED on-vehicle lamps have spread and needs for the agent have increased. Are you making this investment because the sales areas have expanded?

A13: The main use of the anti-fog agent is for automobile head lamps. Worldwide automobile production is on track to recover despite the influence of the new coronavirus. Due to the increase in sales achieved by maintaining or expanding our share in response to the growth of such demand and the increase in the use of the anti-fog agent on rear lamps, the areas of application of the agent have been increasing. Although at this point the agent is mainly used on automobiles, we are also expanding sales for other usages including goggles, and we plan to make facility investments in consideration of the increase in such demand.

Q14: Some companies have started to withdraw from the defense industry. While the unclear situation continues, tell us about the efficiency improvements to facilities in the explosive and propulsion business as well as the specific measures for propping up the space-related business in the 2025 mid-term business plan period.

A14: We will continue the explosive and propulsion business into the future as a business that is expected to have stable profits. In fiscal 2023, we plan to increase defense-related sales. For the space-related and industrial explosive businesses, we face a harsh situation because of high raw material prices, but we will strive to improve profits by making price revisions and taking other measures. Throughout the 2025 mid-term business plan period, we expect that both sales and profits will increase due to the increase in the budget for bullets and explosives related to defense.

Q15: While the edible oils (food business) in the Pharmaceuticals, Medicals and Health segment are listed as a focal point in the 2025 mid-term business plan, do you have the option of withdrawing from operations?

A15: Concerning edible oils, since the 2022 mid-term business plan period, we have taken various measures, including price revisions to improve profitability. Among these, specifically we will implement a measure to vigorously push forward with product abolishment and consolidation during the 2025 mid-term business plan period. In association with such product abolishment and consolidation, we also plan to make big moves with productivity improvement measures to increase profitability.

Q16: In the briefing held in November last year, you explained about the expansion of the cosmetics raw material business, and we heard you estimate an annual growth rate for cosmetic raw materials of approximately 6% and for ODM products of approximately 7% up to 2025. Is this still your view?

A16: In the first half of 2023, following the end of the coronavirus pandemic, inbound demand is expected to recover in the domestic cosmetics market as the number of overseas tourists visiting Japan increases. In addition, as people go out more frequently and awareness of skin lightening rises, we think that the functional skin care market will expand more. Under these circumstances, in an attempt to further promote cosmetics features and to enhance brand power, many cosmetics makers tend to shift to the material development and ODM business, which emphasize functionalities. We have been handling a wide variety of cosmetic raw materials, including fatty acids, surface active agents, and polymers, and one of our strengths is the capability to develop and offer unique, original raw materials with high functionalities. In addition to expanding sales of cosmetic raw materials that leverage these advantages, we still maintain a policy of strengthening the ODM business as we announced last year. In fiscal 2023 as well, we will market new products, and we plan to excel fiscal 2022 and increase sales year after year. Sales of ODM products are also rising steadily, and we think its share of sales will increase annually.

Q17: As part of your organizational restructuring, the Oleo & Specialty Chemicals Division and the Functional Chemicals & Polymers Division were integrated. What challenges, if any, occurred and needed to be solved?

A17: Both the former Oleo & Specialty Chemicals Division and the former Functional Chemicals & Polymers Division had their own strengths, but they were unlikely to bring about synergy effects although they belonged to the same company. The strengths of the former Oleo & Specialty Chemicals Division include its varied product portfolio and many connections due to transactions with various customers. The former Functional Chemicals & Polymers Division had a high degree of specialization due to its proprietary technologies. We will fuse their good points to strengthen proposal capabilities and expand the market for existing products through consolidation of sales departments, and explore markets by means of new product development.

Q18: Does your intention to leverage the technological capabilities of the former Functional Chemicals & Polymers Division mean that you also want to expand to downstream products to some extent?

A18: A strength of the former Oleo & Specialty Chemicals Division was its wide-ranging monomer product lineup for use as raw materials. The former Functional Chemicals & Polymers Division has polymerization technologies, including polymerization initiators. By fusing raw materials with polymerization technologies, we plan to expand, including into downstream products.

Q19: A pilot plant for polyimide raw materials was constructed at the Amagasaki Plant. What is its operation status, and what is the trend following construction?

A19: The pilot plant started operation according to plan. We have been conducting development for a while, and by strengthening the relevant facilities, we have been proactively carrying out polyimide raw materials production. While a facility was additionally constructed at the Amagasaki Plant, which is under the jurisdiction of the former Oleo & Specialty Chemicals Division, we are considering comprehensive development partly based on the technologies of the former Functional Chemicals & Polymers Division.

Q20: Added-value markets include the electronics, EV (electric vehicle), and display markets. Following the transfer of the functional film business, will efforts concerning displays change? How do you plan to make such efforts in the Functional Materials Division?

A20: Concerning display-related products, although the functional film business was transferred, we think that by leveraging the strengths of raw materials and utilizing the connections of the former Oleo & Specialty Chemicals Division, it is possible to offer downstream products and to expand product usages.

Q21: The note in the lower left part of page 30 of NOF VISION 2030 states that the influence of the transfer to the Pharmaceuticals, Medicals and Health segment is negative 10.0 billion JPY. Should we understand that the decrease in net sales was mainly caused by the products of the DDS business that were recorded as internal sales? In addition, in consideration of this influence of a transfer equivalent to 10.0 billion JPY, it is considered that sales of the Functional Chemicals

segment will increase by approximately 6%. Concerning the main products of cosmetic materials, base materials of refrigerating oils, and special anti-corrosion agents, what is your forecast of growth for their sales and sales quantities in fiscal 2023?

A21: The inter-segment adjustment was made partly by transferring the jurisdiction of the overseas sales affiliate (NOF EUROPE GmbH) from the Functional Materials Division (the former Oleo & Specialty Chemicals Division) to the Life Science Division (the former DDS Development Division). The affiliate handles functional chemical products as well as DDS products, but following the shift of main merchandise to DDS products, they were transferred to the Pharmaceuticals, Medicals and Health segment. When excluding the influence of that transfer, the fiscal 2023 sales of the Functional Chemicals segment showed an increase of approximately 10.0 billion JPY compared to fiscal 2022. We plan to increase sales mainly by increasing sales of cosmetic materials, fatty acid derivatives, and special anti-corrosion agents.

Q22: Within the sales increase of 10.0 billion JPY, which area of growth do you think will contribute more—cosmetic materials, fatty acid derivatives, or special anti-corrosion agents? What will the sales rankings be?

A22: Our idea is that these businesses will each grow, and we have no specific ideas about which field will grow in particular.

Fixed costs

Q23: Concerning the 8.9 billion JPY increase in fixed costs shown on page 29 of NOF VISION 2030, what are the factors behind the 2.3 billion JPY for the Functional Chemicals segment, the 3.1 billion JPY for the Pharmaceuticals, Medicals and Health segment, and the 1.5 billion JPY for the Explosive & Propulsion segment on a per-segment basis?

A23: The estimated fixed costs for this fiscal year include strategic investments. In addition, the increased utility costs due to full-fledged implementation of sales activities and those for production activities are also included. Among the 8.9 billion JPY increase in fixed costs, approximately 60 to 70% is related to the strategic investments. As for the segments, particularly the strategic investments, we plan to proactively invest mainly into the Functional Chemicals segment and the Pharmaceuticals, Medicals and Health segment, and those segment-based investments are presented on pages 30, 31, and 32.

Q24: With the amount of the strategic investments accounting for 60 to 70% of the 8.9 billion JPY increase, it seems that investments of approximately 6.0 billion JPY are estimated. What is the breakdown of these investments? The increase consists of depreciation expenses of 0.5 billion JPY, research and development expenses of 1.5 billion JPY, and other expenses accounting for 4.0 billion JPY. What are the details of the increased burden due to these strategic investments?

A24: Of the 6.0 billion JPY, the facility investments, human resource investments including labor costs, and research and development expenses account for the majority. However, we would appreciate if you would allow us to keep the breakdown undisclosed.

Financial strategy

Q25: It seems that for the first time, a total return ratio of 50% is clearly specified in the policy on

returns to stockholders described on page 35 of NOF VISION 2030. While around 50% has been returned conventionally, what is the background to making such a clarification this time? While the earnings summary and others state a payout ratio goal of 30%, can this ratio and the total return ratio be balanced?

A25: Concerning the total return ratio, we have implemented slightly over 40% so far, but we clearly specified approximately 50% as our target. Concerning the relationship with the payout ratio, we have described a policy of making efforts toward stably returning profits. We will continue to think about the matter in this way going forward.

Q26: A policy of selling cross-held stocks has also been announced. If profits exceed estimated profits due to transient special profits, will those also be considered? Conversely, if special losses are large, should we understand that they will be reflected in the total return ratio?

A26: Our idea is that the total return ratio of the final net profit, including special profits and losses, will be approximately 50%.

Q27: Does a total return ratio of approximately 50% mean approximately 50% from the first year of the 2025 mid-term business plan period or an increase to 50% in the final fiscal year?

A27: Our idea is approximately 50% in the final fiscal year. However, we are determined to make efforts to achieve that ratio from the first year to the extent possible.

Q28: We would like to ask about the cash allocation described in the "Financial strategy" section on page 34 of NOF VISION 2030. You plan to distribute the cash generated by sale of cash reserves and cross-held stocks in addition to the results of the sales cash flow on the left side. Does the net asset ratio in cross-held stocks of 15% or below mean that it will stay at 15% or below throughout the 2025 mid-term business plan period and that you will make efforts toward reducing it from the first fiscal year, or that you will aim for that level three years later? If you mean the latter, in consideration of the accumulation of net assets from the current level of over 18%, the reduction does not seem to be very good. Let us know the intention behind the 15% and the grounds for that figure.

A28: As a result of selling fiscal 2022 cross-held stocks, the net asset ratio as of the end of March 2023 has reached 17.5%. Concerning cross-held stocks, we examine why we hold them at the board meeting each year. Among the cross-held stocks, we are selling stocks according to which have lost the most value for us to hold them, and we cannot declare that we will achieve 15% or below during this fiscal year. However, keeping the target of 15% or less in mind during the 2025 mid-term business plan period, we will examine the cash allocation at the annual board meetings.