

## Business Results Meeting For the Fiscal Year Ended March 31,2022: Questions and Answers

### **[FY2022 Business Results Forecast]**

#### **General**

**Q1: Although the FY2021 results are close to the operating income of JPY38 billion in the 2025 Medium-Term Management Plan, do you have any plans to revise the numerical targets in the future?**

A1: We are already approaching the target level for FY2025, and we believe that we will be able to achieve our current target figures in the near future. Our mid-term management plan is prepared every three years, and we will re-formulate the 2025 mid-term management plan from this year to next year. In that plan, we would like to set our numerical targets.

**Q2: In the analysis of changes in operating income, why is the inventory impact a positive JPY4.5 billion in FY2021, but a negative JPY2.2 billion in FY2022?**

A2: Since we use the standard cost method, the inventory impact occurs as the cost difference between the standard cost and the actual cost. The cost variance during the period is recorded in the income statement and the corresponding amount is calculated and transferred to inventory at the end of the period. The main reason for the positive inventory impact of JPY4.5 billion in FY2021 results is that, a large increase in raw material prices resulted in a large cost variance during the period, and in addition, increased demand due to the economic recovery and increased inventory due to concerns about supply chain instability led to an increase in year-end inventories. In the allocation calculation at the end of the period, the amount transferred to ending inventory increased and was carried over to FY2022, boosting profits.

For this coming fiscal year, we forecast the inventory impact at a negative JPY2.2 billion, and the main factor here is that the sharp rise in raw material prices has been factored into the standard cost of goods for FY2022. On the other hand, inventories at the end of the fiscal year are expected to decrease from the end of FY2021, as the inventory buildup at the end of FY2021 is expected to return to an appropriate level. As a result, in the allocation calculation, the amount carried over from the previous period was paid out to the cost of sales in the current period, pushing down profit.

#### **Business environment**

**Q3: In the analysis of changes in operating income, the increase/decrease in sales for the functional chemicals segment is plus JPY7.2 billion in FY2021, but the plus JPY3 billion increase/decrease in sales for FY2022 is probably small, given that economic activity is expected to resume with the end of the new type of coronavirus infection. Do you have a conservative outlook?**

A3: About the functional chemicals segment, the demand was strong in the previous fiscal year, and we expect it to continue to be strong in the current fiscal year. We also expect increased sales of base material for refrigerating oils, cosmetic materials, and anti-corrosion agents. However, the current shortage of semiconductors and supply chain disruptions, including the situation in Ukraine, are also having an impact.

**Q4: What percentage growth do you plan for cosmetic materials compared to last year? How about anti-corrosion agents and base material for refrigerating oils?**

A4: The domestic market for cosmetics, for example, last year grew by 3% compared to the previous year, and we expect it to continue to grow at the same rate in this year. In the domestic market, we expect the impact of the decline in inbound demand to continue, but we believe the market will remain strong through in-store self-sales and e-commerce sales. In terms of automobile production, although there is some impact from the semiconductors, we expect a 4% increase in global automobile production in FY2022 compared to the previous year. However, we do not expect to reach the FY 2019 levels prior to COVID-19.

**Q5: Regarding base material for refrigerating oils, has there been any impact from the China lockdown?**

A5: While we believe that underlying demand itself remains strong, we are seeing some impact from the lockdown. We will continue to closely monitor the impact throughout the year.

**Q6: On page 17 of the business overview, it is clear that the weight of nucleic acid drugs in biopharmaceuticals is small. However, the forecast is for a significant drop in demand for mRNA COVID-19 vaccines to nearly half after FY2023. Can the decline in DDS materials for COVID-19 vaccines be covered by other DDS Materials for pharmaceutical formulation in FY2023 and beyond?**

A6: As for FY2021, DDS materials for COVID-19 vaccines made a certain contribution to the business performance. The biopharmaceutical market is growing at an annual rate of about 10%. And we are also developing DDS materials for nucleic acid drugs, peptide drugs, antibody drugs, protein drugs, and small molecule drugs. Even if demand for COVID-19 vaccines settles down in the current and next fiscal years, we believe that the DDS business will continue to grow.

**Q7: Is it correct to understand that the DDS business will continue to grow in FY2022 and FY2023?**

A7: That's right.

**[Fixed Cost]**

**Q8: In analysis of changes in operating income for FY2021, the actual fixed cost was only JPY2.5 billion while the initial forecast was JPY3.8 billion. Why the fixed cost did not increase by that much? And also how about the contents of the JPY5.5 billion for this fiscal year?**

A8: In FY2021, we had expected to incur freight charges and other expenses as the impact of COVID-19 continued to diminish and production and sales activities became more active. However, the cost was not as high as expected.

In FY2022, we think that the pandemic is gradually coming to an end and that economic activities are progressing toward normalization worldwide.

Given the situation, we believe that demand will further recover in the functional chemicals and life science segments. We expect to be able to resume sales activities that were restricted due to the pandemic. And wages and salaries are also a major component of fixed cost increases.

## **[Raw Fuel Prices]**

**Q9: In analysis of changes in operating income for FY2022, there is only —JPY100 million in variable costs, so do you expect to be able to pass on higher raw material prices this fiscal year to prices?**

A9: we are continuing to revise prices in each segment. At this time, we expect the impact to be limited to negative JPY100 million. We will closely monitor future trends, as further price hikes in raw materials are expected due to the situation in Ukraine and other factors.

**Q10: Naphtha and palm oil have recently risen even higher, but can we assume that the costs can be passed on, or could this be a downside risk?**

A10: We will promote appropriate pricing in response to rising raw material and fuel prices. However, it is necessary to have a full dialogue with customers before proceeding, which could be a downside risk depending on the situation. We will also work on cost reduction measures.

## **[Capital Policy]**

**Q11: In past years, your company has announced share buybacks at the beginning of the calendar year, but do you plan to move up the timing or shift the date flexibly?**

A11: Originally, the Company's policy was to be flexible in its acquisition and redemption of treasury stock. Therefore, although we cannot say at this stage that we have any concrete plans to do so, we will respond flexibly in the future, considering factors such as stock prices and capital efficiency.

**Q12: I think it would be quite a statement if you execute the share buybacks when the stock price is low.**

A12: We think this is a valuable opinion and we will keep it in mind.

End of Q&A