

Presentation Material

# Management Overview

May 26, 2021

 **NOF CORPORATION**

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## MID-TERM MANAGEMENT PLAN (2022) (From April 1, 2020 to March 31, 2023)

 **OUTLINE**

 **PROGRESS**



# MID-TERM MANAGEMENT PLAN (2022) (From April 1, 2020 to March 31, 2023)

## OUTLINE

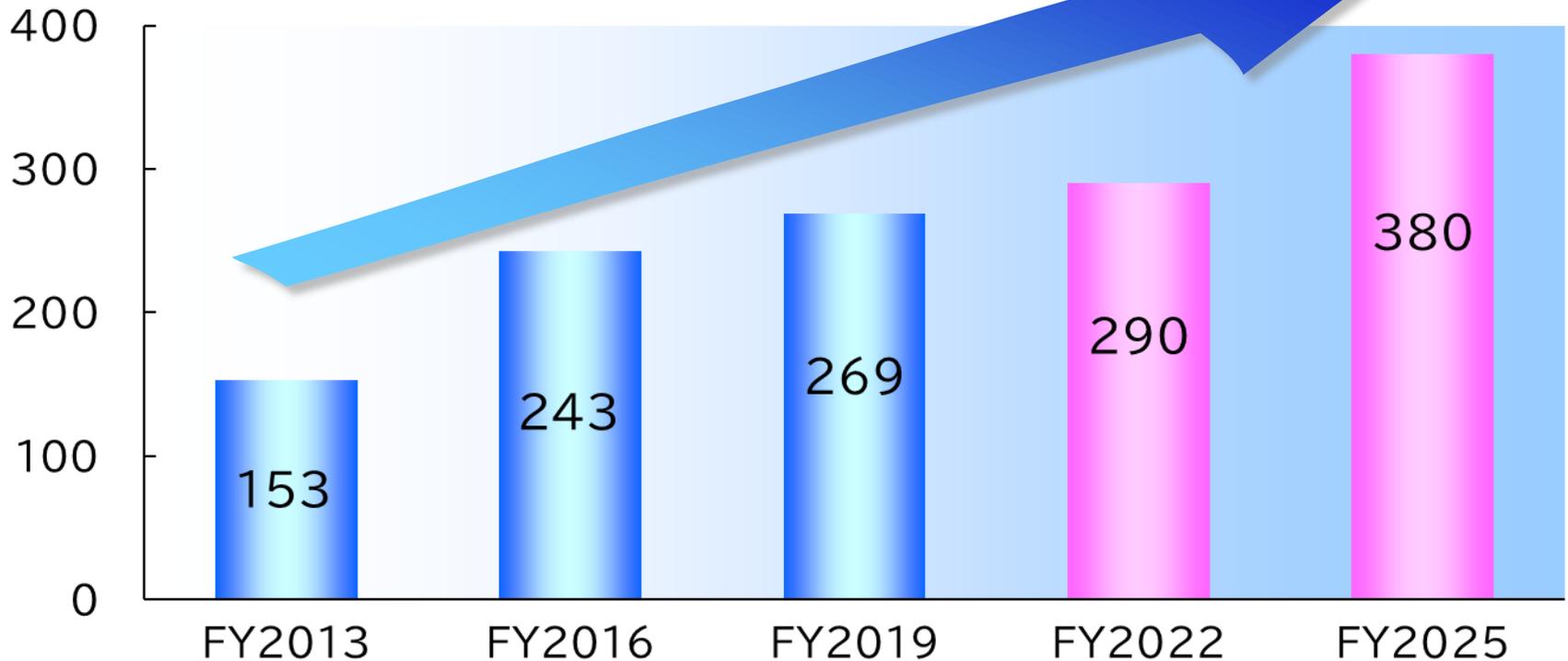
# Application of the Accounting Standard for Revenue Recognition

- The Accounting Standard for Revenue Recognition (ASBJ Statement No. 29) has been applied from the beginning of the fiscal year ending March 31, 2022.
- Sales prior to the application of said accounting standard are shown in brackets.
- Operating income prior to the application of said accounting standard is omitted due to their marginal impact.

# Corporate Vision for 2025

A corporate group that co-creates new value with the power of chemistry in the three business fields of “Life/Healthcare”, “Electronics/IT” and “Environment/Energy” in order to realize a prosperous and sustainable society.

Operating income  
[¥100 million]



# NOF VISION 2025

2022 Mid-Term Management Plan  
Stage I

Strengthening foundation

- Actively invest in growth fields
- Improvement in profitability of less profitable businesses

2025 Mid-Term Management Plan  
Stage II

Expanding profit

- Establish high-profit structure

Sustainable growth

FY2022

Operating income

¥29 billion

Ratio of operating  
income to net sales

Over 15%

FY2025

Operating income

¥38 billion

Ratio of operating  
income to net sales

Over 15%

# Challenge and Co-create

## Basic strategies

- 1 Expanding business into the growth market
- 2 Accelerating development of new products and techniques
- 3 Strengthening collaboration internally and externally
- 4 Improving productivity
- 5 Promoting CSR activities



# MID-TERM MANAGEMENT PLAN (2022) (From April 1, 2020 to March 31, 2023)

## PROGRESS

# 2022 Mid-Term Management Plan Stage I

## Progress toward strengthening the foundation

### ◆ Actively invest in growth fields

- Capital investment to enhance production capabilities in Functional Chemicals and Life Science segments
- Establishment of I&S (Innovation & Solution providing) Department to prepare for an advanced medication and medical care material business

### ◆ Improvement in profitability of less profitable businesses

- Acceleration of the shift from general-purpose products to high-function and high value-added products
- Consolidation and discontinuation of products

# Expected business environment surrounding NOF Group in the FY2021

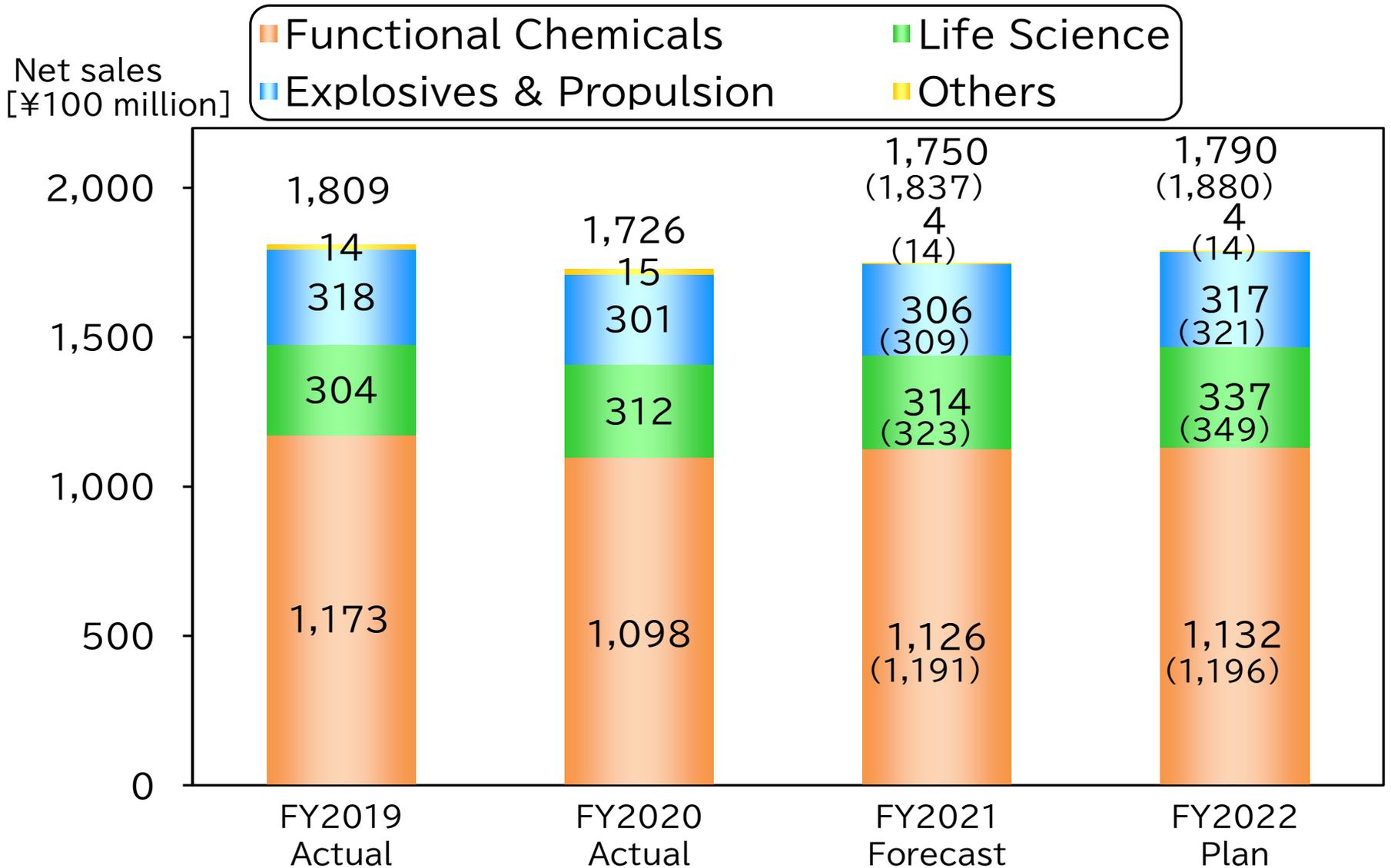
- ◆ Vaccination and Economic measures in response to the spread of COVID-19
  - Recovery in the economic status and changes in demand
- ◆ Supply chain instability due to the prolonged US-China standoff
- ◆ Rising raw material and fuel prices

|                                  |         | FY2020-<br>FY2022<br>(Plan) | FY2020<br>(Actual) | FY2021<br>(Forecast) |
|----------------------------------|---------|-----------------------------|--------------------|----------------------|
| Palm oil<br>(FOB Malaysia)       | USD/MT  | 660                         | 617                | 820                  |
| Domestically<br>produced naphtha | JPY/KL  | 35,000                      | 31,300             | 44,000               |
| Exchange rates                   | JPY/USD | 105                         | 106                | 105                  |
|                                  | JPY/EUR | 120                         | 123                | 125                  |

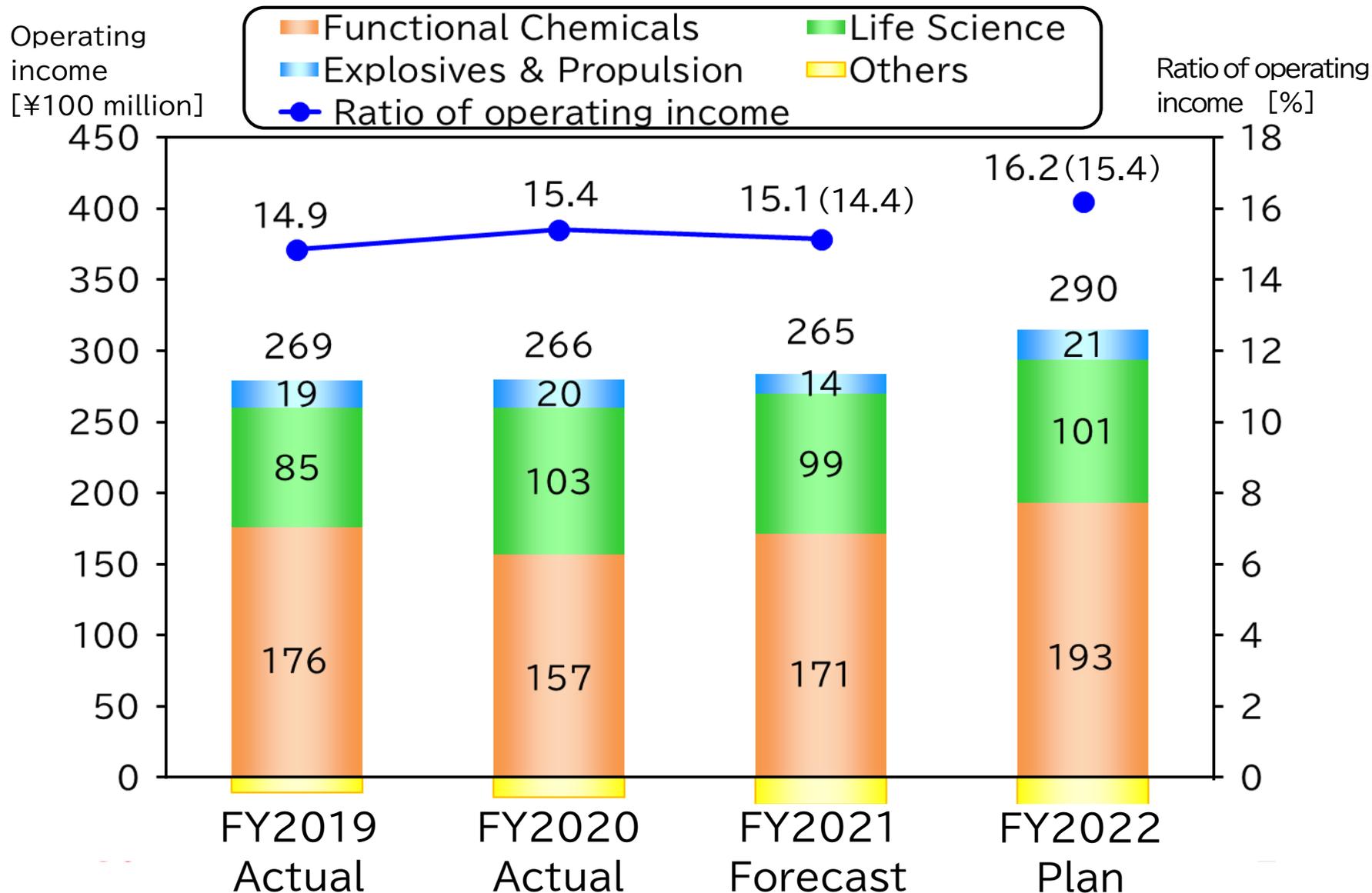
# Major impacts of the COVID-19 pandemic

| Segment                 | Product groups   | FY2020<br>(Conditions)   | FY2021<br>(Forecast)   |
|-------------------------|--|--|--|
| Functional Chemicals    | Special corrosion prevention agents and various kinds of additives | Reduction in demand due to reduction in automobile production and partial shutdowns<br>(Recovery in the second half of FY2020)                               | Reduction of the COVID-19 impact<br><br>Continued recovery in demand |
|                         | Base material for refrigerating oils                               | Reduction in demand from China and other regions for use in air conditioners<br>(Recovery in the second half of FY2020)                                      |  |
|                         | Cosmetics materials  | Loss of inbound demand and reduction in demand due to the stay-at-home order<br>(Recovery in the second half of FY2020)                                      |  |
|                         | Toner additives  | Reduction in demand for toner due to the spread of telecommuting and the resulting spread of paperless operations<br>(Recovery in the second half of FY2020) |  |
| Life Science            | Biocompatible materials  | Increase in demand for MPC-related products due to increased awareness of hygiene  | Stabilized demand  |
|                         | Pharmaceutical preparation materials                               | Increase in demand for pharmaceutical raw materials  | Continuation of demand   |
| Explosives & Propulsion | Functional materials and devices                                   | Reduction in demand for construction materials   | Recovery in demand   |

# Net sales by segment

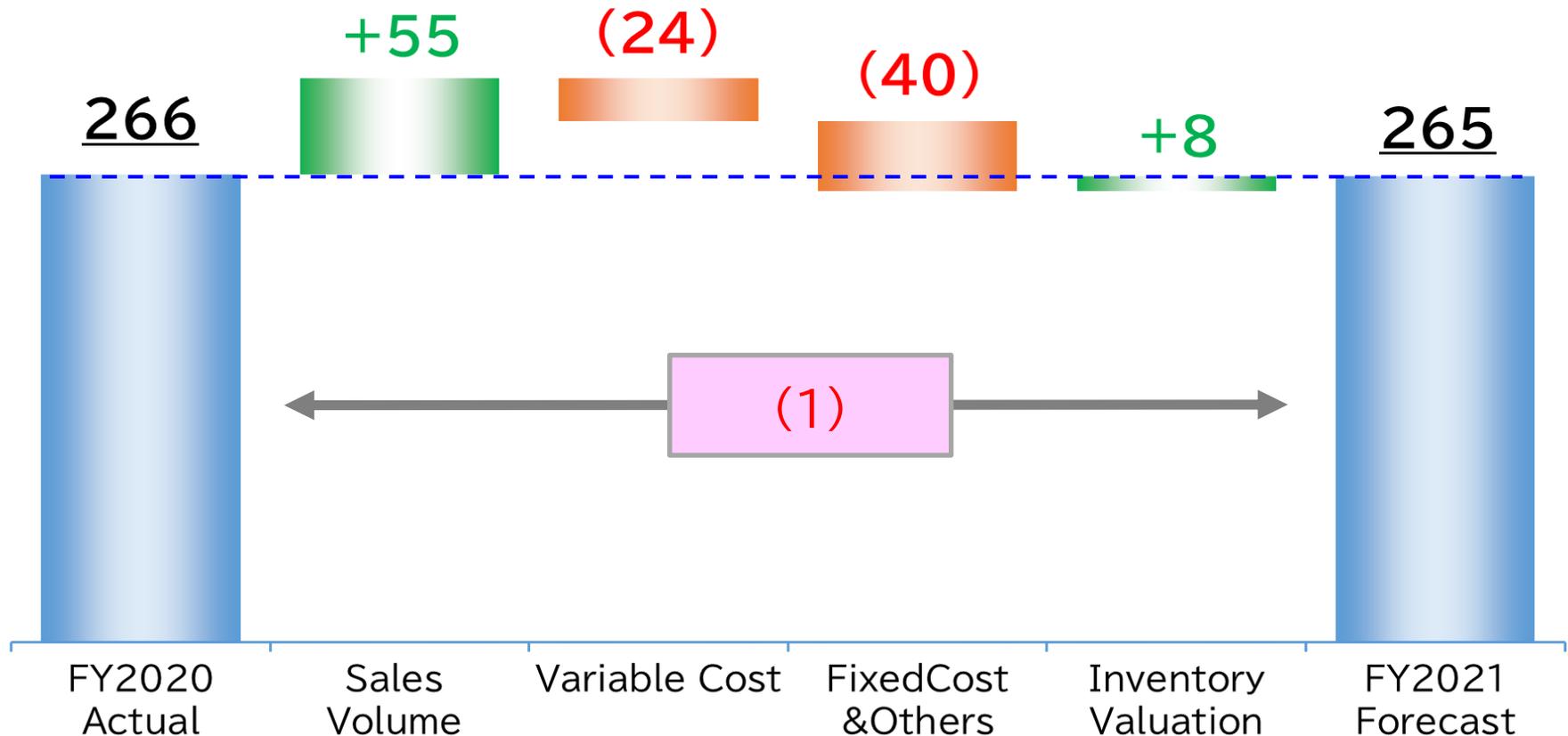


# Operating income by segment and Ratio of operating income

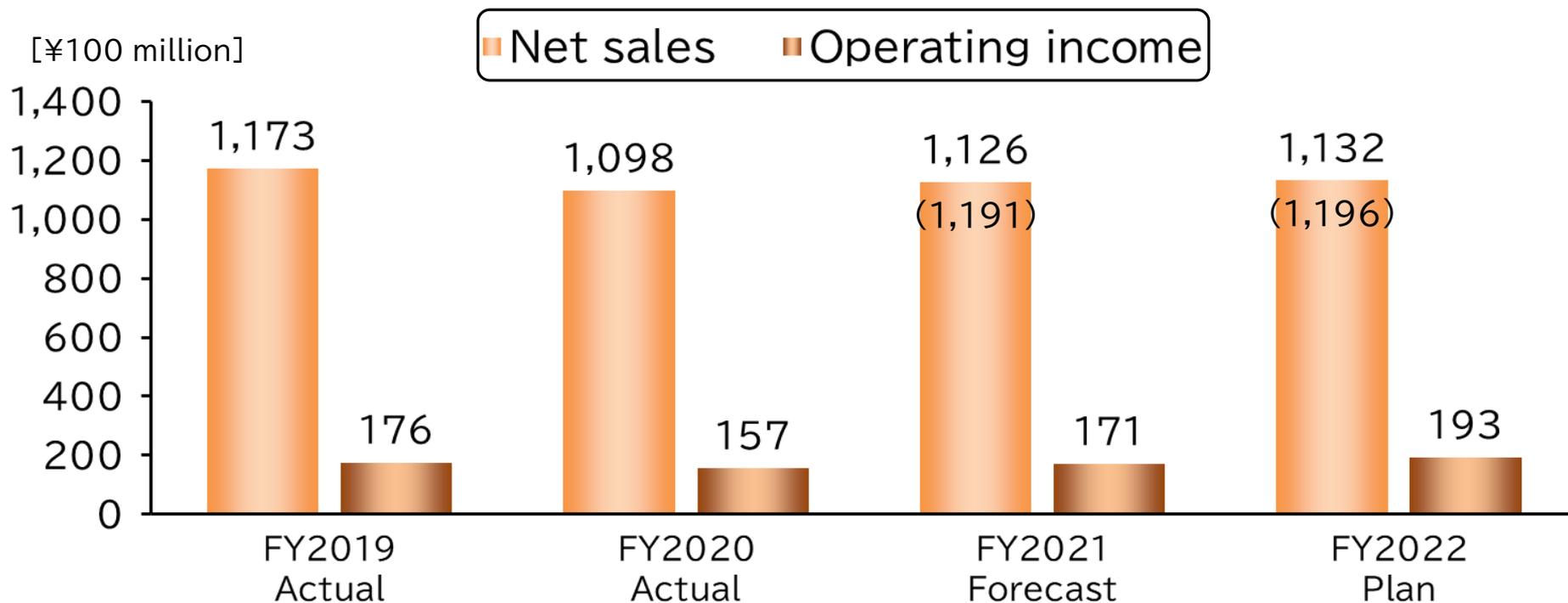


# Changes in operating income (FY2021 Forecast vs. FY2020 Actual)

[¥100 million]

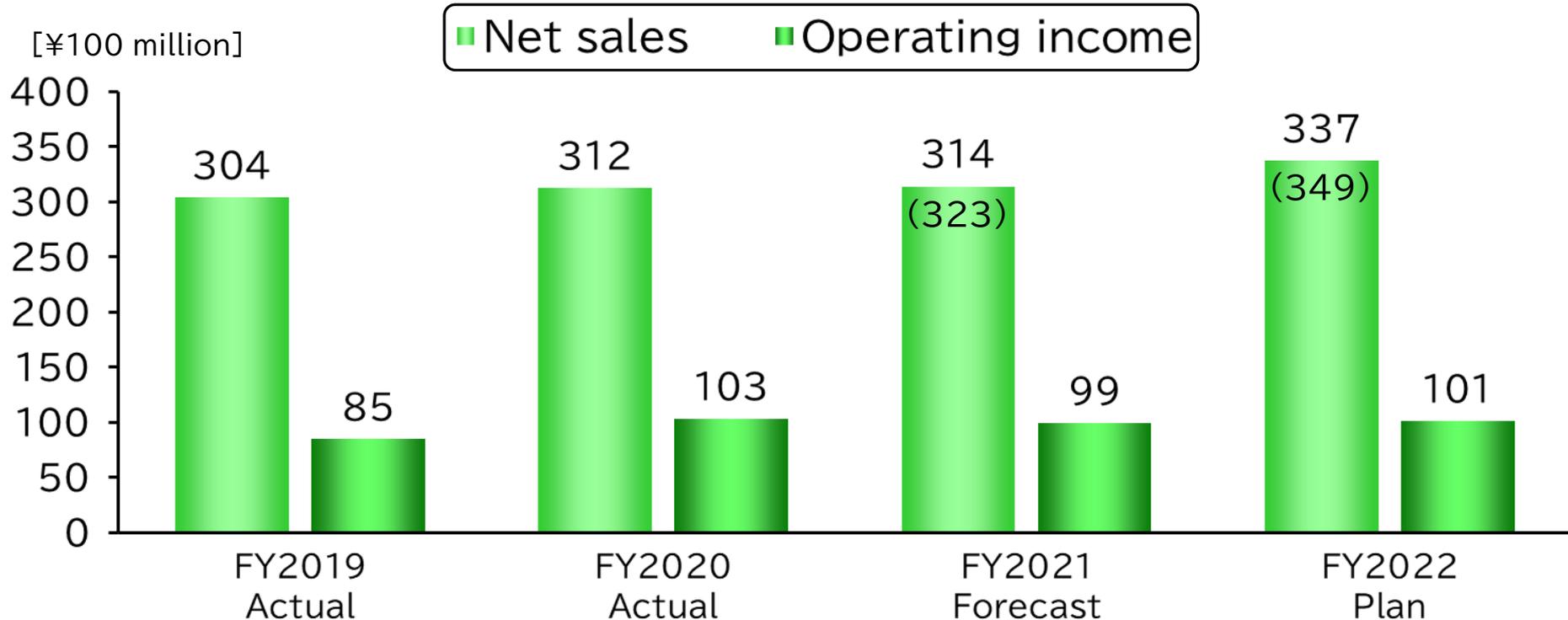


# Functional Chemicals segment



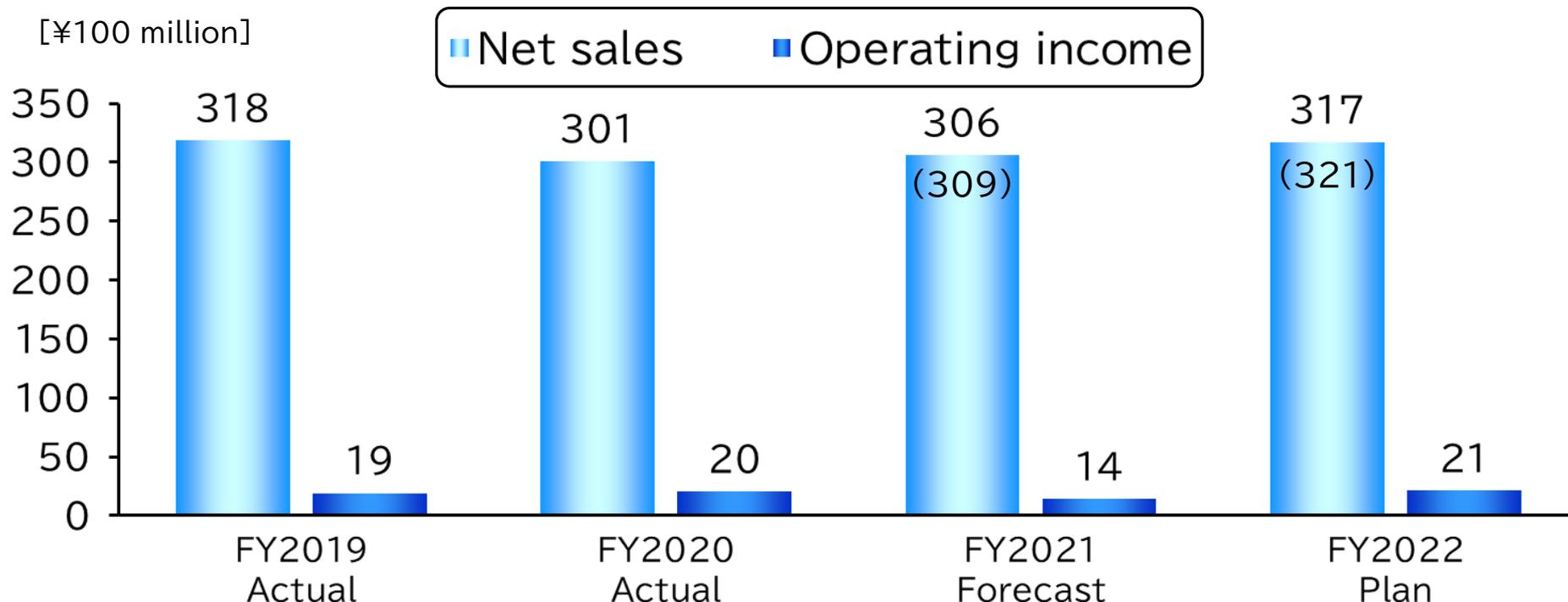
|        | Conditions   |
|--------|--|
| FY2020 | Business in this segment was significantly affected by COVID-19 but recovered in the second half of fiscal 2020, mainly thanks to materials for automobiles and cosmetic materials and base material for refrigerating oils. |
| FY2021 | Business in this segment will be affected by higher raw material and fuel prices, but the demand recovery that began in fiscal 2020 continues.   |

# Life Science segment



|        | Conditions  |
|--------|---|
| FY2020 | Business in this segment grew significantly due to increased sanitizer demand resulting from heightened awareness of hygiene by COVID-19 and due to the increase in drug development. |
| FY2021 | Capital investment will be implemented proactively and human resources will be increased. The price of raw edible oil materials will soar.  |

# Explosives & Propulsion segment



|        | Conditions  |
|--------|---|
| FY2020 | Sales decreased due to decreased demand for construction materials because of the COVID-19 and the delayed rocket launch plans in the space field. Profits increased as a result of changing the product mix. |
| FY2021 | Profits will decrease due to the Ministry of Defense budget decrease and delays in rocket launch plans.   |

# Changes in operating income by Segment (FY2021 Forecast vs. FY2020 Actual)

## ◆Sales Volume:

Increased sales of high-function and high value-added products

## ◆Variable Cost, Fixed Cost & Others:

Increased raw material prices, fuel prices, and depreciation costs

[¥100 million]

|                            | FY2020<br>Actual | Changes         |                  |                          |                        |       | FY2021<br>Forecast |
|----------------------------|------------------|-----------------|------------------|--------------------------|------------------------|-------|--------------------|
|                            |                  | Sales<br>Volume | Variable<br>Cost | Fixed<br>Cost<br>&Others | Inventory<br>Valuation | Total |                    |
| Functional<br>Chemicals    | 157              | +38             | (18)             | (14)                     | +8                     | +14   | 171                |
| Life Science               | 103              | +15             | (6)              | (16)                     | +3                     | (4)   | 99                 |
| Explosives &<br>Propulsion | 20               | +0              | (0)              | (3)                      | (3)                    | (6)   | 14                 |
| Others                     | (14)             | +1              | —                | (6)                      | —                      | (5)   | (19)               |
| Total                      | 266              | +55             | (24)             | (40)                     | +8                     | (1)   | 265                |

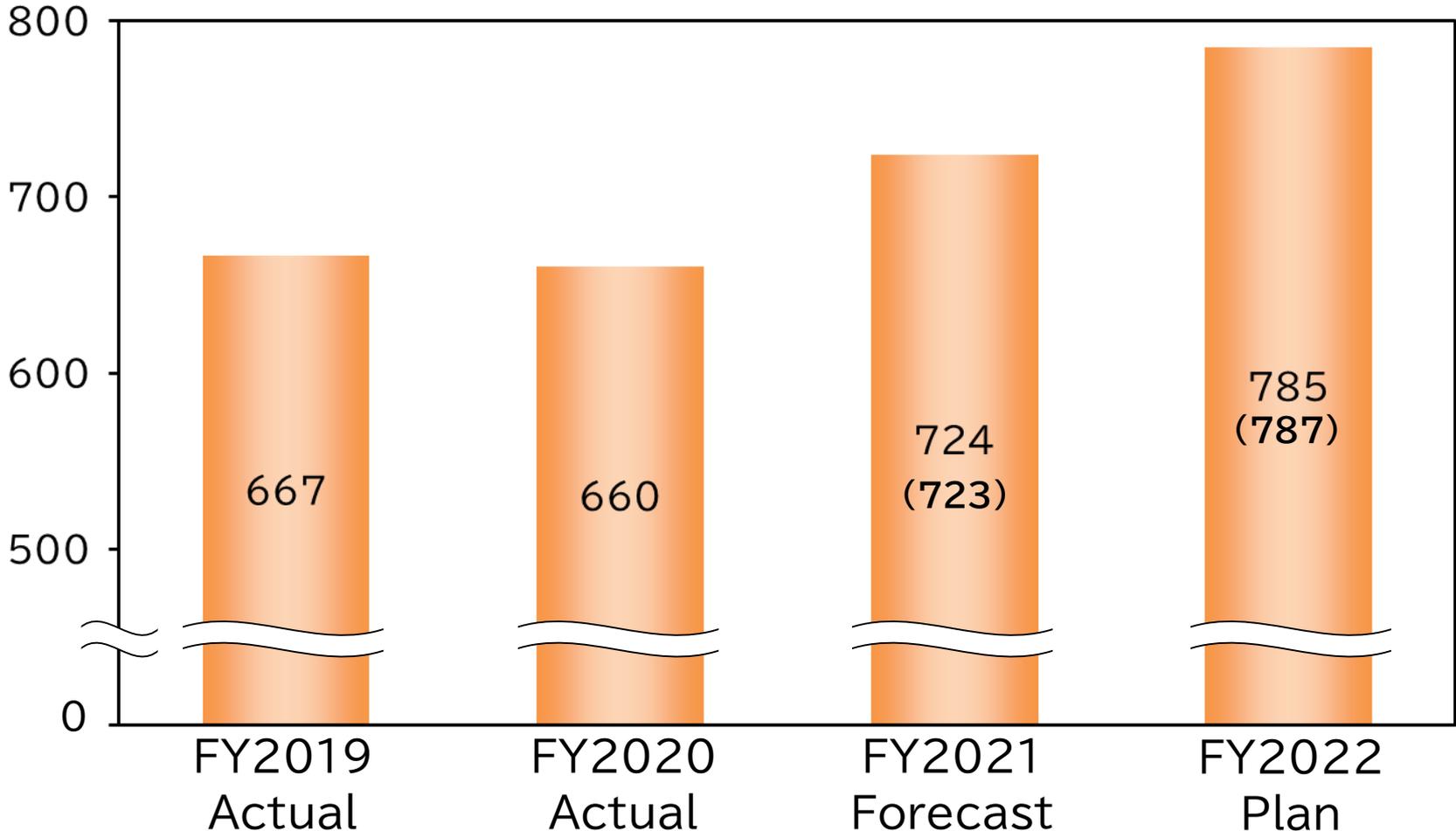
# Basic strategies for 2022 Mid-Term Management Plan

- 1 Expanding business into the growth market
- 2 Accelerating development of new products and techniques
- 3 Strengthening collaboration internally and externally
- 4 Improving productivity
- 5 Promoting CSR activities

# High-function and high-value added products

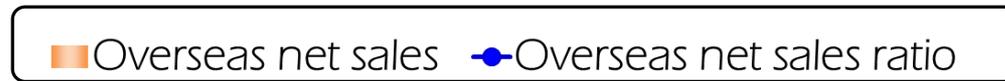
- Sales will continue to increase mainly in the life and healthcare fields.

Net sales  
[¥100 million]

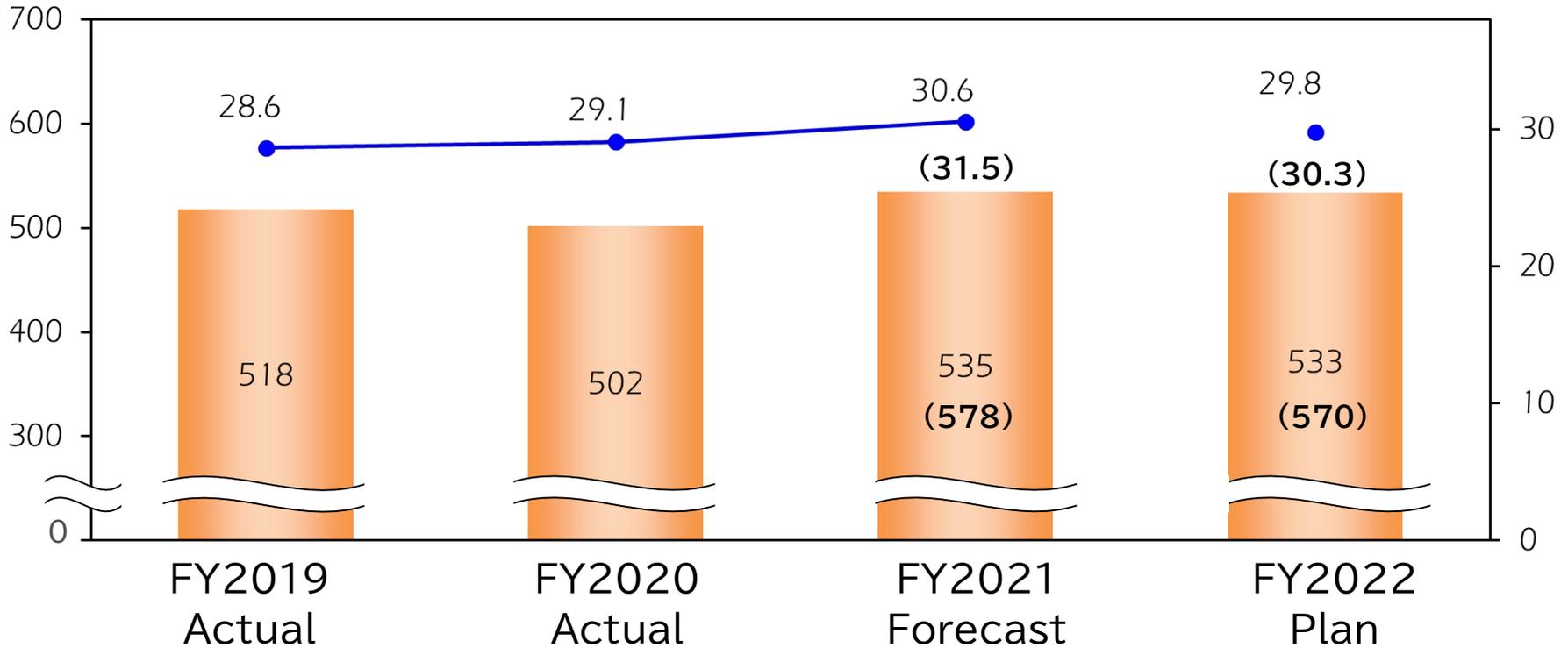


# Overseas net sales

Overseas net sales  
[¥100 million]



Overseas net sales ratio [%]



|  | FY2020 - FY2022<br>FY2022 Plan | FY2020<br>(Actual) | FY2021<br>(Forecast) |
|--|--------------------------------|--------------------|----------------------|
| International sales staff (vs. FY2019) | +19%                           | +3%                | +11%                 |
| Overseas net sales (vs. FY2019)        | Over 10%                       | -3%                | +3%(+12%)            |

# Accelerating development of new products and techniques

|   | FY2020-FY2022<br>(Plan) total  | FY2020<br>(Actual)   | FY2021<br>(Forecast)  |
|---|--|--|---|
| Increase the number of research themes                        | Accelerate the development of new businesses in the I&S Department of the Corporate R&D Division | Establish the I&S Department of the Corporate R&D Division   | Expansion of research themes by I&S Department  |
|   | Explore new research themes by using iCONM, etc.   | Set up a research base in iCONM  | Introduction of GMP-compliant, small-lot production systems   |
|   | Explore new materials and develop new formulas by using MI                                       | Selection of study themes and carrying out of proof of concepts  | Testing using external MI systems<br>Assessment of applicability to new materials and/or formulas   |
| Promote collaboration among industry, academia and government | Use open laboratories and government projects<br>Proactively participate in open innovation      | Joint research with universities and/or public research institutes<br>※National Institute for Materials Science<br>“Multifunctional Adhesive Material ”<br>Chiba University<br>“Material for lipid nanocapsules” | Joint research with universities and/or public research institutes<br>Public invitations to university researchers to suggest research themes relevant beyond the company |

iCONM:Innovation Center of NanoMedicine, KAWASAKI INSTITUTE OF INDUSTRIAL PROMOTION

MI:Materials informatics

# R&D expenses by segment

[¥100 million]

|                            | FY2020-FY<br>2022<br>(Plan) total | FY2020<br>(Actual) | FY2021<br>(Forecast) |
|----------------------------|-----------------------------------|--------------------|----------------------|
| Functional<br>Chemicals    | 90                                | 28                 | 27                   |
| Life Science               | 44                                | 13                 | 16                   |
| Explosives &<br>Propulsion | 44                                | 14                 | 14                   |
| Others                     | 20                                | 3                  | 7                    |
| Total                      | 198                               | 58                 | 64                   |

# Improving productivity

## ① Increase production capacity and earning capacity

- Enhance facilities to support demand for high-function and high-value added products

[¥100 million]

|                             | FY2020-FY2022<br>(Plan) total | FY2020<br>(Actual) | FY2021<br>(Forecast) |
|-----------------------------|-------------------------------|--------------------|----------------------|
| Capital expenditures *      | 257                           | 84                 | 91                   |
| Depreciation & Amortization | 178                           | 56                 | 60                   |

\*Acceptance basis

# Improving productivity

## ② Promote the digitization of operations

| Items                                 | For example  |
|---------------------------------------|--|
| Enhancement of R&D capabilities       | New product development using MI<br>Analysis of patent information                         |
| Enhancement of marketing capabilities | Effective use of sales support tools   |
| Improvement of production systems     | Incorporation of RPA into production plans<br>Digitalization of plant management documents |

# Promoting CSR Activities

## ① Provide new value to realize a prosperous and sustainable society

- Realize innovation through business activities
- Supply high-function and high-value added products in the three prioritized business fields

## ② Strengthen the business foundation

- Create a comfortable workplace and support employees' activities
- Improve resilience through CSR-based procurement and the development of BCPs

## ③ Promote responsible care activities

- Enhance the management of chemicals and labor safety
- Consideration of anti-global warming measures

# Focus products that respond to changes in the social environment

|                   | Life /Healthcare   | Environment /Energy   | Electronics /IT  |
|-------------------|--|---|--|
| Changes in demand | <ul style="list-style-type: none"> <li>•Heightened awareness of hygiene</li> <li>•Boost in drug development (e.g., vaccines)</li> </ul>                      | <ul style="list-style-type: none"> <li>•Heightened awareness of sustainability</li> </ul>   | <ul style="list-style-type: none"> <li>•Expansion of the 5G market</li> </ul>                    |
| Focus Products    | <ul style="list-style-type: none"> <li>•Biocompatible materials (LIPIDURE®)</li> <li>•Raw materials for DDS drug formulations (SUNBRIGHT® series)</li> </ul> | <ul style="list-style-type: none"> <li>•Fatty acid derivatives (Base material for refrigerating oils)</li> <li>•Biodegradable lubricants</li> <li>•Special corrosion prevention agents</li> </ul> | <ul style="list-style-type: none"> <li>•EO/PO derivatives (Dispersant for ceramics) *</li> </ul> |

\* EO/PO: Ethylene oxide-propylene oxide

# Responses to climate change

## NOF Group's current goal

Reduction of CO<sub>2</sub> emissions per unit of sales by 30% (from fiscal 2013) in fiscal 2030

## Japanese government's goals

2020.10: Achievement of carbon neutrality in 2050

2021. 4: Reduction of GHG emissions by 46%  
(from fiscal 2013) in 2030

## NOF Group's response to changes in the government's goals

We will take inventory of and closely study the required measures and technologies to clarify the following during the period of the 2022 Mid-term Management Plan:

- Resetting of our goals in line with government policy
- Creation of a roadmap to fiscal 2030

# 2022 Mid-Term Management Plan

[¥100 million, (%)]

|   | FY2020<br>Actual | FY2021<br>Forecast | FY2022<br>Plan   | FY2025<br>Plan   |
|---|------------------|--------------------|------------------|------------------|
| Net sales                                 | 1,726            | 1,750<br>(1,837)   | 1,790<br>(1,880) | 2,100<br>(2,200) |
| Operating income                          | 266              | 265                | 290              | 380              |
| Ratio of operating<br>income to net sales | 15.4             | 15.1<br>(14.4)     | Over 15          | Over 15          |
| ROA *1                                    | 11.4             | Over 10            | Over 10          | —                |
| ROE *2                                    | 12.2             | Over 10            | Over 10          | —                |

\*1 ROA:Return on Assets , ratio of ordinary income to total assets

\*2 ROE:Return on Equity , ratio of net income to shareholders equity

- This material is intended to provide an explanation of the company and its business, not to induce investment or any other action.
- The results forecasts presented in this document are based upon currently available information and assumptions deemed rational. A variety of factors could cause actual results to differ materially from forecasts.
- Please be aware that decisions regarding investments are the responsibility of the users themselves.
- Please note that, in this material, amounts less than ¥100 million have been rounded off.

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