

## **Business Results Meeting for the Second Quarter of the Fiscal Year Ending March 31, 2025: Questions and Answers**

### **[FY2024 Business Results Forecast]**

#### **Business environment (general)**

**Q1: Regarding the breakdown of changes in operating profit from FY2023 to FY2024, changes in variable costs and fixed costs are larger in the second half than in the first half. What is the implication of these changes in variable and fixed costs?**

A1: The changes in variable costs are mainly because raw material and fuel prices are expected to rise in some areas of the functional materials business in the Functional Chemicals segment. Fixed costs mainly reflect increases in outsourcing expenses and R&D expenses as our business activities have been more active than in the last year, and we expect this trend in the first half to continue in the second half.

**Q2: While you expect fixed costs for FY2024 to be smaller than your initial forecast at the beginning of the fiscal year, has there been any change in your forecast that fixed costs will increase in FY2024 by 4.2 billion yen compared to the previous fiscal year?**

A2: Our forecast remains unchanged at this point.

**Q3: Is it appropriate to measure raw material prices in the Functional Chemicals segment in naphtha terms?**

**Although you have lowered the expected unit price of palm oil from your initial forecast, its actual price has recently risen from USD 1,050 to almost USD 1,100. What is your prediction of future trends in palm oil? And I have another question. Is it correct to understand that you have already procured most of those raw materials that will be used through the end of this fiscal year?**

A3: Raw material prices in the Functional Chemicals segment are currently rising mainly in naphtha terms. When we were preparing the results forecasts, we predicted that the palm oil price would remain flat or fall slightly, but as you have pointed out, raw material prices have risen recently. Although it depends on exactly when we purchase raw materials, we will continue to monitor trends to ensure that our selling prices remain at appropriate levels. Part, but not all, of procured raw materials have already been purchased by advance orders.

#### **Business environment (Functional Chemicals segment)**

**Q4: In the Functional Chemicals segment, according to your forecast, while sales will decrease by 2.0 billion yen from the first half to the second half, profit will decrease by more than 4.0 billion yen. This appears to be a significant decrease. Is it due to changes in variable costs and fixed costs? Or is there any other major factor underlying the decrease in profit? Please explain the factors underlying the decrease in profit from the first half to the second half.**

A4: For cosmetics-related products, we have reflected, in our second-half forecast, a reactionary fall from the demand for inventory increases from certain customers. As raw material prices are also expected to rise slightly towards the second half mainly in the functional materials business, an increase in variable costs has put a slight downward pressure on profit. In addition, as we forecast a slight increase in fixed costs in the second half, profit is expected to decrease from the first half to the second half.

**Q5: How significant is the impact of inventory valuation in the first half and in the second half, as a factor underlying the decrease in profit?**

A5: We expect the impact of inventory valuation to be smaller in the second half than in the first half. In the last fiscal year, the impact of inventory valuation was smaller than in the fiscal year before last because rises in material prices subsided in some areas. However, the impact is larger in this fiscal year than in the last fiscal year because raw material prices remain at high levels. At this point, we expect the impact to become smaller gradually over the second half.

**Q6: Sales of raw materials for cosmetics were strong. What is the main factor behind this? Was it the strong results of the ODM business of your subsidiaries, including JEUNE BEAUTY, or was it the strong sales of raw materials for cosmetics and toiletries?**

A6: The strong performance of Functional Chemicals was driven by cosmetics-related products. Our cosmetics-related business provides the domestic market with various products with added functions mainly in the areas of skincare and haircare. It also operates an ODM business. In the first half, demand for cosmetics-related products in general was on a recovery trend, and demand for both raw materials for cosmetics and ODM business was strong. On the other hand, we expect advance demand from some customers from the first half to enter the correction phase, which is an assumption underlying our full-year forecast for the current fiscal year.

**Q7: If possible, please tell us what kind of products, such as lotion and shampoo, became a big hit. For example, there are certain lotion brands that appear to have gained considerable popularity. Please give us a clue about such products.**

A7: Although we do not disclose such information on an individual basis, the product types that you have just mentioned fall under such category. We currently provide the products that are selling well in the market. Please understand that our shipments are linked to such products.

**Q8: We suppose that JEUNE BEAUTY has doubled its manufacturing capacity by expanding its mixing equipment in September 2024 to increase its in-house manufacturing and reduce outsourced manufacturing. What is the situation following the expansion of manufacturing capacity?**

A8: In the second half of the previous fiscal year, JEUNE BEAUTY expanded its filling equipment for liquid cosmetics in the filling equipment building of its Chita Factory. The equipment has been in steady operation since February 2024 in conjunction with the manufacturing of refill products. This fiscal year, JEUNE BEAUTY has built a new mixing building and has realized seamless manufacturing of liquid cosmetics from mixing to filling. JEUNE BEAUTY has doubled its manufacturing capacity by expanding its filling equipment and building a new mixing building, and its factory is operating steadily.

### **Business environment (Pharmaceuticals, Medicals and Health segment)**

**Q9: You have explained that the DDS business will experience a temporary leveling off due to a decrease in shipments resulting from inventory adjustment at some customers and delays in clinical development resulting from a decrease in capital inflow to bio-venture companies. Does this represent a downward revision from your initial forecast? Please also tell us about your outlook on these factors. Will inventory adjustment at some customers end in the next fiscal year? What is the implication of the decrease in capital inflow to bio-venture companies for the next fiscal year and beyond?**

A9: Although inventory adjustment is lasting longer than expected at the beginning of this fiscal year at some customers, we expect that it will taper off going forward. We will continue to monitor any changes in the situation. As for the deterioration of the investment environment to bio-venture companies, we also expect the situation to improve going forward.

**Q10: Regarding your sales plan for raw materials for DDS drug formulations, the bar chart shows that sales will be higher in FY2025 than in FY2023, seemingly growing at a rate of at least 10%. Is there any special contributing factor?**

A10: At this point, we expect inventory adjustment at our customers to taper off going forward. We will continue to monitor any changes in the situation.

**Q11: On page 21 of the “Expansion of DDS Business,” you predict an improvement for the next fiscal year of a situation regarding the inventory adjustment for existing marketed products and delays in clinical development, which have affected the results for the current fiscal year. What is your outlook on the expansion of marketed products using new activated PEGs? We understand that the number of drugs launched in the market is relatively fewer in FY2024 than usual. What is the number of market launches expected through FY2025 or FY2026? Please provide us with some supplementary information about the pipeline.**

A11: We expect our customers to continue to launch some products in the market next year and the following year although there are some projects that are behind schedule.

**Q12: Over the medium term, DDS sales are expected to grow through 2030. Will activated PEGs be the main driver or will functional lipids contribute more to the growth going forward? We would also like to ask you which medical field, as modality, will contribute significantly. Please provide us with supplementary information about fields that are expected to contribute significantly and fields that are expected to grow rapidly.**

A12: Protein and peptide drugs, which are the target fields of activated PEGs, are the fields that contribute most to the sales of the DDS business. We expect this trend to continue through 2030.

**Q13: We thought that marketed products account for a greater portion of DDS sales, and the weight of products under development is small, but does a decrease in capital inflow to bio-venture companies affect DDS sales considerably? Is the profit margin generally higher for sales related to bio-venture companies and research and development?**

A13: Marketed products account for a very large proportion of activated PEGs. On the other hand, we are offering functional lipid products to projects in which drugs are developed from the clinical trial stage to the market launch stage. For this reason, the investment environment to bio-venture companies has a considerable impact on them.  
As for profitability, yes, it is. In particular, in the fields of nucleic acid drugs and gene therapy drugs, development is conducted mainly by U.S. venture companies. As such, market expansion in these fields has been affected.

**Q14: We understand that marketed products currently account for 80%. Among these marketed products, what are the proportions of biosimilar and new drugs? Since many biosimilar drugs will be launched in the market going forward, will they positively contribute to the growth of DDS?**

A14: Although it is difficult to disclose the proportions of new drugs and biosimilar drugs, the former is the main target. Although there are not many types of biosimilar drugs, biosimilar drugs to several new drugs have already been launched, and we are currently responding to them. Demand for biosimilar drugs is expected to increase going forward, particularly in Asia, so we will work to increase our share by actively conducting sales promotion.

**Q15: Your past explanations referred to monodisperse PEGs and linkers for antibody drugs. Has there been any change in your current outlook on monodisperse PEGs?**

A15: As inquiries for monodisperse PEGs are also increasing, we expect products for antibody drugs to also grow steadily going forward.

**Q16: Regarding the partnership mentioned on page 17 of the “Expansion of DDS Business” presentation material, please explain it more in detail using the value chain shown on page 16. Where can we expect to see synergies that will produce a positive impact?**

A16: As shown in the diagram on page 16, the value chain of NOF supplies lipid reagents, provides LNP preparation methods, and supplies GMP-conformant lipids. On the other hand, there is high demand from our customers for the optimization of LNP prescriptions and the manufacture of GMP-conformant drugs. In particular, small pharmaceutical companies, such as start-ups and bio-venture companies, may not have secured a manufacturing value chain. Therefore, we have selected a CDMO capable of optimizing LNP prescriptions and manufacturing and providing LNPs at each scale, in addition to providing products in a conventional manner. We believe that joint development with a CDMO will enable us to increase the value of the entire DDS business by satisfying customer needs more than before and helping customers to be able to work on preclinical studies and clinical trials earlier.

**Q17: Is the number of projects expected to increase dramatically due to the collaboration with Phosphorex? Is your Group the only company that has built such a value chain?**

A17: A mechanism to support the development of LNPs through a large value chain has been actively provided by CDMOs to other companies as well. However, as NOF has compounds, SS lipids, ionizable lipids, and other strategic products with IP, we believe that we will be able to meet customer needs more effectively than other companies by combining these strategic products with the value chain of the CDMO.

**Q18: Do you plan to utilize the patents of your products so that other companies cannot develop drugs unless they use your products?**

A18: Yes, that is correct. The usefulness of substances is another appealing point.

**Q19: In which field are LNPs strong?**

A19: LNP prescriptions are basically strong in the field of vaccines and other RNA drugs. The usefulness of LNPs has also been demonstrated in joint research in the fields of gene editing technologies, such as CRISPR-Cas9, and gene therapy, and we are receiving inquiries for such applications. Therefore, we intend to actively expand sales in these fields too.

## **Capital policy**

**Q20: You have announced a plan for a share buyback of 5 billion yen to achieve the targeted total return ratio of 50%. While this share buyback of 5 billion is scheduled for completion by the end of this year, do you plan to carry out another share buyback in or after the next fiscal year to achieve the targeted total return ratio of 50%, given that you have carried out a buyback of around 9 to 10 billion yen in the last few years? Since you are currently in the position of being able to accumulate cash considerably even at a total return ratio of 50%, do you have any idea on further raising the target level?**

A20: Our total return ratio target in the 2025 Medium-Term Management Plan is around 50% after ensuring steady progress in strategic investments. We regard shareholder return as one of our highest-priority management issues. Although we cannot make a definitive statement at this point, we will consider improving the total return ratio further and raising the target level further in view of the levels of investments and cash on hand during the period of the next Medium-Term Management Plan.