

## **Business Results Meeting for the Fiscal Year Ended March 31, 2026 and 2028 Mid-term Management Plan: Questions and Answers**

### **[FY2026 Business Results Forecast]**

#### **Functional Chemicals segment**

**Q1: When it comes to incorporating the material impact of the Middle East situation into the business results forecast for FY2026, I presume that the Functional Chemicals segment will be significantly impacted and that rising raw material prices, in particular, will be the biggest factor. On page 12 of the FY2025 financial results, in the analysis of changes in operating profit for the Functional Chemicals segment, it is indicated that variable costs will increase by 1.0 billion yen year-on-year. Could you tell us whether this incorporates the impact of the Middle East situation?**

A1: The impact of the Middle East situation will affect each business area, especially Functional Chemicals. The forecast incorporates the fact that we will pursue price adjustments in response to rising raw material prices. Furthermore, the procurement environment has grown worse for some customers, who are currently revising their production plans and other arrangements, and the material impact of these developments has also been incorporated into the latest business results forecast. Since we cannot predict when the impact of this will end, we have not incorporated the long-term outlook at the present time. If it seems there will be a significant change in the business results forecast, we intend to communicate that information as appropriate.

Furthermore, there is a time lag in implementing price adjustments in response to rising raw material prices. While we believe that we will be able to offset the impact over the course of the year, depending on how matters progress, there may be a period when the impact of raw material price increases will be greater than the effect of our price revisions.

### **[2028 Mid-term Management Plan]**

#### **Functional Chemicals segment**

**Q2: Could you explain the context for the 25.0-billion-yen extension of cosmetics-related product manufacturing facilities? In addition, assuming that cosmetics ODM has a concentrated customer base, could you say whether this facility investment will address the issue of customer concentration or whether it is aimed at specific customers?**

A2: The investment of 25.0 billion yen in extending our manufacturing facilities for cosmetics-related products was made in view of the fact that, going forward, we will grow the cosmetics-related business, including ODM, which remained firm throughout the period of the 2025 Mid-term Management Plan.

As disclosed in our financial results, a certain customer accounts for a large portion of net sales but going forward we would like to continue achieving steady growth with this customer. At the same time, we also intend to pursue sales expansion, including overseas, while continuing to broaden our business with multiple customers other than this certain customer.

**Q3: The 25.0-billion-yen investment in extending the manufacturing facilities for cosmetics-related products is larger than the previous investment of several billion yen. Could you tell us whether this is for an extension of existing facilities or the construction of a new plant?**

**This also seems to be a major investment for only one existing customer. Could you explain the background behind this investment decision, such as whether you acquired new customers, and the probability that it will succeed?**

A3: We are already proceeding step by step with the extension of our plant in Aichi, and since the cosmetics-related products business will grow further in the future, we are planning to make a significant investment in it. We plan for the upgrades to be operational starting in the latter half of the 2028 Mid-term Management Plan, with our focus on securing production capacity with the next Mid-term Management Plan in mind as well.

We are pursuing efforts to develop multiple customers besides our existing customer, and we will secure production capacity with a view to further enhancing sales, including overseas development.

**Q4: With regard to the details of the profit growth in the Functional Chemicals segment indicated on page 27 of the Mid-term Management Plan presentation, a significant profit increase of around 9.0 billion yen is expected from FY2026 to FY2028. Could you explain the specifics of this profit increase? Will cosmetics-related products or special anti-corrosion coatings contribute to profit? Could you also say whether it includes contributions from expansion into the Indian market?**

A4: We forecast that cosmetics-related products will continue to grow steadily and that the market share for special anti-corrosion coatings will also continue to grow, especially for automobile-related products. At present, we are already generating net sales in India, but going forward, we anticipate further growth in the markets for our products, and contributions from India are also included in the forecast. However, the 2028 Mid-term Management Plan reflects the scale of the business at its current stage of expansion, with further growth expected beyond the plan period.

### **Pharmaceuticals, Medicals and Health segment**

**Q5: With regard to the graph showing changes in DDS net sales on page 29 of the Mid-term Management Plan presentation, is it correct to understand that net sales in FY2025 do not include PEG modifiers for the three major companies? If that is the case, when are net sales expected to recover, and to what extent?**

**Is it also correct to understand that net sales of functional lipids are likewise not included in net sales for FY2025? And is it correct to understand that net sales of functional lipids are not expected during the period of the graph through FY2031?**

**Finally, on page 30 of the Mid-term Management Plan presentation, it is indicated that you are planning a market launch in Phase 3 from FY2027 to FY2030. If sales are possible starting in FY2027, is it possible that you could begin generating net sales as early as FY2026? According to your company, a significant increase in net sales is projected starting in FY2028. Do you have any additional comments on this?**

A5: Net sales for the three major companies are included in FY2025, but in FY2026 and FY2027, we expect net sales to decrease due to delayed market penetration for certain customers, while in FY2028 and beyond, we anticipate that demand will recover. Moreover, we expect that net sales will increase in 2028 and beyond due to higher clinical and commercial demand driven by our current efforts.

Functional lipids are being considered for clinical use by various bio ventures, and we believe that market launches will take place during the 2031 Mid-term Management Plan and after.

With regard to the five pipeline products at the late-stage clinical trial phase, it typically takes around two to five years from late-stage clinical trials to market launch, so we expect market launch demand in FY2028 and beyond.

**Q6: Net sales for the three major companies in the graph on page 29 of the Mid-term Management Plan presentation peaked in FY2023. Is it your view that this peak will be exceeded during the forecast period?**

A6: Net sales have fallen from their peak due to factors such as delayed approval applications in Europe, but if matters progress favorably going forward, we expect that net sales will recover.

### **Explosives & Propulsion segment**

**Q7: The initial costs indicated on page 16 of the Mid-term Management Plan presentation consist of actual costs of 24.8 billion yen for the 2025 Mid-term Management Plan and planned costs of 115 billion yen for the 2028 Mid-term Management Plan, for a total facility investment amount of around 140 billion yen. In last year's briefing, the figure was 96 billion yen for the three plants. Why has it increased by 44 billion yen?**

**On page 31 of the Mid-term Management Plan presentation, the sales forecast for existing defense-related products indicates a fairly steep upward curve from FY2028 to FY2030, with the index, taking FY2025 as 100, rising to 115 in FY2028 and 175 in FY2030. What is the outlook for FY2029, and will sales increase further in FY2031 and beyond?**

A7: We originally projected that the initial costs related to rapid acquisition would be around 100 billion yen, but this subsequently increased as the terms of various contracts were reviewed and finalized, and because the amount rose compared to the initial forecast due to the current surge in prices for construction and equipment materials and rising personnel costs driven by the labor shortage.

The sales forecast for existing defense-related products anticipates that shipments will increase due to higher defense spending and that produced items will increase once the rapid acquisition-related facilities are complete. In light of this, we anticipate growth in FY2029, but we will continue to carefully analyze the forecast going forward.

**Q8: In FY2031 and beyond, is there capacity for further growth beyond the sales forecast index of 175 for FY2030?**

A8: It depends on national policies as well, but in terms of our facility capabilities, we fundamentally believe there is still room for growth beyond the current sales forecast.

**Q9: With regard to the initial costs for rapid acquisition, is it correct to understand that the facility investment of around 100 billion yen is an amount for which depreciation and amortization is equivalent to the investment amount, and that the amount recorded in your net sales is larger than this? And compared to the profit expected if the facility investment amount was 100 billion yen, will the profit for the current investment of 140 billion yen be the same or will it be larger? In other words, should we consider the profit amount or the profit margin?**

A9: The 100 billion yen refers not to net sales but to facility investment. Since net sales are determined by applying the profit margin and other factors based on a certain transaction structure, they will be at a higher level than the facility investment amount.

**Q10: With regard to page 16 of the Mid-term Management Plan presentation, you have explained that the total of 140 billion yen in initial costs related to rapid acquisition exceeded the previous forecast because of two factors: a detailed review of specific plans and inflation of material and personnel expenses. However, does this also reflect the fact that demand for supply from your company is growing stronger? In particular, given the recent discussions about defense spending exceeding 2% of GDP and the abolition of the limitation on defense equipment transfers to five categories, could you indicate whether there will be a stronger indirect positive impact on your company in terms of demand from the national government and prime companies?**

A10: In terms of whether demand is growing stronger, there has been no change from the initially requested production capacity. The reasons that the total amount of initial costs has increased are the two points I mentioned.

**Q11: If developments such as defense spending exceeding 2% of GDP materialize in the future, could it lead to additional demand for your company?**

A11: It depends on future developments, but if there were demand at a level exceeding our current production capacity and our production capacity after we have completed the rapid acquisition-related facilities that are currently underway, it may be necessary to consider additional facilities. At the present time, we are not considering it, but if there is demand, we will consider it as required.

**Q12: On page 31 of the Mid-term Management Plan presentation, it is indicated that you plan to record profits for initial costs related to rapid acquisition mainly in FY2026 and FY2027, but to what extent has the impact of these initial costs been incorporated into the FY2028 business results forecast? Also, the ratio of operating profit to net sales forecast in the Explosives & Propulsion segment for FY2028 is 10.9%, which is higher than the profit margin in the past. Could you tell us whether the profit margin on contracts for defense-related products is gradually increasing?**

A12: Profits recorded for initial costs related to rapid acquisition will peak in FY2026 and FY2027, then subside in FY2028. In terms of the level expected in FY2028, we anticipate that it will be somewhat less than the level recorded in FY2025.

With regard to improving the profit margin on equipment, which we have discussed before, our efforts with respect to quality, cost, and other factors have been well received, so we will continue striving to improve the profit margin. Another factor affecting the profit margin is the cost accounting method for equipment. Under this calculation method, the profit margin rises in periods when net sales are higher than in the previous fiscal year and, conversely, decreases in periods when net sales are lower. The ratio of operating profit to net sales in the Explosives & Propulsion segment in FY2028 reflects our estimate of this effect.

## Research and development

**Q13: With regard to promoting the commercialization of promising themes on page 19 of the Mid-term Management Plan presentation, there are two themes mentioned. Could you tell us when they will contribute during the 2028 Mid-term Management Plan, the scale of their contribution to business results, and, from a slightly longer-term perspective, when you expect net sales to peak? In addition, it seems that there is significant competition when it comes to functional polyimides, and to date, your company is recognized as having limited exposure to the electronics-related market. What do you see as the path to success when entering a new area?**

A13: With the aim of expanding into new business areas, we are engaged in research and development in three fields that we have established as priority business areas. In the new presentation, we have introduced only two of them as promising themes. The size of the global market for regenerative medicine materials and materials for high-speed communications is several hundred billion yen.

With regard to cryopreservation solutions in the area of regenerative medicine materials, preservation solutions and technologies for suspension cells have been established. However, while suspension cell preservation solutions are being repurposed for 2D and 3D cells, their performance is not yet adequate, and since there are no standard preservation solutions available, we plan to launch a product we are developing in FY2027. We have various sales channels such as pipelines with pharmaceutical companies in the DDS business, and our view is that we are in a good position to promote them.

With regard to polyimides in the materials for high-speed communications area, we are moving forward with a plan to introduce them to the market around FY2028. Along with materials for high-speed communications, functional polyimides include thermal composite materials, semiconductor materials, and more, with the global market projected to be around 1.2 trillion yen in 2040. We are planning to gradually expand the market by developing applications for these products. For functional polyimides, it has been suggested that we are a latecomer to the market, but we have expertise in achieving high purity throughout the process, from raw materials to the final product, including synthesis technology and the manufacturing of products with high purity, and we plan to leverage these strengths to enter the market.

## Capital policy

**Q14: The response to the significant increase in the shareholder return policy and your approach focused on shareholder returns has been very positive, but if the total return ratio is maintained at 70%, could you tell us whether this will lead to increased financial leverage on the balance sheet or whether you expect to maintain a sound balance sheet?**

A14: We began enhancing shareholder returns in the 2025 Mid-term Management Plan, and in the 2028 Mid-term Management Plan, we will focus on shareholder returns with the target total return ratio of 70% or more. We will consider measures such as loans as needed, but we will continue to control the balance sheet by taking financial soundness into account.

**Q15: With regard to the balance sheet, I would like to know your view on what would be an appropriate level for cash and deposits, as well as the equity-to-assets ratio within your current business structure?**

A15: The level of cash and deposits in the 2028 Mid-term Management Plan is intended to ensure working capital, contingency funds for unforeseen circumstances, and capital to make agile investments in growth opportunities, including M&A. We intend to maintain the equity-to-assets ratio at an appropriate level while taking into account the need for strategic investment capital of around 200 billion yen during the 2028 Mid-term Management Plan.