

Business Results Meeting for the Second Quarter of the Fiscal Year Ending March 31, 2023: Questions and Answers

[Mid-term Management Plan (2025) Strategic Investments]

Q1: I would like to ask about the strategic investment framework that President Miyaji mentioned in his explanation. Does that JPY70 billion cover the three years from FY2023 to FY2025? The level of annual investment in the case of your company has been below JPY10 billion for quite some time, so this level is quite high.

A1: The JPY70-billion strategic investment framework has been planned to span the period of the 2025 Mid-term Management Plan. As shown on page 3 of the "Mid-term Management Plan (2025) Strategic Investments" presentation material, the investments include manufacturing facilities, etc. needed in order to expand into new areas of business and grow existing ones, as well as human resource development costs and the like. Overall, the investment is around double that of the current 2022 Mid-term Management Plan.

Q2: Does this JPY70 billion include the investment of more than JPY10 billion at DDS's Aichi Works? Are there any other major business investments?

A2: Yes, that is included. We are currently finalizing the details, so I hope to be able to explain them in more detail at the results meeting next May.

Q3: Regarding the allocation from the JPY70 billion for strategic investment to R&D and M&A for generating new business, in what specific fields are you considering investing? I understand that there are now three fields, namely Environment and Energy, Life and Healthcare, and Electronics and IT. Or are you considering other fields?

A3: In terms of basic fields, we will invest in those three, and will search for new buds in them to invest in and cultivate. Currently we are soliciting themes from outside the Company, and although some of them may be quite long term in nature, we would like to proceed with research and development on them. Also, we have instructed each of our business divisions to consider M&As, and would like to implement projects that emerge from these considerations.

Q4: Does the Company solicit research themes solicited from outside?

A4: Yes, we solicit themes for joint research with industry, government, and academia through the website and other means.

Q5: Regarding M&A, are your acquisition targets materials-based, or are you also considering downstream acquisitions, such as the cosmetics business? Is there any possibility of going into rockets?

A5: Generally speaking, we have instructed our businesses to consider these, but we do not have a specific view on any particular field at this time. However, as I have said before, I would like you to understand that our basic idea is to expand our business toward 2030 with a focus on the Life and Healthcare field.

[FY2022 Business Results Forecast]

General

Q6: How would you evaluate this performance, as I believe this time the FY2022 figures will exceed NOF VISION 2025 (JPY38 billion) for operating income. Would you say that the measures of the current mid-term management plan have been implemented smoothly?

A6: In terms of operating income, we expect to achieve the numerical plan for the final year of NOF VISION 2025 this fiscal year, appreciating that there were areas of significant growth during the recent unstable economic environment. During the period spanning the 2022 Mid-term Management Plan, we have put measures in place to drive growth, and we believe they are bearing fruit through steady and careful implementation.

Business environment

Q7: In Analysis of Changes in operating income in the Functional Chemicals segment on page 18 of the "Financial Results for the Second Quarter Ended September 30, 2022" presentation material, the impact of inventory valuation is a major factor in the upward swing in operating income. Could you tell us what factors caused this large positive JPY2.2-billion shift?

A7: First, compared to the previous forecast, raw-material and fuel prices have increased. Second, we had expected that inventory, which had accumulated at the end of the previous period due to concerns about growing demand arising from the economic recovery and supply chain instability, would return to a certain level at the end of the current period. However, we now predict that a certain level of inventory will need to be maintained owing to continued instability in the supply chain. These will result in a greater cost variance during the period, and we expect a figure of positive JPY2.2 billion due to an increase in the cost variance incurred in the current period that will be transferred to closing inventory.

Q8: What is the background behind the lower left-hand side of page 18 in the "Financial Results for the Second Quarter Ended September 30, 2022" presentation material, where you have lowered the sales volume forecast for the Functional Chemicals segment compared to the previous forecast? What is your outlook for basic materials for refrigerating oils, cosmetic raw materials, and automobile-related products in H2?

A8: The main reasons for the decline in sales volume are the ongoing geopolitical risks from the recent invasion of Ukraine by Russia, supply chain instability, and semiconductor supply shortages. These are still present to some extent. Automobile-related demand was significantly affected in H1.

In the business of basic materials for refrigerating oils, firstly in the Chinese market, demand was declining in H1 of 2022 due to the lockdown caused by COVID-19 in China. Looking ahead to H2, we expect a recovery in demand for air conditioners as the COVID-19 pandemic subsides, and we are currently estimating an increase in sales for FY2022. For the next mid-term management plan, we expect demand for air conditioners, especially in China, to remain strong, and we predict an increase in sales as a result. However, there are also factors such as the economic slowdown in China and a fall in real estate investment and transactions, so we will need to keep monitoring the situation closely.

In the cosmetic raw materials business, H1 saw a significant impact from the disappearance of inbound demand in the domestic market due to the COVID-19 pandemic, but we expect inbound demand to gradually revive in H2 as the COVID-19 restrictions are relaxed. Overseas, demand should recover in the Asian and North American

markets. In China, as I mentioned earlier, demand dropped in H1 due to the lockdown, but we expect a gradual recovery in H2.

We expect automobile-related demand to gradually recover toward H2, but still consider this to be a factor experiencing downward pressure compared to our estimates as of this spring. The situation with China will also significantly affect this issue, and we would like to keep a close eye on this situation as well.

Q9: In Analysis of Changes in operating income in the Life Science segment of page 19 in the "Financial Results for the Second Quarter Ended September 30, 2022" presentation material, the sales volume this time was up JPY1.3 billion, variable costs were down JPY0.4 billion, and inventory valuation was up JPY0.7 billion, so was actual growth in volume not that great? According to the Note, it says that the sales volume and variable costs had a positive JPY1.7-billion foreign exchange impact, so I don't see much of an effect on volume if I also take into account the foreign exchange impact, is that correct?

A9: The foreign exchange impact was positive in the DDS business due to exports and negative in the Functional Foods business due to imports of raw materials. As noted, volume is in line with the previous forecast.

Q10: In the DDS business, I believe you shipped a relatively large number of products in 1Q. What is the impact of this?

A10: In the first half of the year there was a positive impact, including the effect of foreign exchange rates.

Q11: What is happening in Q2 with regard to DDS? What effect does the DDS business have on the growth potential in the face of changing industry trends, such as the difficulty in raising capital for biotech ventures?

A11: As we have explained in the past, the biopharmaceutical market, where we have launched our products, is growing at an annual rate of 10%, and shipments to Europe and the United States have been strong. We expect shipments to be in line with our forecast for the current fiscal year as well. The growth rate of the DDS business fluctuates from year to year depending on each client's development schedule, but as I mentioned earlier, we expect stable growth of 10% per year over the medium to long term.

[Raw Fuel Prices]

Q12: For raw fuel, was it naphtha that had the biggest impact?

A12: In the Functional Chemicals segment, naphtha had a significant impact. Prices of raw materials related to fats and oils, which are also used in the cosmetic raw materials and the functional foods businesses, are also higher, and this has also had a significant impact.

[Expansion of the Cosmetic Raw Materials Business]

Q13: What is the sales composition ratio of cosmetic raw materials and ODM products? Is there a difference in profitability between them?

A13: I'm sorry, but we are unable to answer either of your questions about this matter.

Q14: I know that your company's clientele is mainly Japanese, but could you tell us how you are expanding in Asia and elsewhere overseas?

A14: As you have just mentioned, we are expanding domestically. But we are also pursuing opportunities abroad, and intend to keep doing so in future.

Q15: What is your feel for business development overseas?

A15: The response is encouraging, especially in Asia, which is a market close to ours in Japan, and we intend to expand our business there and elsewhere.

Q16: Can you give us a sense of the scale of the investment in the JEUNE BEAUTY Chita plant and by how much the production capacity will increase? When will it start operating?

A16: We do not disclose the amount of capital investment by project, so I am unable to give an answer, but we are looking to start operations during FY2023.

[Capital Policy]

Q17: Unlike in previous years, I believe this time the Company announced a share buyback in Q2. The deadline is also January 31, so it would appear to me that you could add to shareholder returns after Q3 if you are performing well. Is the Company's stance on shareholder returns becoming more aggressive? Or is it the same as before, and for various reasons it just happened to be earlier this time?

A17: We have not changed our policy on treasury stock, and there is no change in our policy of taking a flexible approach to share buybacks with capital efficiency in mind. Our dividend policy is stable and sustainable, with a target of around 30%. In addition, we would like to return profits to shareholders by remaining flexible when it comes to carrying out share buybacks.

End of Q&A