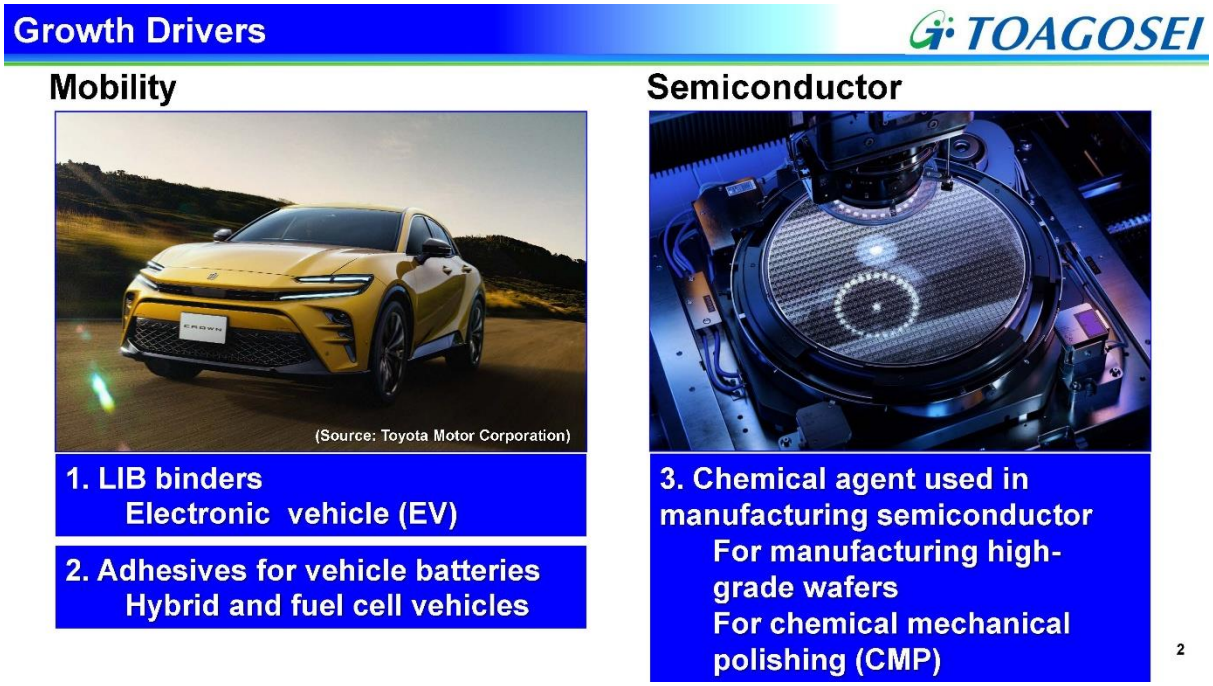
Toagosei Co., Ltd. made its largest-ever R&D and capital investment during the MTMP period, focusing on the semiconductor and mobility fields, and will strengthen sales of glass alternative resins and products for aging sewer systems going forward

Nikkei CNBC's "Interview with Top Management" released on May 8, 2025 provided by Toagosei Co., Ltd



[Lead]
Below is a transcript of the interview with Toagosei Co., Ltd., released on Nikkei CNBC's "Interview with Top Management" on May 8, 2025.

[Speaker]
Hidenori Kobuchi, President, COO and Representative Director, Toagosei Co., Ltd.

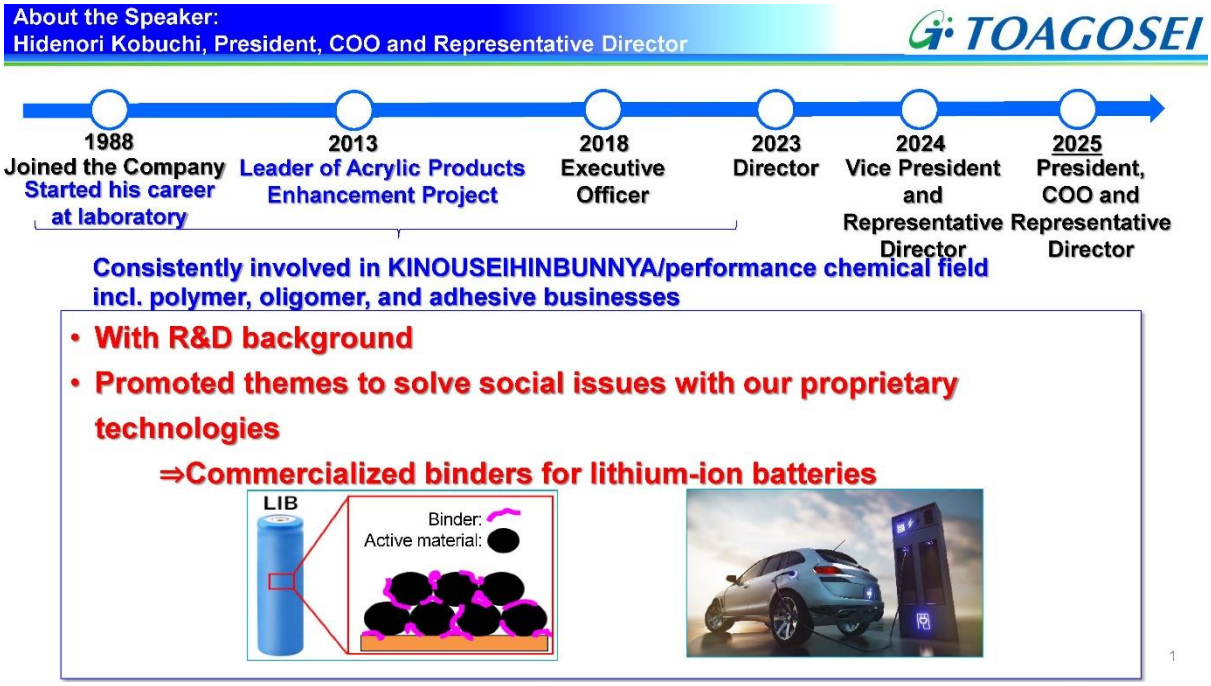
[Text]

Nikkei CNBC's "Interview with Top Management"

Masaki Morita (hereafter, Morita): Today, we are joined by Hidenori Kobuchi, President of Toagosei Co., Ltd. President Kobuchi, thank you for your time.

Hidenori Kobuchi (hereafter, Kobuchi): I am Hidenori Kobuchi, President, COO and Representative Director of Toagosei Co., Ltd. Thank you for having me. I assumed the position of President in January 2025.

Developing high-value-added themes aligned with megatrends will become increasingly important in the future, and we will truly be competing with manufacturers around the world for survival. We aim to leverage our development experience up until now to create high-performance products that can compete globally and enhance corporate value.



Morita: This is the first change in president at Toagosei in nine years. Investors and viewers alike are wondering about what kind of person Mr. Kobuchi is. Could you tell us about your career?

Kobuchi: As shown on the slide, I started at the laboratory in 1988, and then built up my career through roles in sales and business planning. During that time, I have been consistently involved in performance chemical field including the Polymer & Oligomer Business and the Adhesive Materials Business.

At the same time, I have been promoting the launch of themes that aim to solve social issues with proprietary technologies. One of the outcomes of such efforts was the launch and commercialization of binders for lithium-ion batteries, which are now one of our growth drivers, together with the project members at that time.

Morita: Recently, we have noticed from some interviews that we have done that some people, such as Naoki Okada, president of Fujikura Ltd. and Shigeo Nakamura, president of Ajinomoto Co., Inc. have experienced the growth drivers from the development stage before becoming president. Mr. Kobuchi, I think you have also had that type of career.

Kobuchi: That's right.

Growth Drivers

TOAGOSEI

Mobility

1. LIB binders
   Electronic vehicle (EV)
2. Adhesives for vehicle batteries
   Hybrid and fuel cell vehicles

Semiconductor

3. Chemical agent used in manufacturing semiconductor
   For manufacturing high-grade wafers
   For chemical mechanical polishing (CMP)

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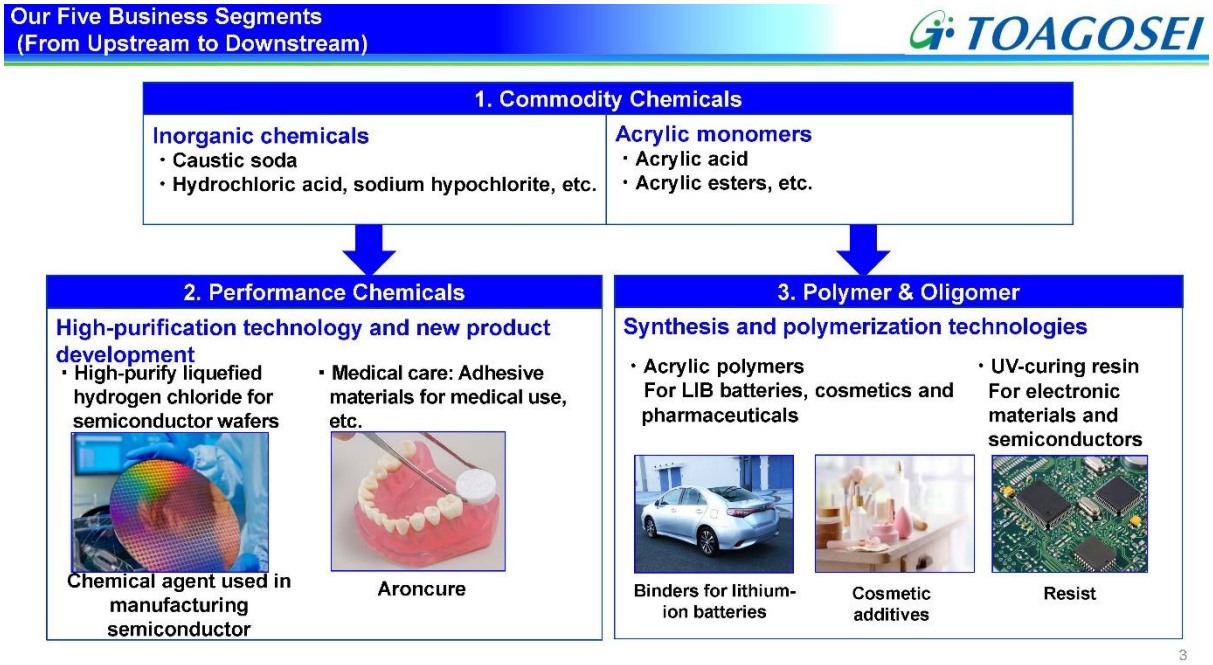
Morita: Toagosei has a truly diverse business portfolio. Could you briefly explain what you currently position as growth drivers within that portfolio?

Kobuchi: Our growth drivers are in the two sectors of mobility and semiconductors, both of which are dominated by product lines with a high global market share. In the mobility sector, these include binders for lithium-ion batteries and adhesives for vehicle batteries. In the semiconductor sector, they are various chemical agents used in semiconductor manufacturing.



Morita: I would like to ask about your business structure. Toagosei has a broad business portfolio covering the entire supply chain from upstream to downstream. For example, you have products such as Aron Alpha that are close to consumers. Could you explain the five business segments from upstream?

Kobuchi: First, the Commodity Chemicals segment consists of inorganic chemicals such as caustic soda and hydrochloric acid produced through the electrolysis of salt, and acrylic monomers. In the Performance Chemicals segment, high-purity liquified hydrogen chloride and other products are currently expanding as chemical agents used in manufacturing semiconductors.

In the Polymer & Oligomer segment, we are strengthening the entire acrylic chain, including lithium-ion batteries, acrylic polymers for cosmetics, and UV-curing resins for electronic materials. In any case, we plan to continue to strengthen these developments from upstream to downstream.

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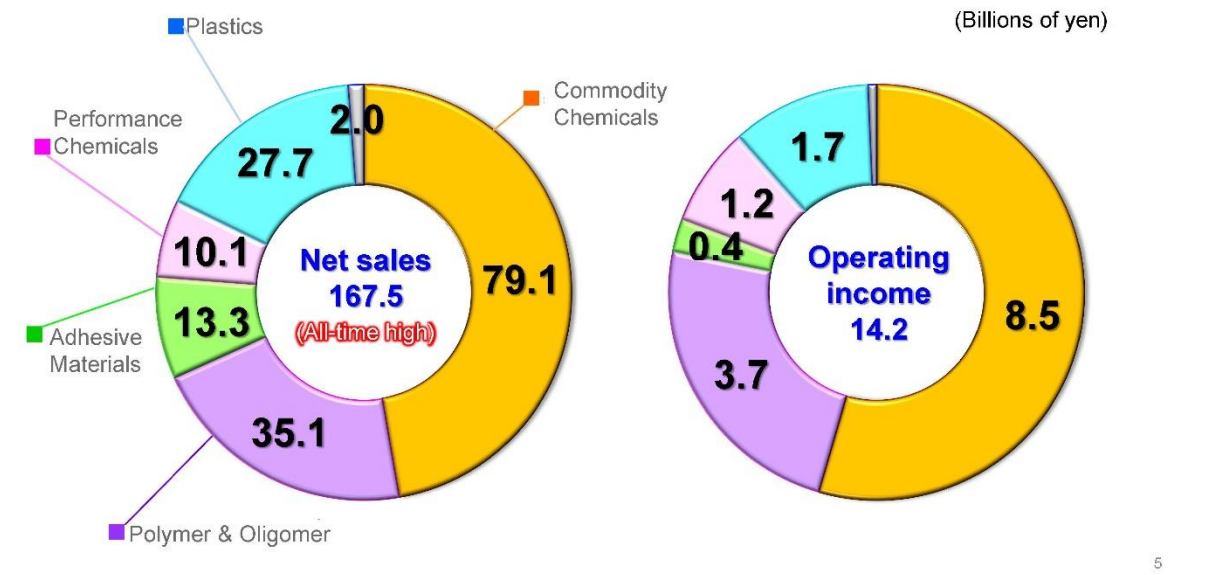
Morita: You are also developing various products for general consumers and everyday life. Could you explain this as well?

Kobuchi: This is precisely what we do in the Adhesive Materials business. One business is adhesives for vehicle batteries, which are one of our growth drivers, and the other is the B2C product Aron Alpha.

We release new Aron Alpha products every few years to meet various needs. Recently, we launched Aron Alpha Hikari, which is a high-speed adhesive product using light. Instant glue often cause whitening, but this product does not, making it very popular with model kit enthusiasts.

The Plastics business is handled by our group company Aronkasei Co., Ltd. We have a range of products, including Anju, a top brand in nursing care products, and various products that can be used to efficiently replace aging sewer pipes and other infrastructure.

Morita: The same is true of Aronkasei, and Aron Alpha has an overwhelming market share.



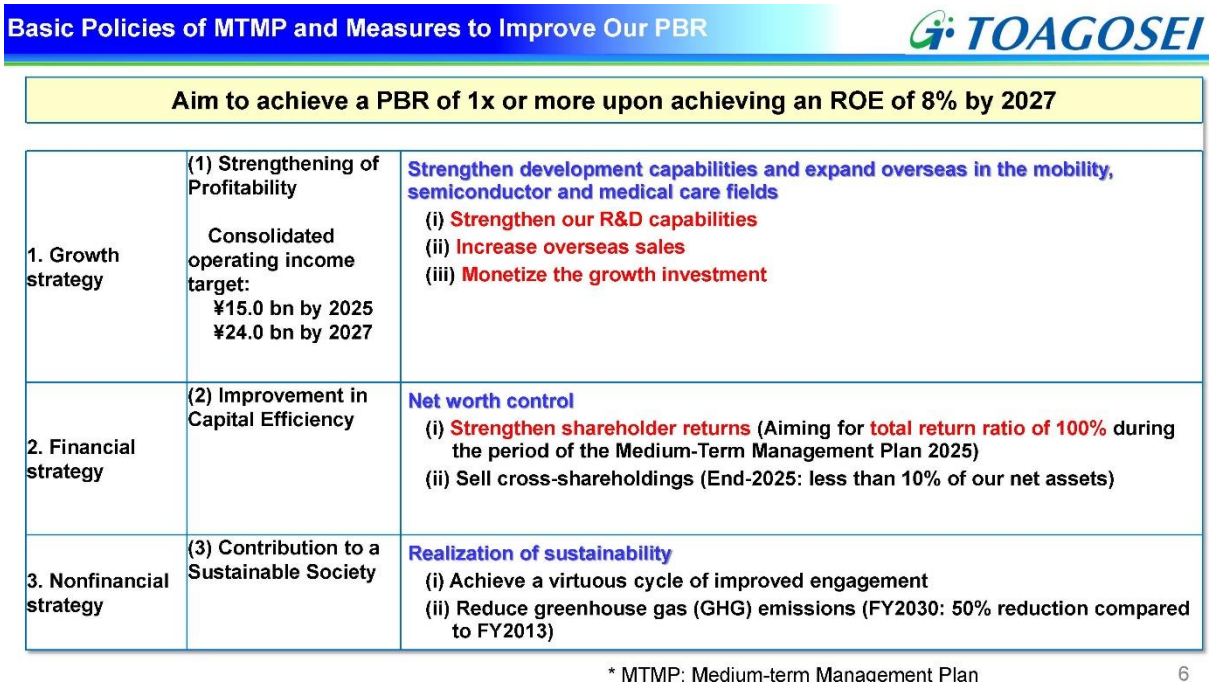
Morita: Could you explain the business results?

Kobuchi: This slide shows net sales and operating income for 2024. In 2024, shipments were steady in terms of volume, and net sales reached an all-time high. Both revenue and profit increased year on year.

Focusing on operating income, the Commodity Chemicals business accounts for more than half of the total. The Polymer & Oligomer, Adhesive Materials, and Performance Chemicals businesses account for the remaining half. This is a very well-balanced profit structure, with the strong performance of the Commodity Chemicals business supporting the challenges being faced by high-performance products.

Morita: In that sense, it sounds like the business is fulfilling its role as a cash cow(*) while still enabling investment in growth.
*A business that is stable and profitable.

Kobuchi: For 2025 as well, we expect to see an increase in profits compared to the previous year due to strong sales of high-performance products.

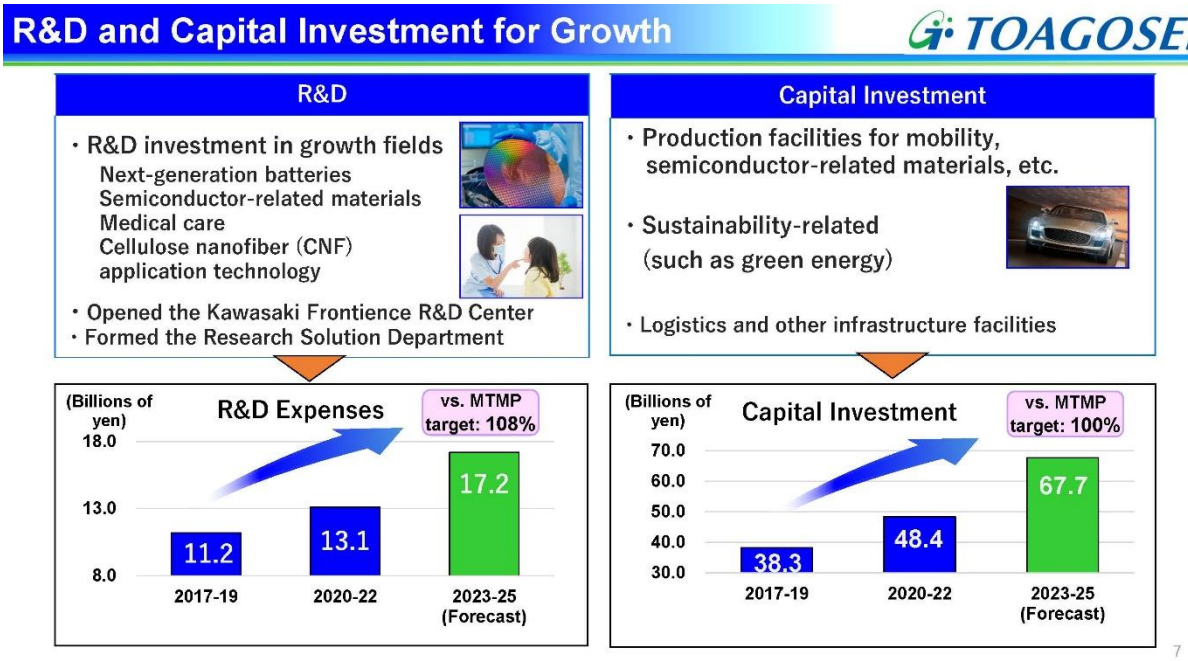


Morita: Let's move on to the Medium-Term Management Plan. The Medium-Term Management Plan is reviewed forward every year. Could you explain the basic concept and content of the plan that you are pursuing?

Kobuchi: The Medium-Term Management Plan is based on three basic policies. The first is the growth strategy, which focuses on strengthening our R&D capabilities, increasing overseas sales, and monetizing the growth investments.

The second is the financial strategy, centered on strengthening shareholder returns. The third is the nonfinancial strategy that aims to contribute to a sustainable society.

We are working to achieve an ROE of 8% and a PBR of 1x or more while implementing these three basic policies and measures.



Morita: I think we can talk about improving capital efficiency in more detail later. Could you first explain the growth strategy centered on research and development, which is the pillar of the growth strategy? In a sense, the fact that Mr. Kobuchi is currently serving as president seems to be a clear manifestation of this thinking.

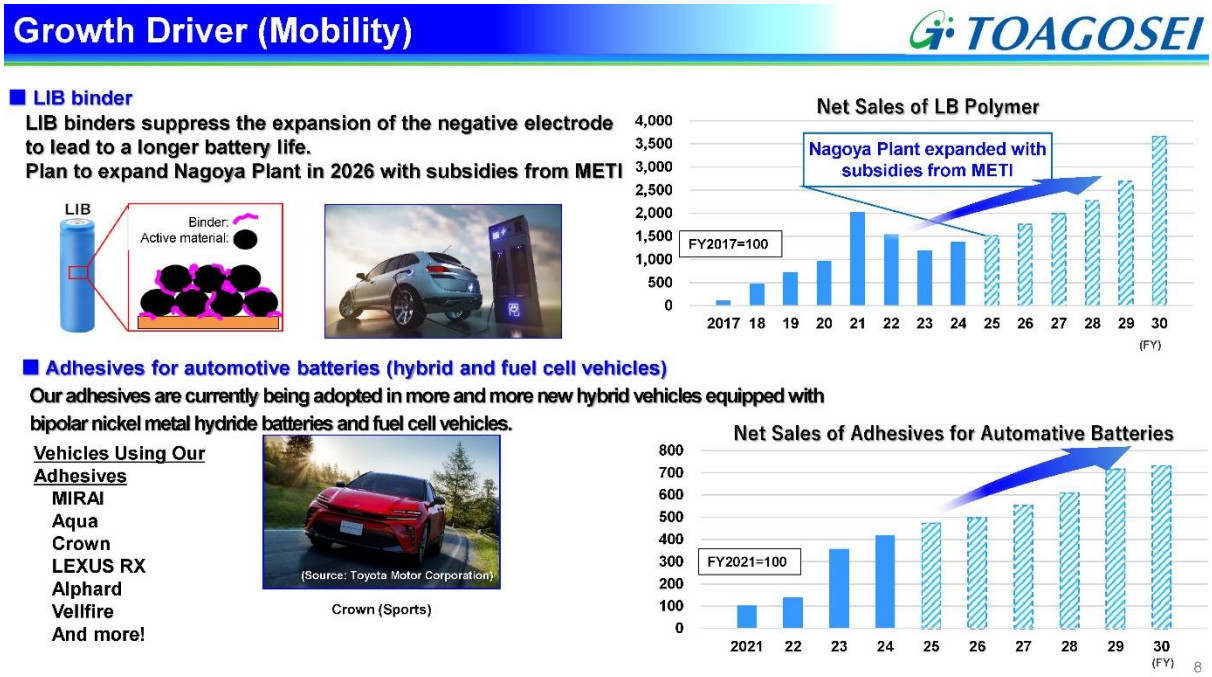
Kobuchi: The key to the growth strategy mentioned earlier is precisely R&D and capital investment. While R&D will include existing projects, we will primarily invest in new R&D. Capital investment will primarily target growth drivers such as mobility and semiconductors.

The lower section of the slide shows a graph of the trends over three years for each of the Medium-Term Management Plans, and as indicated, we are planning the largest-ever investment in R&D. With regard to capital investment, this is the largest investment in our history. We believe we have made aggressive preparations, as we are exceeding the targets of the Medium-Term Management Plan.

We also believe that we have created a positive cycle in which R&D themes are quickly turned into capital investment.

Morita: Your focus on R&D has yielded various results, such as the Aron Alpha Hikari that you mentioned earlier and hemostatic agents for dental use. It seems that facilities such as the Kawasaki Frontience R&D Center are also working to create a cycle for these kinds of results.

Kobuchi: That's right.



Morita: You mentioned earlier that mobility and semiconductors are the two growth drivers at the core of your growth strategy. Could you please elaborate on this further? First of all, please tell us about mobility.

Kobuchi: In the mobility sector, we were quick to meet customer needs for suppressing the expansion of the negative electrode.

Morita: Are you referring to binders for lithium-ion batteries?

Kobuchi: One is the binder for lithium-ion batteries we launched in 2017.

Morita: Mr. Kobuchi, this is something you were directly involved in developing, isn't it?

Kobuchi: That's right. It's been growing steadily, and we're planning to expand the Nagoya Plant in 2026 in particular. This product is expected to receive subsidies from both METI and Nagoya City, Aichi Prefecture, as it is a product that can gain market share worldwide.

Another product is the adhesive for automotive batteries used in hybrid and fuel cell vehicles. Sales are steadily increasing along with the increase in the number of vehicles equipped with the product.

Morita: The slide shows a photo of a Crown, but it's also used in vehicles such as MIRAI, correct? Does this mean that Aron Alpha's strengths can also be leveraged in adhesives for automotive batteries?

Kobuchi: Yes, that's right. To add to that, we also sell a considerable amount of functional polymers for special parts used in gasoline-powered vehicles, although we cannot disclose the details due to confidentiality.

In this sense, lithium-ion batteries are used in electric vehicles, and we are currently covering all areas, including electric vehicles, hybrid vehicles, fuel cell vehicles, and gasoline-powered vehicles.

Morita: It seems that you have achieved a good balance so that when growth slows in one area, it is offset by growth in another.

Growth Drivers (Semiconductor)

TOAGOSEI

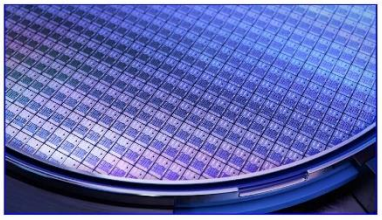
- For manufacturing high-grade wafers

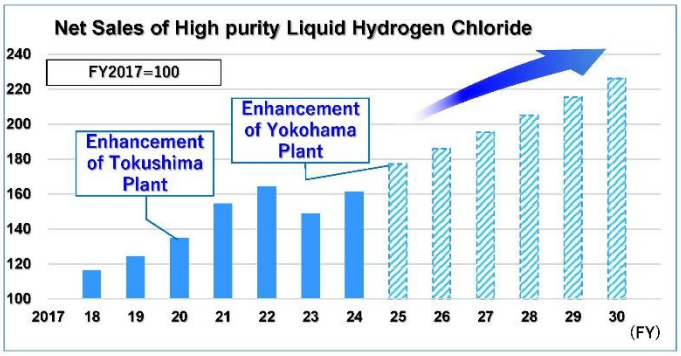
  High purity liquid hydrogen chloride (Top world market share)

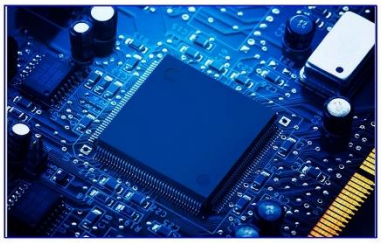
- For polishing wafers

  High purity caustic potash

  Acrylic polymers for high performance CMP







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Morita: Please tell us about the current status and growth strategy of semiconductors, another growth driver.

Kobuchi: In the semiconductor field, we have the top world market share of high purity liquid hydrogen chloride for manufacturing high-grade wafers. As you can see from the graph on the slide, we are steadily expanding. We are also in the process of making capital investments in line with this situation.

In addition, our product lineup of high purity caustic potash and acrylic polymers for high performance CMP is expanding steadily, and we are gradually upgrading our manufacturing facilities.

Morita: Is high purity liquid hydrogen chloride, which has the top world market share, essential for the stage of forming a thin film before applying photoresist to silicon as the front-end semiconductor manufacturing process?

Kobuchi: It is an indispensable material for the production of epitaxial wafers, which are referred to as high-grade wafers.

Morita: You have a very large share in this area.

Kobuchi: Exactly, it is the de facto standard worldwide, so our global market share is very large.

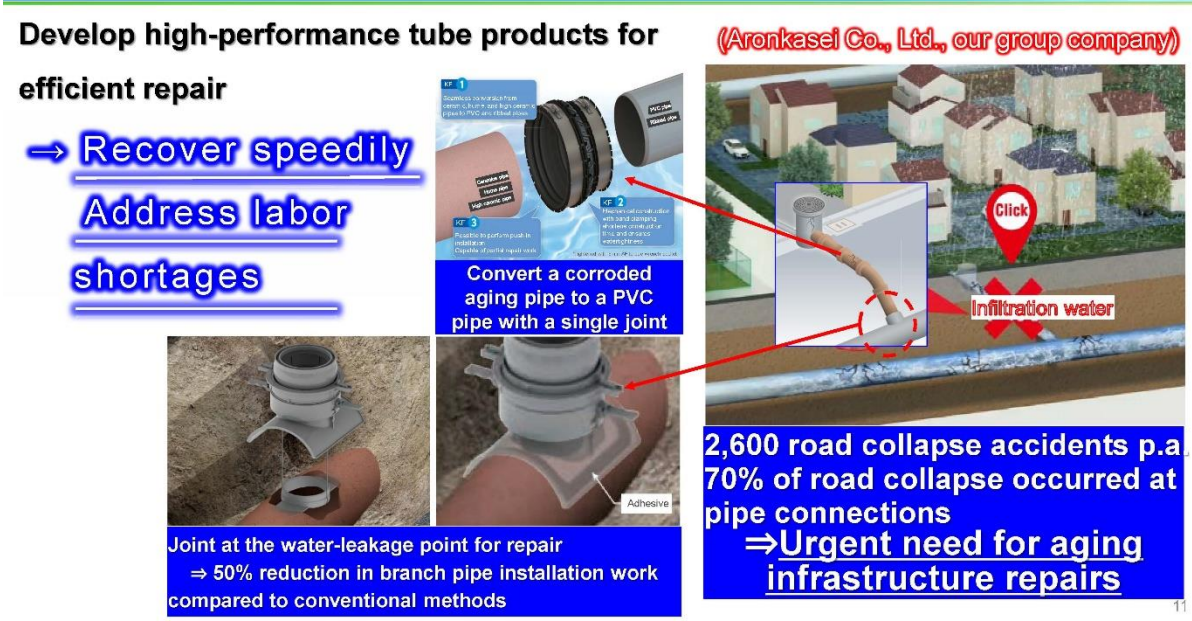
Morita: Could you now introduce some topics regarding new products, promising fields, and areas where you are focusing your efforts?

Kobuchi: While we have a wide range of products, this time I would like to focus on two that are in line with current trends. First, there is Aronix sheet, a glass alternative resin that has begun to be adopted for LiDAR cover sheets. This is a product made using various technologies we have cultivated with our UV-curing resin Aronix.

As shown on this slide, although glass is typically used for such applications, this material overcomes the disadvantages of glass (fragility and weight), while retaining its optical properties and thermal resistance, making it the world's first material of its kind. It is expected to be adopted in autonomous vehicles, and we are very excited about its future.

Morita: LiDAR refers to a technology that measures distance or identifies objects by emitting laser light. So it's not just for autonomous vehicles, but also expected to be used in drones and other applications going forward, correct?

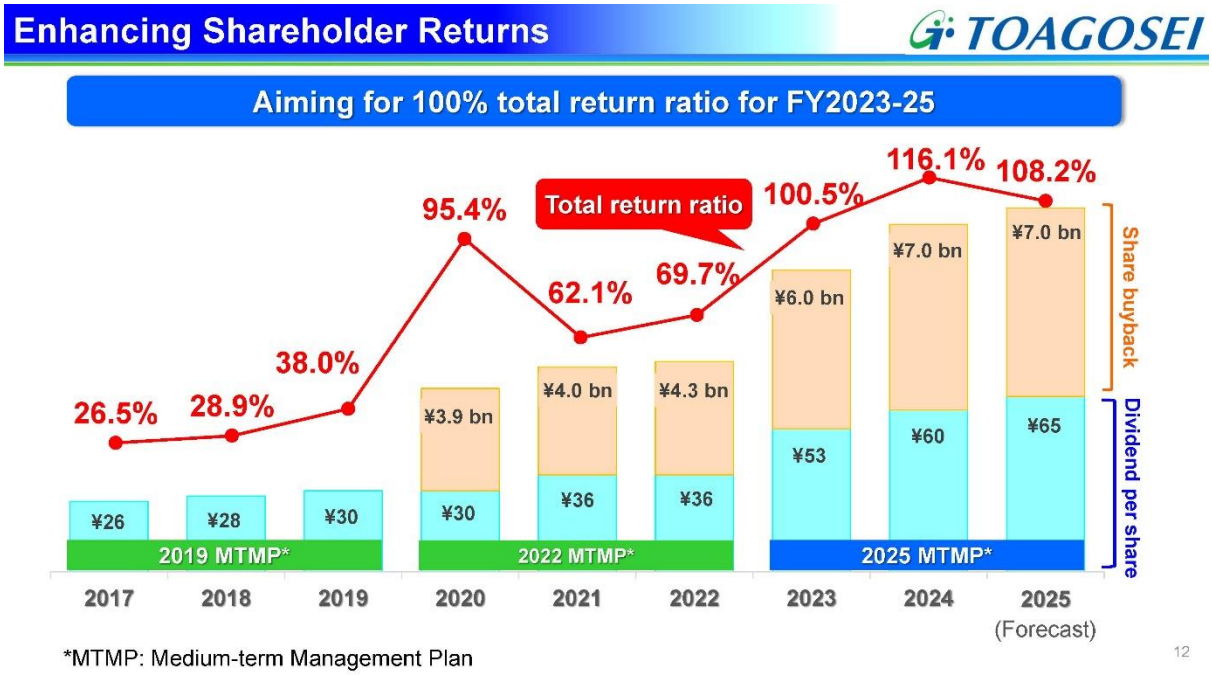
Kobuchi: Automobiles are probably the most challenging application and have the greatest potential for the future, but it's already being adopted in various robots and agricultural tools. In any case, LiDAR is a device that uses near-infrared rays to determine distance and the original shape of an object. In that sense, we believe it can provide extremely high-quality and accurate measurements.



Morita: Please also introduce your efforts to address the current social issue of aging infrastructure.

Kobuchi: Recently, there was a tragic accident in Saitama Prefecture caused by a broken sewer pipe. In fact, there are 2,600 road collapse accidents in Japan every year, and 70% of road collapse occur in the branch pipes that connect to the main sewer pipes. Therefore, it is said that repairs are urgently needed.

Currently, our group company Aronkasei offers a range of products for the efficient repair of these branch pipes, and we are focusing on the development and sale of these products. We intend to contribute to the improved resilience of Japan while working on such measures to address aging sewer pipes.



Morita: Moving on to how the company is engaging with the market, let's first look at the stock price. Today's stock price has declined by 0.5 yen.

In addition, the current price-to-book ratio is approximately 0.71, still below 1. How do you plan to address the market from here, and how do you anticipate the market will evaluate the company? Please share your thoughts on this.

Kobuchi: Firstly, I believe that improving PBR, and by extension, ROE and PER, is key to improving corporate value. As I mentioned earlier, the basic idea for this is to deepen and accelerate our growth strategy and financial strategy. We also intend to steadily strengthen our existing businesses and review our portfolio.

In terms of our financial strategy, looking at the trends over the three years of the current Medium-Term Management Plan, we have increased dividends and share buybacks every year. The total return ratio is also expected to exceed 100%. We will continue a shareholder-oriented policy in the future.

Morita: So you are thinking of enhancing your reputation while responding to the market in this way.

Final Message from Kobuchi

- The earnings forecasts include forecasts based on information available as of the date of the publication of this document. Actual results may differ from the figures contained herein due to various factors which may change in the future.
- This document is not intended to solicit investment. Please make investment decisions based on your own judgment.

Morita: Do you have a final message for our viewers?

Kobuchi: Although the COVID-19 pandemic is finally coming to an end, the new US administration's tariffs are currently causing turmoil around the world. Although there is currently little direct impact on our company, there is a possibility of an indirect impact in the future. We will carefully analyze the information and respond flexibly.

It is precisely in times like this that we will not relent in our efforts to develop new products, but instead strengthen them. Mobility and semiconductors, which are growth drivers, are treasure troves of themes. In that sense, we will steadily advance horizontal expansion and ensure the launch of cellulose nanofibers and medical products, which we position as the next growth drivers, in the next Medium-Term Management Plan.

We will continue to view risks as opportunities, maintain a healthy sense of urgency, and strive to enhance corporate value together with all employees. We look forward to your continued support and interest in the future of Toagosei.