Financial Results for 2Q FY2023
Manuscript of Presentation (Including Q&A Session)
Toagosei Co., Ltd.

1. Toagosei's net sales were down slightly year-on-year. We will aim to expand business and secure earnings by accelerating the pace of R&D even in an uncertain environment.
2. Toagosei's sales and income were down in the first half of the year. We will enhance our earnings capabilities by strengthening our ability to develop new products and technologies and by increasing overseas net sales.

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Presenter:	Mikishi Takamura, President and Representative Director
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The following is the transcript for Toagosei's financial results briefing for 2Q FY2023 released on August 9, 2023.

Slide 1: Table of Contents

Mikishi Takamura (below, "Takamura"): My name is Mikishi Takamura and I am the President of Toagosei Co., Ltd. Thank you for your continued support. We have announced our financial results for 2Q FY2023, so I will now give an explanation of them. I will also explain our capital policy we announced on August 4.

As stated in the Table of Contents, I will explain four items: results for 2Q FY2023, results forecast for FY2023, topics and capital policy.

Slide 3: Summary of Financial Results for 2Q FY2023

I would like to give a summary of 2Q FY2023. There were quite a few varied developments in term of economics and politics in this 2Q.

Concerns about inflation and the impact of the war remain in Europe and America. In addition, the Chinese economy has still not recovered. If we delve deeper, we find that the issue of decoupling due to the power struggle between the U.S. and China lies at the root of this. I have strongly felt over the last six months that we may make the wrong decisions if we only look at superficial aspects without taking into account future developments in economic relations from this perspective.

Generally, the movement of goods has been extremely poor especially in the materials industry in Japan. This development gives a sense that the economy is slowing down. We are seeing a lot of numbers and data appearing to the effect that, on the contrary, things are looking up in the transportation and service industries thanks to overcoming the COVID-19 pandemic. Nevertheless, the operating efficiency of material-related products, in particular ethylene-related products, used as an indicator in the chemistry industry, remains sluggish.

Against this background, the Toagosei Group has been working to overcome the sluggish movement of goods in terms of quantity. In addition, we must proceed with measures to pass on costs with respect to prices including for raw materials and electricity which have continued to soar since last year.

On the other hand, we have enhanced the sale and development of the high-performance products we have been wanting to expand such as those related to automobiles. Although there are areas where we are starting to see the fruits of our efforts, sales and income decreased year-on-year in total in the 2Q due to a decrease in sales volume.

Slide 4: Overview of Results for 2Q FY2023

Our net sales, operating income and other indicators for 2Q FY2023 are as described in the table. The right side of the table shows the change and rate of change year-on-year.

Net sales declined only slightly. However, operating income fell by nearly 40%. I consider that to be a very disappointing result. I will explain this later, but we were able to keep the reduction in quarterly net income to about 23% year-on-year by selling shares as extraordinary income.

Slide 5: Analysis of Changes in Operating Income

This slide provides an analysis of the changes in our operating income. Volume was down 3.3 billion yen. That had a major impact. Although only slightly, unit price was up. I believe that is the fruit of our efforts to raise prices.

Slide 6: Consolidated Results (by Segment)

This is our situation by segment. The table at the top shows our net sales while the table at the bottom describes our operating income. Volume decreased in all segments for net sales. The adhesive material segment was in deficit for operating income. I will explain our forecast for the year later, but I will say here that we do not intend for this segment to finish in deficit.

In terms of income, sales volume continued to be down for electrolytic products and acrylic monomer products in the commodity chemicals segment. Sales related to gas increased. That was due to a slight recovery in shipments related to automobiles and the correction of sales prices.

The polymer & oligomer segment also suffered a decrease in sales and income. The sales volume of acrylic polymers for battery materials in relation to automobiles decreased as well. Moreover, the sales volume of polymer flocculants also decreased. The volume of acrylic polymers fell as well, but we were able to deal with that by raising prices. Therefore, we maintained a level of net sales almost on a par with the previous year.

Sales of products for consumers fell a little in the adhesive material segment. The sales volume of functional adhesives for smartphone components, electronic components and automobile components slumped. Nevertheless, there was an increase in the sales volume of products for automotive batteries. Accordingly, sales increased in this field only. Meanwhile, R&D expenses continued to increase. That resulted in an operating loss.

Sales increased but income decreased in the performance chemicals segment. We were able to raise the price of some high-purity inorganic products in response to soaring raw material prices. However, sales volume fell due to a significant slump in the semiconductor market conditions. The sales volume of ion-trapping agents for electronic components fell. Accordingly, sales of inorganic functional materials also decreased. We had a small number of sales as test samples with respect to medical-care products, so sales increased.

Sales in the plastics segment fell due to a decrease in volume for piping equipment and products for construction and civil engineering because of a slump in the number of new housing build starts. We were able to end the period with an increase in sales due to the development of new life support products and elastomer compound products. The biggest impact was from the decrease in sales volume of piping equipment. That resulted in a decline in income.

Slide 7: Overview of Consolidated Subsidiaries (Results for 2Q FY2023)

The table gives the trends in our affiliated companies. I want to describe the areas where there have been particularly large developments compared to FY2022 in net sales and operating income.

The second company in the table, Toagosei Singapore, suffered a decline in income of more than one billion yen year-on-year. We have long known that our acrylic monomer results are greatly affected by the market conditions in Southeast Asia. Unfortunately, market conditions have considerably weakened since around fall last year.

The cause of that is sluggish domestic demand despite the start of the operation of an acrylic acid and acrylic acid ester plant in China. Furthermore, acrylic monomers products made in China have spread into Southeast Asia as low-priced products. As a result, market conditions have weakened and there has been a significant drop in income.

The ninth company in the table, Toagosei America, has restructured its instant glue business. The company has made various efforts such as launching new products. However, expenses have risen a little. Moreover, labor costs have remained high. Consequently, the decrease in operating income worsened slightly.

Slide 8: Consolidated Statement of income (Non-operating Income/Expenses and Extraordinary Income/Losses)

I will now explain about non-operating income/expenses and extraordinary income/losses. In terms of non-operating income/expenses, foreign currency exchange gains were down slightly. That was because there was a slight depreciation in the yen. Although the yen-dollar exchange rate was 133 yen at the end of last year, it was 144 yen at the end of June.

We continued this year with selling investment securities which we have been working on since last year and are striving to lower the ratio of securities we hold with respect to net assets in terms of extraordinary income/losses. As a result, we recorded a gain on sales of investment securities of 1,452 million yen in the first half of this year. That was up slightly compared to last year.

Slide 9: Consolidated Balance Sheet

I will explain about our consolidated balance sheet now. Overall, our total assets increased by about 900 million yen compared to the end of December 2022. Our current assets fell significantly due to a decrease in cash and deposits.

Fixed assets increased because the estimated value of the securities we hold rose. Liabilities rose by about one billion yen compared to the end of FY2022 due to an increase in deferred tax liabilities.

Our net worth ratio increased by about one point to 78.8%.

Slide 10: Consolidated Cash Flow Statements

This slide shows are our consolidated cash flow statements. Cash flows from operating activities increased 2.4 billion yen to 13.6 billion yen year-on-year. That was because, although income before taxes fell, inventory increased and corporate tax payments decreased.

Cash flows from investment activities included the purchase of land for our Kawasaki Plant last year. However, that was not the case this year. Accordingly, the decrease in cash flows from investment activities was smaller as we acquired tangible fixed assets.

Cash flows from financial activities increased significantly compared with the previous year. This is due to Toagosei's purchase of shares in our affiliated company of MT AquaPolymer that were owned by Mitsui Chemicals and also an increase in expenditure to acquire treasury stock. Therefore, these cash flows decreased by about seven billion yen year-on-year.

Slide 12: Challenges in the 2nd Half of FY2023

I will now describe our results forecast for the second half of the year. As I mentioned at the beginning, we believe we will continue to see a situation in which there are various pressures for change with respect to economic activities in terms of inflation concerns, economic aspects and political aspects for the business environment.

There is reassuring news from automobile manufacturers in Japan in that they will increase the number of units they will produce in the second half of the year and onward. However, on the other hand, we expect raw material prices will generally remain high and the price of some items may still rise.

Against this backdrop, companies raised wages suitably including by increasing basic pay in the spring of this year. I believe a lot of attention will be paid as to whether these wage raises lead to an increase in consumption by individuals and ultimately lead to a change for the better in corporate results. Nevertheless, we feel that the future is uncertain as to whether the wage raises will lead to increased consumption activities due in part to the impact of inflation.

Moreover, I recollect there was a trend up to the 2Q for some newspapers to use the expression "demand has disappeared." Certainly, if we look at trends in China, I sense that consumption has been extremely restrained.

When predicting corporate results in the second half of the year, in addition to developments in demand trends, I feel that, especially in relation to materials, there is a strong impact from the accumulation of inventory of our material manufacturers' products among downstream manufacturers and users. We believe that recovery of demand and how inventories are organized will be the keys to predicting results in the second half of the year.

Our policy is as stated at the bottom of this slide. There is no major change to our policy to focus on R&D, new product development and the development of high-performance products in particular. We will also actively proceed with capital investment while we can.

We want to firmly work on our capital policy in the period of the Medium-Term Management Plan including from next year onward in addition to this year. I will explain later about the deepening of our capital policy.

Slide 13: Consolidated Results Forecast for FY2023 (Year-on-year Comparison)

Please take a look at the 2023 forecast in the table at the top of this slide. Operating income was in the 4.7-billion-yen range in the first half of the year. Nevertheless, we believe it will recover to the 5.7-billion-yen range in the second half of the year.

Weak demand affected results in the first half of the year. This is a trend in our results we have been seeing for some time, but our 2Q is characterized by a slight decline in income partly due to major periodic repairs. Accordingly, we have forecast results for the second half of the year by including our expectation that we will see a recovery beyond that in the 3Q and 4Q.

We expect to distribute a dividend of 20 yen again in the second half of the year. With that, we plan to increase our dividend by 4 yen this year.

Slide 14: FY2023 Operating Income Analysis Forecast

This is our operating income analysis forecast. The slide describes the factors behind the changes comparing our results in FY2022 and our forecast for FY2023.

We do not expect the trend for the decline in volume to change greatly from the first half of the year. In terms of the unit price, the price of raw materials for some products will rise, but we think we will be able to recover as those price increases spread. We believe fixed costs will be down slightly because R&D expenses and labor costs will rise somewhat.

Slide 15: FY2023 Consolidated Results Forecast (Year-on-year Comparison by Segment)

This slide presents our consolidated results forecast by segment. The table at the top shows net sales while the table at the bottom describes operating income.

We expect to see an increase in net sales of automobile-related products in the polymer & oligomer segment. However, net sales in the segment will still be down on results in FY2022.

The adhesive material segment suffered an operating loss in the first half of the year. However, we started to take various measures to improve results such as through streamlining in the first half of the year. Accordingly, we forecast we will be able to return to profitability for the year.

On the other hand, there is a growing consensus that semiconductor-related recovery will be delayed until next year in the performance chemicals segment. We have determined that income will inevitably be down including with high-purity inorganic chemicals.

The plastics segment will also be greatly affected by the decline in volume such as with the number of new housing build starts. We think income will be somewhat in the negative in this segment.

Slide 16: Trends in Consolidated Results

You can see income and various other indicators over several years so you can follow them by fiscal year on this slide. The bar graph indicates consolidated EBITDA and operating income while the line graph shows net income per share from 2017.

The economy suffered its most severe slump due to the impact of the COVID-19 pandemic in 2020. However, our figures show that operating income in 2023 will be below even that.

Slide 17: Reference Trends for Consolidated Performance

We have described trends in shareholders' equity, interest-bearing debt and the shareholders' equity ratio since 2017 on this slide. Our shareholders' equity ratio has consistently remained at around 78% since 2019.

Slide 18: EBITDA/PP&E Ratio Trends

This slide indicates the trends in our EBITDA and P&E ratio. We can see EBITDA as "earning power." Unfortunately, our EBITDA ratio has been in a slight decline since 2021. We recognize that we need to engineer a recover in operating income and to increase our EBITDA somehow.

Slide 19: Reference for Consolidated Performance

We show here capital investment, depreciation and amortization, research and development expenses, overseas net sales and interest-bearing debt for your reference.

Of the capital investment amounts, we use the acceptance basis figures in our annual securities report. The approved capital investment in the year serves as the basis for internal management. Therefore, we have also listed the approval basis figures here. We think that approval-basis capital investment will increase significantly in 2023.

Slide 20: Medium-Term Management Plan 2025 (Capital Investment Breakdown)

We have stated we plan to make capital investment of 68 billion yen over the three years of our Medium-Term Management Plan from 2023 to 2025. However, I will also explain here the breakdown to answer your questions from previous briefings.

There are two pie charts on the right side of this slide. The breakdown by category is growth rationalization, updates and other. We have also broken it down by how much investment we are considering by segment.

As you can see from the graph by segment, the weight of the polymer & oligomer and performance chemicals segments is increasing. Other also accounts for about a quarter of the total. However, this includes areas which are difficult to separate by segment as well as dormitories, company housing and logistics warehouses.

Slide 21: Operating Income Trends

This slide shows operating income trends. We have displayed commodity products in green and high-performance products in blue on the bar graph. We have also listed the figures broken down by the first half and the second half of the year in 2023, so please view this slide for details.

Slide 23: Topics by Basic Policy of 2023-2025 Medium-Term Management Plan

I would like to explain a few items about the topics we present here. We have broadly split our Medium-Term Management Plan into three pillars: “strengthening of new product and new technology development capabilities,” “increase in overseas net sales” and “contribution to the realization of a sustainability society.”

We will establish a new research base in Kawasaki to strengthen our new product and new technology development capabilities.

We have several bases in our China business in particular we need to manage properly to increase our overseas net sales. We especially want to expand sales of battery materials for automobiles in the future. We have established a new management company in China also in the sense to prevent technology leaks. We would like the company to play a central role in increasing overseas net sales in China and Southeast Asia.

Slide 24: Topics (Strengthening of New Product and New Technology Development Capabilities)

This slide concerns our research bases. We divide our research baes into centers and laboratories as follows: centers handle a wide range of research themes while laboratories handle relatively limited product fields.

For example, we call Takaoka Creation Laboratory a laboratory because it is limited to engaging in adhesive-related research. Furthermore, the Institute for Advanced Sciences in Tsukuba is responsible for medical care-related and bio-related research.

In addition to these, we will now newly establish the Kawasaki Research Laboratory. We will be establishing this facility in the Tokyo metropolitan area where there is good transportation access. We would like to proceed with R&D there by further strengthening collaboration with our customers.

The General Center of Research and Development in Nagoya has also been engaged in research for some time. However, there is a division there like an implicit assumption that researchers are people who engage in research and experiments while salespeople are people who search for the seeds of that research. I personally feel that this division is not working in a very positive way. Therefore, we want the same people, as far as possible to pick up seeds, talk to customers, and then engage in research and experiments. We hope this will allow us to respond to the needs of our customers as quickly as possible.

We would like to proceed with product development while dividing roles between the Institute for Advanced Sciences and Kawasaki Research Laboratory in new fields such as the medical care business.

Slide 25: Topics (Increase in Overseas Net Sales)

As I touched upon earlier, we established a new company in Shanghai, China in May of this year. Moreover, although it is in a location a little away from Shanghai, we have also found a place which can become a laboratory. Accordingly, we are setting up a structure in which we can also engage in R&D there.

We are expanding sales of Aron Alpha by utilizing e-commerce and other methods in China. However, advertising costs are extremely high. In addition, consumption was sluggish up to the first half of this year. That means we are now racking our brains as to how to work toward expanding sales in the future.

We are already cultivating new sales destinations in Thailand and the Philippines in Southeast Asia. In this way, we are rolling out business based on our policy of gradual expansion from where that is possible with Aron Alpha.

Slide 26: Topics (Contribution to the Realization of a Sustainable Society)

We describe on this slide some of the progress we have made since last year as part of our initiatives toward carbon neutrality. We established a hydrogen station adjacent to our Tokushima Plant in April last year. The number of fuel cell vehicles is still not that large. Therefore, it is not yet profitable, but sales are increasing little by little.

Moreover, we are introducing solar power generation into vacant areas in our plants to reduce greenhouse gas emissions by 50% by 2030 compared to 2013 levels. In addition, we plan to construct new small hydropower facilities. We have already decided upon several locations for that. We are aiming to complete our first small hydropower facility in 2026.

In this way, we are also proceeding as planned with our initiatives to reduce greenhouse gas emissions.

GRiNABLE, shown on the right, is sold by ARONKASEI. It is an elastomer made with environmentally-friendly biomass materials. We would like to increase the number of products like these we have in the future.

We have also switched the packaging materials of Aron Alpha products for professionals to a paper-base. You can find these at hardware stores. Eventually, we would also like to switch Aron Alpha products for consumers to paper-based packaging which uses as little plastic as possible.

Slide 27: Growth Driver (1) (Mobility Related)

This slide concerns our growth driver of mobility related business. Manufacturers have adopted a variety of our automotive battery adhesives in their bipolar nickel-metal hydride batteries. These batteries are gradually being equipped to vehicles. We give our results and forecast for net sales of automotive battery adhesives at the top- right.

Moreover, we show the trends in net sales of lithium-ion battery (LIB) binders on an indicator-basis in the bottom-right.

Slide 28: Growth Driver (2) (Semiconductor Devices Related)

We look at high-purity products in the performance chemicals segment on this slide. This graph indicates the trends in the net sales of products used for semiconductors in high-performance materials such as high-purity liquefied hydrogen chloride, high-purity caustic potash and high-performance acrylic polymers.

Slide 30: Our Recognition of Our Current Situation

I would now like to briefly explain our group's initiatives to improve our PBR as we announced on August 4.

We have felt that our extremely low ROE and PBR over the past few years has been a problem. As a manufacturer, we believe the correct approach is to improve our ROE to our target of 8% and to raise our PBR to a level over 1x.

We are also promoting initiatives such as those to lower the ratio of securities we hold with respect to net assets. We hope that will lead to an improvement in our PBR.

Slide 31: Measures to Improve Our PBR

Of course, the most important thing to improve our PBR is to achieve our growth strategy. We want to improve our capital efficiency as a financial strategy. At the same time, we hope that the effect from contributing to a sustainable society will also boost our goal of realizing a PBR of over 1x.

We would like to work on the measures for each of the three items listed on this slide.

Slide 32: Numerical Targets until Achieving an ROE of 8%

We are looking to increase our ROE to 8% or more through our growth strategy. However, we believe it will be a little difficult to achieve that target during the period of our Medium-Term Management Plan up to 2025. Nevertheless, we hope to achieve an ROE of 8% of more as soon as possible by around 2027. Together with this, we will implement our financial strategy in an appropriate form and proceed with the aim of also achieving consolidated total shareholder returns of 100% during the period of the Medium-term Management Plan.

The graph at the bottom shows that we must realize an operating income of 24 billion yen by 2027 to achieve an ROE of 8% or more. We will proceed with this kind of image of growth in mind.

Slide 33: Growth Strategy: Priority Items by Segment

We have described our various measures to achieve our operating income targets on this slide. We have also announced capital investment which will support us in achieving those targets up to 2025. Therefore, we believe the content you see here has a high degree of certainty.

We will start our next Medium-Term Management Plan from 2026 to 2027. That means there are still some areas where we have not scrutinized how much investment we will need. Nevertheless, please take a look at this slide for your reference as the items we must implement at a minimum to achieve an operating income of 24 billion yen by 2027 and as a breakdown of that operating income.

There will be further growth in the mobility and semiconductor fields. Considering that, we will increase our capital investment in the polymer & oligomer segment and performance chemicals segment. We believe that operating income will then also increase accordingly.

We think that the areas which will contribute to results from the Medium-Term Management Plan will further increase with the caustic potash equipment we reinforced last year so that we are able to obtain stable income in the commodity chemicals segment. For that reason, we firmly believe operating income will be at the level we have stated here.

Slide 34: Financial Strategy: Strengthening of Shareholder Returns

This is our financial strategy. We have described as shareholder return trends our dividends and acquisition of treasury stock for each fiscal year from 2017 to 2019 in our Medium-Term Management Plan before last, from 2020 to 2022 in our last Medium-Term Management Plan and from 2023 to 2025 in our current Medium-Term Management Plan.

We have already announced that we will acquire over 20 billion yen in treasury stock in total over three years and that we will increase our dividend in our Medium-Term Management Plan from 2023 to 2025. We will ultimately make a decision on this while taking into consideration results, but we would like to strengthen shareholder returns from 2024 onward aiming for consolidated total shareholder returns during the period of 100% after combining dividends and acquisition of treasury stock.

Slide 35: Non-financial Strategy: Promotion of the Active Participation of Diverse Human Resources

Human resource development has become extremely important to support companies in terms of sustainability. We give on this slide the human resource measures we are working on and items including the strengthening of overseas human resources.

I think that the ratio of female managers is still low. I feel we have sufficiently increased the ratio of women among employees joining our company to about 30%. Nevertheless, I would like us to further increase the ratio of female managers.

That concludes my general explanation based on our results in the 2Q FY2023. Thank you.

Question 1: Recognition of Problems Relating to the Improvement of Capital Efficiency

Moderator: The question is as follows: "Investment is important to improve capital efficiency in the adhesive materials segment which continues to be in a long-term slump and the plastics segment with its low capital efficiency and income ratio and few synergies with your other businesses. However, I also think it is necessary to carry out structural reforms and to withdraw from some businesses. The Practical Guidelines for Business Transformations published by the Ministry of Economy, Trade and Industry in 2020 also state the importance of such portfolio selection. How do you recognize the problem?"

Takamura: As you have pointed out, I think it is extremely important to reorganize our business whether or not we withdraw from that business in addition to increasing net sales by developing everything by ourselves. I also believe the same is true of our need to consider the possibility of such reorganizing and integrating areas where it is difficult to see synergistic effects in particular.

However, I hope that you understand there are some areas that we cannot do things by ourselves and there are also some things that will take time.

We do not intend to necessarily cling onto all our businesses for the reason that we have handled them traditionally. We would like to proceed appropriately by separating the businesses we should continue with, the businesses we should consolidate and the businesses we should reorganize.

Question 2: Path to Achieving Operating Income Targets

Moderator: The question is as follows: "I view you disclosing a breakdown by business of your growth investments as a step forward. I also appreciate the fact you have disclosed the themes you are focusing on each business. However, how will you achieve operating income of 20 billion yen by 2025 in the face of the sluggish results in FY2023? Furthermore, your path to achieving operating income of 24 billion yen by 2027 is not clear at all. Although you have substantiated your forecast with information on your capital investment, I think you need to disclose a more convincing story and progress considering you have not shown results in your previous Medium-Term Management Plan. I want to ask you to explain such points at a business briefing session or this financial results briefing session. Would you consider doing that?"

Takamura: As you have identified, looking at our income forecast for FY2023, I think there are some areas which can be perceived as being a long way off from our target of operating income of 20 billion yen by 2025. We took measures such as purchasing operating assets from other companies in addition to simply strengthening business by ourselves in our previous Medium-Term Management Plan.

We have determined that we will be able to achieve this level of operating income considering the income ratio with net sales at this level for each of our products when net sales return to a certain degree of normality and we can clear our distribution inventory.

Furthermore, we believe there are many areas where demand trends for adhesive and polymer-related products that are used as automobile-related battery materials and semi-conductor-related business in particular will return to normal by 2025. Therefore, I do not think our path is completely unclear. I hope that you will keep an eye on our future developments.

Question 3: Impact of Naphtha Prices

Moderator: The question is as follows: “You have been raising prices since FY2022. The unit price in net sales for the first half of the year was 6.5 billion yen. On the other hand, the price of the main raw material of naphtha has fallen this year. Please can you give the reason why the unit remains at 200 million yen in your operating income change analysis for the first half of the year?”

Takamura: Some raw material prices rise and some fall in conjunction with the price of the main raw material of naphtha. Even if we could raise selling prices a certain extent and then keep them at a high level, when the price of the main raw material of naphtha falls, it is only natural that we will have to return the difference to our customers. That means there are cases in which the selling price will drop.

Although it might not be completely linked, there are both areas where the price drops in conjunction with the naphtha price and areas where we have no choice but to reduce the unit price of products. Accordingly, the unit price in net sales is now 200 million yen.

Question 4: Details of Net Sales Forecast for FY2023

Moderator: The question is as follows: “You forecast your net sales for FY2023 will increase by 1.5 billion yen year-on-year. Please can you tell me the quantity and unit price in net sales by segment?”

Takamura: This question requires a detailed answer. Therefore, the Corporate Communication Department will provide an answer including specific figures at a later date.

Question 5: Status of Business Reorganization

Moderator: The question is as follows: “I think it is truly wonderful that you are considering the reorganization of your business. Of course, I understand there are other parties to this, but I am concerned of the possibility that management decisions may never be made using that as an excuse. Is it correct to see portfolio selection as something which you will make progress on to a certain extent by 2027?"

Takamura: It depends on the segment, but I don't know if we will reach the point where it will be possible to see the complete end to this business reorganization. In some cases, we may be able to explain the process as we are working on it. However, I cannot guarantee that. We would like to state that our top priority is to maximize the effective utilization of our assets.

Question 6: Target Values for ROE and Consolidated Total Shareholder Returns

Moderator: The question is as follows: "You have set a target of an ROE of 8% by 2027. Can you not achieve that by 2025? The rate of increase in ROE appears to be low compared to the operating income forecast in your Medium-Term Management Plan. Is there a reason for that? Moreover, is there a possibility you will buy back your own shares so that your consolidated total shareholder returns exceed 100%?"

Takamura: I do not see any point to moving our target forward from 2027 to 2026 or 2025 simply with numerical magic in regards to the timing of achieving an ROE of 8%. To that end, I would like you to understand our target is to achieve an ROE of 8% by 2027.

We have basically set the figure like this for our consolidated total shareholder returns partially due to our remaining securities. This figure of consolidated total shareholder returns of 100% is limited to our current Medium-Term Management Plan at the present stage. Accordingly, we would like to present you with our dividend payout ratio after making a comprehensive judgment when we are preparing our next Medium-Term Management Plan in the future.

Question 7: Mobility-related Operating Income

Moderator: The question is as follows: "Thank you for fully disclosing about automotive battery adhesives and lithium-ion battery binders which you introduced as your growth drivers. I was able to confirm that sales of those products are growing steadily. However, what is the situation in terms of income and loss? Will these products contribute to income in 2025?"

Takamura: Of our two mobility-related items, lithium-ion battery binders have already been on the market for a number of years. As a result, they are generating sufficient operating income.

The quantity for automotive battery adhesives is still small. Moreover, it has not been that long since they started to be equipped to vehicles. Accordingly, we recognize this business is still somewhat in deficit. Nevertheless, as explained earlier, the quantity of this product is increasing. We are really looking forward to seeing results with it.

Question 8: Initiatives to Improve PBR

Moderator: The question is as follows: “Please can you tell us the basis for your belief that you will be able to attain a PBR of 1x by achieving an ROE of 8%? A questionnaire by the Life Insurance Association of Japan and the Ito Report has found that an increasing number of companies are conscious of the need for an ROE of 10% instead of 8%. Against this background, isn’t an ROE of 8% insufficient?”

Takamura: As you have identified, we do not think that an ROE of 8% and a PBR of 1x can necessarily be reached through some kind of mathematical calculation. However, looking at the situation of chemical manufacturers in the same industry as us and other companies listed on the Prime market, we are striving with an awareness that this ROE of 8% is the minimum level for achieving a PBR of 1x.

The ROE in America and elsewhere is even higher and I think the industrial structure in Japan will also change in various ways in the future. Accordingly, I think it will become commonplace for advanced companies in the industry to have an ROE of 10% or 15%. If that becomes the case, there may come the time when we will not be able to achieve a PBR of 1x unless our ROE is at around 10%. Nevertheless, we have decided that we would like to proceed aiming for an ROE of 8% and a PBR of over 1x as our immediate targets based on the current Japanese economic situation and industry trends.

Question 9: Net Sale Trends for Lithium-ion Battery Binders

Moderator: The question is as follows: “Can you please tell us the reason why you expect net sales of lithium-ion battery binders even in FY2025 to fall short of the level in FY2021 as it states on slide 27?”

Takamura: It is certainly true that net sales are in a little bit of a slump on the graph on the slide. Looking back, the situation in 2021 was such that sales were particularly high. For example, inventory, including that of our customers, was cleared out. That means we see the current situation as a temporary decline. Please understand that development has not been at a standstill in 2022 and 2023. It is safe to believe that net sales will continue to rise..

Question 10: Growth Potential of High-purity Liquefied Hydrogen Chloride

Moderator: The question is as follows: “Please can you explain the growth story of high-purity liquefied hydrogen chloride. Is it correct to think that growth will continue to increase in line with the production volume of silicon wafers. For example, new semiconductors such as for generative AI are emerging. Is there a possibility the pace of growth of high-purity liquefied hydrogen chloride will accelerate due to such factors?”

Takamura: As you have identified, we are constantly checking the relationship with the production volume of silicon wafers when looking at the sales or income of high-purity liquefied hydrogen chloride. The sales volume of our high-purity liquefied hydrogen chloride has increased a little beyond that of the production volume of silicon wafers. That means I think that this fiscal year alone is somewhat of an anomaly.

The reason for that is, in terms of hardware at present, server-related semiconductors are experiencing extremely strong growth. Nevertheless, smartphone, personal computer and television-related semiconductor demand is very low at the moment.

Moreover, if things like generative AI become more convenient and are used by lots of people in many fields, of course, I think semiconductors will continue to increase in terms of hardware. We are at the stage when we would like to carefully monitor and study which areas will see an increase.

Question 11: Income Ratio in the Adhesive Materials Segment and Capital Investment in Segments Other Than the Performance Chemicals Segment

Moderator: The question is as follows: "Why has the income ratio in the adhesive materials segment not recovered? Can you please tell us why you think it will suddenly recover in the second half of the year? In addition, why are you making capital investments even though the ROIC is less than 7% in segments other than the performance chemicals segment? If you are considering business reorganization, on what basis will you decide whether to proceed with business or withdraw from it? I think it will be difficult to rectify your PBR of less than 1x if you don't decide on a timeline soon. I believe it is important to reorganize your business for growth beyond buying back your own shares. What do you think? It appears to be essential to rebuild the adhesive materials segment and to cast off the plastics segment. What criteria will you use to make those decisions? I think the situation will just continue as it is now if you do not make some decisions."

Takamura: I will start with your first question of the sudden recovery in the income ratio for the adhesive materials segment in the second half of the year. I would like you to think of this as an area where we "cut your coat according to your cloth" such as by reviewing advertising expenditures while demand is sluggish. In addition, our policy is to diligently identify the areas we can tackle with our own efforts such as the streamlining of production and to then link those to improving results.

I will now turn to your question on capital investment in segments other than the performance chemicals segment. I feel that this is an extremely difficult problem. This is true for all our product groups, but most of those which we launched or placed on the market can continue to earn income continuously for 10 or 20 years. If we mark off only a certain part of the timeline in the process in which we continue to earn income in this way, there may be areas where you cannot see results and you start to question whether we are investing a little too much.

However, putting aside the problem of whether or not to aim for a WACC of 7% as ROIC, if we look at it from a total perspective of 20 years, our outlook is that it seems likely we will be able to achieve an operating income ratio at a level of 15% or more on average.

Therefore, capital investment may mount up in the initial stage and some investment is made to strengthen business and so many not necessarily lead to an immediate increase in sales. When talking about capital investment, I hope that you understand there are various types.

Our main focus is on B-to-B high-performance products. High-performance products are used in such a way as to enhance the functions required by users in particular in B-to-B. Consequently, while it would be different if a user company's products are suddenly no longer needed by society, we are not necessarily providing products for which the way they are used will greatly change in a short period of one or two years. In that sense, I hope you accept we make investment decisions with a heavy emphasis on whether those investments will allow us to earn income in the medium- and long-term and whether we will be able to maintain the operating income ratio.

Question 12: Details of Growth Drivers and Other Fields

Moderator: The question is as follows: "Please can you tell us the monetary amount of the businesses you have disclosed as your growth drivers? In addition, what is the situation with your cellulose nanofiber and drug delivery system (DDS) which you have not touched upon in today's materials?"

Takamura: The Corporate Communication Department will respond later with the areas we can disclose in regards to details of our growth drivers. Cellulose nanofiber is at the stage where this equipment started operating this summer. Therefore, I hope that you can understand it is not at the level where we can tell you the scale of the business in numbers.

We have an agreement with a partner company concerning DDS. If it proceeds to the next stage in terms of sales, we want to disclose that as soon as possible.

<u>Message from Mikishi Takamura</u>

Takamura: Thank you very much for participating in our financial results briefing over a long period of time today. The business environment we currently find ourselves in is extremely tough. However, we will continue to sharpen up by taking the appropriate steps toward the next stage and by tightening our belts where that is needed.

We will continue to take the capital policies we are capable of implementing at the current stage and meeting the mandate from our shareholders. As I explained earlier, I would like to proceed properly with this.

I want to ask for your continued support of the Toagosei Group in various forms. I will continue to provide you with explanations for that. Thank you very much for taking the time to participate in your busy schedules today.