

Q2 Financial Results Briefing for the Fiscal Year Ending March 2022 Q&A

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Masaya Ikemoto Representative Director, Managing Executive Officer

(Contents) Q2 Financial Results/Prinova Group Growth Strategy

【Q1】

You conducted the sale of strategic cross-shareholdings. Do you plan to sell more of those shares in the current fiscal year?

【A】

(Asakura) In the Medium-term Management Plan, we have stated that we will reduce strategic cross-shareholdings by JPY6 billion a year for a total of JPY30 billion for the 5 years. Basically, we consider that this size of reduction is a standard in a given year. Against this backdrop, in H1 under review, we proceeded with the reduction of cross-shareholdings, though the size was smaller than in H1 of the previous year. For H2, we will proceed with the reduction plan in accordance with the said standard, though we are yet to determine the final scale of the sale.

【Q2】

Your full-year forecast for ordinary income, at JPY31 billion, seems to be conservative in comparison with the H1 result of JPY20.4 billion, and you explained that 1 of the reasons for this is China. Could you please elaborate a bit more on the risks going forward, especially which segments and which commodity transactions are beginning to be affected?

【A】

(Asakura) As for your question about the H1 figure and target for ordinary income, we placed relatively conservative figures for all profit levels. I am going to explain the reasons for this, including the situation in China and others.

First of all, in China, there have been a lot of cases where our affiliates and other companies have been forced to suspend their operations by the government's orders to shut down electricity supply. We have heard that even major companies have had such experiences. Our operations are small in scale, but we have been hit seriously by the situation. There is a lot of information for the future, such as the resumption of thermal power generation in China. As the winter is coming, the amount of PM2.5 will

undoubtedly increase. And, as I mentioned the Winter Olympics in Beijing, we foresee it is very likely that the government will decide to diminish or stop production activities at various chemical plants due to the need to clean the air for the Beijing Olympics. It is very difficult to cite specific figures, but we see that is a major cause of concern. To tell the truth, China is striving to expand home-made semiconductors toward 2025. Therefore, we do not expect a large impact in the field of semiconductors on our performance.

Moreover, as we explained, the plastic resin materials business performed very well in H1. This was due to 2 factors: one was the strong demand itself, and the other was the unprecedented levels of rises in unit prices.

Looking at the entire supply chain, however, as a standstill of stay-at-home demand and other topics are often cited, we feel in each area a gradual decline in the sense of boom.

The reason why we maintained the previous forecasts launched along with the Q1 financial results is that straight and simple growth will not continue only in China, but also in other Asian countries and in Japan.

【Q3】

Do you think that your Company will be able to increase profits in the fiscal year ending March 2023? What are your specific self-effort factors that contribute to boosting profits?

【A】

(Asakura) For FY2022, i.e., the year ending March 2023, we have not yet completed a detailed analysis. We are on track to achieve good results in the current fiscal year, and we hope to continue to achieve similar results in the next fiscal year.

We believe that we should not be satisfied with good numbers just because they depend on market conditions. In this context, it is important to improve our portfolio in various ways, and what comes first is, as Ikemoto explained, the food materials-related business. We believe that there is still a lot of room for growth in this area on a global scale.

The other point is the automotive-related business. Our automotive-related business used to center on plastic materials, but other materials and various battery-related parts were added, mainly for energy-efficient vehicles like EVs. Though it takes a long time for a product in the vehicle-related business to show solid results, we will have some foreseeable areas in such new kinds of merchandise, and they will be driving force in FY2022.

【Q4】

Regarding Prinova's operating income on page 38 of the presentation material, you plan to increase the amount from JPY7 billion in FY2021 to JPY10.6 billion in FY2025. In this schedule, you plan to increase the income amount in a linear fashion for the in-between years? How should we see the income-boosting effects of the start of operation at the new plant in Utah in 2022 and the acquisition of The Ingredient House?

【A】

(Asakura) As for the question about whether the operating income amount will rise linearly from JPY7 billion to over JPY10 billion in 2025, we do not think that we can achieve the target straight ahead.

We believe that the output increase in Utah and the acquisition of TIH will definitely contribute to Prinova's performance from FY2022. We, the NAGASE Group, will jump up the food materials-related business in Southeast Asia, where we have achieved only minimal results, toward 2025, with Prinova leading the way.

We have not announced measures to that end yet today, but we see the need to implement various measures. In that sense, we expect that Prinova will be able to achieve operating income of over JPY10 billion due to business mix factors.

(Ikemoto) The situation is just like what President Asakura has answered.

Regarding whether the growth will be in a linear way or not, the food materials business is also affected by market conditions to some extent. Though it has been affected by factors like the disruptions of the supply chain, we believe that the distribution business has enjoyed some support this year so far. In a bid to promote higher value-added businesses regardless of both positive and negative factors, we are proceeding with the Armada contract manufacturing business and the Solutions formulating/processing business.

If you look at this graph, you can get a general idea of what the numbers are, but we expect that the business will more than double. Setting the business as the core for growth in the US and Europe, and we will aim to expand our operations in Asia as well, as the President noted.

【Q5】

Recently, it has been reported that in the US canned beverage market, responding to increasing demand for canned products, the output of empty cans is expected to expand from 92 billion units to at least 122 billion units by 2024. In line with this, how much of a positive effect do you expect for TIH or Prinova you have acquired?

【A】

(Ikemoto) You have gotten at a very good point. That is the market we are focusing on, the so-called ready-to-drink market, or the RTD market, which is growing sharply. Both plastic and canned bottles are expanding. In our target markets, the nutrition and sports nutrition-related markets, products are increasingly supplied in canned or plastic bottles.

In other words, the content is in liquid form, so the Solutions business has a strategy for what products to sell in the liquid form. When we succeed in making finished products, there will be a bottling process. We see the need for development with the eye on such a stage as a future theme.

At present, however, in the sports nutrition market, we will focus on selling powder products as the content. We are proceeding with the business in this direction and as the Utah plant is near the West Coast, where the market is very active, so we have been in talks with various customers about how to provide our products.

【Q6】

Do you plan to actively pursue share repurchases in the future?

【A】

(Asakura) Currently, we are continuing the share repurchase operation announced in February. The operation is yet to be finished. Therefore, at this moment, we have not decided what to do next. However, as 1 method of returning profits to shareholders, we have launched our first large-scale acquisition of treasury stock. We will always look for a share repurchase plan.

【Q7】

In addition to Nagase ChemteX and Hayashibara, you have made Prinova Group a consolidated subsidiary and seem to be focusing on the food-related business. Please explain why you, the trading firm specializing in chemicals, have entered the food business on a full-scale basis. In addition, to what percentage is the NAGASE Group planning to raise the ratio of food sales to total?

【A】

(Asakura) As for the background of starting the food ingredient business, we have been involved in biotechnology for a long time. When we talk about biotechnology, we often refer to enzymes. There are many different types of enzymes, but 1 outlet or market for these enzymes is the food materials market. Originally, we have sold enzymes used in milk, for example, both in Japan and overseas.

However, though the enzyme business has been in operation for a long time, it has not been able to grow significantly. While we were searching for a way out of this enzyme business in order to expand our enzyme business, we first acquired Hayashibara in 2012, and by combining Hayashibara's enzyme technology with our own, we were able to capture a certain market share.

However, even after the acquisition of Hayashibara, it was still difficult to make inroads into overseas markets, because if you look at the distribution of the population, overseas markets are overwhelmingly large. In such a situation, we have no choice but to go overseas, but we have been a little late in this overseas expansion.

And 2 years ago, we were fortunate enough to meet a company called Prinova, which is now part of our Group. In that case, the experience we gained and the lessons we learned through the acquisition of Prinova are very significant. Considering the size of this market, we are confident that we can not only expand Prinova but also utilize the various kinds of our biotechnology-related knowledge in our business, and we are now focusing on this food-related business.

In addition, as mentioned in the SDGs, we believe that food security is definitely important for people. We have decided to focus on food products because we want to continue to make a contribution in some way on a global scale. First of all, we have not announced a target ratio, but, as I may have mentioned in a previous briefing, we have set a target for food-related sales at around JPY200 billion (simple aggregate figure). We would like to achieve this goal by 2025. This is our numerical target for now.

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