FY2026 Second Quarter Financial Briefing Q&A

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[Time] 10:00 – 11:15

[Speakers] Representative Director, President and CEO Hiroyuki Ueshima

Director, Executive Officer Tamotsu Isobe

Director, Executive Officer Yoshihisa Shimizu

Senior Executive Officer Masatoshi Kamada

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*To enhance information disclosure to investors and shareholders and to ensure accuracy, necessary supplements and adjustments to expressions have been made to the actual statements from the briefing.

[Q1]: Here's my first question. In your medium-term management plan, the original operating profit target for the fiscal year ending March 2029 was JPY50 billion, but this year it has already been revised upward to JPY58.5 billion. Although the medium-term management plan is stated to be revised at the end of the fiscal year, I feel that your performance is very strong. However, from the perspective of the stock market, the good performance this term, including that of other trading companies, is considered to be somewhat temporary due to the situation in the Middle East, and concerns about a decline in profits next term are still lingering. However, after reviewing your company's materials, I suspect the structure is slightly different. What level of confidence does the president currently have in terms of profitability for the next fiscal year? While some caution may be needed regarding the Materials segment, Electronics segment and Life Sciences segment are showing quite strong growth, unrelated to the situation in the Middle East. Please tell us about your confidence in profits for the next fiscal year and beyond.

The second question concerns shareholder returns. You have raised the dividend from JPY27 to JPY30 this time, but looking only at the dividend payout ratio, it has fallen from around 32% at the beginning of the fiscal year to around 25% now. If you lack confidence in profits for the next fiscal year and beyond, I can understand temporarily lowering the dividend payout ratio. However, having seen your company's strong performance up to 1H, I personally believe that you will continue to

grow considerably in the next fiscal year and beyond. Could you tell me about your future plans regarding the dividend payout ratio?

Ueshima [A]: I will explain whether we have concerns about a potential decline in profits for the next fiscal year due to the situation in the Middle East, as well as our confidence in profits for the next fiscal year and beyond. To be honest, our operating profit this term has been significantly boosted by the situation in the Middle East. We anticipate a profit of approximately JPY5 billion in Q1 and Q2, but I am a very cautious person, and I think that naphtha prices might fall below JPY80,000 around Q4. This additional JPY5 billion is mainly from the Materials segment, while Electronics segment and Life Sciences segment have grown without being significantly affected by the situation in the Middle East.

Regarding 2H, some believe that naphtha prices will still be higher than they were at this time last year, even though they are expected to fall. However, we anticipate that customers will have already made their purchases, and that this will inevitably lead to reduced buying and production adjustments. This will have a significant impact on sales, and while the unit price will not be lower than that of the current inventory, it will result in very thin profit margins, which will affect operating profit.

To give you an idea of our outlook for next year, we expect the operating profit for the Materials segment to be between 85% and 95% of the current period. Regarding the Electronics segment, we expect AI-related semiconductors to continue performing well, so we expect operating profit to reach 120% to 130% of the current fiscal year's level.

Regarding the Life Sciences segment, the Prinova Group's Nutrition and Solutions businesses still have room for growth, and in fact, the Solutions business has grown considerably this fiscal year, securing new orders. In the Nutrition business, profits have been increasing through cost reductions achieved by improving manufacturing processes, and new projects have also been launched, which will be a positive development. Taking all of these factors into account, we anticipate that operating profit for the Life Sciences segment will be between 110% and 120% of the current period.

In summary, I have a rather optimistic view that the consolidated figures could reach around 105% to 110% YoY. We have seen significant growth this term, and we expect to continue to see positive results next term as well. One thing I can say is that we will see the biggest growth during the next three-year period in FY2028, so we hope you will look forward to it.

Regarding our approach to dividend payout ratios, we do not disclose target figures in the form of dividend payout ratios; our policy is simply to continue increasing dividends. On the other hand, I am very concerned about the decline in 2H, and I would like to take this into consideration.

We also intend to conduct share buybacks flexibly, while taking the total shareholder payout ratio into consideration. Looking at our overall cash allocation, we plan to make approximately JPY100 billion in growth investments, but at this point, we are still only at around JPY15 billion. Therefore, we would like to proceed while keeping an eye on the balance between growth investments and shareholder returns.

[Q]: I'd like to ask you a little about the Materials segment. Earlier, you mentioned that you consider a naphtha price below JPY80,000 in 2H to be a risk, so I assume you're taking a fairly conservative view of 2H. On the other hand, due to the impact of the current situation in the Middle East, we are seeing an increase in the procurement of alternative products and the establishment of new business relationships with suppliers, and I don't think things will return to how they were before. Could you please explain the Materials segment a little more?

Ueshima [A]: It might sound a little strange to say that the situation in the Middle East is a positive factor, but amidst the disruption to the supply chain, we have been receiving a considerable number of new inquiries. I believe that this will carry over into 2H and into the next fiscal year, so I think it's truly a net positive factor.

My concerns are more about resin. To be honest, the sales volume of resin has remained almost unchanged. The good performance figures are due to higher unit prices, but we anticipate that prices will start to fall as our customers begin adjusting their inventory, and as Chinese production plants come online and flood the market, disrupting the supply-demand balance. Our resin-related business has the largest inventory sales in Asia and China. Therefore, when we are subjected to aggressive price competition against low-priced products while our inventory consists of products that we purchased at high prices, we find ourselves in a very difficult situation.

As you mentioned, new themes are constantly emerging in the field of chemicals. In particular, regarding specialty chemicals, we handle a large number of materials for semiconductors, so we anticipate significant growth in this area next year. Therefore, I believe the resin business, especially resins for automobiles and office automation equipment, will face extremely challenging times. I suspect that the profit margin might decrease significantly, even on a gross profit basis. Regarding the automotive sector, we are making significant progress in shifting our portfolio towards the parts business, and we plan to cover the shortfall through that.

[Q]: So, that point was incorporated quite conservatively into the plan for 2H, is that correct?

Ueshima [A]: Yes. I have a rather critical view of naphtha prices. If naphtha prices remain above JPY90,000, we may revise our earnings forecast upward.

[Q2]: The first point concerns the growth of the semiconductor business, as described on page 20. In the explanation given earlier, it was mentioned that a-SMC will reach the same level as LMC

by 2030, but this document only shows projections up to FY2028. Is it correct to understand that LMC's growth will continue at the same pace towards 2030, and that by 2030, LMC and a-SMC will have roughly the same level of profit? In addition, please let us know if it is possible for your company to address the issue of supply capacity in conjunction with this.

The second question concerns Life Sciences segment. You anticipate that its results in 2H will be lower than in 1H. I believe one of the contributing factors is the decrease in profits due to scheduled maintenance at your manufacturing subsidiary. This happens every year, so could you tell me whether the impact is similar to that of the previous year, or whether it is unique to this fiscal year?

Ueshima [A]: The bar graph on the right side of page 20 does not include quantities or monetary amounts, but it is a graph that clearly traces the trend in relation to sales. Originally, we anticipated mass production of a-SMC to begin next year, but this has been brought forward, and it has now been adopted in the packaging sector. Therefore, the purple section above (a-SMC sales) has been increasing since FY2026, and it will continue to grow at a considerable rate in FY2026, 2027, and 2028. We expect the growth rate to remain roughly the same from FY2028 onward.

On the other hand, LMC will grow at the growth rate shown in the pink section (LMC sales) from FY2026 onwards, while the sales of a-SMC (purple section) will grow at a similar rate to that of FY2027 and 2028. As a result, please understand that by 2030, the pink line (LMC sales) and the purple line (a-SMC sales) will be at similar levels.

Regarding capacity, LMC has already increased its capacity fourfold by FY2025 compared to FY2023. We are receiving an increasing number of inquiries from our customers, so we will continue to expand our capacity beyond FY2026.

Regarding a-SMC, we started operating the mass production line this year, and we have already planned to increase production capacity to approximately double this year and approximately triple next year compared to FY2025. Even with this, we expect to reach full capacity by FY2028 if things continue as they are, so we plan to further improve efficiency and make investments.

The regular maintenance for Life Sciences segment equipment in 2H will be carried out similarly by Nagase ChemteX, Nagase Viita, and Nagase Diagnostics. Of course, we have carried out some scheduled maintenance in 1H, and Nagase Diagnostics will have its production lines shut down for 2.5 months out of the 6 months in 2H. Nagase Diagnostics is experiencing such a significant impact that while it posted a profit in 1H, it will post a loss in 2H. In terms of costs, one company will see a cost increase of approximately JPY0.6 billion compared to 1H.

Nagase Viita will, of course, undergo regular maintenance, but this will incur costs in the hundreds of millions of yen. For Nagase ChemteX, the regular maintenance costs will be less than JPY0.1 billion.

[Q3]: My first point concerns the Prinova group on page 21. I think it's great that the Nutrition business has become profitable, but to what extent are you seeing further upside in the coming years? Furthermore, regarding the sale of the flavor business, to what extent will this have an impact on revenue and the balance sheet? Please tell me if we can expect increased profits from eliminating unprofitable businesses. In addition, could you tell me when you plan to have the Illinois plant operational?

The second point is about ROIC. ROIC figures have been released for each segment this time. I was concerned about the significant gap between the ROIC of Life Sciences segment, which was around 3%, and that of the other two segments. Could you please explain the major factors contributing to the low ROIC in Life Sciences segment, where there is room for improvement in the future, and what initiatives you plan to undertake?

Ueshima [A]: First, regarding the profitability of the Nutrition business in the Prinova Group, I cannot give you specific details about the figures. The Prinova Group has three main businesses: trading, Nutrition, and Solutions. This year, all these businesses have posted positive operating profits. Last fiscal year, the Nutrition business was in the red (a loss of billions of yen), but this year it has turned around and is in the black (a profit of hundreds of millions of yen), roughly contributing over a billion yen in profits.

Regarding our Solutions business, there are overseas markets for premium pet food and high-value gummies containing nutrients and vitamins, and we handle the formulation of such products. These projects have been launched, and our operating profit has grown to approximately 1.5 times that of last year. These two businesses account for almost all the increase in profits for the Prinova Group. In the trading segment, sales have increased, but profits remain roughly the same as in the previous period.

We continue to receive inquiries for orders regarding Nutrition. Up until now, we have separated the manufacturing lines and factories for the Solutions business and the Nutrition business within our three factories. However, since the contents are almost the same, we will integrate them and improve efficiency, including flow lines. We will proceed with increasing capacity and reducing costs in those areas.

On the other hand, while our flavor business is a very important part of our group, we have decided to sell it to a flavor manufacturer from whom we already purchase raw materials. We determined

that there would be synergies for the other party as well, and that purchasing the raw materials would be more efficient for us than incurring labor costs, so we decided to sell it to the best owner.

Regarding ROIC, the biggest reason for the low ROIC in the Life Sciences segment is goodwill.

Shimizu [A]: As Ueshima mentioned, the assets in the denominator for the Life Sciences segment include goodwill. While we haven't publicly released the exact figures, you can assume this percentage is approximately 2%.

We anticipate an improvement in ROIC in the long term. To that end, we aim to further increase profitability through facilities such as the R&D facility in San Diego, as explained earlier, and enhance synergistic effects, thereby contributing to improving the ROIC of the Life Sciences segment.

[Q]: Is it correct to understand that the sale of the Flavors business will not have a significant impact on earnings? Also, if you have any idea when the Illinois plant might start operations, please let me know.

Isobe [A]: As for the flavors business, since its original revenue scale was small, this sale will have almost no impact on our group's earnings.

Regarding the Illinois plant, land acquisition has already been completed, and operations are scheduled to begin in 2H of 2027.

[Q]: So that doesn't mean the capacity will increase?

Isobe [A]: In reality, it will increase. We will be introducing new equipment, relocating all of our current equipment, and adding some extra features as well. While I cannot give specific figures, our capacity will increase by several tens of percent compared to the current level. Furthermore, the current factory has issues with connections, flow lines, and integration of manufacturing processes, but these will also be improved. When you factor in the actual efficiency improvements, production capacity can be increased by another several tens of percent.

Ueshima [A]: The other day, I visited the Tennessee plant, which is the base for our Nutrition business. Last year, its operating rate was only about half, but now it operates at almost full capacity. Because we are constantly receiving new orders and manufacturing accordingly, we are currently facing situations where we have to change our production lines and have a large amount of semi-finished product inventory. I believe that by improving the efficiency of this area, we can still increase our capacity. We've heard very optimistic figures from the field, and we plan to improve the flow lines at our other factories outside of Tennessee, so we believe our capacity will continue to increase.

[Q4]: My first point concerns the slides on page 20, specifically those for a-SMC and LMC. Regarding a-SMC, you mentioned earlier that you received orders from customers ahead of schedule. Could you elaborate further on what aspects were valued, or what factors accelerated the order process and led to this development?

The second question concerns the restructuring and improvement of unprofitable businesses, as explained on page 25. I understand that efforts have accelerated significantly since the previous medium-term management plan, including this fiscal year. Could you please provide a follow-up explanation regarding areas that need further strengthening, and your efforts in underperforming businesses, particularly smartphone-related businesses, which seem to have struggled over the past two or three years?

Kamada [A]: Our customers are a limited number of companies worldwide that can manufacture high-performance IC package substrates. The points that were evaluated positively were the high fluidity of our material, its ease of handling due to its sheet form, and the significant improvement in productivity. After making various appeals to end-users over the years, our materials were evaluated as making a significant contribution to productivity and were subsequently adopted.

In relation to semiconductors for generative AI, advanced packaging technologies such as GPU and HBM are attracting attention. Amid concerns about capacity and technical challenges, high-performance IC packaging is attracting attention as a fourth element. In particular, to achieve energy savings and high performance, as shown in the figure in the document, it is important to improve the performance of the power supply, as electronic components are mounted with a circuit board directly beneath them. Amidst the growing demand from customers to gradually switch to the new circuit boards, pre-production of the new boards will begin next year, with full-scale mass production starting in 2028. As a result of this trend, we believe that the volume of our materials will increase at an accelerating pace from here on out.

Ueshima [A]: I will now answer your second question regarding the improvement of unprofitable businesses. As we have completed Q2, the document states that our earnings for 1H of the fiscal year are JPY0.7 billion, but approximately half of this consists of the losses incurred by our four subsidiaries during 1H. Specifically, these are four companies: Captex, Nagase Beauty Care, Nagase Engineering Service Korea (NESCO) from South Korea, and Nagase Filter.

NESCO and Nagase Filter are in the equipment and machinery business, so their revenue fluctuates greatly depending on factors such as sales timing. These two companies have secured large orders in 2H, so they are expected to become profitable for the full year and be removed from this list of unprofitable companies. Regarding Captex, it began investing in equipment last year to launch its inspection business, and orders have been gradually increasing. We will continue to work towards achieving its full-year profitability in 2H.

Nagase Beauty Care is struggling considerably, but the unprofitable business operations originating from group companies (the JPY0.7 billion portion in the bar graph) are expected to improve and almost disappear in 2H. Furthermore, within our trading company operations, there are still some businesses that are performing very poorly in terms of profitability, and we intend to work towards improving these in the future.

Regarding our smartphone-related business, specifically Nagase ChemteX's business of sealing material sheets for SAW filters, smartphone production volume itself is currently at 83% of what it was in 2025. Within this context, we primarily supply sheets to Japanese SAW filter manufacturers, but the proportion of Japanese manufacturers in the overall market is decreasing. Therefore, the impact is greater than the decline in smartphone production volume, with sales falling to around 50% to 60% compared to the previous year. Accordingly, our supply of sheet material for SAW filters has also decreased. While not yet confirmed, our plan for next year is projected to be the same quantity as this year, and the situation remains extremely challenging.

[Q]: I want to ask a follow-up question to the first one. I now have a general understanding that your company will benefit more as package substrates become larger and more complex. Could you comment on this point?

Kamada [A]: I believe this is about PLP (Panel Level Package). We have conducted sampling activities for PLP, and it has similarly been evaluated that the ease of handling in sheet form contributes to productivity in the face of increasing complexity and size. This is a separate project that we are pursuing simultaneously with our current high-performance IC package substrates.

[Q5]: I would like to ask one question regarding the connection between the US midterm elections and the semiconductor business. Currently, the Democratic Party is seen as having the upper hand, and I think we can expect headwinds for AI data centers in the future. Given this situation, could you tell us how you see the future of AI investment and its impact on your company's business?

Ueshima [A]: I don't think that the trend of data center investment will weaken just because the Democratic Party has taken power. While there may be some temporary negative factors due to aggressive investment within the United States, considering global demand, I believe that the demand for data centers, including physical AI, will continue to grow. Therefore, we expect the competition for these resources to continue. Although stock prices have fallen temporarily, we do not believe this will have a negative impact on our outlook for the current or next fiscal year.

On the other hand, I hope that the Democratic Party's rise will lead to increased environmental awareness, and I think that electric vehicles may make a comeback, or that hybrid vehicles may be re-evaluated. In that respect, I have some hope that funds will flow into areas in the automotive sector where Japan excels. While major automakers are also streamlining their production

operations, which may make reinvestment difficult for them, since the shift from fossil fuel vehicles to environmentally friendly vehicles is undoubtedly a trend, I hope to see positive results in the long term. Therefore, I don't think it's a negative thing at all.

[Q6]: My first question concerns semiconductors, which are mentioned on page 20. You projected that both LMC and a-SMC will see significant sales growth, but is this increase due to a clear understanding and calculation of orders that have been received to a certain extent? Could you tell me a little more about the accuracy of these numbers?

The second question is how encapsulating materials will contribute to the profits of the Electronics segment. It appears that sales of LMC have more than doubled this quarter compared to the same quarter of the previous fiscal year, so it seems that the Electronics segment should be generating even more profit. Could you tell me how conservative your estimates are?

Kamada [A]: The figures in this document are based on actual forecasts provided by our clients up to 2028. Therefore, in terms of likelihood, what I can say is that we are recipients of forecasts. From my personal perspective, I believe that the figures could potentially exceed this forecast, and we are preparing for that, including increasing our capacity.

Regarding your question about profits, unlike the trading company business, LMC and a-SMC are businesses where the volume can be predicted to some extent, and their profit margins are very high. Since this involves the world of formulations that utilize intellectual property, it's not something that can be easily imitated; we consider it a comprehensive intellectual property-based business.

[Q]: Are you somewhat conservative in your forecast for operating profit in Electronics segment this fiscal year?

Kamada [A]: We have factored in some concerns about a decline in profits related to displays this fiscal year, but the bar graph up to 2028 is based on actual forecasts.

Ueshima [A]: If the market were simply shifting from LMC to a-SMC, it wouldn't have grown this much. The emergence of a new packaging market has caused a significant expansion of a-SMC, and we believe it will become a much larger market than initially anticipated. The forecasts we've received from our clients in May, July, and September of this year have been progressively improving.

It may appear to be a solid outlook, but honestly, we believe that whether these rapidly expanding figures are truly reliable depends on the supply chain. In this period of rapid expansion, some suppliers may face difficulties in maintaining supply. We understand that suppliers, including ourselves, are currently checking forecasts daily and making thorough preparations to ensure that

there are no interruptions in supply. I suspect that some other material manufacturers are operating on a very tight schedule, and I certainly feel that way from my own experience in distribution. Therefore, after carefully considering those factors, we would like to create figures for the next fiscal year and beyond, up to 2028.

As I mentioned earlier, the situation for the Materials segment will be very challenging next term, but I believe we can still be optimistic about the Electronics segment. We expect to offset the decline in the Materials segment and achieve profit growth next fiscal year, with further growth in the following fiscal year.

[Q7]: Please let me confirm the information about a-SMC on slide 20. From a product certification perspective, there are various parties involved, such as end users and circuit board manufacturers, but I assume that forecasts are naturally coming in from both sides. In the forecast you have provided for FY2028, how many customers do you expect? Could you tell me what your assessment is?

Kamada [A]: While there are many substrate manufacturers that are our customers, there are only a few companies in Japan, and very few globally, that can manufacture advanced IC packages that can handle cutting-edge semiconductors for generative AI. Therefore, the number of customers to whom we sell will never be in double digits; we will be selling to a single-digit number of customers.

[Q]: I know it's a single-digit number, but my question was whether it's one company or two companies.

Kamada [A]: Regarding that point, due to confidentiality considerations, I will refrain from answering.

[Q8]: Regarding slide 15, are there any measures planned to improve the ROIC of the Materials segment in the medium term? Also, could you tell me about your medium- to long-term ROIC outlook for the Life Sciences segment?

Ueshima [A]: Regarding ROIC for Materials segment, it is extremely difficult to dramatically reduce the denominator (invested capital) or dramatically increase the numerator (profit). However, in order to improve capital efficiency, we are currently taking measures such as optimizing inventory levels and reducing working capital. Furthermore, particularly in the mobility-related sector, resins account for more than half of our sales, but we are reviewing our product portfolio and shifting towards products with higher profit margins.

The Materials segment is our mother division, handling chemicals and resins, so when we expand our business area or applications, this segment is the first to be involved. In that respect, we will

also pursue the development of new areas that generate profits, but of course, this will take time. Furthermore, the Nagase ChemteX products for medical and semiconductor applications, part of which are handled by our Specialty Chemicals Division, are highly profitable, and we would like to increase their proportion in our business.

Isobe [A]: Regarding the Life Sciences segment, the current situation is that the ROIC is lower compared to the other two segments. Going forward, we will leverage our research capabilities to bring new products to market, and thus increase the numerator (profits). On the other hand, regarding the denominator (invested capital), the Life Sciences segment, including the Prinova Group, currently has a very large amount of inventory. We aim to improve ROIC by effectively controlling these factors.

Currently, we select similar companies in the life sciences field, set a target WACC for each segment, and work towards those targets.

[Q]: Earlier, you mentioned that the goodwill portion has fallen by about 2%, so I think that simply adding another 2% to that won't be nearly enough in the medium to long term. As a general guideline, what percentage of ROIC are you aiming for?

Isobe [A]: As for goodwill, it will decrease as amortization progresses. While I will refrain from disclosing specific target figures, I shall say that we aim to achieve 5% or more in the short term.

[Q]: At this point, if you add back the goodwill, it comes to 5%, so could you tell us what level you are aiming for in the medium to long term?

Ueshima [A]: To be honest, we still have many new investment opportunities lined up in the Life Sciences segment. In particular, with the replacement of equipment and the introduction of new devices in the factories, it is difficult to drastically increase ROIC. However, we would like to aim for at least 7%. Please note that we believe it will take some time.

[Q9]: You have announced a JPY3 billion share buyback this time. Looking at your company's valuation, your PBR is below 1 and your PER is below 10, indicating that your stock is undervalued. Therefore, you could consider scaling up your share buyback program, or increasing your DOE in addition to your dividend payout ratio. You are proceeding with the sale of your strategic shareholdings as a source of funds for growth investments, but would it be possible to change your policy to proceed with a large-scale sale rather than making small, incremental sales, in order to quickly implement share buybacks and optimize your capital structure?

Ueshima [A]: In our previous medium-term management plan, we set a target of "selling JPY30 billion worth of our strategic shareholdings" and proceeded with that plan. However, in this case, we have stated that we will use the cash obtained from the sale of our strategic shareholdings for

growth investments. We plan to invest approximately JPY100 billion in growth over the next three years. Currently, our growth investments amount to only about JPY15 billion, and the proceeds from the sale of strategic shareholdings have funded slightly less than half of that amount. However, we would like to proceed with the sale of shares in the second and third years at a pace that is commensurate with this JPY100 billion investment. Therefore, we believe we can proceed with the sale at a much faster pace than before.

Furthermore, our strategic shareholdings are quite substantial compared to our equity, so we would like to achieve a level where the ratio of strategic shareholdings to net assets falls below 8% as soon as possible. We will take your suggestion to use the funds for share buybacks seriously, as it is a valuable opinion.

[END]