

**Shikoku Chemicals Corporation Financial Results Briefing for
FY2021–Q&A Session
(Implemented on May 21, 2021)**

Q1. Let us know the sales status of Gliccoat-SMD in FY2021 and its medium-term potential.

- A. Gliccoat-SMD is a water-soluble antirust agent for printed wiring boards (PWBs). We mainly sell this product in China, where many PWBs are manufactured.

PWB sales hit bottom in Q4 of the previous term (Jan.–Mar. 2020), when China was most severely affected by the COVID-19 pandemic. As they were in a recovery trend since the beginning of FY2021, sales have been steady with little effect from COVID-19.

At times over the past 10 years, the market share has temporarily dipped due to competitors' products from China. However, in recent years, we have secured a world market share of some 50%, based on our product quality and support systems, such as follow-up services.

Gliccoat-SMD was originally used for relatively inexpensive wiring boards in computers, industrial devices, consumer products, etc. However, recent years have seen the expansion of the use of high value-added wiring boards in smartphones, IC package substrates, and in-vehicle boards around electric control units (ECU).

Regarding medium- and long-term prospects, although there are metal plating and other methods for the surface treatment of PWB, Gliccoat-SMD has achieved growth by responding to the requirements of environmental performance with high soldering capability and the advantage of water solubility. Also, our high market share enables us to quickly catch the technology trends of PWBs. Thus, we can develop products one step ahead of what customers want.

Q2. Let us know the progress and future prospects for the adoption of GliCAP.

- A. The 5th Generation Mobile Communication System (5G) will enable further acceleration of communication and mass data transmission. We conventionally roughened (etched) the surface of the PWB copper circuit and thus improved adhesion to resin through “physical binding.” However, with the roughening process, noises or transmission loss occur due to the rough circuit surface. GliCAP enables transmission of larger volumes of

accurate data by chemically binding the smooth surface copper circuit with resin. Since it is a completely new technology and affected by the materials and the substrate design, we are jointly developing it with the material and substrate manufacturers.

Unfortunately, partly due to the trade friction between the US and China, there has been a delay in responding to 5G globally, but we believe that 5G and the subsequent 6G will be realized.

GliCAP has already entered the mass production stage with the certificate with intended use of the server substrate. The sales in FY2022 are scheduled to surpass the 100-million-yen level for the first time. We think the sales will greatly increase in the long term.

Q3. Let us know the results, future prospects, and business scale of glycoluril derivatives in the medium term.

- A. Glycoluril derivatives are a new resin modifier. Although they are described as “a newly developed product” in the summary of financial results, they have already grown to the extent that they now occupy a significant position among our functional materials. As a highly value-added product, they have increased the profit margin of the entire Advanced & Specialty Chemicals division. Though this product is currently used for limited purposes, it is expected to spur FY2022 sales beyond those of the current term, and continued future growth is expected.

Q4. The unit selling price of insoluble sulfur seems to be declining. Let us know the reason(s) and the strategy to beat the competition.

- A. The decline in the unit selling price of insoluble sulfur is caused by the trade friction between the US and China. Insoluble sulfur made in China was shut out from the US due to antidumping measures and is currently selling at a discount in Southeast Asia. This is the cause of the price drop.
- The price of sulfur, the main raw material of insoluble sulfur, has been rising sharply in the world, except in Japan. Particularly in China, with its high demand for agricultural use, sulfur prices have been approximately three times higher than those of last year. In Japan, by contrast, sulfur is not much used for agriculture. We manufacture insoluble sulfur by reusing desulfurized sulfur, which is generated as a by-product in the process of petroleum purification and regarded as an industrial waste.

We have been at a competitive disadvantage against China in terms of labor costs. However, we think that the rising price of sulfur, the main raw material, has hit Chinese manufacturers of insoluble sulfur. Insoluble sulfur is sold under a contract with tire manufacturers for sales quantity over a fixed period. It seems that the Chinese manufacturers' contracted quantity has not been shipped. We, therefore, supply shortfalls to tire manufacturers. Between May and July, we will be in a periodic repair period. We are currently discussing how to shorten this period as much as possible and increasing production. We will also revise the sales price downward after negotiation to improve profitability.

[Q5. Let us know the growth potential of the Housing Materials operation by segment.](#)

- A. The profitability of the Housing Materials operation was considerably better two years ago. However, it was low in FY2021 because of difficulties in securing construction workers due to the COVID-19 pandemic and delayed recovery of the capital investment. In particular, we sell our products mainly for large decorative exteriors for public projects, capital investments of factories, etc. rather than for family homes. That entire market, of course, was significantly affected by the COVID-19 pandemic. Since family homes account for some 80% of the entire exterior market, we need to acquire a share of this market in the medium and long term. We will put effort into addressing severe natural disasters, such as typhoons and floods, and try to increase our market share by improving the lineup of high-strength products according to the Japanese Building Standards Act, which is stricter than the industry standards. We think that our target of family homes will be detached family homes in the suburbs instead of in urban areas, considering the current stay-at-home trend. It is considered that agricultural land will be transformed to housing land due to the so-called "agricultural land issue" in which the reduction of fixed asset taxes for those in farming areas ends in 2022. There is also a "vacant house issue." The percentage of vacant houses in Japan is projected to be 30% by 2033. We assume that the areas of single houses will be larger in the future. Taking these elements into account, we can say that the exterior market has room for expansion in the medium and long terms. The number of houses to be built is expected to decrease in the future. However, even in this decreasing trend over the last 20 years, the exterior industry has expanded the size of market. Thus, we consider the exterior market to be promising.

Our exterior products division sales are ranked 4th in the industry, but our operating profit margin is at the top, and it is our strength.

Q6. Let us know the details of the sales transition of each business in the first and second halves of FY2021.

- A. In the first half of the year, the sales of both the Chemicals and Housing Materials operations were lower than those of the previous term due to the COVID-19 pandemic. However, sales recovered in the second half of the year and increased compared to the second half of the previous term.
- In terms of business, the Inorganic Chemicals division of the Chemical Products operations decreased by 1.5 billion yen compared to the first half of the previous term; it increased by 100 million yen in the second half because of the recovery of production in the automobile industry. For the full year, sales decreased by 1.4 billion yen.
- Regarding Organic Chemicals, the sales of swimming pool agents decreased due to the suspension of swimming classes in Japan while public awareness of hygiene increased. At the same time, sales of swimming pool agents increased in the US, thus raising company revenue by 200 million yen in the first half of the year. Revenue also increased by 300 million yen in the second half of the year. As a result, the revenue increased by 500 million yen in the full year. Currently, the supply has not kept up with the full operation of the plant. Therefore, we are considering starting the operation of a new plant of chlorinated isocyanurates as soon as possible, now scheduled for completion in July 2022.
- Fine Chemicals revenue decreased by 100 million yen in the first half of the year compared to the previous term. In the second half, however, revenue increased by 700 million yen thanks to the rapid recovery of automobile production and other circumstances. As a result, revenue increased by 600 million yen over the full year.
- On the other hand, Housing Materials operations revenue from exterior products decreased by 700 million yen in the first half of the year compared to the previous term and by 900 million yen in the second half of the year. As a result, total revenue for the year decreased by 1.6 billion yen. For Interior and Exterior Finishes and Paving Materials, revenue decreased by 100 million yen in the first half compared to the previous term and by 60 million yen in the second half of the year. As a result, revenue for the full year decreased by 1.6 billion yen. Construction work

was delayed probably due to the outbreak of the COVID-19 pandemic on building sites and difficulty in securing human resources. Ultimate recovery time remains unclear. Nevertheless, we expect business performance to resume because sales of condominiums in Tokyo have increased compared to the previous year. There is also a rising trend in the number of detached suburban houses. We will secure profits by selling good products at proper prices.

In terms of the consolidated sales of FY2022, we aim for 51.5 billion yen based on the recovery trend of the second half of the previous term.

Q7. Let us know the prospects for the company following the COVID-19 pandemic.

- A. It is generally said that business performance will recover when the COVID-19 pandemic ends. We are accelerating the rationalization and streamlining of business activities that we have been working on since before the pandemic. We are strongly promoting work style reforms and streamlining. Specifically, we provided mobile computers to all sales representatives and project personnel, the non-territorial office was introduced due to progress in telework, and the use of online meetings has been promoted. Through streamlining, three Housing Materials sales offices in Tokyo, Yokohama, and Tsukuba were integrated into the Makuhari branch office owned by the company, thus reducing our costs. To reduce the rate of commuting to the office, we have prepared an environment where employees can choose their workplace by investing in infrastructure to ensure paperless operations such as internet fax. Regarding sales management expenses, we have made the entire company fully aware that we will consider *post*-COVID-19 conditions as the *new normal*, not pre-COVID conditions. Thus, we will have a stronger business structure to prepare for after the pandemic. We expect that the demand for the business and other circumstances will be the same as before once our life reaches that “new normal.”

Q8. Let us know the details of TAP-4, a manufacturing plant of fine chemicals newly built on the site of the Tokushima Plant.

- A. TAP-4 (Tokushima Advanced Chemicals Plant-4) is the fourth advanced chemical plant at our Tokushima Plant. It is equipped with mass production facilities for semiconductor processing materials and also aims to speed-up

research and development. Further acceleration of communication and mass data transmission will be realized in 5G in the future. In this system, the circuit line width of semiconductors will need to be micronized and quality controlled against all impurities, especially of metals. TAP-4 enables the strictest control of low metal at the ppt (parts per trillion) level.

We assume that we will need to build TAP-5 and TAP-6 according to future customer needs. Thus, we are considering restructuring the entire Tokushima Plant. We will move the manufacturing facilities of wall materials on the premises to another plant and build manufacturing facilities for chemicals on the vacated land according to the needs of the market. We will proactively invest in equipment to provide products that meet customer requirements.

Q9. Let us know your idea about the market reform of the Tokyo Stock Exchange.

A. We will choose the prime market.

In the prime market, we have to meet some requirements, e.g., the number of shareholders has to be 800, the market capitalization of the tradable shares has to be 10 billion yen, and the number of tradable shares has to be 35%. In our current situation, the number of shareholders exceeds 4,000, the market capitalization of the tradable shares exceeds 30 billion yen (according to the current share price level), and the number of tradable shares also exceeds 50%. Therefore, at present, we have decided that there is no major obstacle against being listed in the prime market.

Q.10 On page 15 of the explanatory material, there is a description of selling investment securities with regard to investment cash flow. Let us know your intention.

A. As described in the cash flow statement, about 1.6 billion yen of investment securities were sold in FY2021. This is due to the sale of listed shares associated with the reduction of cross-shareholdings. We are strengthening the response to the Corporate Governance Code required by the Tokyo Stock Exchange. As part of this, we will verify the effect of cross-shareholdings each year and, in principle, proceed with consideration toward reduction.

Q11. The figures by segment are shown in the forecast for the current term. Let us know the figures by business.

A. Detailed performance forecasts for each business will not be disclosed. The following increase/decrease in revenues are compared to FY2021.

The trends are as follows: Regarding Inorganic Chemicals, insoluble sulfur has been on a recovery track since the second half of the previous term. The production volume of automobiles has almost recovered to the pre-COVID-19 level and the demand for tires is expected to be steady. Thus, we expect that sales volume will increase, resulting in increased revenue and profits.

Regarding Organic Chemicals, the domestic demand for the antimicrobial disinfectant NEO-CHLOR is expected to recover due to the resumption of swimming classes at schools, resulting in increased revenue. However, exports are expected to decrease partly due to a reduction in production volume caused by periodic repair of the manufacturing plant of relevant products at the Tokushima Plant, resulting in decreased revenue. Thus, we expect a decrease in revenue and profits in the entire Organic Chemicals division.

Regarding fine chemicals, sales of Advanced & Specialty Chemicals are expected to increase thanks to the anticipated positive performance of newly developed products and the recovery of overall market conditions of domestic demand. However, we expect a decrease in profits due to greater depreciation expenses caused by the operation of the new fine chemical plant (TAP-4).

Regarding Electronic Chemicals, we expect increased revenue and profits by boosting sales volume through sales expansion activities of Gliccoat-SMD and GliCAP.

Regarding Housing Materials operations, we plan to increase revenue and profits by increasing sales of wall materials through sales expansion, enhancement of the lineup of high-strength exterior products, and continuous brisk demand for fences accompanied by the so-called “defective wall” issue.

Q12. Let us know the prospects of equipment investment and depreciation expenses in and after the next term.

A. Regarding capital investment, no new large-scale project is planned for FY2022. After that, we will implement capital investment, M&A, etc. based on

the business strategies, demands and other circumstances planned in “Challenge 1000.”

The depreciation will accrue around 400 million yen for the new fine chemicals plant (TAP-4), which will start operations in FY2022. In FY2023, a new plant of chlorinated isocyanurates will be completed, and its depreciation will accrue to approximately 1 billion yen (Fixed rate depreciation for both facilities).

Q13. Let us know the impact of reduced production volume by automobile manufacturers due to recent semiconductor shortages.

- A. It seems that the production volume of automobiles may be affected at some manufacturers. However, all domestic tire manufacturers have revised upward their forecasts for insoluble sulfur orders for the full year 2021. Thus, we expect an increase in sales.
- Both Advanced & Specialty Chemicals and Electronic Chemicals handle products related to automobiles. Therefore, if automobile production volume decreases, our sales may be affected.

Q14. Let us know your idea about the impact of increased distribution costs in FY2022.

- A. We expect distribution costs to greatly increase compared to FY2021. However, we will try to reduce overall costs to minimize the impact as much as possible.

Q15. Let us know the background of the increase in exterior sales prices for the second half of the year. Is it caused by products mix? Or is it price pass-through due to increased aluminum prices?

- A. In FY2021, there was a strong tendency to refrain from investing due to the impact of the COVID-19 pandemic. The sales of main products for family homes with low unit prices and profit margins were stagnant due to a slump in housing construction. As a result, the proportion of decorative exteriors with high profitability increased relatively, as did average sales prices.
- At present, we do not do pass-through prices due to higher aluminum prices.

Q16. Let us know the efforts in sales and marketing to provide the products and value one step ahead of what customers want.

- A. As a long-term vision, we are the company of creatively “providing proposals that are one step ahead.”

To realize this vision, it is important for us to display a more aggressive attitude than we have previously done.

For example, we are changing our style to “making a proposal from Shikoku Chemicals” instead of our previous business style of “making a proposal based on customer’s requests.”

We will also make active investments as needed, based on market and demand trends from a medium- and long-term perspective, so as to not lose sales opportunities and to proactively supply what customers want.

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