

**SHIKOKU CHEMICALS CORPORATION Q&A Session on Results Briefing  
for the 2nd Quarter of Fiscal Year ending March 2022  
(October 27, 2021)**

Q1. Please tell us president's thoughts on the transition to a holding company structure. What are the issues and expectations attached to this decision?

A. The transition to a holding company was considered about 10 years ago. However, at the time, the chemicals and housing materials industries were mutually supportive of each other's performance. Hence, we decided that the current organizational structure would be a beneficial arrangement. However, this situation has changed over the past few years, and in the first half of the current fiscal year, the sales of the chemicals business have nearly doubled those of the housing materials business, and are specifically 16.4 billion yen versus 8.1 billion yen, respectively. We believe that the previous system of "helping each other" has now become a hindrance to growth. Hence, we have decided to separate each business into an independently profitable one, and further clarify the responsibility for earnings. We also chose to speed up the decision-making process and train managers, which we believe is necessary for our company to be successful for the next 100 years and more.

Q2. What is the significance of the transition to a holding company? Moreover, as one of the negative effects of this structure is that it will complicate management across organizations.

A. The main reason is that the gap between the performance of the chemicals business and the housing materials business has become substantial. For the housing materials business to grow in the future, we have been instructed to change our business domain as adherence to the housing market will lead to price competition. Our company has a strong hold in manufacturing custom-made products used in the public processes and factories of major companies. We believe that we will not be able to achieve an operating profit margin of over 15% without creating new business areas for further growth (operating profit margin for the housing materials business was 19.2% in FY2019, 18.7% in FY2020, and 12.9% in the second quarter of FY2021). By adopting a holding company structure and making the housing materials business independent, we hope to encourage people to work on it with a desire to grow independently. In addition, we intend to create a structure that allows each company to make rapid decisions independently, such as by holding separate assets for the businesses. We intend to accommodate the complexity in horizontal management caused as a result of the change in structure. As for the shared services company, it will have all the human resources, labor, and general affairs functions, so we believe that the relationship between the chemicals and housing materials companies will only become considerably stronger.

Q3. Please tell us about the current adoption status of the GliCAP and its future prospects.

- A. First, we would like to present an overview of GliCAP and its advantages. GliCAP is a surface treatment agent that enables the copper circuits of printed wiring boards to adhere to resin, while remaining smooth. Printed wiring boards constitute multiple layers of copper and insulating resin, but instead of roughening the copper to adhere to the resin, which is the mainstream current technology, GliCAP has an intriguing feature of adhering the copper in a flat state without roughening it. Recently, the transition to high-speed communication using high-frequency waves compatible with 5G, has accelerated. In particular, two types of printed circuit boards; server boards, and semiconductor package boards, are required to support high frequencies. The use of GliCAP reduces transmission loss when high-frequency signals flow over unroughened copper surfaces.
- As for the status of adoption, several evaluations have been conducted by overseas server board manufacturers for server board applications, where evaluations are in progress. Of these, one company has already started mass production, and other manufacturers are steadily advancing to the evaluation stage.
- Regarding package substrates, we are working with domestic package substrate manufacturers to confirm important matters, such as reliability and characteristics aimed at the adoption of the next models of semiconductor manufacturers.
- Based on the aforementioned, although we are currently mainly in the evaluation stage, we are making progress toward adoption of the technology, as well.
- The net sales of GliCAP for the current fiscal year are expected to exceed 100 million yen because of the adoption of GliCAP in server substrates. In the future, as adoption will include package substrates, we aim to make GliCAP another pillar of our fine chemicals business, as electronic material with higher added value than the conventional Gliccoat-SMD.

Q4. Can you provide an overview of your resist-related materials? There seems to be much to be expected for EUV, but what were the initiatives taken before the ArF? Please explain the differences between the EUV and the pre-ArF.

- A. In the semiconductor manufacturing process, circuit writing technology has progressed in line with technological innovation. In the 2000s, argon fluoride (ArF) was introduced as a lithography tool, thus leading to great progress in exposure technology. However, as semiconductors became more sophisticated and the line width became 10 nm or less, ArF lithography became inefficient, and a requirement for extreme ultraviolet (EUV) lithography systems that could produce fine line widths at shorter wavelengths, developed.
- Our company has been producing chemicals used in semiconductor process materials since before ArF, which has allowed us to accumulate low metal control technology at the parts per billion (ppb) levels.
- Current customer requirements are for compounds for materials for EUV processes, using even higher organic synthesis technology \* than before.
- We believe that we can demonstrate our strengths of "high organic synthesis technology" and "low metal control technology" in the material field for EUV processes based on our long experience in synthesizing a wide variety of compounds at a higher level.
- In the future, we would like to expand our business to become a partner that

assists in the development of semiconductor process material manufacture.

\* Organic synthesis technology: Technology for devising and constructing compound synthesis processes through chemical reactions and actually synthesizing them.

Q5. Although the earnings forecast for the first half was not disclosed, there was a comment that it was better than expected. Which segments were better than expected? On the contrary, were there any areas that did not match the expectations, please inform.

- A. The best result was that of insoluble sulfur. Until last year, we lost a substantial market share due to the low prices charged by Chinese manufacturers of insoluble sulfur. However, with the exception of Japan, the price of sulfur, the main raw material for insoluble sulfur, has risen sharply around the world; as a result, the price of insoluble sulfur has risen accordingly. Thus, we have been able to recover our volume this year. Last fiscal year, we were not able to enjoy the benefits of increased facilities due to a decline in sales volume, but this fiscal year, the fixed cost unit price has fallen as the fixed cost disbursement has been completed, and we are now in a position to increase production, resulting in a significant recovery in sales and profits for insoluble sulfur.
- In the area of organic chemical products, the supply and demand for chlorinated isocyanuric acid is tight in the industry, and we are running low on inventory. Currently, we are constructing a new chlorinated isocyanuric acid plant. We aim to complete construction by April, as far ahead of the originally planned completion date of July 2022 as possible.
- In the housing materials business, due to the 2018 Northern Osaka Earthquake and damage from the torrential rains in western Japan, until the first half of the last fiscal year, there was no inventory at any company due to the reconstruction demand, because of which we increased production. Since then, supply systems have been in place at each company, and they are recovering their market shares through the sale of inexpensive products. However, we have built a system that allows us to make a profit, while the average operating profit in the exterior industry is around 4-5%. Our policy is not to sell large quantities of cheap products, but to conduct sales activities that emphasize profitability by developing high-quality, high-mechanical-strength products with high added value. Currently, both, sales and profits are declining; however, we plan to recover by appealing to the market by providing high-quality products. Hence, we would appreciate if you could be patient and give us some more time.

Q6. On page 19 of the presentation documents, it was explained that sales fell slightly short of the plan, but profits exceeded the plan. Please explain the factors behind the sales shortfall and how the profits exceeded the plan.

- A. The sales shortfall is largely due to the impact of the housing materials business. In the year before last, sales in the housing materials business were over 20 billion yen, however last year they were 18.7 billion yen, and this year we are forecasting sales of 19 billion yen, which is still a bit aggressive.
- In contrast, the chemicals business is operating at almost full capacity. In fine chemicals, functional materials performed well and contributed to profits. While, in organic chemicals, even though we raised our prices, we were too low on inventory due to the global shortage of chlorinated isocyanuric acid, which further contributed to the profits. In the next fiscal year and beyond, we will further strengthen our

sales activities for organic chemical products following the completion of the new plant.

In the fine chemicals division, a new plant (TAP-4; Tokushima Advanced Chemicals Plant-4) for the production of semiconductor process materials has been completed, and it is expected that the production facilities will be expanded to TAP-5 and -6 to meet the needs of customers due to the evolution of next-generation mobile communication systems, which are expected to continue from 5G to 6G and 7G. For this reason, we are considering reorganizing the Tokushima Plant, planning to move the wall material manufacturing facilities on the same site to another office in Tokushima City, and build chemical manufacturing facilities on the vacant land.

Q7. Please tell us about the impact of soaring resource prices and logistics costs on your company.

A. As for chemical products, prices of raw materials derived from crude oil have been increasing. Naphtha and methane gas generated from crude oil are used as raw materials for carbon disulfide, which has reached a record high price. In addition, molten sulfur, a byproduct of crude oil refining, is a raw material for insoluble sulfur, and its price has skyrocketed around the world, almost tripling from last year. The impact on Japan has not yet been significant, but we expect the price to rise soon. Due to the soaring prices of raw materials, we expect costs to increase by approximately 200 million yen in the first half, and 200 million yen in the second half. The price of aluminum, a raw material for the housing materials business, has been moving between \$1,100 and \$3,300 per ton, but recently exceeded \$3,300 when the Japan premium was added. This has resulted in a cost increase of approximately 100 million yen in the first half, and we expect a further cost increase of approximately 200 million yen in the second half.

As for the sharp rise in ocean freight rates, this is also expected to increase costs by about 400 million yen/year, due to the rise in fuel prices caused by soaring crude oil prices and the difficulty in securing shipping capacity.

As mentioned above, we expect costs to increase by a total of 1.1 billion yen per year, consisting of approximately 400 million yen per year from the impact of soaring raw material prices due to petroleum in the chemicals business, 300 million yen per year from soaring aluminum prices in housing materials, and 400 million yen per year from rising logistics costs. We are trying to shift the costs to the products, but this is expected to be delayed to the next fiscal year.

Q8. Is there a possibility that capital investment will be higher than planned during the "Challenge 1000" period due to increased demand?

A. Yes, there is a possibility. In Challenge 1000, we have set an average of 5 billion yen per year for capital investment. In the past, even after making capital investments and including depreciation, profits have been much higher. However, to achieve the Challenge 1000 goal, we have no choice but to engage in aggressive management. We expect our capital investment to exceed 5 billion yen per year through aggressive management. However, we may not be able to succeed in all of our endeavors, which is why we will take every possible measure to change our management stance and achieve Challenge 1000.

As for non-capital investments, our policy is to utilize 1% of ordinary income for social contributions. Specifically, we donated 50 million yen to repair the stone wall of Marugame Castle (Marugame City, Kagawa Prefecture), which collapsed due to

torrential rains and typhoons in western Japan in 2018. Whereas, this fiscal year we are donating 50 million yen to the "Lake Hozan Ball Park Dream Project" (Mitoyo City, Kagawa Prefecture). If we include the special sponsorship for the 75th KAGAWA MARUGAME INTERNATIONAL HALF MARATHON scheduled to be held in 2022, the amount of our social contribution will increase further. We believe that our employees are becoming increasingly aware of the requirement to be proactive in terms of capital investment and social contribution.