

SHIKOKU KASEI HOLDINGS CORPORATION Q & A Session
on Investor Briefing for the Fiscal Year ending December 2022
(February 15, 2023)

Q1. While “STAGE 2” has just begun, how does each operating company aim to achieve its goals? And what are the underlying concepts including M&A?

A. As for inorganic chemical products, while the production of insoluble sulfur has declined recently because of the reduced demand for tires, the demand for tires with high functions, including not only safety but also riding comfort, fuel efficiency, and durability performance, has been increasing every year. The manufacturing of tires with high functions requires high quality insoluble sulfur as a raw material. At the new plant, we intend to develop sophisticated production technologies to manufacture high-quality products that meet market requirements and stand out against our competitors. We plan to establish a mass production system for sales expansion.

As for organic chemical products, we launched “WASHMANIA Washing Machine Tub Cleaner” last year. In the future, we will promote full-fledged entry to Business to Customer (BtoC) and further expand in the market under the company brand “WASHMANIA.”

As for fine chemical business, using high organic synthesis technology, the strength of our company, we have propelled the process of developing new materials and connecting them to practical applications. We aim to continue to strengthen it and get tangible results.

In the housing material business, we will actively promote countermeasures against vacant houses and the development of products in the public construction field, where our company’s strength lies. In addition, we will make efforts to expand the business area despite how the market shows a tendency to shrink owing to the business environment, such as a decrease in the construction of new housing and population decline.

Although M&A activities are being continued as one of the measures to expand the core business, it has not yet been successful. Each operating company is also examining possible M&As to expand their area to peripheral businesses.

Q2. You list in the forecast for the current term, “decrease in sales unit price” as a cause of the decrease in profits in the chemical product business. Please explain the details.

A. In the previous term, we had significant growth in organic chemical products, largely due to the increase in sales in North America, mainly in the U.S. market, where our main force is placed. The supply demand balance became tight and significantly exceeded our expectations due to the simultaneous increase in awareness of hygiene and the increase in demand for household pools, as more people stayed home during the pandemic. A decrease in the sales unit price is anticipated because of the loosened supply demand balance. In addition, yen has appreciated compared to the previous

term. As a result, a decrease in profits is expected in this term.

Q3. I hear that progress is made according to the long-term vision “Challenge 1000,” but there has been a marked change in the business environment compared to 1 year ago. I would like to ask about the changes in sales methods, prerequisites, and assumptions of each department.

A. Although the general landscape is viewed in various ways, automobile-related matters have the largest impact on our company’s business environment. The impact occurs in insoluble sulfur, which is a raw material for tires, and in the field of fine chemicals, which is a raw material for electronics. While we expect to see growth based on the mid- to long-term perspectives, it is expected that this term will again be affected by production adjustments for automobiles due to the shortage of semiconductors and difficulty in procuring parts.

In addition, we suffered the impact of the rise in raw material prices by approximately 1.5 billion yen during the previous term, and the raw material costs still remain high for both chemical products and housing materials. It is expected that the increase in raw material prices will continue during this period. In the previous term, the price shift was relatively smooth for each business, but it is necessary to continue the response.

The chemical product business needs to tackle challenges in introducing products for BtoC and cultivate new business areas because the demand and supply saturation will move toward elimination of organic chemical products in the future, and the sales unit price is expected to decrease. Although there are concerns about the future of the semiconductor and electronics markets being unclear in fine chemicals, we will continue to strengthen the activities that will lead to the evaluation and adoption of newly developed products. The housing materials business is expected to remain unchanged in terms of profits due to the increase in the prices of materials, even though the prices were revised in April last year and again in January this year. We would like to proceed with our business not only from an immediate perspective, but also from a mid- to long-term perspective.

Q4. What products will drive sales toward the target sales of 12 billion yen in “STAGE 2” for fine chemicals? Is it even possible to achieve the sales target of 12 billion yen?

A. It is important for fine chemicals to develop materials that provide a novel performance. We consider GliCAP to be a highly effective growth product because it is expected that measures that support the frequency increase and 5th generation mobile communication system (5G), as well as those against density increase on substrates, will become necessary in the future.

GliCAP is an agent that enhances the adhesion between the copper circuit of the printed circuit board and the resin, and comprises a new processing system. Conventionally, there was an issue where losses in the electric signal occurred as the copper surface became rougher owing to roughening, which was conducted to ensure its adhesion to the resin. There was also an issue of fine wiring becoming too thin owing to roughening.

However, GliCAP can ensure adhesion without roughening the copper surface. GliCAP is currently being evaluated for two applications. The first is the substrate used in base stations and data centers for server substrate applications, which has been adopted by multiple manufacturers. The second is for semiconductor package substrate applications, which involves connecting the semiconductor chips and printed circuit boards on the circuit boards. We are in the process of promoting examinations for practical applications with customers.

Functional materials are broadly classified into semiconductor process materials and low-dielectric materials. Semiconductor processing materials are used as resist materials to form next-generation semiconductor circuits. Currently, we are discussing with multiple partners for future mass production. In addition, the evaluation of low-dielectric materials is being conducted for 5G and Beyond 5G. While it is technically very difficult to achieve both electrical properties and flame retardancy or heat resistance, our company has developed materials that achieve both properties, and evaluation is in progress at various manufacturers. Based on feedback from the market, further improvements will be made in the future.

Q5. When do you expect production adjustment for insoluble sulfur or sales recovery?

A. The recent drop in the sales volume of insoluble sulfur is due to a significant drop in export sales. Large volumes of our company's exports go to Asian countries, including China, and stagnation in tire production in the Asian region is one of the factors that caused the significant decrease. However, it is gradually recovering. We believe that the factors that caused the decrease in demand were instantaneous and will be resolved.

Q6. What is the prospect of capital investment in the next term and later?

A. In the long-term vision "Challenge 1000" (FY 2020 to FY 2029), we plan to invest approximately 50 billion yen. Considering the scale of our company's business, we have made relatively large investments. We are, however, doing so intentionally to activate investments under "Challenge 1000." Therefore, this direction will continue for the remaining seven years of "Challenge 1000."

In terms of investment, TAP-4 of the Tokushima Plant has the aspect of a pilot plant for research and development in addition to production, and it can be considered an investment for research and development. In addition, "Challenge 1000" specifies focusing not only on capital but also on human investments, etc., and we intend to make this more concrete.

Q7. While the new NEO-CHLOR plant has started its operation, will the full production and sales start in this term with the operation of the new plant?

A. NEO-CHLOR continues to move very actively and is in tight condition with full operation. The chlorinated isocyanurates produced by our company are popularly used as sanitizing agents for pools.

There are several different types of chlorinated isocyanurates, and we manufacture products with superior quality compared with those of our competitors. We consider that it will not be a difficult task to achieve full production in the future by continuously increasing our competitiveness with utilization of our strengths, and expanding the B to C field, including development of “WASHMANIA” products as a series.

Q8. As the direction of M&A, I think that the size of the housing materials business is being increased intentionally. What do you think about it?

A. Our company is in a different business category from the major exterior manufacturers, which deal with sashes and housing equipment, and this is increasing our added value. In M&A, we consider not only an increase in volume, but also M&A in terms of sales, such as reinforcing the areas where our company lacks resources or skills without spending time and developing new sales routes.

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