
FY2019 Financial Results Conference Call
Q&A Session Summary

Date: Friday, May 15, 2020: 3:15 p.m. to 4:30 p.m.

Presenter: MIYAZAKI Junichi, Director, Senior Executive Vice President & CFO

Presentation materials: https://www.nissanchem.co.jp/ir_info/archive/cf/s2020_05_15.pdf

■ Overall

Q1: You stated that the forecasts of financial results for this year (FY2020) do not include the impact of COVID-19. Did it have an effect on last year's results (FY2019)? Also, would you tell us about what affects you expect it to have on this year, both positive and negative?

A1: COVID-19 had very little impact on last year's results. Since it is likely to impact economic activities as a whole this year, we expect it to have a negative effect on Chemicals. For Performance Materials, it is unclear whether the impact on products, such as displays and semiconductors, will be positive or negative, since although demand for personal computers is increasing because of the increased use of teleworking and other factors, at the same time, sales of smartphones and other products are said to be down. While we do not expect much of an impact on the domestic market for Agrochemicals, it is having a negative effect on some exports. We do not expect it to have much of an impact on Pharmaceuticals.

Q2: Since forecasts for this year do not incorporate the impact of COVID-19, there is a risk that actual results could be worse than expected. Are you certain that you would be able to increase dividends even in such a case?

A2: Since dividends are based on the payout ratio, they could be revised downward depending on business results. However, we consider last year's annual dividend figure of 90 yen to be one benchmark. In terms of the total return ratio, while under current assumptions we plan to repurchase additional shares, this will depend on future business results.

Q3: A look at past trends in share repurchase on page 73 of the financial results materials shows that you put off the share repurchase at times, such as after the 2008 global financial crisis and the Great East Japan Earthquake. But at this time, you have announced plans to repurchase more shares. Does this mean that you consider the negative impact of COVID-19 on earnings to be less than the impacts of those events? Please describe the background to your decision to continue to

repurchase shares even as the external environment changes because of the effects of the virus.

A3: Our Company's financial soundness at this time is at a completely different level than it was in 2009 or 2011. While at those times LIVALO was performing well, we did not have Fluralaner or SUNEVER for photo IPS use. In contrast, this year, the profitability of our products as a whole is very high, even if sales of Fluralaner decrease. In addition, we have calculated a target balance of cash and deposits, and the current balance of JPY 30 billion gives us considerable leeway. This differs completely from our situation in the past. Also, we have no intention of skimping on capital investment or R&D in order to pay returns to shareholders. In the Agrochemicals Segment, we have established a joint venture on the scale of several billion yen in India, as well as acquiring the QUINTEC business, and we would like to engage in further M&A activities as well should a good opportunity arise.

Q4: On page 59 of the financial results materials, you show an increase of 16% in sales in FY2023. What kind of an increase do you expect in operating profit?

A4: We have not yet prepared profit figures. The message we intended to convey by announcing sales estimates for FY2023 was that we have a scenario for sales growth overall moving toward FY2023, even if sales were to fall for Fluralaner and level off for SUNEVER for photo IPS use.

Q5: Fluralaner and SUNEVER for photo IPS use have high profit margins. If their sales were not to grow through FY2023, wouldn't your overall profit margin decrease?

A5: Although we cannot comment specifically on profit margins because we have not estimated them, since we expect new Performance Materials and other products planned for introduction to have high profit margins, we do not expect much of a change in our overall profit margin.

■ Chemicals Segment

Q6: Your forecasts of financial results for this year show the greatest increase in profits in the Chemicals Segment, but last year, too, you projected a major increase in profits in this segment, although ultimately they fell far short of your forecasts. What are the assumptions on which your forecasts for the Chemicals Segment for this year are based?

A6: Our forecasts for the Chemicals Segment this year assume that the conditions of last year's 4Q (January–March) will continue throughout the year. In the 4Q last year, although conditions for melamine were difficult, high-purity sulfuric acid and TEPIC were in

recovering trends. In addition, this year, we expect to see additional growth in profits in the second half as a result of increased capacity for isocyanuric acid, as well as capturing additional market share from a competitor that plans to withdraw from the market for nitric acid products.

Q7: Will the recent collapse in oil prices have a positive effect by lowering raw-material prices?

A7: Low oil prices could have a positive effect. However, since we actually use natural gas as a raw material, there is a time lag of about four months before we will enjoy any benefits.

■ Performance Materials Segment

Q8: Last year's performance of SUNEVER overall was higher than planned, and you project an increase of 4% overall for SUNEVER this year as well. Please tell us about the background behind this growth.

A8: Last year's better than expected performance of SUNEVER was due chiefly to photo IPS and VA applications. Sales for photo IPS were higher than expected mainly for smartphones, while non-smartphone applications were also strong. Sales for VA use for televisions also grew more than expected. In the average year, the 4Q (January–March) is a time of inventory adjustments, but last year, we recorded better than expected results because we did not need to make any large-scale adjustments, and utilization by customers was strong as well. Since we expect further growth in photo IPS for non-smartphone applications and in VA for television applications to continue this year, too, we foresee growth in SUNEVER.

Q9: Would it be correct to understand this as a case of steady sales growth rather than buildup of inventories on the customer side?

A9: Yes, it would. Since customer utilization is strong, we see inventories as being at appropriate levels.

Q10: You project growth in SUNEVER for photo IPS applications this year. Could you summarize your projections divided into smartphone and non-smartphone applications? Also, your estimates of sales for FY2023 on page 61 show decreased sales for smartphone applications and increased non-smartphone sales. Please describe the background of these forecasts.

A10: We expect sales for smartphone applications to remain largely unchanged this year with the increase coming from sales for non-smartphone applications. Non-smartphone

applications have been strong recently, and we expect their growth to continue even beyond this year. In FY2023, we expect about 30% of tablets and 50% of laptops (on a volume basis) to shift to photo IPS, and we expect large-scale growth for non-smartphone applications. On the other hand, we also project considerable decreases in smartphone applications.

Q11: You project a major increase of 35% in other semiconductor materials this year.

What is behind this projection?

A11: The main reason for this increase is increased use due to increased production volumes on the part of customers. Also, we expect some a little growth in our share for multi-layer process materials in Asia and other markets as well.

■ Agrochemicals Segment

Q12: On page 47 of the financial results materials, you project a decrease in sales of Fluralaner through FY2022. Is this due to the effect of competing drugs?

A12: We do not see competing drugs as having that large of an impact. The decrease through FY2022 is due to inventory adjustments.

Q13: On page 47 of the financial results materials, you describe growth in BRAVECTO. Growth in BRAVECTO could be expected to lead to an increase in Nissan Chemical's income from royalties as well. Would it be correct to understand the decrease in profits through FY2022 to mean that the decrease in revenues from active pharmaceutical ingredients would exceed the increase in royalties?

A13: Yes, it would. Despite increased royalties, we expect revenues for Fluralaner as a whole to continue to decrease because of the scale of the decrease in revenues from active pharmaceutical ingredients.