Minutes of New Medium-Term Management Plan Briefing

Corporate Communications & Investor Relations Div.

【Main Q&A】

Q: Regarding the operating profit on P.23 Segment Performance Image, you plan to increase operating profit by JPY20 billion in Electronics and JPY27 billion in Life Science from 2024 to 2026. What are the reasons of these?

A: Life Sciences is expected to return to a growth trajectory in 2025, but the issue is whether profitability can be improved by then. The issue now is biopharmaceuticals CDMO in North America, and the company is urgently trying to rebuild it. If the large facility in Boulder, Colorado, U.S., starts operating smoothly and the inflow of funds into the biotech venture gradually returns from the second half of 2024, we believe the company will be able to return to its previous growth curve in 2025. In Electronics, the growth of Electronic materials is strong and will expand again starting this year. Of these, EUV mask blanks grew by about 50% last year and are expected to grow by more than 40% annually in the future. We will also work to improve profitability of Display with a sense of urgency.

Q: How much of the improvement in Display profitability is accounted for?

A: The profit improvement measures have been effective, but the recovery in volume was weaker than expected and did not lead to a significant improvement in 2023, despite the effect of the reduction in depreciation expenses due to impairment losses recorded in the previous year. The company will continue to work on the three profit improvement measures, and at the same time, the corporate division will monitor the certainty and speed of the measures to achieve a 10% ROCE by 2026. JPY53 billion in Electronics operating profit in 2026 includes a reasonable contribution from Display.

Q: The key point of this medium-term management plan is how to rebuild the two businesses with remaining issues. The biopharmaceuticals CDMO business will be able to achieve its goal if the market returns to health and the production equipment in Boulder make a contribution, but the hurdle for the Display business is high. Can the Display business really achieve a 10% ROCE with no significant increase in product demand expected?

A: I have nothing to say at this time, but I would like to discuss this issue with the involvement of the corporate division and include perspectives that differ from those of the parties involved in business operations.

Q: One request, please also disclose EBITDA and operating assets figures for each of the sub-segments in 2026.

A: Thank you for your comment.

Q: Regarding the operating income in the segment earnings image for 2026 on P.23, is the Chemicals business predicated on the assumption that capacity will be increased? To what extent have you factored in market recovery? I have the impression that your Architectural glass performance is conservative in 2026 in spite of renovation demand, but what is your view of the market environment?

A: Performance Chemicals, which is a Chemicals business, incorporates market growth as well as capacity expansion. In Essential Chemicals, we are planning for low market conditions in 2024. From 2025 onward, capacity expansion in Thailand will make a full contribution, and we do not expect market conditions to continue to be historically poor, but to recover slightly from current conditions. For Architectural glass, we are taking a hard look at Europe due to the poor economic conditions there. In Japan, subsidies related to renovations will continue in 2024. After that, we expect demand for insulated windows to remain strong and remain relatively good.

Q: Regarding Life science, fixed costs are incurred ahead of time. Supply capacity is an important factor in being selected as a CDMO outsourcing partner, but capital expenditures in the new medium-term plan are slightly higher than in the previous one. Can we expect the fixed cost ratio to decline during the new medium-term plan period?

A: First of all, it takes about three years from the time a decision is made to make a capital investment in Life science to the time it contributes to business performance. Investments in the Copenhagen animal cell facility to increase capacity, in synthetic pharmaceuticals CDMO in Spain and YTC will contribute to the next medium-term management plan. Considering the slowdown in market growth last year, we expect to shift the timing of capital investment in the new medium-term business plan while keeping an eye on market conditions. However, on a macro level, we believe that the biopharmaceuticals market, mainly for animal cells, will continue to grow until 2030, and the trend of outsourcing to CDMO will remain unchanged, so we will make investments when the timing is suitable.

Q: Is 15% an appropriate operating margin target at the point of reaching 200 billion yen in sales, or is 20% unattainable? We estimate that labor costs as a percentage of sales will be 30-40%. Are there any productivity improvement initiatives to reduce this ratio?

A: Sales of 200 billion yen is a passing point, and if the company invests further ahead at that stage, it will have to bear the fixed cost burden of facilities that do not contribute, and the Life science business as a whole will not reach an operating margin of 20%. If we limit our investment to facilities that have already launched, we will be able to achieve an operating margin of around 20%. The company is working to improve productivity by applying the engineering and other knowledge possessed by the corporate division. Since this is a business that can benefit widely from digitalization, we will introduce state-of-the-art DX.

Q: You commented last year that you wanted to establish new pillars for your business portfolio. Have you made any progress?

A: Last year I mentioned that the Environment and Energy field would become important. Since Environment and Energy straddle all of the strategic businesses defined, although we have defined four strategic businesses, we consider the environment and energy field as a whole.

Q: Regarding EUV mask blanks, can you expect 40% annual sales growth in the future, despite the threat of pellicles and competitors entering the market? P.23 regarding the operating income image by segment, you plan to increase profits by 35 billion yen from 2023 to 2026 for Electronics, but how much improvement will come from Display? To what extent are other products factored in?

A: EUV mask blanks grew 1.5 times last year and is expected to grow by the same degree this year, and we expect it to reach 40 billion yen or more by 2025. At this point, we do not see pellicles or competitors entering the market as a major threat. In other Electronic materials, CMP slurry is also strong. Optoelectronics is also a product with strong differentiation, and we believe it will grow steadily, although not at the same pace as before. In the Display business, we will implement measures focused on ROCE, such as structural reforms.

Q: What is the direction of M&A? M&A is becoming more active in the biotech market, are there any opportunities for your company?

A: M&A is one effective way to grow strategic businesses. In the area of biopharmaceuticals CDMO, the key point is whether pharmaceutical manufacturers will continue to own their own production facilities. In the area of Electronics, the need to combine a wide range of technologies is increasing, so there are opportunities for M&A.

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