

Q&A Summary of Presentation of Fiscal Year ended March 2023 Consolidated Financial Results and Mid-Term Management Strategy (Updated)	
Date and Time	May 12, 2023 (Friday) 13:00 – 14:30 (JST)
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Presentation Material	Presentation "Fiscal Year ended March 2023 Consolidated Financial Result" https://www.daicel.com/en/news/assets/pdf/20230511_6.pdf Presentation "Accelerate 2025- II Mid-Term Management

	Strategy (Updated)" https://www.daicel.com/en/news/assets/pdf/20230511_8.pdf (published on May 11, 2023)
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■ Medical / Healthcare business

Q: I suppose that the level of forecast in FY2026/3 is not as large as I expected. Are there some plans to release new products? How to make fulfillment to the result after FY2027/3?

A: There is not a large differential between the result of net sales in FY2023/3 and the forecast of net sales in FY2026/3. A main reason of this result is the divestment of Lomapharm GmbH at the end of March 2023. It effects on net sales from 3 to 4 billion yen.

In addition, the forecast in FY2026/3 is based on the growth of existing CPI business. The new businesses, such as Actranza Lab, is included in the forecast, but we launched Life-Science SBU in this spring to accelerate integrated management of in-house medical-related businesses and try to implement a variety of strategy, thus we are aiming at the growth beyond the level we indicated.

■ Smart business

Q: When will the production for LCD start to recover? Also, could you tell me your prospecting of product for semiconductor and lenses?

A:

[Market Environment]

LCD: In FY2023, many LCD makers began to curb their inventories after June 2022 due to a sharp decline in LCD sales. However, in spring in 2023, their inventories are almost depleted so that we expect the sales for LCD will recover.

Semiconductor: The demand was thriving until the first half of FY2023/3, however it started to decline from the third quarter of FY2023/3. We expect the demand will recover after the second half of FY2024/3.

[Our business situation and action]

Even though the sales volume of TAC, electronical solvents (for LCD and MLCC) and

the functional films decreased due to the market environment, each product expands their market share steadily.

TAC: Other companies' product raw materials are limited to cotton linter, whose prices are skyrocketing. We, on the other hand, can use wood and a variety of other raw materials to produce products that are as high quality as those of our competitors. Therefore, demand for our products is strong, and our market share is growing. As recovering the demand for LCD, we expect the sales volume will also increase.

Electronic solvent: Our products are used as solvent in the process of manufacturing semiconductor. Since being adopted by major resist manufactures which accounts for large proportion of global market share, the market share of our product is in a majority. In addition, we are promoting sales expansion for the application for washing.

High-performance Films: It has 20% worldwide market share for in-vehicle display application. The in-vehicle display shifts from a mechanical meter to a digital display meter, and recently to an LCD meter. Therefore, the area of in-vehicle display become increasingly larger. Our products are adopted by a major electronic vehicle manufacture with a large market share.

Wafer-level-lenses: It is mainly used in smartphones and virtual reality (VR) devices. Regarding for VR application, our product has been already decided to adopt as a component for products of major manufacturers. We expect an increase in the sales volume of our products as our customers begin to sell devices in earnest. The edge of our product is its outstanding productivity and we have already equipped the necessary production facility by investment.

■ Safety Business

Q: What is the outlook for profit improvement in FY2024/3?

A: In FY2023/3, it had a great impact that the Covid-19 and the delay in recovery of sales volume of automotive due to the semiconductor shortage. In addition, there were delays in passing on higher prices for steel, helium, and other raw materials. From the second half of the FY2024/3, we expect the increase in profit due to the

following 4 reasons: the revision the sales price, the improvement of profitability in the business sites in North America, cost reductions at all sites, and the increase in sales volume exceeding previous year result.

Q: What is the current progress in profit improvement in business sites in North America?

A: One-time expenses were incurred in FY2023/3 for production support from Japan, consolidation of production sites, etc. We will control these cost increase to a certain extent and promote decrease in cost of component and logistics costs in FY2024/3.

Q: When will the productivity of business sites in North America start to recover?

A: In FY2023/3, we had a prospect for improvement the stability of the workforce prospect, and, we made an effort of an improvement of office automation, a decrease in NG and inventory reduction. The consolidation of production sites is beginning to take effect, so that we expect to reach a break-even point in FY2024/3, then turning into a surplus in FY2025/3.

Q: Is it possible to achieve a goal of reaching 25% market share of worldwide in FY2026/3?

A: Since getting new programs, we are making good progress toward achievement.

Q: What is the factor of substantial improvement in profit to achieve the goal of operating income in FY2026/3?

A: The most impacted factor contributing to the profit is an increase in sales volume. Especially, we plan to increase in sales volume for start-up electronic vehicle manufactures in India and manufactures in Europe and US. In addition, we promote the consolidation of production sites, and a decrease in costs in all business sites. Also, we included it the effects of expanding new applications such as mass production of Pyro-fuse by an expansion in "One-Time Energy" and expansion for consumer products.

Q: The prospect of operating income in the second half of FY2024/3 is 7 billion yen, and it multiplied by 2 equals 14 billion yen. This is nearly 15 billion yen, which is the

goal of operating income in FY2026/3. If so, does it indicate that you will reach the level of operating income in FY2026/3 at an early stage?

A: We should definitely achieve that you mentioned. We are planning to get 15-billion-yen of operating income in FY2026/3 by a decrease in costs in each business site, consolidation of production sites mass production of Pyro-fuse and getting new programs.

■ Material business

Q: What are the factors of increase in the profit from third to fourth quarter in FY2023/3?

A: This is because we implemented price revision in January 2023. In addition, we took into consideration of its market condition.

Q: Could you tell me the business environment in FY2023/3 and prospect of FY2024/3 of acetate tow?

A: The worldwide demand of cigarette is expected to move flat from FY2022/3 until FY2026/3, after that gradually decreasing.

On the other hand, the demand of acetate tow is expected to be stable or increasing.

Reasons

An increase in the amount of consumption in heat-not-burn cigarette

(The proportion of the demand of heat-not-burn cigarette accounts for 3% of the whole worldwide demand of cigarette. It is expected to increase 0.5% ~ 1% per year in the future.)

An increase in length of cigarette filter by growing health awareness of consumers

An increase in the demand of installing filter in Indonesia, Bangladesh and India by growing health awareness of consumers in these countries

The changes in worldwide demand of cigarette

FY2020/3 vs FY2021/3 (The first year of Covid-19 pandemic) : 5% decrease in comparison to the previous year

FY2021/3 vs FY2022/3: 1.5% increase in comparison to the previous year

Q: Could you tell me the prospect of product price of acetate tow?

A: The trend in an increase in raw material and fuel price will level off soon. On the other hand, we expect the demand of acetate tow consistently excess its supply. We will negotiate with customers about the product price in the future.

Q: What is the future scope for increasing production of acetate tow without investment?

A: In FY2023/3, we were able to increase over 10% of production volume of acetate tow compared to the previous year through improvement productivity without investment. In FY2024/3, we expect to increase about 5% of production volume compared to FY2023/3. In FY2025/3, we expect to increase several percent of production volume compared to FY2024/3.

Currently, the grade combined fibers of different diameter have a high demand from the customers. Generally, spinning out of fine fiber is considered one of the factors that deteriorate productivity, but our company has a unique pilot facility which can spin multiple yarn combinations. Therefore, we have established a system with availability of spinning fine fiber out, which allows us maintaining productivity when producing special grade. Also, the production facility of raw material of acetate tow, cellulose acetate, has some spare production capacity so that we can increase production volume by changing production line without investment.

Q: Could you tell me the prospect of acetic acid business in FY2024/3?

A: By an increase in inventories of fiber for textile, the demand of acetic acid for high purity terephthalic acid is sluggish from the second half of FY2023/3. Also, regarding acetic acid derivatives, ethyl acetate, the demand for food packaging remains strong, however the demand for adhesive remains weak due to production adjustment of LCD from July 2022. It is expected that this trend will continue until the first half of FY2024/3, so that we hope that the demand will recover after the second half of FY2024/3. The market condition of acetic acid itself has remained sluggish since the second half of FY2023/3.

Market condition of acetic acid

In FY2023/3: the first half: \$640, the second half: \$500, the annual average: \$570

Latest: \$500

The budget in FY2024/3: \$470

■ Engineering Plastic business

Q: It seems that there is little increase in operating income in during the Mid-Term Management Strategy. I am asking to find out how was the actual growth such as EBITDA, exclusive of the depreciation and amortization?

A: The sales volume in FY2023/3 decreased because the sales volume in FT2022/3 was thriving. After FY2024/3, we will reinforce our production capacity as well as recovering the sales volume. EBITDA will exceed 50 billion yen in FY2026/3. Fixed cost burden will increase due to depreciation of large investments. As a result, operating income will not increase significantly, but EBITDA will increase by 10 billion yen.

Q: Regarding synergy with Polyplastics, please share some additional information on the reason why you added 10 billion yen on the original Mid-Term Management Strategy.

A: The most impacted factor is the increase in production capacity of POM in China. Originally, we planned to increase its product capacity in 60,000 tons adding to the conventional product capacity of 60,000 tons. However, we must change plant location which we never expected, so that we reviewed a structure of subsidiaries for production in China from conventional 4 joint venture companies to 2 company association on this occasion. The major change is that we firstly built a facility with 90,000 tons of production capacity at the new location for accelerating the time of coming out the result of increase in production for 1 year, after that we will add the facility with 60,000 tons of production capacity according to the timing.

■ Microfluidic Device Plant

Q : What is the progress of Microfluidic Device Plant, which will be launched in FY2025/3?

A : Steady progress is being made toward the introduction of this technology into the photoresist materials manufacturing process at the Arai Plant in FY2025/3. The

pilot plant is performing as expected.

We plan to continue to develop the technology so that a uniform material can be produced even when the number of glass substrates is increased in parallel.

Furthermore, we aim to establish a process that does not require a refining process in pilot plant. This is expected to reduce heat energy by 90% when implemented at the Arai Plant.

Experiments are also underway for its implementation at the Ohtake and Harima Plants, and we doubled the selectivity of substances. We found that the more reactions with higher reactivity and higher heat generation, the better the reaction efficiency can be improved using the microfluidic device. In the future, we plan to introduce this device to production lines where it will be highly effective.

■ Financial strategy

Q: I understand from the Mid-Term Management Strategy briefing materials that the Company will strengthen shareholder returns. What is the background?

A: We place an emphasis on not only total return ratio but also EPS and ROE. Under the plan described in the briefing materials, we will continue to pay shareholder returns with a total return ratio of 50% or more for three years. If we need more growth investment funds, we may consider changing this plan, but we will flexibly consider the use of external capital as an option.

Q: How will you achieve the ROIC target of 9.3% for FY2026/3?

A: Currently, we are actively making capital investments, and invested capital is on the rise. However, in addition to scrutinizing and carefully selecting investment projects, we will restrain the increase in assets including operating assets even while increasing sales. A major factor in achieving the ROIC target is profit margin growth. We are targeting an operating profit margin of 12.4%, but we believe that this is still insufficient as the conventional ROIC target is 10%. We will at least achieve our ROIC target of 9.3% for FY2026/3, and we will do everything we can to reach 10% by pursuing cost reductions and efficiency.

■ Mid-Term Management Strategy (updated)

Q: How can you achieve sales of 1 trillion yen in FY2031/3?

A: Sales of 1 trillion yen include almost only the growth of existing businesses and do not include much of the contribution of new businesses. In April 2022, the Advanced Materials & Packaging Institute, Life Science Business Division, and Biomass Innovation Center were made independent from the Research Center. Various new technologies and materials have been created in these organizations, and we have received a lot of feedback from customers. Currently, we have concluded comprehensive partnership agreements with five universities and are proceeding with joint research. We will create synergies through industry-government-academia collaboration, accelerate the creation of new businesses, and reap benefits at an early stage. In addition, the sales of 1 trillion yen are the goal within only Daicel. To realize the biomass value chain concept, we need to collaborate with many companies. By accelerating the creation of new businesses and making Daicel a more attractive company, we believe that many companies will want to partner with us. We believe that if we can create a new corporate group by partnering with various companies, we can generate even greater sales.