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Question-and-Answer Session

Results Briefing for the Third Quarter of the Fiscal Year Ending December 31, 2023

Outline of briefing session

16:00–17:00 on Friday, November 10, 2023 (Zoom webinar)

For institutional investors and analysts

Question 1. According to the revision to the earnings forecast announced today, you revised the full-year operating income upward to 2,250 million yen. The announcement says that the revision is due to the prospect that manufacturing labor costs and expenses will decrease from the assumption. Did you overestimate these costs in the first place or manage to cut them through your effort amid your earnings deteriorating?

Answer. The generation of some costs and expenses has been delayed than the plan to some extent. For example, depreciation and amortization of some items will decrease as we pushed back the acquisition of noncurrent assets. Regarding travel and transportation expenses, we are curbing business trips and others. This curbing from the plan is the main reason for the decrease in this cost category.

Question 2. When I do the math after the earnings revision, it seems operating income for the fourth quarter will considerably decrease from that of the third quarter. What is the reason for this?

Answer. Whereas manufacturing labor costs and expenses will decrease slightly, the earnings-linked bonus included in selling, general and administrative (SG&A) expenses will rise a little as a result of this revision to the earnings forecast. In addition, we expect to record repair and maintenance expenses that have not been generated until the third quarter. Therefore, we expect operating income for the fourth quarter will decline from that of the third quarter.

Question 3. What is the assumption of SG&A expenses in the revised plan?

Answer. We assume about 5,850 million yen for the full year.

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Question 4. Sales of the CZ Series have steadily grown quarter after quarter. Could you share with us the background regarding why sales expanded from the second quarter to the third quarter as well as the prospect for the fourth quarter.

Answer. The main reason for the expansion is that inventory adjustments progressed in the supply chain. Inventory adjustments are steadily progressing, rather than growth in demand for PCs and servers. The situation, especially in South Korea, was that inventory had been piled up considerably due to the COVID-19 pandemic. We project that demand will slightly improve in the fourth quarter.

Question 5. You said that inventory adjustments have progressed well. Were you referring to finished product inventory at your customers or your chemical inventory?

Answer. Both did.

Question 6. Could you update us about the status by application.

Answer. The situation in general is not so favorable. Among them, the application for automobiles is not so bad. Although we have not had yet a clear prospect of the timing of a full-scale recovery in demand for PCs and servers, we hope that will start in late 2024.

Question 7. Why did sales of the EXE Series start increasing?

Answer. Sales of products for displays, especially TVs, underperformed considerably in the previous fiscal year. The series is picking up from the second quarter. However, it is not certain whether or not the growth will continue.

Question 8. Do you have a sense that the era of the shift to non-roughening adhesives has been moved forward or pushed back from 2030?

Answer. We forecast that the said technology will be applied to very limited products, so-called ultra cutting-edge products, slightly earlier.

Question 9. Should we understand that the delay in the plan for a new factory in Kitakyushu is mainly due to recent shortages of materials?

Answer. Yes, that is right. Another reason is that the demand side too allows us more time than assumed to catch up, and we also want to scrutinize the design details. There will be no impact on the supply system.

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Question 10. Which products are involved in terms of electronic substrates for automobiles?

Answer. CZ and V-Bond. The share of V-Bond is not high, and this will be our challenge down the road.

Question 11. Recently, I heard from equipment manufacturers that package substrates are increasing their presence in China and that such manufacturers are receiving inquiries from companies unheard-of until now. Do you have a sense similar to that?

Answer. We have that sense because China's sales are expanding when we look at sales by region. Our policy is to accommodate this need through strict credit management.

Question 12. Could you share with us the impact from glass-core substrates.

Answer. The idea is that the core will be glass. Our recognition is that the move will hardly affect our earnings. Having said that, we will strive to continue gathering information.