
FY 2018 Financial Results Institutional Investor Briefing Q&A Session Summary

Date: Wednesday, May 15, 2019: 3:15 p.m. to 4:20 p.m.

Presenters: Kojiro Kinoshita, President & CEO (medium-term business plan)

Junichi Miyazaki, Senior Executive Vice President CFO (financial results)

Presentation materials:

(Financial results) https://www.nissanchem.co.jp/eng/ir_info/library/pdf/AM/am2019_03.pdf

(Business plan) https://www.nissanchem.co.jp/eng/news_release/release/en2019_05_15b.pdf

■ Medium-term business plan in general

Q1: On page 11 of the business plan, it is written that you are “Not prepared enough for the risks that could inhibit growth.” What risks do you recognize in the current macro-environment?

A1: (Kinoshita, President) I think we need to identify and recognize risks by division. What was symbolic in the past was the patent cliff for LIVALO, which resulted in a decrease in profit due to the expiration of the patent in 2013. So, patent-related risks are typical. Every product has this risk because of the product lifecycle, so respective segments have to recognize it and be prepared. Conversely, there also exist opportunities there, so this sentence refers to how we can reduce the volatility in four respective segments by addressing risks and maximizing opportunities. Specifically, we listed up 13 risks in-house when we formulated the medium-term business plan, and they contain patent issues, as well as establishment of innovative technologies and changes in the global environment.

Q2: Do the risks you recognize contain macro-environmental risks, such as the economic slowdown in China? Please also tell us what size you consider these geopolitical risks are.

A2: (Kinoshita, President) Yes, they contain such geopolitical risks. As to our major Asian markets, those that can affect geopolitical risks are political issues in China, South Korea, and Taiwan. We have local affiliated corporations in these areas, so we can gather information from them and continue discussions in case they occur.

Q3: It says “Delay in the creation of new products” on page 11 of the business plan, please let us know the reason for the delay and countermeasures implemented.

A3: (Kinoshita, President) We recognize the delay in the creation of new products as an outcome of gaps in timing and other factors as to how we effectively apply our materials

into customers' materials or products to realize new functions. There are various causes for such gaps, including customers' delay in development and changes in the market environment, but we have a big concern about whether we really understand customer needs and that we might need to change the way we understand their needs. I think it is very important to know how clients look to the future, what they keep in mind in their research activities, and how we can provide materials that would fit there.

Q4: There is a “Delay in the creation of new products” on page 11 of the business plan as one of your challenges, but I think you are producing surprisingly many products in light of the consolidated balance sheet and the number of employees. Although there was the patent cliff for LIVALO, products that were released after that, including veterinary pharmaceuticals (Fluralaner) and photo-alignment IPS, were excellent, and most recently, GRACIA has been increasing sales. That is, you have been skillfully generating alternative high-growth products. Nevertheless, why do you internally recognize that you have a delay in the creation of new products?

A4: (Kinoshita, President) In order to prepare for the next age, I think we need to skillfully shift high-growth products from one to another. We must always have potential new high-growth products; for example, currently we need another product that can drive the company's growth after GRACIA which has been a growing product, but in terms of this, I strongly think there is a delay against our internal plan for development.

Q5: As to M&A, you have ever purchased products and technologies before, but you haven't really purchased an entire organization so far. Is this because there were no good opportunities?

A5: (Kinoshita, President) We are not really obsessed with M&A, and our strong recognition is that we would take it if there were an opportunity for business expansion. Basically, we always think that we want to buy it if there is anything good. The one and only purpose of buying-out is expansion of the respective segments.

Q6: Although you are active in the share buyback, it also could be an option that you will leave funds at hand for M&A. So, please let us know how you think about funds for M&A.

A6: (Kinoshita, President) As for funds for M&A, we are well aware of the composition of finances, including our capital policy, and always have calculations on the amount of money that we can put into an M&A opportunity. Based on the current balance sheet, I believe we can cover the capital for an acquisition sufficiently with a loan from a bank. If

we go into M&A in full swing, we can dare to decrease our equity ratio to some degree, which currently is over 70%.

■ Return to shareholders

Q7: As to return to shareholders, please let us know the reason that you will increase the target total payout ratio to 75%.

A7: (Miyazaki, Vice President & CFO) We have the ROE as the most important index, and as a result of calculating the target total payout ratio so that we will be able to maintain the ROE at 16%, it turned out to be 75%.

■ Performance materials segment

Q8: In the plan for this term (year ended March 2020,) the growth rate of SUNEVER's photo-alignment IPS seems to have slowed down. Please let us know the reason for this.

A8: (Miyazaki, Vice President & CFO) In this term's plan, photo-alignment IPS is expected to increase in quantity and to fall in price at a similar level to the previous year.

Q9: Although I recognize that there isn't much competition in the field of photo-alignment IPS, the decrease in the price seems to be rather large. Is there any concern, for example the possible appearance of competing products?

A9: (Display Materials Department) Although competing products are appearing recently, we have technological advantages at the present time. The price is expected to decrease because of the expansion of the purposes of use and the quantity of photo-alignment IPS.

Q10: On page 37 of the business plan, it is written that oilfield materials will largely grow, but they were stagnant in the latter half of the previous term (year ended March 2019.) Why are you increasing them in the medium-term business plan?

A10: (Inorganic Materials Department) In the latter half of last year, there was a decrease in the oil price until December and a decline in the customer cost, but the oil price has been gradually turning back. Additionally, we expect to increase sales by making approaches to existing wells, although it so far has been limited to new wells.

Q11: Will oilfield materials continue to be influenced by changes in the oil price?

A11: (Inorganic Materials Department) Although they will be influenced by the oil price in the next one or two years because new wells are primarily used, we are planning to decrease the influence of changes in the oil price by making approaches to existing wells as well.

Additionally, we are planning to increase sales by launching new materials based on collaborations with other companies.

■ Agricultural chemicals segment

Q12: According to the medium-term business plan, the growth of Fluralaner is expected to slow down compared to past results. Does this mean that the share of Bravecto has reached a ceiling, or is the entire market for veterinary pharmaceuticals stagnant?

A12: (Miyazaki, Vice President & CFO) As for veterinary pharmaceuticals, there is a large gap between the shipment volume of our Fluralaner and the sales volume of Merck's Bravecto, and we understand that Merck has a large stock of it. The entire market is steadily growing, and there is a shift from the spot-on type (transdermal application) to the chewable type (oral administration); there also is a room for expanding the share of Bravecto itself, so we think that an inventory reduction would be the appropriate task.

Q13: Please tell us the reason that the sales of ROUNDUP for the current term (non-selective foliage treatment herbicide) are expected to grow.

A13: (Miyazaki, Vice President & CFO) One is that the sales largely decreased in the first half of the year due to abnormal climate, including heavy rain, typhoons, and extreme heat, and we need to recover. And the other is that we are expecting growth in the ROUNDUP AL series that are aimed for general consumers.

Q14: Why did you raise the target sales of GRACIA (new insecticide) to 10 billion yen?

A14: (Agricultural Chemicals Division) Sales of 10 billion yen are the target for both inside and outside Japan. The reasons we raised the target are that we received more approaches than planned when we started sales in South Korea in the previous year, and that we got very good responses from farmers.

Q15: What is the advantage of GRACIA compared to competing insecticides?

A15: (Agricultural Chemicals Division) Because GRACIA is a compound that has new functions, it provides a better control effect for pests that are less sensitive to existing insecticides. In this sense, we consider GRACIA as being readily accepted by the market.

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