

Financial Results Briefing for the First Half of the Fiscal Year Ending December 31, 2021

Question & Answer

- Date/time: Aug.17, 2021 10:00am – 11:00am (Japan time)
- Speakers:
 - Satoru Takashima: President and Representative Director, and Group COO
 - Hideki Okaichi: President and Representative Director, TOYOCOLOR CO., LTD.
 - Toshinori Machida: President and Representative Director , TOYO CHEM CO., LTD.
 - Masato Yanagi: President and Representative Director , TOYO INK CO., LTD.
 - Takeshi Arimura: Executive Officer, Group Financial Director
 - Kentaro Watanabe: Corporate Communication Department, General Manager
- Presentation Material :
 - https://schd.toyoinkgroup.com/en/ir/archives/pdflib/2021/frp_fy2021_q2_en.pdf

TRANSLATION:

This is a transcript of Financial Results Briefing for the First Half of the Fiscal Year Ending December 31, 2021, Question & Answer session, held on Aug.17, 2021. This is an English translation of the Japanese original, prepared only for the convenience of shareholders residing outside Japan. The original Japanese version will prevail should there be any difference in the meaning between the English version and the Japanese version.

DISCLAIMER:

The forecast or projections in this material are based on the assumptions and beliefs of our management in light of the information available as of August 17, 2021. Changes in global, economic and business conditions could cause actual results to differ materially from these forecasts.

The content of this transcript have been edited or revised by the company.

Question & Answer

Q.1 : What is the background behind the revision of the full-year plan?

A.1 (Takashima) : Thank you for your question.

We have made an upward revision, but the situation and background of net sales and operating profit are slightly different, so I will start with net sales, although there is some overlap with the previous section.

In particular, due to the faster-than-expected recovery of market conditions overseas, shipment volume in all segments exceeded the previous year's level in H1 of the fiscal year. We expect this trend to continue in H2 of this fiscal year, and have revised our sales forecast.

On the other hand, operating profit has been revised upward, but the situation differs by business segment. As I explained earlier, for the Polymers and Coatings business, which will be affected by a significant rise in raw material prices in H2, operating profit was planned to be JPY6.5 billion at the beginning of the fiscal year. This has been revised to JPY4.2 billion. This is a forecast of a decrease in operating profit from last year's results of JPY5.9 billion.

For the same reason, we have revised downward our initial plan of JPY4 billion for the Packaging Materials business to JPY2.7 billion, which was JPY3.9 billion in the previous fiscal year.

On the other hand, in the Colorants and Functional Materials business, we have revised upward our forecast of operating profit, due to higher-than-expected sales of materials for displays with relatively high added-value, the effect of sales expansion in plastic colorants, the effect of the change in product mix mentioned earlier, and the effect of the elimination and consolidation of unprofitable bases.

In the Printing and Information business, we have revised upward our forecast for operating profit due to the effects of structural reforms and a recovery in the volume of UV inks.

As a result, operating profit of the Polymers and Coatings and Packaging Materials businesses will be weak, but the Colorants and Printing and Information businesses will see higher operating profit than the initial plan. We forecast operating profit for Colorants and Functional

Materials to be JPY6 billion, for Packaging Materials to be JPY2.7 billion, and for Printing and Information to be JPY2 billion. That's all.

Q.2: I would like to ask about the Printing and Information segment. This segment mainly consists of inks for printing on paper, and I am aware that the market is unlikely to grow, but looking at the results up to Q2, it appears to be improving significantly. Please tell us the reasons for this and whether you think this trend will continue in the future.

A.2 (Yanagi) : I would like to respond to this question.

As you pointed out, the performance of the Printing and Information segment in H1 of the fiscal year exceeded the initial plan, but this was due to the thorough fixed cost reduction and personnel reduction in recent years in line with the shrinking market for printing on paper. The other reason is that some overseas countries, including China, are recovering from the COVID-19 pandemic.

Although the performance of functional inks has been deteriorating due to the sharp rise in raw material prices, we believe that our cost reduction efforts, such as reviewing formulations and substituting raw materials, as part of the project that was launched in the past fiscal year, are showing effects.

As for your other question about our thoughts on the future, we believe that the shrinkage of paper media will continue to accelerate as the digitalization of commercial printing gains momentum.

We believe that general offset inks, such as web, sheet-fed ink, and newspaper ink, will be reduced.

In the Printing and Information business, we believe that the market for functional inks, such as UV inks and metal inks, will grow, unlike that for general offset inks, and we will concentrate our resources in this field. That's all.

Q.3: The next question is about materials for displays on page 7 of the material.

Please tell us about the alliance in China to the extent possible. In addition, I would like to know if you have an intention of manufacturing in China.

Main Topics: Materials for Displays
—Favorable LCD Panel Market Conditions, Take the Initiative During Market Changes—

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- Results: Performed well, significantly over the initial plan. The favorable market conditions are expected to continue.
- Changes in LCD panel market: Promote market share expansion to address the acceleration of the shift of business to China and intensifying competition

Change is opportunity

Expand share of the largest market, China

Strengthen cost competitiveness

Innovative integrated production method for processes from pigments to resists

Local alliance in China

- Examining various examples including technical tie-ups and production outsourcing
- Enhancing local sales systems

Thorough differentiation and development of functional products

Small and medium panels

Thin, high definition films

Sensors

CMOS and wavelength control

Environmental load reduction

Low temperature curing

Share of the resist inks in Chinese market (change and plan)

Year	Share (%)
2017	4%
2018	7%
2019	9%
2020	10%
2021 (Plan)	11%
2023 (Plan)	15%

Toward a 15% market share in China in 2023

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A.3 (Okaichi) : First of all, thank you for your question.

I understood that you were talking about the alliance in China and how we are considering the production in China.

As you know, the shift of LCD panel production to China has been accelerating rapidly since 2014, and it is about to approach 60% of the world’s production in 2021, compared to around 20% in 2014. I really think you all know what I’m talking about. For our company, a major theme is how to expand our business in this largest market. As the only manufacturer in the world that integrates the production of pigments, CF pastes, and color resists, we are constantly searching for ways to utilize our internal and external resources while managing the supply chain.

As a means of optimizing the balance between quality and cost, I have described the term alliance as 1 of the options. In fact, in order to study and promote local production, alliances with other companies, and the strengthening of our technical service system, marketers have been stationed in the Shanghai area since this year to draw up a vision for the future.

We are now manufacturing in Moriyama, Japan, and Taiwan, and products for China are being manufactured in Taiwan. We will carefully consider production in China, which is the largest market, and alliances with other companies, and decide on the direction to take during this mid-term business plan while we have a variety of options. Thanks.

Q.4 : Please tell us about the actual results of the can coatings used for the Mug Beer Can of Asahi on page 9. Also, please tell us about its contribution to the future performance of the Company.

**First Half of FY2021
Main Topics Regarding New Products**

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- **Co-development of Mug Beer Can with Asahi Breweries, Ltd.**

— Leveraged coating technology to contribute to product differentiation —
- **Contributed to the improvement of millimeter-wave radar with its compound absorbing millimeter radio waves**

— Contributed to the support for automotive safety driving —



Provided by Asahi Breweries, Ltd.



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A.4 (Machida) : This is Machida of TOYOICHEM. I will answer this question for you. First of all, thank you for your question.

The can coatings used for Asahi Breweries' Mug Beer Can is our paint, and it is a very unique paint. This is in line with Asahi's sales plan, and we are steadily increasing our numbers and performance.

However, I would like to ask you to understand that we cannot provide a detailed answer to your question about our business performance or future business performance, as it is directly related to the sales plan for Mug Beer Can.

As a supplementary note, Mr. Takashima mentioned earlier that the can coatings used for the Mug Beer Can was based on a failed technology. I would like to explain this further. As you can see on Asahi's website, we discovered from our failure that bubbles can be produced by creating crater-shaped paint. We have been able to utilize technology that we have gained from our failures.

In this way, we would like to see our technology platform play an active role in various aspects, including in places other than Asahi.

Sorry, I'm a little off topic of your question.

Q.5: Regarding your future plans for CNT dispersions for lithium-ion batteries, how much of the JPY10 billion in 2023 do you see coming from the expansion of your current customers? Also, what amount will you invest by 2023? What are the advantages of this material compared to existing materials? How much do you need to reduce the unit price?

A.5 (Okaichi) : I would like to respond to your question.

The first question is regarding sales. As for your question of how much of the JPY10 billion target for 2023 can be expected through the expansion of existing customers, as mentioned in the title of page 6, it has already been adopted by a major customer, and the figure accounts for 60% to 70% of the JPY10 billion target. As for the rest, we are already working on the joint development in parallel, so I hope you can understand that we place expectations on that area.

In the same vein, the investment amount is written in the lower left corner as JPY10 billion by 2026. I think we should consider the amount by 2023 in parallel with the progress of sales, so I think the figure will be linked to sales.

As Takashima explained at the beginning, carbon black was conventionally used as a conductive agent for the cathode material of batteries, but now CNTs are being widely used to extend the cruising range of automobiles and for safety reasons. In addition, the dispersing technology of CNTs is at a few or tens of levels higher than that of conventional carbon black.

We have made full use of our various dispersion technologies for pigments and printing inks, which we have cultivated over the years, and this is where we are highly valued. This means that the amount of conductive agent added is greatly reduced. By doing so, the battery capacity is further improved, which contributes to extending the cruising range.

Also, as shown in the lower left corner, although it is a little different from the technical side, we are able to supply the same products in Japan, China, Europe, and the US, which are the world's 4 major automobile production bases. We are aware that this area is also very much appreciated by our customers.

As for your question about the unit price, we would like to refrain from disclosing it here since we have various contracts with our customers. That's all.

Q.6: I would like to ask you about the status of sales expansion of environmentally friendly products overseas, especially biomass inks, if there is any demand for them.

A.6 (Yanagi) : Thank you for your question.

In Japan, we are developing biomass inks for lamination with the name of LP BIO, whose sales have almost doubled compared to the previous fiscal year.

As for your question about overseas expansion, at present, the market is just starting up, and we are currently working on PR activities targeting various global brand owner companies.

In terms of overseas achievements of environmentally friendly products, including water-based gravure, we are at the stage where we have started to achieve results in East Asia. Next year and after next, we will be able to achieve results from biomass. In terms of the environmental responsiveness of packaging, we are currently conducting marketing activities to double our overseas sales by developing water-based packaging, paper-based packaging, and monomaterial packaging. That's all.

Q.7: Judging from the current situation, is the impact of the price hike in raw materials likely to be greater than the Company's plan? Please explain which materials are continuing to going up or plummeting in price.

First Half of FY2021 Summary of Consolidated Business Performance					TOYOINKSC For a Vibrant World	
(Unit: 1 billion yen)						
	1H, FY2019	1H, FY2020	1H, FY2021	Increase/ decrease (%)	Initial full year targets for FY2021	Revised full year targets for FY2021
Net sales	139.4	123.3	139.4	13.0	270.0	280.0
Operating profit	6.1	5.5	7.2	30.3	14.0	14.5
Ordinary profit	6.3	4.9	8.7	75.6	14.0	15.0
Profit attributable to owners of parent	2.8	2.6	6.3	138.8	7.5	8.5
Operating margin	4.4%	4.5%	5.2%	0.7points	5.2%	5.2%
Overseas sales ratio	46.0%	44.3%	49.3%	5.0points	47.0%	

Assumed indexes for targets				
		2021 projections	1H, 2021 avg.	1H, 2020 avg.
Exchange rate	1 USD	¥105	¥108.5	¥108.2
	1 EUR	¥125	¥130.5	¥119.4
	1 RMB	¥15	¥16.8	¥15.3

		2021 projections	1H, 2021 avg.	1H, 2020 avg.
Raw material	Naphtha(/KL)	¥40,000	¥43,100	¥35,000
	Rosin(/t)	\$1,800	\$2,727	\$1,454

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A.7 (Takashima) : Thank you for your question. As for the question of whether or not it is greater than the Company's plan, on page 1 of the slide, under the overall consolidated results, you can see the prices we assumed when we prepared the budget.

The assumption for the full year of FY2021 is JPY40,000 per kiloliter of naphtha. For Rosin, we assumed that it would be USD1,800. However, in H1 of the year, naphtha is JPY43,100, and rosin is USD2,727. The current price has already reached about JPY52,000, and there is talk of JPY55,000 for H2 of the fiscal year. In terms of your question, the increase is considerably larger than the Company's plan.

What is affected by it includes, as you can see on page 4, raw materials derived from naphtha, organic solvents, resin raw materials, especially related to acrylic ester, and pigment raw materials. Prices of those materials have risen not only due to the soaring price of naphtha, but also due to various complex factors, such as accidents at raw material manufacturers, shutdowns, and regular repairs, as I explained earlier. The products that are affected by these factors are shown on the right.

As for H2 of the question, 1 of the factors is the global economic recovery. Despite the negative factors of the expansion of new COVID-19 variants right now, I think it is said that the overall global economic situation is good. Therefore, the supply and demand situation will continue to be tight rather than getting worse.

For raw materials, there is no particular reason for prices to fall at this point, and we should take a hard look at the situation and respond to it as a management issue. That's all.



Forecast of Raw Material Prices and Purchasing Policy

Background behind the increase of raw material prices and forecast

- Rapidly increasing demand for various raw materials due to the economic recovery
- Suspended operations and restricted supply caused by accidents etc. at raw material manufacturers
- Increased costs for actions to address the continuing enhancement of global environmental regulations

➢ The impact of the price surge is expected to increase from 2H onward

Influence on operating profit (full-year, YoY)

Impact of the raw materials price surge	Price revision forecast	
-6.8 billion yen	3.9 billion yen	
<ul style="list-style-type: none"> ■ Raw materials derived from naphtha ■ Organic solvents ■ Resin raw materials ■ Pigment raw materials, etc. 	<ul style="list-style-type: none"> ■ Adhesives ■ Coatings/resins ■ UV inks ■ Gravure inks ■ Flexo inks 	<ul style="list-style-type: none"> ■ Pigments ■ Plastic colorants ■ Offset inks ■ Screen inks <li style="text-align: right;">Other

Purchasing policy

Considering securing necessary quantities as a premise, improve SCM and review raw materials

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Q.8: What is the current market size for millimeter wave radar and what will it be in 2023? What is your plan for the market share around 2023? What is the target sales scale of your company?

A.8 (Okaichi) : Thank you for your question.

As you know, millimeter-wave radar is 1 of the most important components that contribute to automated driving by emitting millimeter-waves at greater distances and with greater accuracy.

The current market size is still small. The parts are not that large, and a car uses 100 grams to 200 grams of material. The current market size is about JPY3 billion to JPY4 billion. We estimate that the market will be about JPY10 billion in 2023 and JPY20 billion in 2030, and we are moving forward with development.

Our target for 2023 is still very small at around JPY100 million to JPY200 million. We are now in the process of development with a target of JPY3 billion to JPY5 billion by 2030, and we are getting very good responses from our customers. That's all.

Q.9: The operating profit of in the Colorants and Functional Materials was revised upward significantly from JPY3 billion to JPY6 billion. Is the main factor the increase in the volume of materials for displays? I would like to know more about the factors behind the increase in profit and the outlook for H2.

A.9 (Okaichi) : Thank you for your question.

As you mentioned in your question, materials for displays certainly account for a very large part of the Colorants and Functional Materials business.

In addition to that, the plastic colorant business also contributed to a significant increase in operating profit. We have been struggling in this business for several years. Especially with regard to overseas bases, we have been expanding overseas at a rapid pace since the latter half of the 1990s and 2000, but we have not been able to balance the investment and recovery in some areas.

In that context, as the President explained at the beginning of this report, we have spent the past year or 2 consolidating and reorganizing our bases. The effects of those efforts have been appearing, and our investments in personnel and materials are bearing fruits. As a result, we expect that H2 of this year will see a further recovery in Europe, the US, China, and Southeast Asia, although it may be a little tougher in Southeast Asia, than in Japan. We have raised these figures in the hope that the recovery will continue. That's all.

【END】