

Financial Results Briefing for the First Half of Fiscal Year Ending December 31, 2022

Question & Answer

- Date/time: Aug. 19, 2022 10:00am – 11:00am (Japan time)
- Speakers:
 - Satoru Takashima: President and Representative Director, and Group CEO
 - Hiroyuki Hamada : Managing Director, General Manager of Corporate Planning Division
 - Takeshi Arimura: Executive Officer, Group Financial Director
 - 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.
- Presentation Material :
https://schr.toyoinkgroup.com/en/ir/archives/pdflib/2022/frp_fy2022_q2_en.pdf

TRANSLATION:

This is a transcript of Financial Results Briefing for the First Half of Fiscal Year Ending December 2022, Question & Answer session, held on Aug. 19, 2022. 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 Aug 19, 2022. 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 : Regarding the Colorants and Functional Materials business, I have a question regarding page six of the material. I understand that display materials have been affected by the production cutback of LCD panels, but how is the progress of your company's strategy to increase market share? In addition, I would like to know about the expansion of LiB dispersion in Japan and China, and the current situation after second phase of construction in Europe and the United States. Thank you.

A.1 (Okaichi) : As you know, the LCD panel industry has been experiencing a decline in demand due to the lockdown in China, and panel prices have been falling since last year. From our company's Q2 to Q3 this year, panel manufacturing companies have been adjusting their inventories. We understand that they are reducing their production approximately by 25% to 30%.

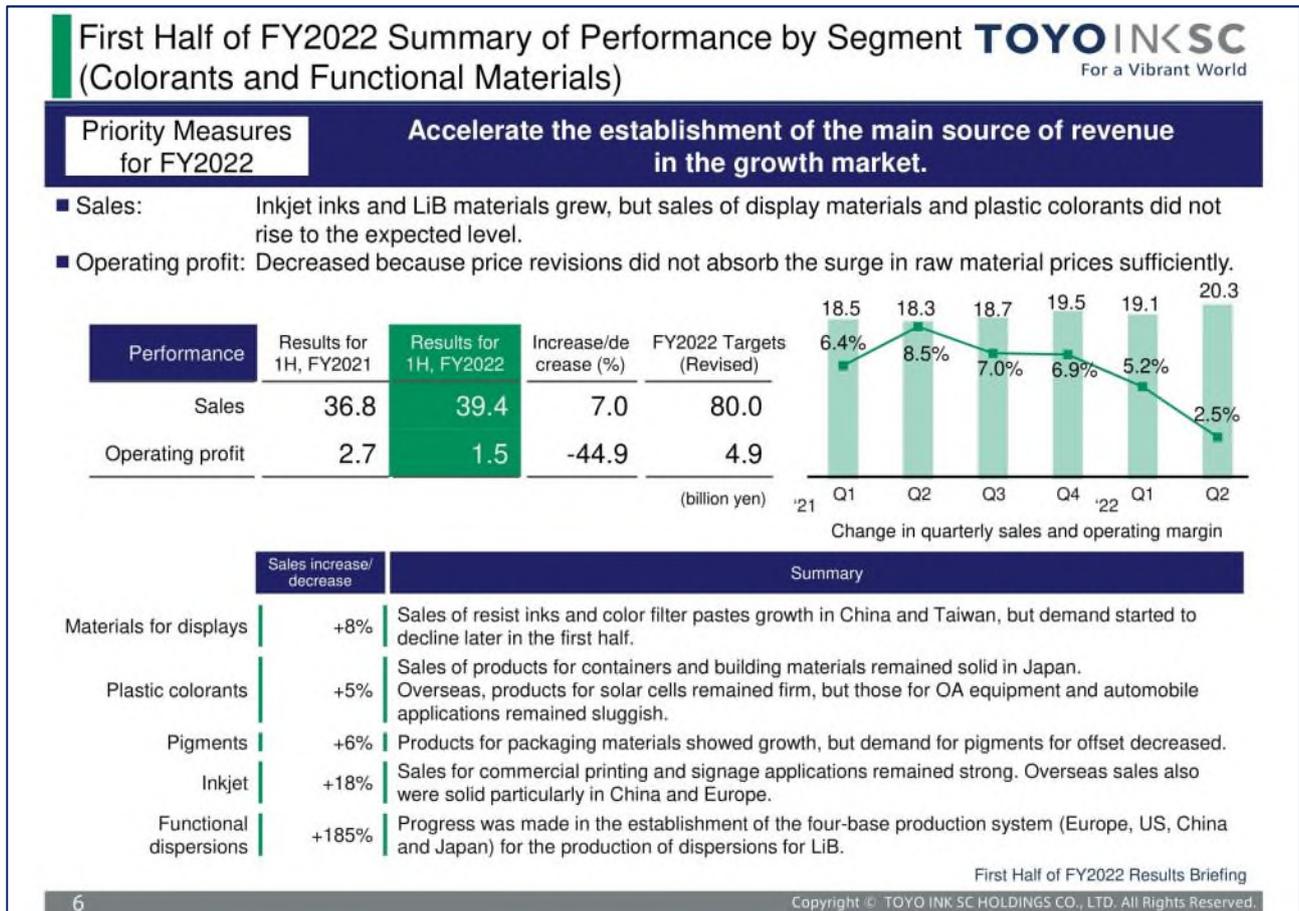
As President Takashima explained earlier, we believe that we now have time for evaluation on our customer's production lines in order to switch to our products, and we are aggressively promoting mass production tests for new adoption. In particular, we have a very high market share in the red products, and we are working to further evaluate the green and blue products in order to increase our market share from Q4 onward.

As for your second question, materials for lithium-ion batteries, TOYOCOLOR has been focusing on this area in order to establish a Japan-China-Europe-US system, and I would like to report on the status of investment and construction as you asked.

In Japan, the facility expansion is almost finished, and mass production will start in H2 2023. This is a business that takes quite a long time for customer approval, hence this time schedule. Then, we are now looking at expanding our facilities to subsequent locations. In China, we are now planning to expand our facilities in the same way, aiming for mass production in 2024.

In the U.S., we have been investing since last year, and the second phase of construction is scheduled to be completed by the end of September this year, with mass production to follow in

sequence. In Europe, mass production has started and shipments have begun.



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Q.2 : Regarding the pigment surcharge system on page 12 of the material. The surcharge system has been introduced this month, but will it be globally standardized? Also, while it currently covers energy, other companies may also cover transportation costs. I would like to know if there is any possibility of expanding the scope of application in your company in the future.

A.2 (Okaichi) : In terms of surcharges, we have done the first and second rounds of requests for price revisions for pigments. We did not include a surcharge on energy for those revisions, but we have announced a third request with a surcharge on energy related to the raw materials. We will be asking for this on a global basis, both domestically and internationally.

As for transportation costs, the area, distance, and mode of transportation vary from base to base. We will respond to each of these issues by making appropriate judgments and discussing them with the customer.

Measures for the Second Half of FY2022 by Segment (Colorants & Functional Materials)



Priority Measures for FY2022

Accelerate the establishment of the main source of revenue in the growth market.

Short-term measures

(2H Target) 1.3 billion yen (Impact of raw material price surge: 2H, 2022 -1.6 billion yen / 2022 -3.4 billion yen)

Implementation of price revisions

- Pigments: Third revision, and introduce a new surcharge system (July 2022).
- Plastic colorants: Implement additional revisions to prices.
- Inkjet inks: Implement revisions to prices.

Priority Measures

Digital

Materials for displays

Increase market shares in China and Taiwan.

- Strengthen sales systems by leveraging local partners
- Promote mass production testing at customers
- Acquire new customers for pastes
- Develop environmentally friendly products such as low-temperature curing

EV Market

CNT dispersions for LiB

Hungary begins full-scale operations. Strengthen sales and development activities in four regions where the Company has production facilities.

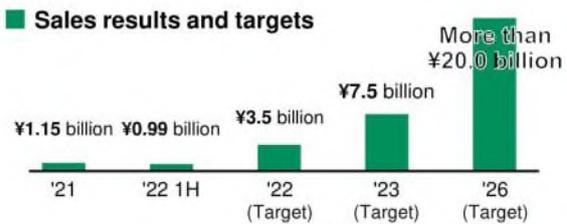
Environment / Recycling

Plastic colorants

- Increase the production of products for solar cells in China and India
- Promote biodegradable and recyclable products

Sales results and targets

More than ¥20.0 billion



Year	Sales (Billion Yen)
'21	¥1.15 billion
'22 1H	¥0.99 billion
'22 (Target)	¥3.5 billion
'23 (Target)	¥7.5 billion
'26 (Target)	More than ¥20.0 billion

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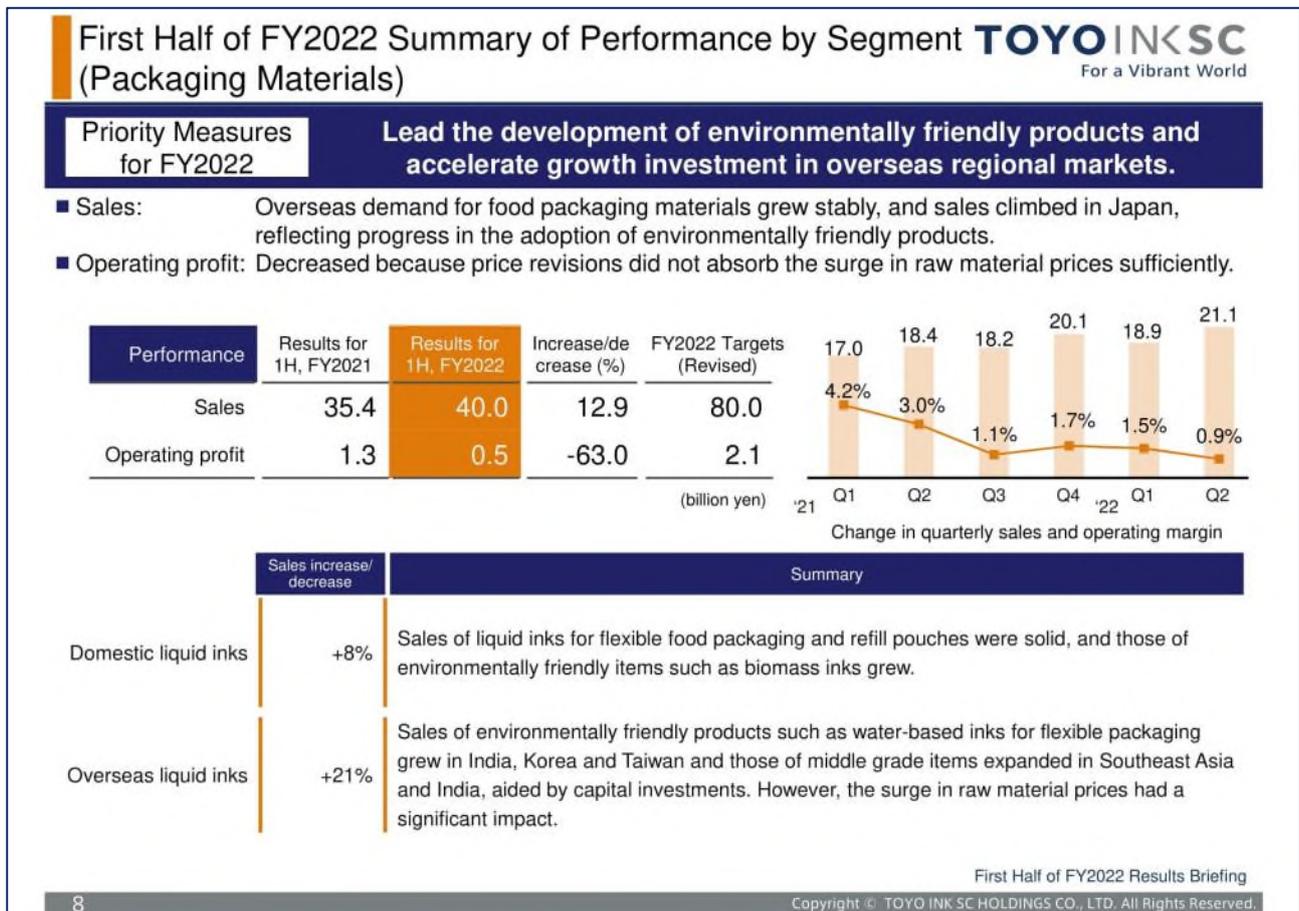
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Q.3 : Regarding the Packaging Materials related business, I have a question about page eight of the material. I would like to ask you about environmentally friendly products overseas, mainly with regard to liquid inks. Aside from water-based inks, there has not been much demand overseas for biomass inks in the past, and I am wondering if there has been any change in this regard. Thank you.

A.3 (Yanagi) : As mentioned in your question, there has been no change in the situation where the need for biomass inks overseas has not been very exciting. In terms of our overseas environmentally friendly products, we are currently developing non-toluene and non-MEK products in response to solvent regulations and this perspective.



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Q.4 : Regarding Polymers and Coatings related business on page 13 of the material, I have a question about H2 measures. In the lower right-hand corner of the page, it is stated that overseas production facilities, which have already been expanded during the SIC-II period, are at full capacity, and capital investment and alliances will be considered during the SIC-III period.

Does this refer to the various adhesive bases that have just been expanded? I believe you have previously told us that the box for global expansion is now in place and that capital investment will settle down for the time being, so please let us know if the situation is likely to change. I would also like to hear about any progress in the development of semiconductor-related materials.

A.4 (Machida) : As shown in the materials, the bases that made capital investments in SIC-II of the current medium-term plan are in India, the US, China, and South Korea, but the bases that will be considered for expansion in SIC-III are in India, the US, and China.

These bases are making steady progress in sales expansion and are certain to fall short of production capacity in the next mid-term plan. Therefore, even though we have not yet decided whether we will invest in facilities during the SIC-III period, form alliances with other companies, or outsource production, we will consider production capacity enhancement either way.

As for your other question about semiconductors, I can't go into details because of the confidentiality agreement with the customer, but there are opportunities in the future with the trend toward 3D mountings or higher speeds of semiconductors. We are currently developing new polymers and sheets to meet these needs, using our specialty polymers, such as noise suppression, low dielectric constant, and stress relaxation.

Measures for the Second Half of FY2022 by Segment (Polymers and Coatings)



For a Vibrant World

Priority Measures for FY2022

Increase leading global product lines and reform earnings structure

Short-term measures

(2H Target) 3.3 billion yen

(Impact of raw material price surge: 2H, 2022 -3.1 billion yen / 2022 -7.2 billion yen)

Implementation of price revisions

Aim to reach agreement by the end of the third quarter.

- Pressure sensitive adhesives: Fourth revision (June 2022)
- laminating adhesives: Third revision (June 2022)
- Can coatings, resins, hot melts, etc.: Implement additional revisions
- ✓ Keep track of raw materials and expenses on a product by product basis and ensure that they are reflected in price revisions as necessary

Priority Measures

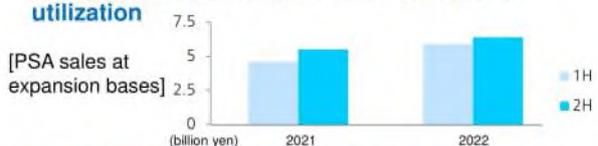
Sales expansion
→Shift to high value-added products

- Concentrate resources on functional products and environmentally friendly products, and development themes turn a profit intensively in the short term
 - Functional films for China
 - Functional films and Hard coatings for foldable devices
 - Urethane pressure sensitive adhesives for optics
 - Oil-resistant coating agent for paper
 - Functional Can coatings etc.
- Development leading global product lines

Functional films for Beyond-5G, Semiconductor-related parts and materials, Adhesives for structures, etc.

Global expansion

- Expedite the recovery of investments made for the expansion of production facilities in China, India, US and Korea by increasing capacity utilization



[PSA sales at expansion bases] (billion yen)

- Formulate the next term expansion plan

Overseas production facilities, which were enhanced under SIC-II, are expected to reach their full capacity.

 - ▶ Consider capital investments and alliances for SIC-III. (Priority areas: India, US and China)

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Q.5 : Regarding Printing and Information related business on page 15 of the materials, I have a question about H2 measures. You mentioned domestic structural reform projects, but I would also like to know about trends, such as the consolidation of offset ink production bases overseas.

A.5 (Yanagi) : As President Takashima explained earlier, the commercial printing accounts for 90% of the domestic printing and information related business. Overseas, on the other hand, commercial printing accounts for about half of the business, and there are many other applications for packaging. Therefore, market structures are completely different between Japan and overseas. In addition, both sales and operating profit are increasing in overseas markets, which is completely different from the situation in Japan. The structural reform project that we are currently undertaking in Japan is limited to the domestic market, and we are currently studying the possibility of further strengthening our overseas production bases, rather than consolidating them as you have asked.

Measures for the Second Half of FY2022 by Segment (Printing and Information)



For a Vibrant World

Priority Measures for FY2022

Implementation of reforms to a profitable business structure conforming to market environment

Short-term measures

(2H Target) 2.6 billion yen

(Impact of raw material price surge: 2H, 2022 -2.3 billion yen / 2022 -4.8 billion yen)

Implementation of price revisions

- Japan: In the process of implementing the second price revision
First (August 2021) ⇒ Second (February 2022)
- Overseas: Implement price revisions steadily to reflect cost increases.

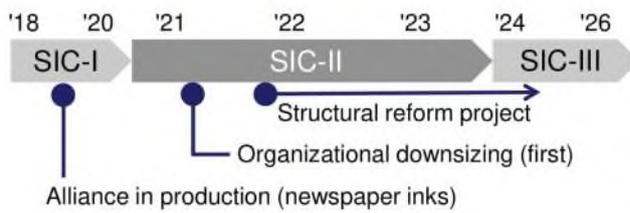
Priority Measures

- **Structural reforms: Integrate a total of six domestic consolidated sales subsidiaries (January 2023 and beyond)**

- ✓ Optimize sales systems through integration and consolidation.
 - ✓ Shift human resources to growth areas.
- **Accelerate growth of environmentally friendly products**
 - Expand functional inks for packaging materials**

UV-curable inks

 - Make a shift to environmentally friendly products
Change into biomass-based inks with a resin developed in-house
Contribute to energy conservation through LED-UV compatible inks
 - Promotion of sales in packaging material markets in Japan and Europe
 - Metal decorating inks**
 - Accelerate overseas development by taking advantage of NO.1 market share in Japan.

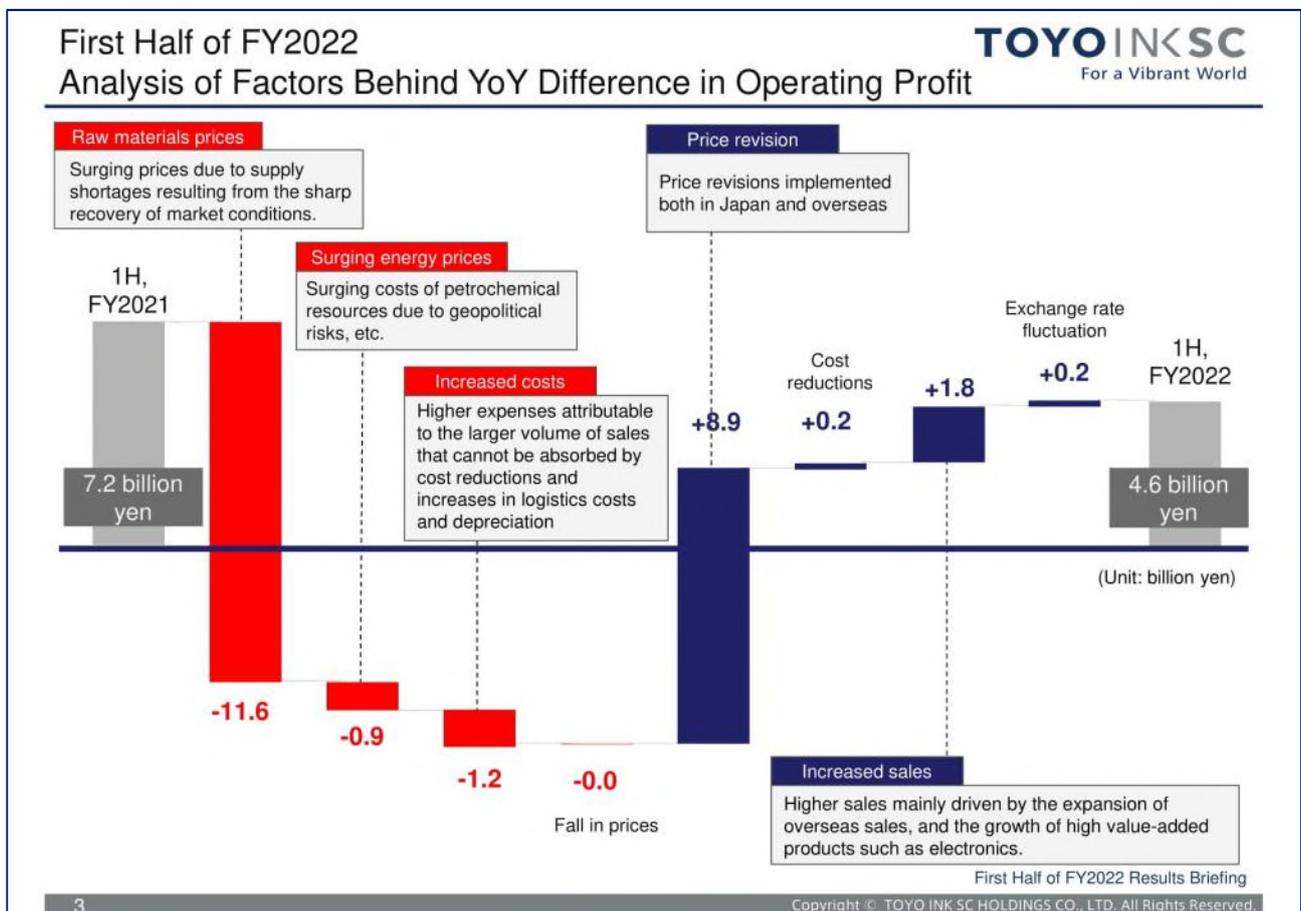


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Q.6 : I would like to ask about the effects of price revisions in each segment in H1 and the impact of the sharp rise in raw material prices. Since H2 is already included in the material, could you please tell us for H1 and for each segment?

A.6 (Arimura) : The slide shows a total of JPY8.9 billion as the effects of price revisions. Of this amount, about JPY900 million is related to Colorants and Functional Materials related business, JPY3.5 billion to Polymer and Coatings related business, JPY2.5 billion to Packaging Materials related business, and JPY2 billion to Printing and Information related business. This includes both domestic and international.

There are some common raw materials, so I would like to give you a rough idea of the impact of raw materials price hikes, but Colorants and Functional Materials related business were affected by about JPY1.8 billion. We also analyzed that the JPY4.1 billion for Polymer and Coatings related business, JPY3.2 billion for Packaging Materials related business, and JPY2.5 billion for Printing and Information related business, which would add up to JPY11.6 billion.



Q.7 : In the section on Colorants and Functional Materials related business on page 12 in the material, you mention the promotion of price revision; however, in terms of H2 targets and the impact of raw material price hikes, only this segment is not covered. Can you explain some background on this? Is it correct to say that the amount of this lost revenue will be contributed in H1 of next year, or something like that? I often hear that the higher the value-added product is, the more difficult it is to revise the price. Is it correct? The point is that if the product is high value-added and absolutely necessary, the price revisions will be approved, but if it is something that is not necessary to some extent, I hear people say they don't need it if the price is to be raised. Am I correct in understanding that there is no such movement?

A.7 (Okaichi) : Of course, during the negotiations, discussions are always held to examine when the current raw material price began to increase at each round of negotiations, but we tend to be late in revising our prices. We hope you understand that there is a time lag between the raw material price hike and the customer's approval of the price revisions. We will of course negotiate for the delay. As for "the higher the value-added product is, the more difficult it is to revise the price," I don't know if I can answer the question based only on the situation of TOYOCOLOR CO., LTD., but I don't really feel that perception. Of course, the basic premise is whether the world needs the product or not, and it depends on whether high value-added means high value-added for customers or for us, the Toyo Ink Group. In terms of high value-added for us, of course we recognize that we are contributing to society when our products are used by our customers; therefore, we will pursue our price revision without hesitation.

Measures for the Second Half of FY2022 by Segment (Colorants & Functional Materials)



Priority Measures for FY2022

Accelerate the establishment of the main source of revenue in the growth market.

Short-term measures

Implementation of price revisions

(2H Target) 1.3 billion yen (Impact of raw material price surge: 2H, 2022 -1.6 billion yen / 2022 -3.4 billion yen)

- Pigments: Third revision, and introduce a new surcharge system (July 2022).
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Priority Measures

Digital Materials for displays

Increase market shares in China and Taiwan.

- Strengthen sales systems by leveraging local partners
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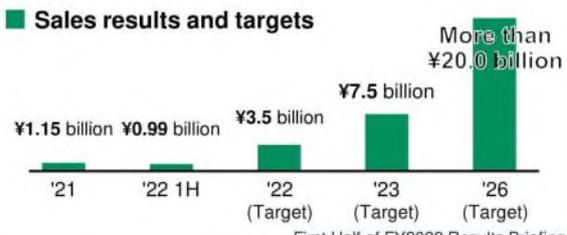
EV Market CNT dispersions for LiB

Hungary begins full-scale operations. Strengthen sales and development activities in four regions where the Company has production facilities.

Environment / Recycling Plastic colorants

- Increase the production of products for solar cells in China and India
- Promote biodegradable and recyclable products

Sales results and targets



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Q.8 : This is the question about the LiB dispersion business of the Colorants and Functional Materials related business. The sales for H1 of this fiscal year were JPY9.9 billion, and the target figure has not been changed from the figure at the beginning of the fiscal year. Do you consider this JPY9.9 billion is aligned with your plan? Also, I don't think it will have much impact because of EVs, but please let me confirm whether there has been any impact from automobile production reductions. In terms of monetization, is it still basically below the surface this fiscal year, and will it start contributing to earnings in FY2023 or so? And is the reason for this because of the heavy depreciation load?

A.8 (Okaichi) : First of all, regarding the first half of the fiscal year, we are progressing as planned. Although we are on schedule, we are still affected by the global automobile production reductions due to the shortage of semiconductors. However, as for the annual target, all automaker are assuming that they will make a recovery in H2, so we have not made any major changes to our annual target of JPY3.5 billion.

We expect the contribution to earnings to begin in the second half of FY2023. There are two main reasons. One is the burden of depreciation, and the other is the personnel cost required for the start-up phase, such as follow-up work at overseas bases from Japan and at the start of the project. We believe that we will be able to contribute to profits in the second half of next year, when we will be able to produce and ship the expected volume of products.

Q.9: Regarding H2 for the Colorants and Functional Materials related business, the President mentioned earlier that you are strengthening your sales structure for display materials by utilizing local partners, and that you are also looking into local production. I believe that other Japanese manufacturers of color resists are also forming joint ventures, but in what form is your company considering this? At this stage of your relationship with your partner, what stage would you say you are in?

A.9 (Okaichi) : Since we have various agreements with partner, I cannot go into details. However, it meant that we would like to establish a system in which we make products locally using our materials and supply them to our customers.

As you just pointed out, there are various cases where our competitors are locally investing their own capital, while others have formed joint ventures. One thing that makes us different from them is that we have what I always call a three-tiered business model, from pigments to intermediates to finished products. We are in the process of exploring where and how we can establish a system of local production.

We recognize that the time is coming soon when made-in-China will become important for display materials in China. In this sense, let me say that we are working with the expectation of supplying resist ink in a form that can be called "Made in China."

Measures for the Second Half of FY2022 by Segment
(Colorants & Functional Materials)

Priority Measures
for FY2022

Accelerate the establishment of the main source of revenue
in the growth market.

Short-term measures

(2H Target) 1.3 billion yen (Impact of raw material price surge: 2H, 2022 -1.6 billion yen / 2022 -3.4 billion yen)

Implementation
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revisions

- Pigments: Third revision, and introduce a new surcharge system (July 2022).
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CNT dispersions for LiB

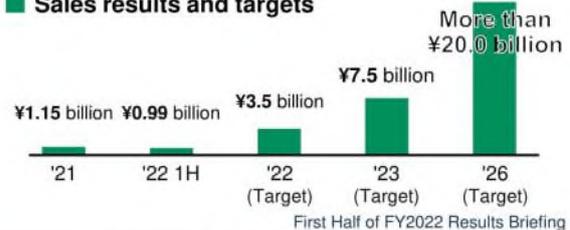
Hungary begins full-scale operations.
Strengthen sales and development activities in
four regions where the Company has production
facilities.

Environment / Recycling

Plastic colorants

- Increase the production of products for solar cells in China and India
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Sales results and targets



【END】