JSR Corporation

Summary of conference call on February 6, 2023 to explain Financial Results for Q3 FY22

[Note] Please refer to data available at:

https://ssl4.eir-parts.net/doc/4185/ir_material_for_fiscal_ym4/130564/00.pdf

P3 Overall Summary: Key Takeaways

Key takeaways from our company through the Financial Results.

- Long-term secular growth drivers intact.
- For SEMI, investing heavily to support customer roadmaps for miniaturization and expanding market shares at the leading-edge.
- Rationalizing cost base while preserving strategic investments including M&A and critical R&D.
- Focusing further on operational excellence and execution including ramping up KBI Biopharma (KBI)'s new facility LS.
- Establishing foundation for V-shaped earnings recovery and growth during demand adjustments at customers.

P4 Overall Summary: Each Business and Full-Year Outlook

(Business Environment)

SEMI: Demand environment deteriorated sharply in November 2022. Customers remain cautious amid inventory adjustments. We'll continue to make strategic investments and promote cost structure and efficiency in preparation for when demand recovers.

DISP: A major operational adjustment of customers occurred in H1 FY22 due to a significant drop in demand, but customers' utilization rate has been on a recovery path since September 2022. The cost structure has been optimized and the share of new materials in China is expanding.

LS: The demand environment is strong. Revenue of antigen test kits from the Medical & Biological Laboratories Co., Ltd. (MBL) has seen strong growth. We're focusing on ramping up KBI's new commercial production capacity. We expect strong demand momentum continued in FY23, with expectation of improved profits due to profitability growth of KBI business and CRO expansion.

(Projection for FY22)

This time, we revised our revenue and OP projection downward. This is due to SEMI's market deterioration starting in Q3 FY22 and continued strategic investment.

P5 Overall Summary: Core OP

(Q3YtD) Revenue increased and OP decreased YoY.

DS: OP decreased by 2.1 billion yen, excluding a special factor, Inpria’s valuation gain in the previous fiscal year. Revenue and OP of SEMI increased with expansion of EUV sales and market shares in advanced area. At the same time, we’re increasing strategic investments. Revenue and OP of DISP decreased due to lower panel prices. There was recovery in Q3 FY22. Revenue and OP of EC decreased.

LS: Revenue and OP increased with expanded sales of MBL’s antigen test kits. At the new KBI’s facility, the 1st batch of commercial production was completed in January.

PLA: Revenue increased and OP decreased due to delay in demand recovery in auto market.

(Projection for FY22)

- We lowered the full-year projection for core OP to 34 billion yen from 55 billion yen.

DS: For SEMI, there has been slowdown in customer industry and we expect to see a sharp slowdown in demand from Q3 to Q4 FY22. Orders are expected to decline as customers adjust inventories. We also include conservative factors in this revision. Also, same as for other DS businesses, raw material and logistics costs, including the impact of the weak yen, have soared. Fixed costs have increased due to accounting factors such as the difference in cleans inventories. The market recovery of DISP and EC was delayed from the previous projection.

LS: No change in core OP outlook.

PLA: Slow recovery in the auto market. Also, high fuel prices have had an impact since H2 FY22.

P6 Financial Summary

(SEMI)

- Demand has deteriorated since the latter half of Q3 FY22 for almost all industries, including Memory and Logic, with the exception of some automotive applications.
- We factored a significant decline in revenue, including conservative factors, for Q4 FY22.
- EUV is expected to expand steadily in the 3nm process, and to expand its market share in the below 3nm and beyond, which will be launched in the next fiscal year. EUV’s adoption in advanced DRAM fields is also progressing.

(DISP)

- Revenue and OP increased QoQ due to recovery of panel market in Q3 FY22. Panel makers continued to recover after bottoming out in September 2022, and we expect a gradual recovery to continue into next fiscal year.
- Increased share of new materials is expected to contribute next fiscal year.

(EC)

・ It was impacted by production adjustments in the smartphone industry.

(LS)

・ Significant revenue and OP growth were achieved QoQ due to strong sales of MBL's antigen test kits.

・ KBI's first batch of commercial production was completed in January 2023. Additional production batches will continue as we increase the pace of production through Q4 FY22.

*The operational status of the new KBI's facility and acquisition in the CRO field will be mentioned later.

(PLA)

・ Both revenue and OP increased QoQ due to expansion of sales volume and improved trading spread.

P7 Result – YoY, QoQ

(YoY) Revenue increased and OP decreased

DS: Revenue increased and OP decreased. In FY21, we recorded a valuation gain of 7.5 billion yen from the acquisition of Inpria. OP decreased even excluding this factor. Revenue in SEMI increased but decreased for DISP and EC. With increase in SEMI's strategic investment, overall segment's OP decreased.

LS: Revenue and OP increased. KBI's upfront investment expanded, but revenue increased due to sales growth in each sub-segment. In particular, OP increased due to strong sales of MBL's antigen test kits.

PLA: Revenue increased, but OP declined due to a deterioration in trading spreads in H1 FY22 impacted by rising raw materials prices.

(QoQ) Revenue and OP increased.

DS: Revenue and OP decreased due to a rebound from excessive sales in Q2 FY22, which included concentrated shipments of SEMI, and lower demand starting from the latter half of Q3 FY22. DISP's revenue and OP increased.

LS: Revenue and OP increased due to strong sales of MBL's antigen test kits.

PLA: Revenue and OP increased due to improved sales volume and trading spreads.

*From this time, we included YoY comparisons on a Constant Exchange Rate (CER), to exclude the impact of foreign exchange rates.

P8 Segment Data: Digital Solutions Business

(YoY) Revenue increased and OP decreased.

・ Revenue of SEMI increased. Strong growth including EUV, resulted around + 10% excluding foreign exchange impact. DISP experienced lower revenue and OP due to decline in sales volume impacted by customer operations. EC also suffered a decline in revenue due to the sluggish smartphone market.

- OP in the overall DS business declined. Excluding the factor of Inpria's valuation gain, SEMI saw increase in both revenue and profits. Foreign exchange with weak yen worked positively. Cost increased due to MOR-related costs with the integration of Inpria, as well as upfront investment in strengthening sales functions in Asia. In the second column of Others, accounting factors and one-time expenses are separately stated.
- Soaring prices such as raw material prices depressed profits.
- We are to optimize increase in back-office related costs in mid-term perspective.

(QoQ) Revenue and OP decreased.

- Revenue of SEMI declined. For DISP, on the other hand, revenue increased by 20%. Operations of panel makers are on the recovery trend.
- Core OP was down almost entirely due to volume differences.

P 10 Segment Data: Life Sciences Business

(YoY) Revenue and OP increased.

- Significant revenue growth in each sub-segment.
- Revenue of IVD increased significantly. With revenue growth in MBL's antigen test kits, revenue of MBL's IVD saw significant growth.

(QoQ) Revenue and OP increased.

- Revenue increased in each sub-segment.
- In particular, sales of MBL's antigen test kits increased significantly, contributing to higher profits.
- For CDMO, revenue increased, but profit declined slightly due to inventory disposal.

P 11 Segment Data : Plastics Business

(YoY)Revenue increased and OP decreased.

- OP decreased due to decline of sales volume and accounting factors such as inventory effects. Despite the rise in raw material prices, there has been no significant impact on trading spreads with progressing sales price revisions.

(QoQ)Revenue and OP increased.

- While the auto market is on a recovery track, revenue increased. Sales prices were also revised and the trading spread expanded.

P 12 Projections for FY22 <Revised>

・ We revised our projection with revenue down to 411 billion yen and core OP down to 34 billion yen this time. Cumulative core OP for Q3 FY22 was 31.5 billion yen, and we factored in a significant decline in core OP to 2.5 billion yen in Q4 FY22 from 14.6 billion yen in Q3 FY22.

DS: We expect revenue and OP to decline in each sub-segment due to the deteriorating demand environment.

For SEMI, we factored a sharp slowdown, in H2 FY22. The Q4 FY22 outlook includes conservative factors, which will be mentioned later.

For DISP and EC, we reflected the slower market recovery compared to the previous projection. In addition to these sales declines, rising raw materials, logistics and utility costs, including inflation and the impact of the weak yen, have been evident since the previous revision and have been factored into lower profits this time. To these impacts, we will implement measures including pricing.

In addition, fixed costs for accounting factors in SEMI will be incurred.

LS: We expect revenue to slightly increase, but profit to be unchanged from the previous revision.

PLA: Revenue and profits are also revised downward. In addition to the slow recovery in the auto market, the markets for home appliances, electronics, etc. are also weak. The impact of rising utility costs is also factored in.

P 13 Business Environment - Outlook on Q4 & FY23

・ In Q4 FY22, we expect to see impacts from a slowdown of the SEMI market. However, Q4 FY22 includes DISP’s seasonal factor with fewer operation days, major repairs of KBI’s Colorado facility, regular maintenance/inventory factor, and other costs increase at the end of FY, in addition to SEMI‘s conservative estimates. We’d like to emphasize that Q4 FY22 outlook will not continue in FY 23.

(SEMI)

・ For Q4 FY22, we have factored in a further 20% decline in revenue from Q3 FY22, which was affected by a slowdown in demand. For Q4 FY22, we made conservative estimates, including a factor of customer inventory adjustment. In terms of revenue, approx. 3 billion yen is for the negative impact of temporary factors and conservative estimates in Q4 FY22.

・ In FY 23, we expect to face adjustments for the time being, but the market share of EUV and other products is expected to expand, leading to a V-shaped recovery.

(DISP)

・ We expect to see some impacts from customers’ fewer operation days in Q4 FY22, but the recovery trend of customers' operations should continue. This trend will continue into FY 23 and revenue and OP will expand through FY 23.

・ Increase in market shares of new materials will also contribute positively.

(EC)

・ While the smartphone market will remain weak, increase in market shares will have a positive impact.

・ In this environment, we will seek to increase market shares while further focusing on cost reduction to improve profitability.

(LS)

・ In Q4 FY22, revenue and OP are expected to decline QoQ due to the timing of shipments of MBL's antigen test kits. MBL's antigen test kits are expected to continue at a reasonable scale in the next fiscal year.

・ KBI plans a major repair of the Colorado facility in Q4 FY22. Production will be posed for the period, which lead to sales decrease. Meanwhile, the operation of the new facility in North Carolina will ramp up. KBI's profitability in Q4 FY22 is expected to improve QoQ. It will be the biggest revenue growth driver for FY 23. We'll reform KBI's cost structure to improve profitability.

(PLA)

・ While the recovery in the auto market will continue, we expect revenue to decline QoQ in Q4 FY22 due to a weak environment for non-auto appliances and other products.

・ OP is expected to decline due in part to special factors such as regular maintenance and inventory effects related to the maintenance.

・ Revenue and OP are expected to increase in FY23, mainly due to a recovery in the auto market.

(OTH)

・ In FY22, we will control costs by at least 1 billion yen compared to the plan. We plan to keep costs at the same level next fiscal year.

(Overall)

・ Although it is necessary to assess the adjustment phase related to SEMI, there is no change in the mid- to long-term growth.

・ The outlook after adjustment is positive. Other businesses are expected to grow on FY 22 levels.

P14 Market Environment Assumption

・There are the changes in market assumptions related to the revised full-year projection.

(SEMI)

- Initially, we assumed market growth in the high single digits for FY22, but we see the current growth to be almost flat. From Q3 FY22 to Q4 FY22, the market is expected to decline by -10%. We set a conservative market outlook for next fiscal year, although the market will return to grow in H2 FY23.

(DISP)

- The operation rate of panel makers declined rapidly throughout the fiscal year due to deteriorating panel market conditions. As panel inventories were also rationalized recently, customers operation rate is recovering from the bottom of less than 60% in September 2022. The recovery will continue, albeit slowly, in the next fiscal year.

(LS)

- Solid growth will continue.

P 15 DS: Transition of SEMI Fixed Cost

- For SEMI, strategic investments increased in FY22 due to integration of Inpria, expansion of EUV development and manufacturing. We increased investments in the mid-term growth perspective such as strengthening sales and technical support capabilities in Asia.
- For other overhead, back-office cost allocation increased after the transfer of the Elastomer business. Optimization will be promoted in mid-term. We expect effect of -1.5 billion yen in cost restructuring. One-time factor includes accounting factor of inventories, new SAP introduction costs, etc.
- Upfront investment continued to expand for FY23. While we will take in fixed costs associated with consolidation of our Korean sales location, revenue will also be taken in at the same time. We will also optimize the investment and sales structure to further strengthen our sales functions in Asia for better cost efficiency.
- Other expenses include inflation, higher labor costs, higher fuel costs, etc. We will further review our cost structure and increase our flexibility depending on the sales situation in FY 23.

P 16 LS: Production Schedule of KBI's New Facility

- Status of KBI's new facility ramping up in North Carolina. The horizontal axis shows the forecast by quarters. The vertical axis shows the number of production batches at the new facility. A total of three batches were started in Q3 FY22.
- In addition to the production completion of one batch in January 2023, we plan to start double-digit batch production.

- In addition to existing projects, KBI plans to manufacture the next project of the same partner in Q1 FY23. The operation will be ramped up further toward H2 FY 23.
- A line in the chart shows production capacity within the current planned personnel. The main reason why KBI's profitability is so severe is the low level of operation compared to production capacity (= fixed costs incurred). The increase in fixed costs in the next fiscal year will be restrained, and production will be expanded to the capacity where maximum efficiency can be achieved.

P 17 LS: Acquisition of the Indivumed Business

- The purpose is to add a business portfolio in the CRO field and synergy with Crown. It allows us to expand our services into Europe geographically. Final preparations are progressing for closing in April 2023. Acquisition amount is expected to be about 180 million EUR.
- The acquired business is the biobank business, with a focus on oncology. It operates the clinical services business. It has a high level of technology based on unique standard operating procedures to assure unrivaled quality and an extensive medical network with the biobank of approximately 1 million samples.
- There was no impact on earnings for this fiscal year. There are accounting procedures, but profit contributions are expected from next fiscal year. It also plans to generate synergies with Crown early on.

P18 Management Policy

- We identified our vision to create value for all stakeholders through sustainable growth. And to create a resilient organization by responding to environmental change. Through these activities, we aim to increase corporate value over the mid to long term.
- In terms of our business portfolio, we’re highlighting DS (especially SEMI) and LS, and these two businesses will drive top-line growth and ROIC growth. As a target, we identified to achieve greater than our previous peak in core OP.
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P 19 Management Policy：Progress against Strategy

(Business portfolio)

- The transfer of the Elastomer business was completed on April 1, 2022. We enhanced strategic investments in core businesses. Specifically, the Inpria acquisition in the last fiscal year, and this acquisition made this time in the CRO field.

(Business Target)

- We aim to achieve the goal of the outperforming highest profit in FY 24 as a passing point for sustainable growth.

- Strategic investments and DX for further profit expansion continue to be promoted at the same time as strengthening the foundation through cost reductions and other measures to cope with short-term deterioration in demand.

(Capital allocation)

- In terms of capital allocation, we increased dividend last fiscal year and executed share buybacks this fiscal year. Although the capital allocation policy remains unchanged, we focus on improving our operating cash flow.

(Business strategy)

- As mentioned above, we are actively investing in cutting-edge areas and in strengthening its global footprint for SEMI in DS. For DISP, we focus on the development of new materials such as OLEDs with optimized business structure controlling investments.
- For LS, we focus on the ramp-up of the new KBI facility and profitability improvements. We added a new portfolio in the CRO field.

Notes:
Digital Solutions business :DS
Semiconductor materials: SEMI
Display materials : DISP
Edge computing: EC
Life Sciences business: LS
Plastics business: PLA

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