JSR Corporation

Summary of Q&A session of Conference call on February 6, 2023 to explain Business Results in Q3 FY22

1. Digital Solutions Business

Q) Regarding Semiconductor materials (SEMI). I believe you explained that the growth rate of JSR's SEMI would exceed that of silicon wafer input, but the forecast for Q4 FY22 is -20%, which is less than the -10% growth rate of silicon wafer input. What is the background to this? Also, please explain whether Q4 FY22 is considered the bottom or whether you expect demand to recover in Q1 FY23.

- From a mid- to long-term perspective, the materials market outperforms growth of silicon wafer inputs. In fact, looking at Q3 FY22 YoY, sales of SEMI grew at +10% while silicon wafer input growth was flat. We expect a similar macro environment in the next fiscal year.
- As for Q4 FY22, we expect customers to drop production and squeeze purchases amid difficult business conditions. Apart from production declines in line with demand, we believe that inventory is being rapidly reduced in response to the current decline in semiconductor demand, and we have factored the impact of a short-term inventory adjustment phase into our Q4 FY22 earnings projection.

Q) P.13 of the supplemental material indicates the expansion of EUV market share. Please tell us about the EUV market share trend, including the development status of CAR (chemically amplified resist) and MOR (metal oxide resist).

- We're picking up significant share in both Logic and Memory, especially in the Memory side. In terms of regions, we’re picking up market shares in each region globally as well.
- Since MOR is a very different technology, it is necessary for customers to invest development resources in pilot production to adapt to it. We’re seeing those winds happening for MOR and we’re extremely satisfied with the progress.

Q） In the supplemental material, there was a reference to postponing some investments, but what exactly does this mean?

- Investment in cutting-edge areas will continue. Investments are mainly for R&D and capacity expansion. Regarding capacity, we will invest in Yokkaichi Plant, which is related to Inpria and advanced materials. We will also reallocate R&D resources to focus on our key strategic areas.
- On the other hand, for non-advanced materials, we will respond flexibly by pushing back the start of operations at the new plant while keeping an eye on actual demand trends.

2. Life Sciences Business

Q) Profit for CDMO is not improving while revenues are growing in Q3 FY22. How will CDMO become a growth driver for the next fiscal year with this current situation?

- Although KBI's operation increased in Q3 FY22, profit declined in QoQ due to the concentration of some disposals. Production activities are steadily expanding toward Q4 FY22. Because the disposals included in Q3 FY22 were one-time, the operation ramp-up and the revenue contribution of KBI's new facility will lead to eliminating KBI's deficit and improving profits. At the same time, we will review the structure of KBI and continue to improve profits not only next year but also beyond.
- As for the other sub-segments, they are growing steadily.

Q) I feel that labor costs account for a high percentage of CDMOs and that the structure makes it difficult to improve profits even if revenue increase. What are your thoughts on this, including headcount control?

- Obviously, labor is a huge part of the profitability, but the utilization of the new capacity is basically going from zero up to 100% of capacity that's dedicated to very efficient manufacturing. The labor utilization will naturally expand very quickly once we start to use this capacity. On the other hand, in order to achieve an OP margin of 20% and beyond from the current deficit, it will be necessary not only to increase the operation of the new facility, but also to set up a structure. We have clear line of sight for the actions that need to be taken for us to continue to improve profitability, understanding where we have gaps.
- In addition, one of the problems and the strengths of KBI has been our ability to capture a whole spectrum of opportunities, including very difficult products. It puts incredible pressure on the manufacturing resources, and it forces the cadence down. Along with this commercial capacity ramping up, we've changed our business development approach to ensure that we've got both the proper pricing but also that we're capturing opportunities that give us the best ability to utilize our resources.

Q) As for antigen test kits, why do you expect to see relatively same size of revenue in next fiscal year?

- We saw a significant contribution from COVID-19 antigen test kits this fiscal year, and we’ll see continued benefit from those kits in next fiscal year. These revenue and profits are not included in our mid-term plan.

Q) The market is also worried about the management changes at KBI. Why is that happening?

- Tim Lowery, the leader for the Life Sciences business, has been assigned now CEO of KBI. We are not changing the discipline and improvements that former CEO Mark Womack brought and will continue to work on improving KBI. Tim Lowery has been on site in North Carolina driving KBI's performance there. We are actively looking for the new CEO. Transition won't be an abrupt stop and we're going to make sure that handoff from Tim Lowery to the next CEO will be a smooth transition.

Q) Please tell us how we should understand the capacity line based on the current personnel plan and its implications described on page 16 of the supplemental material.

- The gray dotted line on page 16 of the supplemental material indicates capacity based on the headcount currently planned. The bar graph indicates the number of production batches. The difference between the number of production batches and capacity in Q3 FY22 means that we are already ready for the ramp-up. You can see the dotted line is raised slightly to the right, meaning that it is necessary to increase the headcount as we increase the production operation. However, we already have the production structure, so it is not necessary to increase the headcount significantly. We will maximize the production without increasing the headcount for Q2 FY23. If we need to increase the capacity further ahead, we will need to increase the headcount.

Q) Why is there no increase in production for product 2 on page 16 of the supplemental material?

- In the graph on page 16 of the supplemental material, the number of batches is planned to be flat from Q4 FY22 to Q1 FY23. This is because in addition to the product 1 that was being manufactured, the production of product 2 will also be carried out. This means that the customer will outsource multiple pharmaceutical production to us, which is good news, but on the other hand, we have factored in a realistic production plan because it is a product that will be newly manufactured in a new facility.
- This product 2 will only be manufactured in small quantities for early-phase clinical trials. From Q2 FY23, production will return to only product 1, which will improve efficiency.

Q) Regarding the acquisition of Indivumed's service business. How big are the sales and profits? Can you tell me what the effect is on JSR other than geographic expansion?

- It is a profitable business. (Revenue and profit details are not disclosed.)
- In terms of synergies, in addition to the services of their solid biobank business, access to the specimens themselves and the ability to expand networks with hospitals and other entities are strategic values for this acquisition. This allows us to expand our business that we focus, including PDx in in vivo, organoids in in vitro, and tissue testing in ex vivo.

- Indivumed's business also has clinically approved labs in Europe and the US, and we expect our business to expand into clinical analysis services as well as preclinical.

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