JSR Corporation

Summary of conference call on April 27, 2023 to explain Financial Results for Q4 FY22

[Note] Please refer to data available at:
https://ssl4.eir-parts.net/doc/4185/ir_material_for_fiscal_ym4/134187/00.pdf

P3 Key Takeaways

・FY22 results show YoY increase in revenue and decrease in profit. The decrease in profit was mainly due to the deteriorating demand environment at DISP and PLA. In addition, there were special factors in FY21 such as valuation gains on the acquisition of Inpria. For SEMI, revenue and profit increased, excluding special factors. For LS, both revenue and profit also increased.

・FY22 includes impairment loss and others related to business restructuring in the SEMI field as non-core operating profit.

・FY23 projection is higher than FY22. We expect a significant recovery. LS will lead both sales and profit growth. For DS, we reflect demand adjustment in the SEMI market and expect it to be YoY flat. We project that FY23 will be the preparation phase for a V-shaped growth trajectory with adjustment phase from H2 FY22 to FY23 and recovery in FY24.

・We'll take strategic initiatives for sustainable growth toward final year of mid-term plan (FY24). In preparation for the anticipated demand recovery for SEMI, we will continue to make upfront investments, expand its market share and focus on business restructuring. For LS, we focus on operating KBI's new facility to full capacity and taking profitability initiatives. We'll incorporate the new CRO business acquired in FY22.

・The target of mid-term plan toward FY24 is to outperform the highest profit and increase the profit margin. To ensure that we achieve this target, we will restructure our business, reduce costs and improve efficiency.

P4 Summary: FY 22 Results

(Full year Core Operating Profit) Revenue increased and profit decreased YoY.

DS: Profit decreased by 7.5 billion yen excluding special factors. SEMI: Both revenue and profit increased. Upfront investment in EUV/MOR expanded. Paving the way for future growth. Due to a significant deterioration in market conditions, revenue and profit for DISP/EC declined and it affected the overall decline in profit. DISP has seen a recovery in demand since October, 2022.

LS: Strong sales and profit growth. Strong performance of MBL's antigen test kits. A new facility at KBI started commercial production in H2 FY22 and completed production of 13 batches by Q4 FY22.

PLA: Revenue increased and profit decreased. Slow recovery in the auto market. Worsening margins due to soaring raw material and fuel prices. Profit improvements are progressing as we progress price pass-through.

(Adjustment of Core Operating Profit to Operating Profit)

・A total of -4.7 billion yen was recorded as non-core components.

Cleans plant impairment:

Our Cleans plant in US was impaired to nearly zero value due to a decline in SEMI's earnings outlook based on the deteriorating business environment. In addition to this impairment, we'll implement a substantial downsizing restructure, including the closure of Cleans R&D site in the US. This plant, which started operations in FY20, was partially impaired due to a delay in starting up caused by lower demand last fiscal year. This time, the business environment was scrutinized and drastic measures were taken. Cleans are a new material that our company did not have, and we were able to enter the industry and expanded the portfolio. Initially, we attempted to start up this business with a specific customer, but we have already seen success in expansion to other customers in the US and abroad. We will refine our global strategy. Once we scale down, we will cut costs.

Valuation Gain of Korean Sales Subsidiary:

Restructuring for strategic expansion. In FY22, we incorporated a local agent invested by our company into a wholly owned subsidiary. We recognized valuation gain of equity interest related to acquisition. This significantly strengthens our sales and technical service commitments to Korean customers. It will also be possible to incorporate margins that have flowed outside the company. We also focus on strengthening local functions in Taiwan and China in order to strengthen growth potential in FY24 and beyond.

P5 Result – YoY, QoQ

(YoY) Revenue increased and profit decreased.

(QoQ) Both revenue and profit decreased.

YoY is as described above. Revenue and profit declined in QoQ. SEMI was affected by a significant inventory adjustment by customers. Although Q4 FY22 sales were significantly lower than actual demand, sales in Q1 FY23 is expected to return to normal. LS sales declined mainly due to timing of sales of MBL antigen test kits. The decline in sales of other businesses is basically due to seasonality and timing of sales. Therefore, the decline in sales and profit in Q4 FY22 is due to these factors, and we did not see demand slowdown particularly toward Q4 FY22.

P6 Segment Data: Digital Solutions Business

(YoY) Both revenue and profit decreased.

The increase in SEMI sales was positive to the volume factor. But the decrease in profit was caused by the sales decrease of DISP and EC as well as the increase in upfront investment, especially of SEMI, and other special factors.

(QoQ) Both revenue and profit decreased.

・Profit decreased due to sales decrease of SEMI with -24% (including FX impact), impacted by customer inventory adjustments. For DISP, customer utilization rate decreased compared to Q3 FY22 due to seasonal factor, but it has been recovered since March 2023.

P8 Segment Data : Life Sciences Business

(YoY) Both revenue and profit increased.

・Significant sales growth in each sub-segment.

・Significant sales growth in IVD. Sales of MBL antigen test kits increased. CDMO saw decrease in profit due to upfront investment. Despite increase in sales, CRO's profit remained flat with the previous fiscal year due to the recording of M&A-related expenses.

(QoQ) Both sales and profit decreased.

・Lower sales mainly due to timing of sales of antigen test kits as we planned.

・CDMO sales and profits increased.

・Sales of other business decreased mainly due to the timing.

P9 Segment Data : Plastics Business

(YoY) Revenue increased and profit decreased.

・Profit decreased due to sales decline and accounting factors. Although raw material prices rose sharply, sales price revision also progressed and there was no significant impact on the trading spreads.

(QoQ)Both revenue and profit decreased.

・Sales volume decreased QoQ. Recovery was slightly delayed for automobiles and industrial materials. With sales price revision progressed, the trading margin expanded. Profit decreased due to timing difference in fixed cost incurred.

P10 Summary of FY23 Projection

Core OP for FY 23 was 42 billion yen. Strong profit recovery of + 20% YoY. LS drives profit growth. DS nearly flat YoY. This year will be a period of paving the way for DS' V-shaped recovery in FY24.

(SEMI)

・As the customers' market is expected to be negative growth, we expect sales to be almost flat YoY. Profit decreased due to increased investment.

・We'll implement business restructuring, upfront investment, and increase in market share for FY24 growth.

・Market share of key materials remains stable. Market share in advanced fields such as EUV is increasing and the medium-term outlook is favorable.

(DISP)

・The panel market is expected to recover stably due to the optimization of panel inventory. The market share of optical alignment film and OLED materials will increase.

(EC)

・Demand conditions will be weak for the time being, but recovery is on the recovery trend. Sales are expected to grow due to an increase in the market share of NIR (Infrared Cut Filter).

(LS)

・KBI's new facility is planned to operate at full capacity in H2 FY23. For the full year, it is expected to see a significant YoY profit increase.

・KBI also launched profitability initiatives. In FY23, the OP margin will remain in the single digits throughout the year, but in FY24, we aim to achieve OP margin of 20%.

・MBL’s antigen test kits will continue, although the scale will be smaller compared to FY22 . Wen included firm orders into FY23 plans.

・In CRO, we’ll incorporate Indivumed’s biobank service into Crown through M & A and expect it to make a profit contribution from FY23.

(PLA)

・Profits are expected to recover significantly as the auto market recovers and improve trading spreads.

P11 FY23 Projection

・We project revenue of 442 billion yen and core OP of 42 billion yen.

・From FY23, we will disclose revenue breakdown of subsegments of LS business.

P12 Business Outlook by Segment - FY23

(SEMI)

・The SEMI market is expected to remain in adjustment phase in H1 FY 23 and to recover in H2 FY23 and into FY 24. Strong growth is expected in the next fiscal year. Our business is expected to grow faster than the market by increasing market share.

・We expect to increase our market share of EUV. While gaining market share in Logic 3nm, we expect to gain a similar or larger market share in 2nm. We secure the No. 1 share in DRAM, which will be ramped up at customers going forward. MOR also made good progress in customer evaluation. We maintain competitive positions in ArF, KrF, Underlayer, CMP, etc.

・Upfront investment will expand in FY23 as well, but relatively large investments will peak out in the current fiscal year. The level of increase in fixed costs is expected to be moderate in FY24 compared to the previous 2 years.

・Significant downsizing of the Cleans business in the US but no change to the overall growth expectation of SEMI business. Rather, we will ensure medium- to long-term growth through business restructuring.

(DISP)

・We expect the recovery trend in the market to continue, with sales and profits expected to expand steadily. We’ve achieved market share gains in optical IPS and OLED, which will contribute to sales growth from FY23.

(EC)

・Although the smartphone market is not strong, market share gains will have a positive impact. We focus to reduce costs and improve profitability.

(LS)

・Demand remains strong. FY23 is expected to improve KBI's profitability.

・KBI's Colorado facility undergoes major repairs. Sales recovery starts in the second half of Q1 FY23. KBI's new facility will gradually ramp up to full capacity in H2 FY23. In FY24, both the Colorado facility and the new facility will operate at full capacity throughout the year. We expect to further increase the OP margin to 20% through business restructuring.

・Sales of confirmed orders of antigen test kits are expected in H2 FY23.

・Demand for CRO is expected to be slow, particularly among some venture companies, but CRO business will continue to grow, including the incorporation of new CRO businesses.

(PLA)

・Expect a recovery in the auto market and improvement in trading spreads.

(Others)

・We plan to control costs at FY22 level. DX investment will be accelerated.

・We also plan to review product profitability company-wide and take necessary actions for each business.

P13 Market Environment Assumption

・This shows changes in market assumptions related to the full-year projection.

(Silicon Wafer Input)

・Silicon wafer input slowed in H2 FY22 and had almost no growth in FY22. Our FY23 projection is based on our assumption of -5% growth in FY23. In FY24, we expect to see a double-digit recovery of + 14%.

(Panel production)

・Panel production fell sharply in FY22 at -19%. We expect stable recovery of + 12% in FY23 and to continue the recovery trend in FY24. The customers' utilization rate fell down below 60% in FY22, but will gradually return to the level of FY21, which was strong, with slightly less than 80% in FY23 and mid- 80% in FY24.

(Smartphone shipments)

・We expect a gradual return from negative growth in FY22 to positive growth in FY23.

(Automobile production)

・The market recovery was delayed by the semiconductor shortage, but stable growth is expected this fiscal year.

(Bio Pharmaceutical Market)

・The overall bio market will continue to grow steadily.

P14 DS: Transition of SEMI Fixed Cost

・ For SEMI, we expanded strategic investments in FY22, including the integration of Inpria. In FY23, we will continue to invest in EUV/MOR and increase capacity in Yokkaichi. Consolidating the Korean sales subsidiary and strengthening other local functions in Asia will lead to future growth and more efficient sales structure.

・Other expenses due to inflation, higher labor costs and higher fuel costs are expected. Cost reduction effects, including business restructuring, will also be factored into the plan.

・Investments in future growth will continue in FY24. On the other hand, the pace of upfront investment is expected to ease as we don't plan large-scale investment.

P15 LS: Production Schedule of KBI's New Facility

・The graph shows the start-up status of KBI's North Carolina facility. The number of production batches is shown as a bar graph, and the production capacity based on the current headcount plan is shown as a line.

・What this indicates is basically unchanged from the LS business briefing in March 2023. A total of 13 batches were completed by Q4 FY22. Production is steadily expanding. Production of a new product (Product 2) also is plannedto start this week. From Q3 to Q4, production is headed to full capacity. By implementing the profitability initiatives, we will achieve profitability improvement by expanding production batches and capacity itself without significant increase of headcount.

P16 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.

P17 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 FY21, and acquisition made this time in the CRO field.

(Business Target)

・We aim to achieve the goal of the outperforming highest profit in FY24 as a passing point for sustainable growth and ensure to improve profitability.

・We will reduce costs in response to the short-term deterioration in demand and reinforce our business foundation through structural reforms.

(Strengthening the organization)

・We'll promote strategic and DX investments that contribute to strengthening sustainability initiatives and expanding future profitability.

(Capital allocation)

・ In terms of capital allocation, we increased dividend in FY21 and executed share buybacks in FY22. 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 streamlining investments.

・ For LS, we focus on the ramp-up of the new KBI facility and profitability improvements. Following FY 23, LS will drive growth in FY24 as well. In CRO field, we will enhance synergies.

・During the period of SEMI demand adjustment, we'll review the profitability of each business company-wide and take necessary actions so that we ensure to achieve mid-term plan in FY24.

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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