

## JSR Corporation

Summary of Q&A session of Conference call on April 27, 2023 to explain Business Results in FY22

### 1. Overall

Q) Core OP in the Digital Solutions and Life Sciences businesses is expected to be 43 billion yen in FY23. For FY24, it is projected to increase by approx. 20 billion yen compared to the mid-term target of 60 billion yen. Even if the sales and profit of antigen test kits in the Life Sciences business disappear to some extent in FY24, is it possible to achieve the mid-term target of Core OP margin of 20% in the Life Sciences business or Core OP of 60 billion yen in 2 businesses?

- We have confidence to achieve our mid-term target.
- First, antigen test kits in the Life Sciences business wasn't included in the original mid-term plan projections. Having said that, we still do see a very positive impact for this year for that, albeit not as strong as FY22.
- We're confident to achieve the target for the Life Sciences because of the improvements that we've outlined. We've got very detailed, systematic and well-resourced programs for KBI, as well as Crown and the other Life Science businesses. Given the combination of both the top line growth with a focus on real execution improvement, that's what gives us the confidence to hit the 20% Core OP margin.
- For SEMI in the Digital Solutions business, we project the bottom hitting sometime in H2 FY23 and then good growth from the macroeconomic point of view. Along with that, we do see good uptake of our leading-edge materials which have higher margins. With the combination of both the topside growth from the market and the market share increase from leading-edge materials, we do have confidence that we can meet the mid-term target. For the Display materials, we're already seeing an improvement in the macroeconomic pressures in terms of the utilization and the inventory levels are at a healthy level. For Edge Computing, the smartphone market, which is our customers' market, is expected to stay soft for a while but over the long term, we'll start to see the recovery as well.

### 2. Digital Solutions Business

Q) Regarding Semiconductor materials (SEMI). Can you explain why only EUV saw QoQ revenue increase in Q4 FY22? Also, for FY23 plan, can you give us a quarterly projections of SEMI materials in general?

- Sales in Q4 FY22 decreased due to lower demand for SEMI materials in general. In addition, with sharp demand slowdown, inventory adjustments occurred at customers.
- Meanwhile, our company's EUV resulted +30% QoQ. This was mainly due to a relatively large sales of MOR (metal oxide resist) included in Q4 FY22. This is not to say this amount of MOR sales will continue every quarter or that there has been a significant change in demand trends. However, it is a sign that MOR penetration in the market is steadily increasing.
- Our assumption is that the demand decline seen in H2 FY22 will continue in H1 FY23. On the other hand, the sales performance of -24% QoQ in Q4 FY22 includes the inventory adjustment and it will improve towards Q1 FY23. We expect the recovery of demand itself in H2 FY23.

Q) Regarding SEMI materials. JSR included FY23 outlook in Q3 FY22 disclosure and there was no change this time. With all the bad news coming out of semiconductor manufacturers and announcing production cuts, how much of the current situation is factored into your FY23 projection?

- Although we saw some announcements from semiconductor makers, we were already aware of the pressure on those makers when we made our initial projections. On the other hand, we don't know exactly how big of a negative impact there will be. For now, we are maintaining the forecast announced today, but we will continue to monitor the demand environment closely.

### **3. Life Sciences Business**

Q) We are seeing a slowdown in biotech growth, but is there any impact on not only CRO business but also CDMO business?

- As you know, the slowdown in the investment environment is mainly affecting CRO business. Although CRO business focuses on very leading-edge opportunities where venture community has a strong impact on, it will be affected in part because they have a wide range of businesses.
- In terms of CDMO business, what we deal with is therapeutics that basically have already run the gantlet and is very valuable assets to the companies. Therefore, we do not expect the disruption in venture investment to affect these leading-edge therapeutics. Growth in the CDMO business remains strong.

Q) About the CDMO business. Please update the start-up status of the new facility, the progress and future contributions of Product 2.

- The product we call Product 1 that is being manufactured in the new KBI facility make up most of the capacity of the new facility. Meanwhile, the production of the same customer's product, Product 2, is planned to be manufactured in Q1 FY23. Product 2 is still in the early stage of clinical trials, so that set of material that will be manufactured once the therapeutic goes to late stage clinical support. The detailed schedule has not been decided yet, but it will look something comparable to the Product 1 and the customer will then start to ramp up inventory in anticipation of the regulatory release.
- I should also note that that's not the last product the customer has and there are several of the same kind of therapeutics that they've targeted for the capacity. And other customers are also putting pressure on us to establish further capacity for KBI. We are confident that our broad pipeline will lead to greater commercial production opportunities and will be a driver of improving profits. (KBI's number of pipelines grew +15% YoY.)

Q) About the Life Sciences business. From Q3 FY22 to Q4 FY22, Core OP decreased by 4.2 billion yen. Please explain whether there were any special factors in Q4 and any of those for FY23.

- The decline from Q3 FY22 to Q4 FY22 was mostly due to the timing of sales of antigen test kits. Others include some M&A expenses related to conducting M&A in the CRO business.
- In the CDMO business, relatively large disposal losses occurred in Q3 FY22, but profit improved in Q4, albeit in the red, due to smooth start-up of the new facility.
- Sales of antigen test kits are expected in H2 FY23. However, sales will be down some degree compared to

FY22. Meanwhile, the CDMO business plans to make up for the sales decline of antigen test kits by increasing sales and profits. The CDMO business posted a loss in FY22 profit, but will be profitable in FY23. Profits will expand as the new facility goes into full operation toward H2 FY23, and will be OP margin of a few percent in FY23. Also, this is a technical factor, but we don't expect sales contribution from the Colorado facility in Q1 FY23. With ramp-up of the new facility toward H2 FY23, we expect result of H1 FY23 to look weaker compared to H2 Y23.

Q) About the CDMO business. If the CDMO profit margin is in the single digit in FY23, the plan should be to improve to the 20% level in FY24 all at once. In order to achieve Core OP margin of 20% in the Life Sciences business, which is the target of the mid-term plan, could you explain more about the headcount and productivity improvements in the CDMO business.

- First, in FY23, we expect sales contribution of KBI's Colorado facility from Q2 FY23 due to repairs, and the new facility is also expected to operate at full capacity after Q3 FY23. So sales are expected to increase toward H2 FY23. In FY24, we will have full profit contributions from those we don't have in H1 FY23.
- Also, we are confident to improve CDMO's profitability in FY24 as we will deliver results of the profitability initiatives

Q) About the CDMO business. We would like to know an update on the status of FDA approval of therapeutics being manufactured at the new facility. Is there any part of KBI's order status that you consider as a risk?

- The customer is managing the final review. In anticipation of that review, they're building inventory. So their confidence is very high in their capability to get the approval.
- On the risk side, we don't see any problems or concerns. We don't see any problems in the data of the batches we manufactured, and the required data package has been submitted to the customer. We're ramping up the production based on the customer orders.

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