JSR Corporation

Summary of conference call on November 6, 2023, to explain Financial Results for Q2 FY23

[Note] Please refer to data available at:
https://ssl4.eir-parts.net/doc/4185/ir_material_for_fiscal_ym4/143683/00.pdf

P3 Key Takeaways:

- In Q2 FY23, revenue and profit showed significant growth QoQ in all segments. While the demand in industries, particularly in SEMI, remains challenging, there was an improvement in performance QoQ. Q1 was affected by accounting factors and major repairs in LS, resulting in a significant decline in profit. However, these effects were removed in Q2.
- FY23 consolidated earnings forecast has been revised down this time. The core operating profit has been revised from 42 billion yen to 18 billion yen. Although the demand environment is showing signs of recovery, the forecast for H2 FY23 reflects the uncertainty in the current demand environment.
- SEMI's demand is expected to remain nearly flat HoH. The industry has been in a recovery trend since Q1 FY23, and this trend is expected to continue in H2 FY23. On the other hand, the Memory is likely to undergo further production adjustments in H2 FY23, and we expect overall demand to remain as H1 FY23 demand level. In addition, DISP saw higher-than-expected utilization in the flat panel display (FPD) industry in H1 FY23, but are now in an adjustment phase, which is reflected in our forecast. The downward revision reflects the decrease in overall sales volume of SEMI.
- A full recovery in SEMI's demand is expected in FY24. Strong growth is expected with AI chips in addition to the market recovery. We are expanding our market share, focusing on advanced materials. Despite the challenging overall demand environment, we have managed to increase sales of EUV including MOR.
- LS was affected by special factors, as well as the sluggishness of small-scale biotech development activities in Europe, the United States, and China, which were resulted in a reflection of the forecast for CRO and CDMO. While a recovery is expected, a weak situation is anticipated for this fiscal year.
- On the other hand, LS is expected to see a significant HoH increase in sales and profit in H2 FY23. Sales of IVD testing kits are expected as planned in the second half. In addition, the expansion of CDMO's new facility and overall sales recovery are factored into the forecast.
- While the earnings forecast was revised downward, company-wide cost reduction measures and initiatives to improve profitability, including structural reforms, will be strengthened.
- The revision of the earnings forecast is based on short-term demand trends. Our strategy and

progress towards achieving mid-term vision remain unchanged. Efforts to expand our market share, strengthen technological development capabilities, and enhance profitability are steadily progressing. A V-shaped increase in profitability is expected for the demand recovery phase.

- On June 26, 2023, Japan Investment Corporation (JIC) Group announced a scheduled commencement of a tender offer for JSR'S shares. Through a strategic partnership with JICC, in which the two companies share the same strategic direction, we will accelerate the promotion of our strategy by going private, while flexibly promoting the industry restructuring of the semiconductor materials. We aim to strengthen international competitiveness and the mid- to long-term growth potential of all our businesses. We believe that the transaction is the best strategic option to all stakeholders of JSR, including shareholders, global customers, employees, and partners.
- The regulatory processes in Japan and overseas are progressing. No change from our disclosure.
- The relevant documents have been submitted to the respective authorities we have anticipated both domestically and internationally. They are under review.
- The launch for the tender offer is expected to be in late December as stated in the disclosure. However, it is difficult to determine an accurate estimation of the procedural timeline. We will announce the exact date in due course.

P4 Summary：Q1 FY23 Result

(YoY core operating income) Decrease in revenue and profit. The YoY difference is analyzed with a water fall chart.

DS: A profit decline of 10 billion yen, mainly due to a decrease in demand compared to the previous year. Sales in the SEMI segment decreased by approx. 20%. Although there were some uncertainties in semiconductor demand, overall performance was solid in H1 FY22. However, the demand environment deteriorated significantly this time, affected by the semiconductor cycle. The silicon wafer input, which is an indicator of demand, is expected to have a similar decrease. DISP achieved increased revenue and profit due to increased production by customers following the recovery of the panel market. EC was affected by the sluggish smartphone market.

LS: CDMO posted a loss of about 4.5 billion yen due to one-time factors. The impact of planned major repairs at the Colorado facility and provisions for inventory write-downs, etc. also had an impact. H1 FY22 included sales of IVD testing kits. There was also some demand decline in CRO and others.

PLA: Profit recovered YoY due to improved trading spreads.

OTH: Profit recovered YoY due to cost reductions.

(QoQ Core Operating profit) Increase in revenue and profit.

DS: Revenue and profit increased. For both SEMI and DISP, revenue and profit increased. The demand environment for SEMI continued to be sluggish in Q2 FY23, but sales improved QoQ. EUV is making steady progress.

LS: There was an improvement due to the removal of the approx. 4.5 billion yen loss in Q1 FY23 and CDMO's profit improved.

PLA: Demand is still recovering, but the trading spread has expanded due to price revisions.

Although there is a significant decrease in profit compared to the previous year, a definite recovery was shown QoQ.

P5 Result – YoY, QoQ

(YoY) Core operating profit of H1 FY23 was -1 billion yen, a decrease of approx. 18 billion yen YoY. DS and LS saw a decrease in revenue and profit YoY.

- DS: Decrease in revenue and profit, impacted by the semiconductor cycle. SEMI's sales were down by around 19%.
- LS: Decrease in revenue and profit, resulting in a loss. This was due to special factors in Q1 and deteriorating demand conditions.
- PLA: Increase in revenue and profit.

QoQ: Significant revenue and profit growth in all segments. Despite the weak demand environment, the worst period has passed, and there has been improvement QoQ. Special factors have also been removed.

P6 Segment Data: Digital Solutions Business

(YoY) Decrease in revenue and profit.

SEMI experienced a decrease in revenue and profit as mentioned above. DISP achieved increased profit due to good utilization rates at customers. EC was affected by the declining demand environment. The main factor behind DS's profit decline was the impact of decreasing sales, which lead to a decline in margin profit. Fixed costs increased due to SEMI's upfront investments but were managed under the plan.

(QoQ) Increase in revenue and profit.

All segments achieved increased revenue and profit. SEMI's sales improved after the worst period. Fixed costs decreased QoQ due to timing differences of expenses and cost control measures.

P7 Digital Solutions Business - Revenue Growth Rate

EUV achieved sales increase of 15% YoY and 35% QoQ. Despite the sluggish overall semiconductor demand, there was an increase in sales for advanced DRAM. MOR also showed strong progress.

P8 Segment Data : Life Sciences Business

(YoY) Decrease in revenue and profit.

- The revenue decrease was mainly due to the impact of sales of IVD testing kits in H1 FY22. For FY23, the sales are planned for H2 FY23.
- The profit decrease was due to the decreased profit in various businesses. Along with IVD testing kits mentioned above, CDMO's special factor in Q1 FY23 and declining demand in CRO and BPM also led to the profit decline.
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(QoQ) Increase in revenue and profit.

- The increase in revenue and profit was due to the CDMO's improvement with the removal of special factors and sales expansion. CRO and BPM also saw increase in sales.

P9 Segment Data : Plastics Business

(YoY) Increase in revenue and profit

- The demand is still recovering. Profit increased due to the expansion of trading spreads, resulting from improved sales prices.

(QoQ) Increase in revenue and profit

- Due to continuous sales price revisions, trading spreads expanded, and profit increased.

P10 Summary of FY23 Consolidated Earnings Forecast (Revised)

- The earnings forecast has been revised this time, expecting a decrease in core operating profit from the initial plan of 42 billion yen to 18 billion yen.
- The waterfall chart illustrates the factors contributing to the profit decline. The decrease in sales in DS significantly impacted the margin profit decline. For SEMI, a sales decline of slightly over 10% compared to the initial plan is factored into the forecast. The semiconductor industry faces uncertainty for the time being, resulting in a flat assumption of demand for H2 FY23 compared to H1 FY23. For DISP, we expect the decrease in demand due to production adjustments in H2 FY23 with a partial rebound from high operations at customers in H1 FY23. Sales for LS is expected to increase compared to the previous year but remain a few % below the initial plan. The decrease in margin profit for that sales decrease was reflected into the revised forecast accordingly.
- Overall fixed costs are under control and within the plan. Cost reduction measures over 1 billion yen are factored into the forecast.

- Other factors include an impact of approx. 2 billion yen due to currency fluctuations. The initial plan of 135 yen per dollar has been changed to 143 yen per dollar for the full fiscal year. The positive effect of a weak yen has been reflected.
- The special factors in LS's business have resulted in a decrease in profit compared to the initial plan. This includes the approx. 2 billion yen accounting factor recognized in Q1 FY23, as well as estimated disposal losses for inventory and provisions for doubtful receivables related to certain customer transactions. These factors are based on the current estimation. In the biotech industry, there has been a decrease in funding due to rising interest rates, etc. We have many small biotech ventures in our customer portfolio. In addition, some early development projects in the preclinical phase require caution regarding demand trends and collection of receivables because of the short order period in some cases. These risks have been factored into the forecast.
- On the other hand, we have not reflected additional measures for cost reduction, profitability improvement, sales expansion in LS, and elimination of the aforementioned risk factors, in the current performance outlook. These are potential upside factors, and we are actively working on them.

P11 Act vs FY23 Consolidated Earnings Forecast (Revised)

- Details for the earnings forecast are listed. It is expected to achieve a significant profit recovery overall from H1 FY23 to H2 FY23.
- DS: Profit decline HoH is expected. For SEMI, there is the impact of sales and cost timing. Our assumption of demand conditions is to be flat HoH. DISP is expected to have a slightly lower performance than the initial plan due to production adjustments at customers in H2 FY23.
- LS: Significant profit recovery is expected. We factor the disposal losses and other special costs in H2 FY23 but also incorporate the sales of IVD testing kits, the profit contribution from the expansion of CDMO's production, and the recovery in demand for CRO and BPM. Additionally, the execution of profitability improvement initiatives and operation improvement projects will be aggressively pursued to deliver results in H2 FY23 and FY24.
- PLA: it is planned sales expansion due to demand recovery, further improvement of trading spreads, and cost reduction.

P12 Market Environment Assumption for Outlooks

- The silicon wafer input, which is a benchmark of SEMI's demand, was initially assumed to be around a 5% decrease for the current fiscal year, almost flat compared to the previous year. However, it experienced a significant YoY decline in Q1, which is around -15% to -20%. Although a gradual recovery is expected, a decrease of over 10% is anticipated for FY23. In FY24, double-digit strong growth is expected.

- The operation of FPD makers, major customers of DISP, was favorable in H1 FY23 but is expected to adjust in H2 FY23, resulting in slightly lower performance than initially expected for FY23. For FY24, an increase in operations is anticipated.
- Automobile production continues to recover due to the alleviation of semiconductor shortages, which also extends to the expansion of our PLA demand.
- The overall biopharmaceutical market remains strong, despite some stagnation in certain areas. However, investments in the biotech market significantly declined in FY22 and are expected to remain weak in FY23 despite the decline is smaller. We believe the bottom has already been reached and we see orders to recover from the industries.

P13 LS (CDMO): Production Schedule of KBI's New Facility

- The bar graph shows the number of production batches started at each quarter, and the line shows the production capacity.
- North Carolina's new plant, which will significantly increase current production capacity, started commercial production in H2 FY22. Following Q1 FY23, operations in Q2 FY23 progressed well. We'll further expand its operations and expect full operations in H2 FY23. At the moment, we expect to bring the capacity more than initially expected for the full year.
- The expansion of production capacity is expected to be achieved without additional costs due to the results of profitability improvement initiatives being implemented at KBI and to contribute to production expansion of FY23 and FY24.

[Notes]

Digital Solutions business: DS

Semiconductor materials: SEMI

Display materials: DISP

Edge computing: EC

Life Sciences business: LS

Plastics business: PLA

Year on Year: YoY

Half on Half: HoH

Quarter on Quarter: QoQ

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