CFO Message

Director, Managing Officer
Hideki Miyazaki

Building a Stable Financial Foundation and Increasing Corporate Value

JSR Group's fundamental business strategy is to continue to deliver value to customers through innovation, based on products and services that are backed by superlative technological development capabilities. This is how we generate earnings, but it is also the way in which we believe the Group can grow together with customers and employees, ultimately thereby also meeting the expectations of our shareholders. I see my role as ensuring this strategy is carried out as smoothly and as effectively as possible from a financial standpoint, while also building a stable financial foundation for the Group.

JSR Group intends to be a resilient and sustainable organization as we move forward together with our customers, employees, society, shareholders, and other stakeholders. To accomplish this, as CFO, both I and the CEO have to be aligned strategically. We are both convinced that continually enhancing corporate value should be paramount, rather than simply pursuing short-term shareholder interests. We also carefully considered the transfer of the Elastomers Business, not only from a financial perspective, but also as a move that would truly benefit all of our stakeholders. Rather than having the division press forward with limited resources, we recognized that allowing the Elastomers Business to operate in an environment in which it could compete in Japan, and worldwide, with best-in-class technologies would be more rewarding for employees and more beneficial to society, as well as facilitating stronger business performance. Thus, we are confident that this decision will end up yielding results that meet the expectations of stakeholders.

FY2020 Results

As the year started, we projected that the COVID-19 pandemic would bring about a roughly 50 billion yen decrease in revenue across the Group. As it turned out, although the impact in the first half of the year was significant, it was smaller than expected in the second half. As a result, we were able to contain the overall COVID-19 impact on revenue to about 40 billion yen. Nevertheless, full-year revenue and profit were down year on year in FY2020.

Revenue and profit in the Digital Solutions Business were up year on year. The Semiconductor Materials Business saw higher revenue and profit on the back of steady sales, chiefly of advanced photoresists. In the Display Materials Business, revenue was down due to lower sales of color resists and other products, reflecting the withdrawal of some customers from production. Sales of alignment films remained brisk however, driving an increase in operating profit over the previous fiscal year.

The Life Sciences Business saw higher revenue from contracts for the development and manufacturing organization of biologics (CDMO) and for the research organization (CRO), but operating profit was down year on year as a result of temporary pandemic-related factors.

In both the Elastomers and Plastics businesses, revenue and profit were down year on year. This reflected sluggish demand in the first half in the automotive and tire markets impacted by the pandemic, but demand began trending upward in the second half.

Given the uncertainties about the outlook prompted by COVID-19, we held off announcing the specifics of the new management policy originally planned for FY2020. At the time of our financial results briefing in April 2020, though, we did address our basic concept regarding the direction of the management policy, and in FY2020 carried out reforms in the various business areas in line with that concept. In terms of structural reforms, we had already taken decisive measures to reorganize the Display Materials Business at the end of the preceding year. The segment is currently generating relatively high returns, but from a market perspective, has seen an accelerating shift away from Taiwan and South Korea and an accompanying concentration of manufacturing in mainland China. In light of this, we clarified our position of drastically reducing our footprint in Taiwan and South Korea, and sustaining high margins through a focus on China, where many of our major customers are located, thereby accumulating sufficient free cash flow to invest in growth areas.

Regarding our Petrochemicals businesses, we recognized that even farther-reaching structural reform was needed. In FY2020, we estimated the future cash flow expected to be generated by the Elastomers Business and performed a calculation to see if the current assets were proportionate. Then, with the help of a third party's value calculation standard, we recorded an impairment loss of around 80 billion yen as a result for the year. Ultimately, we announced our decision to transfer the division to ENEOS Corporation on May 11, 2021.

Operating Profit (¥ millions)

	FY2019	FY2020
Digital Solutions Business	144,805	151,420
Core Operating Profit	30,917	34,568
Life Sciences Business	50,496	55,197
Core Operating Profit	3,945	3,510
Elastomers Business	178,794	143,186
Core Operating Profit	(1,758)	(11,420)
Plastics Business	95,092	79,123
Core Operating Profit	6,237	4,430
Other Businesses & Adjustment	2,779	17,682
Core Operating Profit	(6,105)	(5,125)
Revenue	471,967	446,609
Core Operating Profit	33,236	25,963

Overall, in FY2020, although we put off announcing specifics, the new management policy itself was already in place, and I believe we were able to move forward with the first year under the direction set out by the policy.

Management Policy

We have now released various numerical targets under the management policy leading up to FY2024, but what is most essential is to grow profits sustainably through the new business portfolio. Significant growth in the Digital Solutions and Life Sciences businesses will be the key to achieving this. The Digital Solutions Business is enjoying increasing demand. JSR Group recently ramped up our production capacity, and we believe this positions us to achieve a growth rate above market. We will boost sales of our mainstay photoresists to meet market expansion while maintaining high margins, and also target high growth in the advanced cleaning solutions business by leveraging the capacity of our US-based plant newly completed in FY2020. In the Display Materials Business, we intend to sustain profitability on the back of the structural reforms I mentioned above. As a new business, we are steadily expanding sales of infrared cut filters for smartphones and other mobile devices. Based on the above, we believe that the Digital Solutions Business will be able to increase sales revenue by about 7% while maintaining profit margins.

In the Life Sciences Business, our investments to date in the CRO and CDMO businesses are beginning to pay off in terms of earnings growth, as project orders climb steadily, by about 20% every year. The CDMO business in particular is focusing on markets that demand high technological capabilities. Many chemicals and materials companies have moved into life sciences fields in recent years and are expanding their CDMO and other contract businesses. In this environment, even if we strive to create blockbuster products, we recognize the significant risk of earnings volatility. To address this risk, we have set a clear policy of partnering closely with customers in a variety of fields to co-create products and conduct joint R&D, thereby ensuring earnings stability. This leads us to expect sustainable earnings going forward, and also positions us to

more effectively address the long-term trend of personalized medicine. Furthermore, an abundance of collaborative efforts with more customers across a wider range of fields will contribute to the stability of the business. In this way, we will achieve robust business growth and profitability at the same time.

Still, it is pointless to be so focused on pursuing immediate growth opportunities that it leads to over-investing and impedes our ability to respond to new trends down the road. Sensitive to longer-term trends, the new management policy calls us to demonstrate our technological prowess both in the semiconductor materials field that drives social change and in the life sciences field that concerns people's health. Through these efforts, we aim to achieve the plan's metrics of double-digit ROE and record high operating profit, surpassing the 60 billion yen record in FY2007.

Planned Investments

We anticipate operating cash flow of approximately 200 billion yen over the five-year period of the new management policy. Moreover, while JSR Group has not taken much advantage of debt financing, we would like to explore this avenue more fully going forward while keeping an eye on the debt-to-equity ratio. Similarly, we would like to draw on the cash from the divestment of the Elastomers Business. Specifically, we are looking at about 100 billion yen in capital spending for the Semiconductor Materials and Life Sciences businesses, channeling other cash into growth investments, including acquisitions, while enhancing our financial agility and flexibility. We are also seeking an overall return to shareholders of about 50% and are earmarking about 70 billion yen for various measures to achieve this.

To Our Shareholders

I believe that increasing corporate value is the best way to return profits to our shareholders. Going forward, we will continue to invest consistently in growth fields to achieve sustainable earnings growth and enhance corporate value. To meet shareholder expectations, we intend to maintain an overall return to shareholders of about 50% through a combination of dividends and share buybacks. Although JSR Group posted a large deficit in FY2020, this was due to temporary expenses associated with the structural reforms that have positioned us for improved future performance. In light of this and considering our commitment to stability in the dividend amount, we elected to pay an annual dividend of 60 yen per share.

I look forward to engaging in dialogue with our shareholders, so that I can convey the kinds of strategies JSR Group is pursuing and the steps we are taking to grow the business. I am confident that explaining where we stand will encourage investors to have faith in the long-term growth potential of JSR. As CFO, I will do everything in my power to shore up the sustainable growth of JSR Group, and I ask our shareholders for their continued support.