Management's Discussion and Analysis

Analysis of Operating Results

Overview of Operating Results for FY2022

In the FY2022, although restrictions on economic activities caused by COVID-19 were eased in many countries, skyrocketing resource prices sparked by the Russian invasion of Ukraine, worsening raw material and component shortages, and suppressed demand due to inflation mainly in the United States, have increased the uncertainty of the outlook for the global economy. As for the exchange rate, the yen depreciated against the dollar year-on-year. As for trends among the Group's main customer industries, the semiconductor market is expected to expand in the medium to long term for both memory and logic semiconductors due to growth in demand for 5th generation mobile communication systems (5G), PCs and data centers. On the other hand, at present, growth is slowing due to factors such as excess inventory and falling prices in the memory market. The flat-panel display market has continued to be sluggish due to the backlash from demand for nest eggs, resulting thanks to the promotion of telework and other factors. However, there are signs of a gradual recovery after bottoming out in the second quarter of the consolidated fiscal year due to the optimization of inventory levels. The biopharmaceutical market continued to see strong growth. Global automobile production has been on a gradual recovery track since the fourth quarter of the fiscal year, despite soft demand due to automakers' production cuts caused by semiconductor shortages and the lockdown in China.

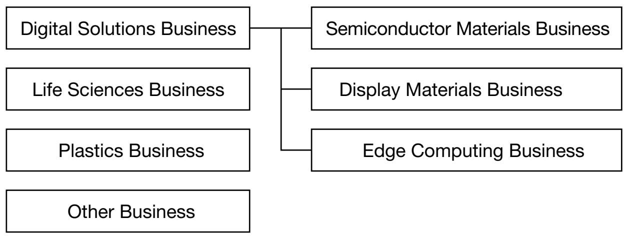
To push its business forward amid these circumstances, JSR Group has been strengthening its business structure and management framework to realize a corporate structure imbued with sustainability and resilience, in line with the management policy for FY2024, and actively investing in R&D and businesses. As part of this, the Group has focused resources on medium and long-term growth in the Digital Solutions Business and Life Sciences Business, which are positioned as core businesses. In the Digital Solutions Business, which is focused on the Semiconductor Materials Business, we established a local subsidiary in China aimed at strengthening our Electronic Materials Business activities in the Asian market, increasing customer satisfaction, and providing the prompt delivery of services. In Korea, we finalized the acquisition of a sales agent for our Electronic Materials Business as a wholly owned subsidiary. In product development, we newly developed and launched packaging materials in response to the 5th generation (5G) and 6th generation (6G) mobile communication systems and the full-fledged adoption of autonomous driving. The Group will further clarify the selection and concentration of our businesses and build a resilient business foundation by aggressively investing in EUV photoresists and metal oxide resists, as well as by reviewing cost structures and promoting efficiency. In the Life Sciences Business, the Group advanced initiatives to launch a new plant and strengthen the profitability of the CDMO business (contract development and manufacturing of biopharmaceuticals) in Europe and the U.S. by Group company KBI Biopharma, Inc. Also, in the provision and analysis of clinical biospecimens by Crown Bioscience International (Crown Bioscience), we acquired Indivumed Services GmbH & Co. KG's IndivuServ Business Segment, an industry leader, and established Crown Bioscience & MBL to further expand preclinical services in Japan. We, therefore, ensured that measures for future business expansion were implemented.

As a result, the Group's business results posted revenue of 408,880 million yen (up 19.9% year-on-year), a year-on-year increase in revenue. Core operating profit amounted to 34,025 million yen, down 21.4% year-on-year. Operating profit amounted to 29,370 million yen (down 32.9% year-on-year). Total profit attributable to owners of parent amounted to 15,784 million yen (down 57.7% year-on-year).

Business Segment Overview

The JSR Group's business is classified into three reportable segments: Digital Solutions, Life Sciences, and Plastics. The reportable segments are positioned as shown below.

Positioning of Reportable Segments



Digital Solutions Business Segment

The Digital Solutions Business segment experienced an increase in revenue but suffered a decrease in profit compared to the previous fiscal year.

In the Semiconductor Materials Business, sales of cutting-edge photoresists were particularly strong due, in part, to advanced device launches by major customers, in addition to the impact of a weaker yen. In addition, smooth product launches were achieved for processing materials destined for major customers. In Asian markets, the Group established local subsidiaries in Taiwan and China aimed at strengthening its Electronic Materials Business activities, increasing customer satisfaction, and providing the prompt delivery of services. In Korea, a sales agent for our Electronic Materials Business became a wholly owned subsidiary. In product development, we newly developed and launched packaging materials in response to the 5th generation (5G) and 6th generation (6G) mobile communication systems and the full-fledged adoption of autonomous driving. On the other hand, both memory and logic semiconductor materials have experienced a slowdown in growth from the third quarter to the current quarter due to factors such as excess inventory and a decline in prices in the memory market. As for cleaning solutions, the business scale was significantly scaled down due to lower sales at our U.S. plant caused by declining demand. As a result, overall revenue increased from the previous fiscal year, while core operating profit was lower than in the previous fiscal year.

The Display Materials Business advanced sales, focusing on competitive products in the China market, where continued growth is expected, such as alignment films and insulating films for wide-screen TV LCD panels, a focus point of the business. However, sales decreased due to significant inventory adjustments by panel makers. As a result of the above, overall revenue and core operating profit were lower than the previous fiscal year.

The Edge Computing Business suffered revenue and profit declines because of a sales decrease in near infrared (NIR) filters caused by the sluggish smartphone market and other factors.

As a result, the Digital Solutions Business segment posted a core operating profit of 27,790 million yen (down 28.7% year-on-year) on revenue of 170,439 million yen (up 3.3% year-on-year).

Life Sciences Business Segment

In the Life Sciences Business, overall revenue increased over the previous fiscal year mainly due to expanded sales in the CDMO business and contract research organization (CRO) business, strong performance in the diagnostics business, and the depreciation of the yen. Core operating profit increased over the previous fiscal year due to strong sales of COVID-19 virus antigen test kits at Medical & Biological Laboratories Co., Ltd. (MBL), despite increased expenses associated with the start-up of a new plant at the Group's KBI Biopharma, Inc., which is engaged in the CDMO business.

As a result, the Life Sciences Business segment posted a core operating profit of 8,450 million yen (up 166.7% year-on-year) on revenue of 126,478 million yen (up 74.6% year-on-year).

Plastics Business Segment

In the Plastics Business, sales volume was down from the previous fiscal year due to soft market conditions in the automotive industry, home appliances and electronics, etc. However, overall revenue increased from the previous fiscal year on the back of higher sales unit prices. Core operating profit decreased from the previous fiscal year due to a decline in sales volume.

As a result, the Plastics Business segment posted a core operating profit of 1,853 million yen (down 65.2% year on-year) on revenue of 95,802 million yen (up 5.7% year-on-year).

Business Outlook

Uncertainties are anticipated to continue in the consolidated FY ending March 2024, including changes in the international situation driven by geopolitical fluctuations, heightened tensions around the Ukraine situation, decoupling between the U.S. and China, suppressed demand in countries around the world due to broad price increases, and the impact on exchange rates of interest rate policies in various countries.

In the current situation, the semiconductor market, JSR's primary customer market, is experiencing a temporary operating adjustment, but is expected to be sustained by digital infrastructure demand and see growth over the long term as an essential industry for society.

Furthermore, the solid demand forecasts over the medium-to-long term for the life sciences field remain unchanged. In the global automobile market, the Plastics Business's main customer market, the recovery trend in automobile production is predicted to continue.

Amid these business conditions, JSR will continue proactive R&D and business investments in the growing Semiconductor Materials Business and Life Sciences Business toward further strengthening of its business structure and management framework in order to build an organizational structure having both resilience and sustainability.

Analysis of Financial Position

Overview of Financial Position for FY2022

Total assets as of March 31, 2023 amounted to 715,959 million yen, down 93,412 million yen from a year earlier. This was mainly due to a decrease in assets related to the disposal group classified as held for sale in connection with the transfer of the Elastomers Business.

Liabilities amounted to 335,024 million yen, down 59,607 million yen from the previous fiscal year, mainly due to a decrease in liabilities related to the disposal group classified as held for sale following the transfer of the Elastomers Business.

Equity amounted to 380,935 million yen, down 33,804 million yen from the previous fiscal year, mainly due to the repurchase and cancellation of treasury stock and the payment of dividends.

Overview of Cash Flows for FY ended March 2023

Cash and cash equivalents ("funds") as of March 31, 2023 stood at 72,640 million yen, up 27,073 million yen from a year earlier.

Net cash provided by operating activities amounted to 29,270 million yen (18,271 million yen in the previous fiscal year). The main item was a profit before tax of 29,846 million yen.

Net cash used in investing activities totaled 4,046 million yen (63,117 million yen in the previous fiscal year). The main items were 31,202 million yen in payments for the purchase of property, plant and equipment, 23,116 million yen in payments for the purchase of shares of subsidiaries resulting in change in scope of consolidation, 51,160 million yen in proceeds from sale of investments in subsidiaries accompanied by a change in scope of consolidation.

Net cash provided by financing activities totaled 15,203 million yen (22,994 million yen in the previous fiscal year). The main items were 30,137 million yen for the purchase of treasury stock, 14,791 million yen in cash dividends paid, and 26,768 million yen in proceeds from long-term borrowings.

The Group formulates a funding plan based on the annual business plan and controls liquidity risk in consideration of an appropriate balance of direct and indirect funding, as well as short-term and long-term funding.

Financing and Capital Liquidity

The Group's need for capital includes working capital such as raw material costs; overhead costs; selling, general and administrative expenses; capital investment, business investment including M&As; and repayment of interest-bearing debt related to manufacturing and sales. The Group meets such needs for capital mainly from operating cash flows and by borrowing from financial institutions, and the issuance of commercial paper and bonds.

The Group formulates a financial plan based on the annual business plan, and manages liquidity risks by ensuring an appropriate balance between direct and indirect financing and between short-term and long-term financing to prepare for these risks, while considering business expansion and enhancement of the financial position.

The Group registered for the issuance of up to 100 billion yen in corporate bonds and established a commercial paper issuance facility of up to 40 billion yen, to further diversify our methods for raising capital.

We are also introducing a cash management system for the purpose of efficient use of capital, and are seeking to centralize capital procurement and management within the Group.

Basic Approach to the Selection of Accounting Standards

JSR Group has voluntarily adopted International Financial Reporting Standards (IFRS) starting from FY ended March 2018 to improve convenience and the international comparability of financial information in the capital market.

Significant accounting policies, accounting estimates, and assumptions used in making such estimates adopted in the JSR Group's consolidated financial statements are described in “5. Accounting Conditions, 1. Consolidated Financial Statements, (1) Consolidated Financial Statements Notes to Consolidated Financial Statements, 4. Significant Accounting Policies, 5. Judgments Involving Significant Accounting Estimates and Estimates.”

Basic Policy on Profit Allocation and Dividends for FY ended March 31, 2023

With respect to profit appropriation, the Company regards business growth over the long term as its top priority. To generate sustainable long-term growth, JSR strives to increase its competitiveness by developing new businesses through the reinforcement of research and development activities. The Company determines returns to shareholders by taking into account business performance and medium-term and long-term demand for funds, while giving consideration to a balance between returning profits to shareholders and retaining earnings necessary for future business advancement. The Company paid a year-end dividend of 35.00 yen per share in the interest of continuing stable dividends. Including the interim dividend already paid, the total annual dividend for FY ended March 2023 was 70.00 yen per share.

JSR Group Business and Other Risks

JSR Group is exposed to the following risks that may impact on operating results, financial position, cash flows, and other aspects of its business performance.

Forward-looking statements are based on the Group’s judgments as of March 31, 2023, and the Group’s business and other risks are not limited to the following matters.

Geopolitical Risks

Damage to manufacturing facilities, prolonged suspension of production activities, logistical impediments, or raw material procurement impediments, and harm to our employees’ lives or property due to terrorism, war, or international trade restrictions (on raw materials, products, or information) could adversely affect JSR Group’s operating results.

Natural Disasters and Accidents

Constraints on economic activity caused by a major natural disaster or an accident at a manufacturing facility that damages a manufacturing facility or disrupts production could adversely affect JSR Group’s operating results.

Product Liability and Defect Warranty Liability

Bodily injury or property damage to others caused by a product manufactured by the JSR Group, or conducts a recall due to poor quality, could adversely affect JSR Group’s operating results.

Significant Violations of Law

In the event of a failure to comply with various laws and regulations involving business and investment permits, import and export activities, trade, labor relations, intellectual property, taxes, foreign exchange, and other matters in the countries where the JSR Group operates, or if a law or regulation becomes stricter or is significantly altered, it could lead to limitations to the Group’s business activities or additional compliance costs. Any of these events could adversely affect the JSR Group’s operating results.

Human Rights Issues

If any human rights issues arise due to harassment, discrimination, or harsh labor practices against employees, this could lead to a loss of public trust, which could impede the JSR Group’s business activities, among other things.

Information Systems and Information Management

Unauthorized access due to cyber attacks, malicious or grossly negligent actions by employees or others, power outages, disasters, or other events, may result in the falsification or destruction of data, leakage of personal information, failure of information systems, which could, in turn, impede the JSR Group’s business activities.

Fluctuations in Material and Resource Prices

Fluctuations in market conditions due to geopolitical risks, inflation, supply and demand balance, and other factors may cause fluctuations in raw material and resource procurement prices and could adversely affect the JSR Group’s operating results.

Intellectual Property Disputes

Disputes over intellectual property with other companies, infringements on JSR's intellectual property, or lawsuits against us by other companies could occur.

Fluctuations in Demand Due to Economic Trends
As a result of the impact of economic conditions in various countries or regions, industry demand in which JSR Group's products are sold, such as in automobiles and electronics markets, may decline and could adversely affect JSR Group's operating results.

Pandemic Outbreaks
If an infectious disease pandemic were to break out, economic activities were to be restricted, a temporary closure or reduced operation of offices and factories were to occur, it could adversely affect the JSR Group's business results.

Changing Technology Trends
If the development of new products or businesses is delayed in response to changes in technology trends, it could prevent the timely sales of new products and adversely affect JSR Group's operating results.

Impediments to Procurement of Raw Materials
An interruption in the supply of raw materials due to an accident at a raw materials manufacturer or a supply stoppage due to quality issues or bankruptcy, labor disputes, human rights issues, wars, terrorism, etc., could impede production activities and adversely affect JSR Group's operating results.

Logistical Impediments
If logistics impediments arise due to disasters, accidents, stricter regulations, or trade restrictions, it could adversely affect JSR Group's operating results.

Human Resource Outflow, Difficulty in Acquisition
If problems such as production stoppages or a decline in technology due to an outflow of human resources or difficulty in acquiring them arise, it could adversely affect JSR Group's operating results.

Climate Change Risks
If policies toward a decarbonized society are strengthened in countries and regions related to climate change risks, or if laws and regulations related to carbon emissions are revised or newly enacted at an unexpectedly rapid pace, the Group's sales capacity and reputation may decline due to delays in responding to customers and it could adversely affect JSR Group's operating results.