

Inabata & Co., Ltd. Financial Results for the First Half of the Fiscal Year Ending March 2024

Online Financial Results Briefing - Summary of Q&A Session

Date and Time: Tuesday, December 5, 2023, 13:00–14:00

Presenters: President Inabata and Senior Managing Executive Officer Yokota

[Information & Electronics Segment]

Q: Could you share your outlook for the business environment in the flat panel display (FPD) market?

A (Inabata): The FPD market had been in a prolonged slump since around June last year.

However, overall inventory adjustments, including distribution inventories, seem to have come to an end. Since the beginning of the year, especially since April, demand has recovered somewhat, and panel prices have started to rise slightly.

Nevertheless, the demand trends for end products (e.g., TVs and monitors) remain very weak. In a year-on-year comparison, we anticipate TV sales to achieve 98% of the previous year's volume, and smartphone sales likewise to reach about 92%. This trend in smartphone sales is partly due to the replacement cycle for smartphones becoming longer. It appears that we have moved past the worst phase of this period of weakened demand for end products. However, momentum in the market is still somewhat lacking. Our current outlook is that the timing of the shift to an upturn will likely be by the middle of next year. For the time being, we expect that the situation will continue to be difficult for a while longer.

[Plastics Segment]

Q: Could you share your outlook for the business environment in the Plastics segment?

A (Inabata): Regarding the business environment in the Plastics segment, naphtha prices continue to remain at a high level. The prices had been declining slightly from the second quarter of this fiscal year (FY03/24), but they have recently started to rise again.

For commodity resins, which are mainly used in everyday goods, food packaging materials, and construction materials, demand continues to stagnate due to factors

including the impact of rising prices. However, the per-unit selling prices have so far been maintained despite an anticipated decline.

As for functional resins, the main applications are office automation (OA), home electronics, electrical and electronic products, and the automotive field, and in our Southeast Asia business, OA-related product sales have been very sluggish. The production plans of OA equipment manufacturers continue to be revised downward, perhaps in reaction to the somewhat excessive rise in demand during COVID-19, which is still ongoing.

On the other hand, there are regional differences in the automotive market. Japanese automakers are not doing particularly well in China, but in other regions, such as North America, a strong recovery is underway. In line with this, sales of our resins for automotive applications are also trending well, and we anticipate this growth to continue in the future.

[The Framework of the Next Medium-Term Plan and Investment in Plastic Compounds]

Q: Could you tell us the direction under the framework of the next medium-term management plan, which will start from the fiscal year ending March 2025? Also, are there any investments being considered in the resin compound business?

A (Inabata): We have had several discussions on the next medium-term management plan.

Fundamentally, we do not anticipate making any major changes to the framework of our current medium-term management plan, NC2023. Some of the key initiatives for NC2023 are still being worked on, and we are thinking to follow them while considering slightly shifting the focus in how we prioritize them.

Additionally, we invested in equipment renewals in the resin compound business this year. We have not made any new investments in Thailand and Malaysia, although we have replaced some existing facilities. We have no investment plans set at this time.

[Shareholder Returns]

Q: Net income for the first half of the fiscal year ending March 2024 made good progress against the full-year outlook, but will it exceed the plan? If so, is there a possibility of increasing the year-end dividend or making additional share buybacks?

A (Inabata): The net income progress looks good, but there were gains on negative goodwill

in the first half. Originally, the plan called for higher earnings in the first half, so the overall pace is almost as planned. Another aspect is that the sale of strategic shareholdings was brought forward to the first half of the fiscal year. We expect net income to be roughly in line with the forecast, but regarding shareholder returns, we will make a decision based on our return policy, keeping in mind a total return ratio of 50% and monitoring the situation as appropriate.

[Investments and Loans]

Q: One of the key initiatives of NC2023 is "Intensification of investment targeting future growth." Are growth investments progressing smoothly?

A (Inabata): Growth investments increased significantly to 2.8 billion yen in the fiscal year ended March 2023 and to 6.0 billion yen in the first half of the fiscal year ending March 2024. As for the breakdown, 3.6 billion yen is for M&A, 0.9 billion yen is for rechargeable battery-related and renewable energy-related businesses, and 0.5 billion yen is for the semiconductor-related business. Going forward, we are committed to continuing our investments in the renewable energy field, which we have set in the key initiatives as a growth area, as well as in the food business, including agriculture, where we aim to enhance our capabilities in the upstream and midstream, and in the automotive sector, which is our main business.

[Life Industry Segment]

Q: What are the reasons for the large decline in profits in the Life Industry segment and the slow progress against the full-year plan?

A (Inabata): The Life Industry segment is divided into the Life science-related business (daily necessities and pharmaceutical ingredients) and the Food-related business, with the Food-related business having the largest impact compared to the previous fiscal year. The main reason for this is the significant decline in the performance of a subsidiary engaged in sales of seafood products in the U.S. Primarily serving the U.S. market, the subsidiary experienced a rapid post-COVID recovery, and performed very well in the previous fiscal year. During the recovery, it seems that competitors accumulated considerable inventory, leading to the current intensified price competition in the market.

Furthermore, with inflation progressing in the U.S., people are cutting back on eating out, and since many of the U.S. subsidiary's customers are in the foodservice industry, this trend has resulted in a decrease in demand, impacting the subsidiary's performance. We believe that this inventory adjustment will gradually settle down, and we are taking steps in our Company, such as narrowing down our product range, to address the situation. We expect the U.S. seafood business to recover.

[Outlook for the Fiscal Year Ending March 2024]

Q: The forex rate assumption for the full year was 130 yen to the dollar at the beginning of the fiscal year, but it has now been changed to 140 yen to the dollar. Despite the fact that the yen has been weaker than expected, why has there been no change from the plan at the beginning of the fiscal year for sales and profits at each stage?

A (Inabata): It would be better to explain the situation by segment regarding the forex rate. Last year was very challenging for the Information & Electronics segment, particularly the FPD-related business. However, it has clearly recovered this fiscal year, and in terms of profit, we are making much better progress than in the previous fiscal year. Nevertheless, the reality is that the progress against the plans in the three segments other than Information & Electronics is somewhat slower than initially anticipated at the beginning of the fiscal year.

Also, the segment most affected by the yen's depreciation is Plastics, where overseas sales accounts for two-thirds of total sales, but OA-related sales have been very weak this fiscal year, especially in Southeast Asia. Volume is down from last year, and it is expected that recovery will still require more time.

In light of these circumstances, despite the weak yen, forecasting profits at this moment remains somewhat difficult. On the whole, however, the current outlook is that it will be possible to achieve the profit plan, factoring in the effects of the weak yen.

[New Consolidations]

Q: What will the impact of the new consolidations be on the results for the first half of the fiscal year ending March 2024?

A (Yokota): In terms of net sales, the two main companies have contributed to an increase of

over 20 billion yen. On the profit front, contributions from the newly consolidated subsidiaries in the Life Industry segment have not yet turned positive as of the end of the second quarter, as one-time M&A expenses slightly exceeded operating profit during that period. Since a newly consolidated subsidiary in the Chemicals segment was originally an equity-method affiliate, the increase in net ordinary income has been limited to a few hundred million yen.

[Forex Impact]

Q: Please explain the forex impact in the first half of the fiscal year ending March 2024 compared to the same period last year.

A (Inabata): Sales were approximately 12 billion yen, and operating profit was a positive 280–290 million yen. Excluding foreign exchange effects, sales decreased by 10 billion yen in real terms and operating profit decreased by more than 300 million yen.