

**Financial Results for FY2021  
Manuscript of Presentation (Including Q&A Session)  
Toagosei Co., Ltd.**

**Toagosei posts near record high operating income and ordinary profit as it continues to strengthen R&D for creating high-value-added products**

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Presenter: Mikishi Takamura, President and Representative Director

Briefing document: Financial Results for FY2021

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The following is the manuscript for Toagosei's financial results briefing for FY2021 held on February 17, 2022.

**Slide 1 – Overview of Results for FY2021**

**Mikishi Takamura (below, “Takamura”)**: My name is Mikishi Takamura, President of Toagosei Co., Ltd. I would like to thank you for participating in today's financial results briefing for FY2021. I would now like to begin the presentation.

In FY2021, net sales totaled 156,313 million yen, operating income 17,676 million yen, ordinary profit 18,983 million yen, and net income attributable to owners of parent 13,771 million yen.

Net income per share and the annual dividend are as shown on the slide. As indicated in the “change” column, we were able to cap off FY2021 with a substantial increase in profits of 40% or higher compared to FY2020.

Despite the impacts of the COVID-19 pandemic, efforts in Japan and worldwide to restore battered economies picked up steam. As for Toagosei, we had solid success in expanding high- performance products, part of our materiality (key issues), which led to these strong results.

Operating income rose by 5,340 million yen. The breakdown included a boost of 6,100 million yen from sales volume differences. The cost side can be broken down into variable costs due to rising raw materials prices and sales unit price. Variable costs reduced operating income by 6,100 million yen, but sales unit price increased it by 7,400 million yen, with the net result a 1,300 million yen increase overall.

Fixed costs reduced operating income by 2,100 million yen due to higher depreciation and amortization from increased capital investment and higher labor costs. When totaling these figures, operating income increased by 5,300 million yen year over year.

### **Slide 2 - Summary of Financial Results for FY2021**

As I touched upon earlier, the business environment is moving on from the COVID-19 pandemic, but the sudden and compartmentalized restart in economic activities has led to parts shortages and supply-chain disruptions in many areas.

Meanwhile, in terms of raw materials prices, rising metal and mineral prices, not just crude oil, are beginning to appear in corporate performance.

Looking at trends from the first to fourth quarter of FY2021, as an overarching trend, I feel that the impacts grew larger heading toward the fourth quarter. Particularly, in the fourth quarter there was a shortage of semiconductors and parts in the automotive-related sector, so I feel that results were weaker in the fourth quarter compared to the first three quarters.

Despite this situation, net income was on par with the previous record high, while operating income and ordinary profit fell just short of their record highs for the second best results on record. Given this, we announced a year-end dividend increase thanks to our strong results in the second half.

With overall performance having improved, Rating and Investment Information, Inc. (R&I) upped our credit rating one notch from A- to A in August 2021.

### **Slide 3 - Consolidated Results (by Segment)**

Next, I would like to discuss performance trends by reporting segment. All five segments from Commodity Chemicals to Plastics posted an increase in sales.

Each segment generally maintained operating income at high levels, despite some segments with large investments seeing operating income dip slightly.

In the Polymer & Oligomer segment, we saw strong sales for automotive, electronics, and electronic materials applications, and there were very active business inquiries in the Performance Chemicals segment for semiconductors.

In the Adhesive Material segment, we have made upfront investments toward expanding sales of instant glues in overseas markets. As a result, segment profits were down somewhat, but we view advertising, and depreciation and amortization as upfront investments.

In the Plastics segment, piping equipment improved moderately, while nursing care products and elastomer compounds saw the effects of the introduction of new products.

#### **Slide 4 - Non-operating Income/Expenses and Extraordinary Income/Loss (Consolidated)**

This slide details non-operating income/expenses and extraordinary income/loss. As for non-operating income/expenses, foreign currency exchange gain accounted for only a small amount. In terms of extraordinary income/loss, there was gain on sales of investment securities, but an impairment loss was recorded on facilities close to cost of idle assets due to capital investment aimed at the future.

#### **Slide 5 - Consolidated Balance Sheet**

Moving on, I would like to talk about the balance sheet and table of cash flows.

We have steadily increased profits, and on our balance sheet, we have seen a large increase in notes and accounts receivable due to the increase in net sales.

Therefore, in net assets, legal retained earnings have increased, and the growth of total assets greatly exceeds this amount, and the shareholders' equity ratio stood at 77.9% as of December 31, 2021. This was 1.9 percentage points lower than December 31, 2020.

This is the table of cash flows. Net sales and profits are rising steadily, which has boosted free cash flow to 1,671 million yen.

#### **Slide 6 - Overview of Consolidated Subsidiaries (Results for FY2021)**

This slide presents an overview of consolidated subsidiaries.

Similar to Toagosei, most subsidiaries recorded an increase in operating income, and among them, number three on the list, Toagosei Singapore, saw a major uptick in profits from acrylic acid sales. This boost in profit is driven by the strong market conditions in Asia.

At number 9, Toagosei (Thailand) moved into the black by posting operating income of 237 million yen in 2021. This progress was as planned and attributed to an increase in the development of acrylic polymer related products.

Next is Toagosei America. This company mainly engages in the instant glue business, but it also has developed a lineup of adhesives beyond instant glues and made progress with the rationalization of its plants. Toagosei America posted a slight operating loss, but its performance is improving.

## **Slide 7 – Comparison with 2022 Medium-Term Management Plan**

Next I would like to look back on our performance in 2021. The current Medium-Term Management Plan runs from 2020 to 2022; yet, we were able to reach the final targets for 2022 ahead of schedule in 2021 for some profit indicators.

In early 2022, we began in-house discussions and processes for the formulation of our next Medium-Term Management Plan. We do not intend to make changes to the targets laid out in the 2022 Medium-Term Management Plan at the moment. We are looking at how to reflect our performance, including the results achieved until now, in our next Medium-Term Management Plan.

Operating income, EBITDA, earnings per share and return on assets have each already exceeded the targets in the 2022 Medium-Term Management Plan. Also, capital investment has yet to exceed the three-year target in the first two years of the plan (2020 and 2021), but it is an almost certainty that it will beat the Medium-Term Management Plan target.

Overseas net sales are expected to reach 20% in 2022, considering steady operations including at Toagosei (Thailand). I believe there is a high probability for this.

The ratio of high-value-added products is versus total net sales. Since commodity chemicals grew in 2021, it is difficult to forecast where this ratio will be at in 2022 at the current point in time.

This concludes my review of our performance in 2021 as it relates to the Medium-Term Management Plan targets.

## **Slide 8 - Challenges in FY2022**

Moving on, I would now like to explain about our challenges and forecast for FY2022. As this slide describes, the COVID-19 pandemic will enter its third year in February 2022. It remains to be seen whether the pandemic will end this year or remain protracted. Nevertheless, at the end of 2021, we saw signs that the economy is beginning to emerge from the pandemic.

Our future forecast suggests that we can expect the strong industries and product lines in 2021 to continue in 2022 to some extent.

Meanwhile, there is some uncertainty regarding when parts shortages and rising commodity prices will ease or end. We will address those areas that can be dealt with in advance and manage those areas that have already occurred as soon as possible and deal with them appropriately at an early stage. This is our management policy for 2022.

The movement toward carbon neutrality along with the electrification of vehicles and spread of FCVs and EVs as part of this movement have picked up steam during the pandemic. Undoubtedly, these sectors will be in the spotlight going forward. In terms of our response, we will pursue development in 2022 with the greatest emphasis given to how we can supply high-performance products.

#### **Slide 9 - Consolidated Results Forecast for FY2022**

Despite the uncertain outlook for the economy in general, this slide presents our results forecast for FY2022. We expect net sales of 153,800 million yen, operating income of 18,000 million yen, ordinary profit of 19,000 million yen, and net income attributable to owners of parent of 13,500 million yen, with the dividend expected to be 36 yen per share, or the same as FY2021.

#### **Slide 10 - Consolidated Results Forecast for FY2022 (by Segment)**

This slide presents the forecast by reporting segment. Although it is difficult to determine the extent of impacts from high raw materials prices, we intend to address the situation head on using pricing.

We forecast that operating income of the Commodity Chemicals segment will be slightly higher than 2021.

This figure is expected to be lower year on year in the Polymer & Oligomer segment.

The Adhesive Material segment is forecast to see somewhat higher negative impacts from increased depreciation following the start of operations at plants not only for instant glues, but also functional adhesives.

The Performance Chemicals segment is forecast to see higher operating income on steady progress with shipments geared toward the strong semiconductor market.

The Plastics segment is also forecast to post an increase in operating income considering the development of new products and plans to raise prices of piping equipment.

#### **Slide 11 - Overview of Consolidated Subsidiaries (FY2022 Forecast)**

This slide provides the forecast for our consolidated subsidiaries. Among our affiliated companies, we expect Toagosei Singapore and Toagosei (Thailand) to continue increasing profits steadily in 2022. Also, we expect Aronkasei to see increased profitability from plastics.

## **Slide 12 - Trends in Consolidated Results**

This slide illustrates trends in consolidated results over the past several years. Please look at the bar graph. Green indicates EBITDA, blue operating income, and yellow net income attributable to owners of parent.

We expect EBITDA to remain at a level similar to 2021. Record highs for operating income and EBITDA were recorded in 2010, with operating income at approximately 21,300 million yen and EIBTDA at approximately 29,700 million yen at that time. We are looking to maintain a level close to, but slightly below, these figures.

Net income attributable to owners of parent totaled 13,771 million yen in 2021. Our record high was approximately 13,800 million yen in 2016. Although we expect to fall slightly short of this record high in 2022, we will make efforts to eclipse this mark as soon as possible.

## **Slide 13 - Reference for Consolidated Performance**

This slide contains trends in capital investment, depreciation and amortization and research and development expenses. The acceptance basis figures for capital investment found at the top of the table are the same as those in our securities report. The approval basis figures in the second row of the table are figures tabulated to make in-house administration easier due to the time gap between acceptance and approval.

We are considering active capital investment once again in 2022. We expect capital investment on an approval basis to increase by close to 10,000 million yen over 2021. We will be announcing these investments, and until then, these figures reflect our plans for large-scale investments in 2022.

Depreciation and amortization will increase following higher capital investment. Research and development expenses are also rising for the development of new products.

## **Slide 14 - Consolidated Performance Reference Figure Trends**

Reference figures for consolidated performance are shareholders' equity and interest-bearing debt. As I talked about earlier, shareholders' equity ratio as of December 31, 2021 declined slightly compared to the end of 2020.

## **Slide 15 - EBITDA/PP&E Ratio Trends**

This slide presents comparisons with EBITDA and property, plant and equipment as figures indicating whether purchased PP&E is actually generating profits.

## **Slide 16 - Shareholder Return Trends**

This slide presents shareholder return trends. We have plans to buy back 10,000 million yen of our own shares over the three-year period starting in 2020.

We have already purchased around 7,800 million yen of our own shares in 2020 and 2021, and we have issued a news release stating our plan to buy back 3,500 million yen of our own shares during 2022. Also, we have announced that the total return ratio will be around 50% similar to 2021, but our goal is to reach a total return ratio of 58%, surpassing this figure.

## **Slide 17 - Medium-Term Management Plan “Stage up for the Future”: Operating Income Trends**

This slide shows operating income trends using a graph separated by high-value-added products and commodity products. Both these indicators experienced substantial growth in 2021.

When looking at 2022 (MTP), which is the light coloration on the far right side of the slide, we believe that high-value-added products have more room to grow. Therefore, we are looking to further strengthen this area and move ahead with development.

## **Slide 18 - Sustainability Initiatives (1)**

This final section of the presentation features the latest news. In terms of sustainability, this first slide presents our roadmap toward GHG reduction announced in 2021.

As of 2013, Toagosei's own CO<sub>2</sub> equivalent emissions totaled 410,000 tons. We announced that by 2030 Toagosei will cut this figure in half by 205,000 tons compared to 2013. In addition, to achieve carbon neutrality by 2050, we have started measures in various places such as manufacturing processes and raw materials and fuel processes. Some of these measures have been in place for several years now, but now we are starting to put greater efforts into cutting CO<sub>2</sub> equivalent emissions.

## **Slide 19 - Sustainability Initiatives (2)**

This slide presents two examples of our initiatives. First is the launch of operations at Toagosei Hydrogen Station Tokushima. This is a stationary hydrogen station established next to the Tokushima Plant at the end of 2021 in order to further utilize hydrogen made on the plant's electrolysis line. This combined with the mobile station vehicle has raised the community's expectations in the sense of not only working toward carbon neutrality, but also strengthening back-up energy for natural disasters.

The second is the switch of fuels at the Hirono Plant. The Hirono Plant switched fuel to LNG from A Fuel Oil. This represents but one example, as each of our plants is working on sustainability according to their own unique methods and approaches.

### **Slide 20 - Sustainability Initiatives (3)**

This slide presents several products we have developed for the times at the same time as these initiatives. There is growing demand for high purity caustic potash, a commodity chemical, as a material used in semiconductors.

In addition, we opened the Technology Development Laboratory II next to the General Center of Research and Development in Nagoya. The lab is already at full capacity for the development of new materials for batteries and healthcare applications.

### **Slide 21 - Sustainability Initiatives (4)**

As was announced in newspapers at the end of November 2020, cellulose nanofiber (CNF) can now be created at a much lower cost thanks to Toagosei's proprietary manufacturing method. However, there have been issues with how to use CNF, so currently demand has yet to take off as we had anticipated.

We are looking to develop materials useful for new functions and CO2-free applications using CNF in our proprietary products. At the same time, we are working with general contractors to increase sales of complex polymer for liquefaction countermeasures for use in soil stabilization.

### **Slide 22- New Product News**

These are new products we announced in 2021. We are working to increase sales of instant glue Aron Alpha Tough-Power for consumer use and in overseas markets.

Additionally, we developed ARONIX Sheet NIR, a plastic product, that is a substitute for glass because of its extreme light weight and scratch resistance. We are now moving ahead with development with the aim of using it in automotive sensors expected to increase going forward. Affiliated company Aronkasei is stepping up development of its Ikotto Air M line of nursing care products.

This concludes my explanation of the briefing materials. Thank you for your attention.



## **Question 1 – Asset Efficiency**

**Moderator:** This question pertains to asset efficiency. In the current Medium-Term Management Plan, Toagosei is working to improve return on assets (ROA). However, the share buybacks and dividends announced previously have not improved asset efficiency; rather, cash on hand has increased and assets compared to net sales has ballooned, bringing with it the possibility of a decline in asset efficiency.

The current target for ROA again looks to be insufficient when based on capital costs. How will you position improvement of ROA going forward?

Additionally, improving ROA will require a greater evolution in your previous stance toward cash flow management. What are your thoughts in that regard?

**Takamura:** I have been asked about this and heard feedback in various ways before. Regarding asset efficiency, in 2020 I conveyed the importance of having a certain amount of cash on hand to address the major changes in economic landscape brought about by the COVID-19 pandemic. This has also been brought up by each segment.

We are proceeding behind the scenes, but I would like to consider to some extent self-funding associated with M&A and other sources.

While we improved ROA in some areas in 2021, I'm aware of the findings that our efforts can go further. I'd like to consider our response, including selling off unnecessary assets.

I would like to ask shareholders and investors to remain patient regarding our measures because we are working on them from a medium- to long-term perspective.

## **Question 2 - Overseas Business**

**Moderator:** This question is about overseas business. Toagosei's overseas business has grown briskly over the past two years compared to previously flat growth over the past several years.

The target in the Medium-Term Management Plan for overseas sales of 32,500 million yen and overseas sales ratio of 20% (as percentage of net sales) appeared to be rather difficult hurdles to overcome initially, but Toagosei is close to clearly these hurdles today. What do you think of these results? What are the future challenges Toagosei faces in this regard? What are the specific measures you will undertake to further increase overseas sales?

**Takamura:** Earlier I conveyed that we are fast approaching the target in the Medium-Term Management Plan for overseas sales. We have been able to boost sales by setting up bases in East Asia, which is garnering worldwide attention for its strong

market conditions. Our operations in Thailand and Singapore have been a major contributor.

Also, instant glues in China are still seeing relatively small growth overall, but in 2021 there was growth in the e-commerce market sales. We hope to tap into China's growing e-commerce market to establish large market share next to Japan and the United States.

Key points of the next Medium-Term Management Plan will be how to further expand sales not only in Thailand, but also in Singapore and China, and how to set the target for the overseas sales ratio.

### **Question 3 – Growth Investment**

**Moderator:** Toagosei has accelerated growth investment over the past several years. I feel that this investment has led to profits and returns. Can you share specific examples? What are your thoughts on growth investment in the next Medium-Term Management Plan, i.e., which areas will Toagosei actively invest in?

**Takamura:** As can be clearly seen with the number, our investment is growing at a strong clip. We will continue with proactive capital investments in 2022 and beyond with reliable and consistent returns. We plan to make this key point of the next Medium-Term Management Plan.

Until now, we have focused on bolstering capital investment by segment. To unlock even greater growth for the Group over the next five to 10 years, I feel it is important to not only pursue conventional capital investment, but also carefully sow the seeds and seedlings of R&D.

In 2022 and beyond, we will summarize our efforts to expand R&D investment and convey this to shareholders and investors in a clear and easily understood manner, including my own commitment.

### **Question 4 – Acrylic Esters Market Conditions**

**Moderator:** What is your outlook for the acrylic esters market in FY2022?

**Takamura:** We have been forced to hike prices of acrylic esters from around the second half of 2021 in response to the price movements of raw material propylene. We have also been working on countermeasures. Currently, however, we cannot say for sure whether these countermeasures are sufficient or not.

I hear that China tightened lockdowns in 2021 in response to what would be the sixth wave of the pandemic in Japan. Once these lockdowns are lifted, consumption in

China should take off again, so demand for acrylic acid and acrylic esters should also rise in lockstep.

While some uncertainty remains in forecasting, the main factors swaying market conditions are those that I just touched upon.

#### **Question 5: Upfront Investments for Adhesive Material and Profit Contributions**

**Moderator:** Toagosei's upfront investments for the Adhesive Material are piling up. Can you provide a timeline of when these investments will contribute to earnings?

I am also aware that the Adhesive Material Business ranks highly in terms of improvement efforts in the current Medium-Term Management Plan. However, fourth quarter earnings have fallen below the forecast. You spoke about plant reorganization earlier, and the business overall saw a significant downturn in profits in FY2021. When will the business generate returns in excess of capital costs?

**Takamura:** Our results forecast by segment for 2022 indicates a slight downturn in profits of the Adhesive Material Business, as described in the briefing.

I would like to break this down by instant glues and functional adhesives used in automotive, semiconductor and electronics applications.

Instant glues have a very stable earnings base in Japan and we plan to further solidify our presence in the market by creating new products in the future. As for the United States, where we have struggled before, we are in the middle of capital investments for automating plants in response to labor shortages.

In China, as I touched upon earlier, we are looking to steadily increase sales volume and value in the e-commerce market.

Although there are slight differences by region, we are targeting the China market, which we want to grow the most, Thailand and other East Asian markets. We need to make medium-term upfront investments aimed at around five years down the line.

As for functional adhesives, shipments were held in check due to the impacts of somewhat weaker shipments for smartphone applications. In contrast, shipments of functional adhesives for FCVs and for battery materials used in EVs area steadily increasing.

We have made a lot of upfront investments, but we intend to recoup these investments in excess of capital costs as soon as possible.

In either case, functional adhesives have high expectations from users as a material unique to Toagosei. As long as we produce products with functions tailored to the

times, rather than focus on price competition, I expect that we can recoup investments within several years' time.

We will separate adhesive materials into several product lines and work toward returns for the entire segment in excess of capital costs as soon as practicable.

### **Question 6 – EBITDA and PP&E**

**Moderator:** It is great that Toagosei uses EBITDA and PP&E as KPI. However, it is unclear when improvements can be seen. When should we expect to see an improvement? Also, will the next Medium-Term Management Plan become another period for laying groundwork?

**Takamura:** At present, since the weighting of PP&E investment is high within total capital investment, the KPI numbers have yet to improve, as you have pointed out.

The constant sowing and harvesting simultaneously is an ideal form of management that should be implemented in each segment.

From the perspective of permanent management, it is inadequate to be extracting from only the parts where the harvest and numbers are good over the course of 10 to 20 years.

It is important to constantly cycle through harvest, sowing and seedling. In the next Medium-Term Management Plan, we will further improve our research and development division in order to strengthen our next lineup of products.

Even though this may lead to the criticism of failure to produce in terms of earnings, I would like to sow seeds, grow seedlings, and harvest in a well-balanced manner over the next five, 10, 15, and 20 years.

While EBITDA is fairly high, in our traditional sense, the weighting of depreciation is high.

I believe it is possible to reach record high operating income, or a number close to it, if we curtail depreciation at a certain stage. For our purposes, however, it is ideal to consider a profit plan with a constant projection for five, 10, and 15 years into the future.

### **Question 7 – Investment for New Business Development**

**Moderator:** It is my understanding that Toagosei has made several investments to develop new businesses. How do you make decisions regarding investments that do not work out?

Takamura: It is true that there are several new businesses that not only take time to grow but cannot be rationalized in terms of return or these businesses have yet to see profits grow. Even in these cases, though, I believe we will be able to announce something of substance in a different form either this or next year.

While this is not limited to new businesses only, we have withdrawn some product lines with an extremely low operating income to net sales ratio, such as two percent, or three percent, in the last year or two, even though we did not make any announcement.

The level of operating income to net sales ratio differs greatly between the commodity product lines and high-performance product lines. We are looking to achieve an operating income to net sales ratio of 20%, 30%, or 40%, in the high-performance product lines.

While the number may be small, we have been withdrawing some product lines every year.

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