

# NIPPON SHOKUBAI CO., LTD.

The 2nd Medium-term Business Plan  
“Reborn Nippon Shokubai 2020 NEXT”

and

The Financial Results for the 2nd Quarter of the Fiscal Year  
Ending March 31, 2019 (FY2018)

November 9, 2018

President

Yujiro Goto



## The 2nd Mid-term Business Plan (FY2017-2020) “Reborn Nippon Shokubai 2020 NEXT”

1. Overview
2. Policies to priority challenge
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## Financial results and others

4. Financial results for the 2nd quarter of the fiscal year ending march 31, 2019 (FY2018)
5. Financial forecasts for the fiscal year ending March 31,2019 (FY 2018)
6. Return policy

### Explanation of acronyms

SAP: Superabsorbent Polymers

AA : Acrylic Acid

# 1. Overview

## Vision for 2025

An innovative chemical company that provides new value for people’s lives

### Business Policies

- ◇ Focusing on profitability over sales
- ◇ Safe, reliable production activities

### Priority challenge

- ◇ Survival of SAP business
- ◇ Launch of new businesses in high-growth potential markets for our future key driver

### Basic Posture

Create products and services which market needs, and provide the products and the services when market needs.



### Policies to priority challenge

- Strengthen competitiveness of SAP business
  - Improve profitability (Survival project)
  - Strengthen R&D

Accelerate creation of new businesses and products

### Target to continuous growth

- Develop an active corporate team and organization
- Enhance the confidence of stakeholders
- Strengthen Group management

# 1. Overview

## Management indexes and numerical targets

**Sales**

**400 billion yen**

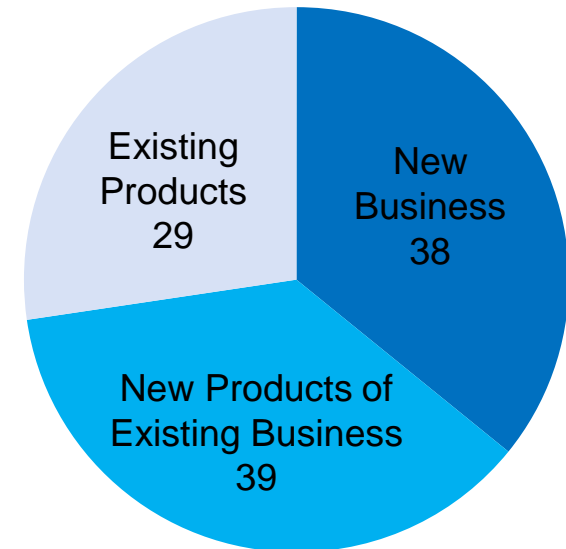
Increase of sales during the period : 106 billion yen  
(sales of FY2016 : 294 billion yen → sales of FY2020 : 400 billion yen)

**Ordinary income**

**40 billion yen**  
(profit margin of sales : 10%)

**ROA**

**7.5%**



Breakdown of 106 billion yen, the amount of increase of sales  
(Unit: billions of yen)

**【Assumptions】**

	<u>Domestic naphtha price</u>	<u>Exchange rate(US\$)</u>	<u>Exchange rate(EUR)</u>
LTP (FY2014-2020) (established in 2014)	65,000yen/kl	100 yen	130 yen
<b>2nd MTP (FY2017-2020)</b>	<b>42,000yen/kl</b>	<b>110 yen</b>	<b>115 yen</b>

## 2. Policies to priority challenge

### Strengthen competitiveness of SAP business

#### Supply and demand trend of AA and our action

**Demand** Global demand approx. 6,300 kilo tons per year (“KT/y”) (2018 estimate)

Assuming mid-term annual growth rate around 5%

**Supply** Expansion plan for 2018 : 300KT/y (global total)  
Expansion plan for 2019 : 600KT/y (global total)  
Expansion plan for 2020 : 200KT/y (global total)

- China is regulating supply capability by withdrawal of operations and tightening of environmental regulations
- The balance of supply and demand became tight due to less expansion after 2016

We decided to expand AA production capacity by 100 KT/y in Indonesia

- Commercial operation is planned to start in November 2021



#### Supply and demand trend of SAP

**Demand** Global demand approx. 2,900 KT/y (2018 estimate)

Assuming mid-term annual growth rate 5-7 %

**Supply** Expansion plan for 2018 : 250KT/y (global total)  
Expansion plan for 2019 : 100KT/y (global total)  
Expansion plan for 2020 : None

- Supply and demand will be balanced towards 2020

Markets of AA and SAP will continue to grow at a high level

## 2. Policies to priority challenge

### Strengthen competitiveness of SAP business

Utilize strengths of AA/SAP vertical integration

Strengthen relationships with leading customers

#### **SAP : Survival project**

Implement cost reduction measures to cumulate those effects

Cost reduction of the existing plants utilizing AI/IoT (implement in other facilities as well)

Next expansion of SAP is now under consideration

#### **AA : Strengthen global supply system**

Belgium : Expansion by 100KT/y is completed

Operation starts steadily, and operation rate will be high

Indonesia : Expansion by 100KT/y is decided

Aiming for AA production of 1,000KT/y

Promote strengthening competitiveness of AA/SAP businesses in total



## 2. Policies to priority challenge

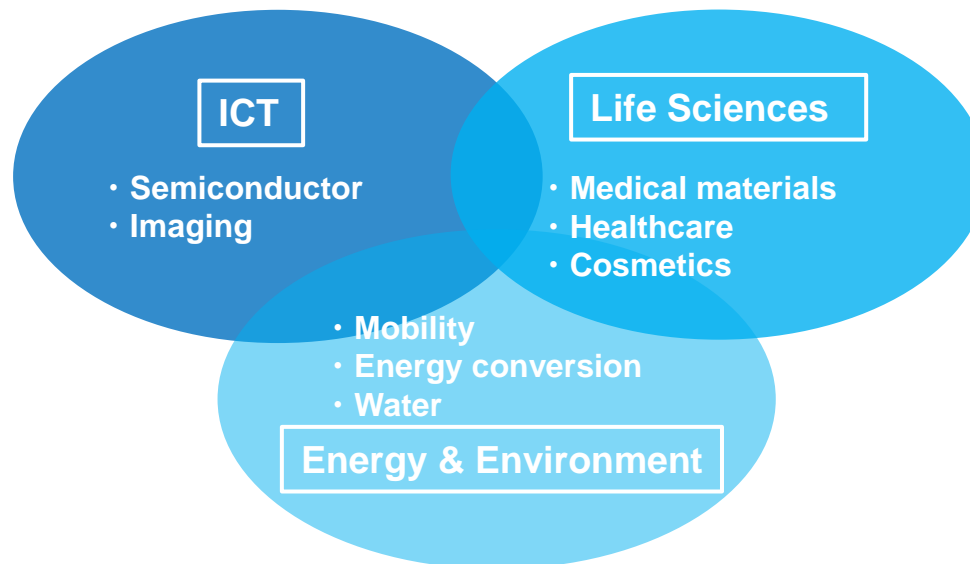
### Accelerate creation of new businesses and products

#### <New businesses>

Targets : 3 business sectors (8 business areas)

Strategy : Focus on growing markets/fields

Create new businesses which business models take advantage of our strengths not limited to selling materials



#### Create new businesses with new technologies based on our core technologies

##### Target

- > Enter into each sector with core product by 2020 (sales amount by 1 billion yen each)
- > Establish business in each sector by 2025 (sales amount by 10 billion yen each)

##### \*We promote O/I and M&A in order to achieve the targets above.

- O/I : NIPPON SHOKUBAI Research Alliance Laboratories (in Osaka University, Osaka) , Nanyang Technological University, Singapore
- Pilot facility to promote commercialization is under construction (in NISSHOKU TECHNO FINE CHEMICAL CO., LTD., our group company)

#### <New products>

In addition to expansion of sales by improving existing items in existing markets, we promotes products and technologies to target sectors where market growth expected in order to expand our businesses

## 2. Policies to priority challenge

### Accelerate creation of new businesses and products

#### Medical materials

##### Establish drug development support business

##### The production facility of API synthesis is under construction as planned

###### ◆Outline of the production facility of API synthesis

Regulation : GMP(JP,US,EU),PIC/S GMP

Floor Area : Around 3,000 square meters

Main equipment : Solid and liquid phase synthesizer of peptide and nucleic acid drugs, Large scale separation and purification apparatus, Freeze dryer, Analysis equipments for QC etc.

※In terms of manufacturing these kinds of APIs, this is one of the biggest facilities in Japan.



#### Cosmetics

##### Establish cosmetics business

Signed the Memorandum of Understanding to start business collaboration with GREENTECH (France, a leading natural cosmetic ingredient supplier)

Started business collaboration with Nano Cube Japan





## 2. Policies to priority challenge

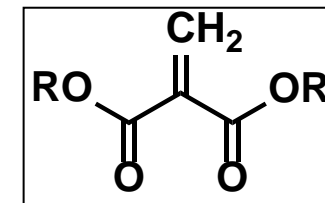
### Accelerate creation of new businesses and products

#### Mobility

Commercialize of **methylene malonates** (Functional monomers, crosslinking agent)

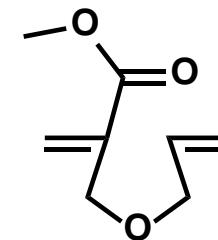
Pilot facility is under consideration (US)

Enhance marketing activities



#### Imaging

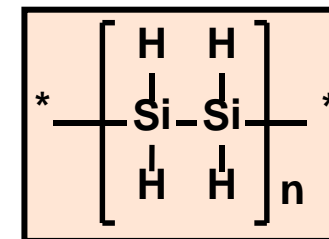
Commercialize of **AOMA** (Cyclopolymerization monomer)



#### Semiconductor

Commercialize of **higher order silane material**

(Monomer for semiconductor process)



## 2. Policies to priority challenge

### Accelerate creation of new businesses and products

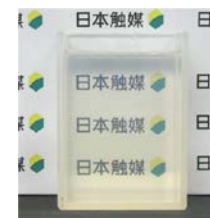
Lithium bis (fluorosulfonyl) imide : LiFSI (“IONEL”) <Electrolytes for lithium-ion batteries>

Acrylic resin for optical materials (“ACRYVIEWA”)

<Material for FPD>

The Dispersion of Zirconia Nanoparticles (“ZIRCOSTAR”)

< Refractive index adjuster>



### Featured products of existing businesses

Secondary alcohol ethoxylates (“SOFTANOL”)<Surfactant>

- 1) Expansion in Kawasaki, Japan is completed
- 2) Further expansion in Thailand is considered

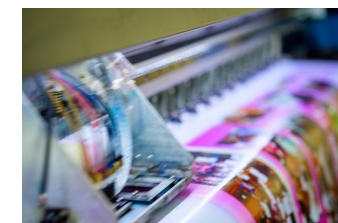
**We target liquid detergents market with variety of products**



VEEA <Performance monomer>

EPOCROS <Performance polymer>

EPOMIN <Performance polymer>



### 3. Target to continuous growth

#### Develop an active corporate team and organization

- Workstyle Innovation Committee

Since Jul. 2017  
Workstyle Innovation Committee

- Business Process Re-engineering team
- Workstyle Reforming team
- IT Solution team

#### Enhance the confidence of stakeholders

- Response to CSV, ESG and SDGs

Since Apr. 2018  
Sustainability Promotion Committee  
 Considering the way of Nippon Shokubai’s sustainability as well as “Group’s Common Values (tentative)” to reflect them to the next business plan

- Revise the Group Mission system
- Establish Group’s Common Values (tentative)
- Make the integrated report
- Implement Group Mission permeation measures

Since Oct. 2018  
Promotion of CSR activity <Enhancement of ESG disclosure>  
 Disclosed main ESG data on website  
<http://www.shokubai.co.jp/en/csr/esg/>



## 4. Financial results for the 2nd quarter of the fiscal year ending march 31, 2019 (FY2018)

	FY2017 2Q	FY2018 2Q	
(Unit : Billion Yen)	Results	Results	Forecasts announced on May 8
<b>Net sales</b>	159.0	177.4	170.0
<b>Operating profit</b>	14.0	13.1	12.0
<b>Ordinary profit</b>	16.7	17.2	15.0
<b>Profit attributable to owners of parent</b>	12.0	12.9	11.5
<b>ROA</b>	7.5%	7.3%	6.4%
<b>ROE</b>	8.1%	8.2%	7.4%

Exchange rate :

111.05 yen/US\$

110.27 yen/US\$

110.00 yen/US\$

126.32 yen/EUR

129.79 yen/EUR

130.00 yen/EUR

Domestic naphtha price :

37,600 yen/kL

51,100 yen/kL

46,000 yen/kL

## Sales and profits exceed the forecasts announced on May 8

- Functional chemicals perform better than predicted :  
“decrease of SGA” and “volume effect” exceed “spread tightening”
- Profit of affiliates performs better than predicted

## 5. Financial forecasts for the fiscal year ending March 31,2019 (FY 2018)

	FY2017	FY2018	
(Unit : Billion Yen)	Results	Forecasts	Forecasts announced on May 8
<b>Net sales</b>	322.8	370.0	350.0
<b>Operating profit</b>	26.7	26.0	27.0
<b>Ordinary profit</b>	32.3	32.5	32.5
<b>Profit attributable to owners of parent</b>	24.3	24.5	24.5
<b>ROA</b>	7.2%	6.9%	6.9%
<b>ROE</b>	8.1%	7.7%	7.7%

Exchange rate :

110.82 yen/US\$  
129.70 yen/EUR110.13 yen/US\$  
129.90 yen/EUR110.00 yen/US\$  
130.00 yen/EUR

Domestic naphtha price :

41,900 yen/kL

54,600 yen/kL

46,000 yen/kL

### FY2018 : Increase in sales, ordinary profit and profit attributable to owners of parent

- **Sales volume** is predicted to reach a **record high**
- **Decrease in operating profit** with an **increase in processing costs** and **spread tightening**, in spite of an increase in **volume effect**, is predicted
- It is predicted that **profit of affiliates** will **exceed the forecast** announced on May and **ordinary profit and profit attributable to owners of parent** will increase

**The Plan is well underway towards the goal in 2020**

## 6. Return policy

Taking overall account of business expansion and strengthening of corporate structure, and based on forecasts of the trend in consolidated earnings, we are aiming to improve levels of dividends in the medium term

### FY2017 dividend

Profit attributable to owners of parent **24.3** billion yen

**160 yen per share**

10 yen per share higher than the last period  
Record highest dividends

Unit: yen			
(Yen / share)	Interim	End of period	Total
Dividends per share	75	85	160

### FY2018 dividend, Forecast

Profit attributable to owners of parent **24.5** billion yen

**160 yen per share**

The same as the highest past dividend

Unit: yen			
(Yen / share)	Interim	End of period	Total
Dividends per share	80	80	160

	Average FY 2009- FY 2018	FY 2017	FY 2018 (Forecast)
Payout ratio	25.7%	26.3%	26.0%

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