



NIPPON FINE CHEMICAL CO., LTD.

# Medium-term Management Plan (FY2023 to FY2026) Briefing

May 12, 2023

NIPPON FINE CHEMICAL CO., LTD.





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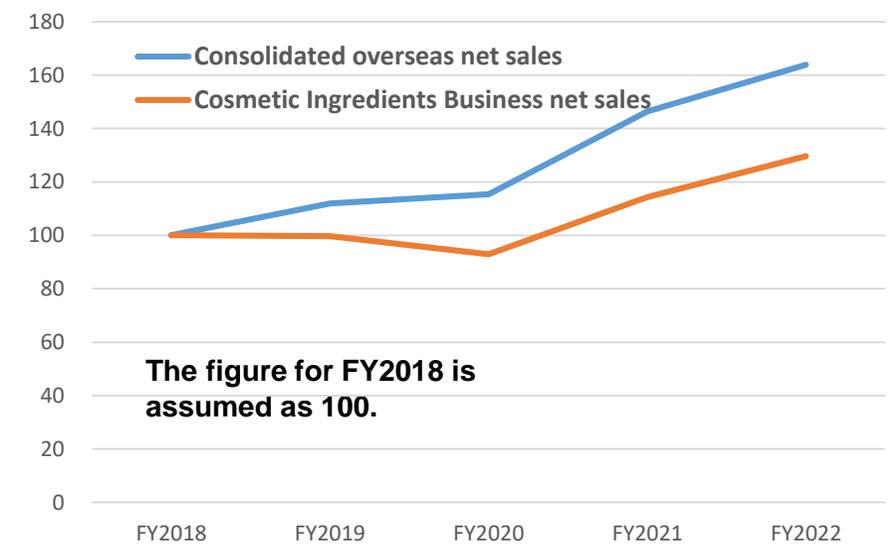


# 1. Review of Medium-term Management Plan (FY2018 to FY2022)

## (Industrial Products Business)

—Cosmetic Ingredients Field—		
Initial target	Action	Result
<ul style="list-style-type: none"> <li>Enhance recognition and penetrate the market, aiming to be a <b>global partner</b> supplying cosmetic functional ingredients (“active ingredient,” “functional ester” and “nano materials”)</li> </ul>	<ul style="list-style-type: none"> <li>Despite a brake put on sales due to the spread of the COVID-19 infection, focused on developing and expanding sales of <b>sustainable products</b> such as RSPO* and Non-GMO* products and realized sales expansion to overseas customers.</li> </ul>	(Consolidated overseas net sales) FY2018: ¥5.6 billion ⇒ FY2022: ¥9.2 billion

\*RSPO・・・Roundtable on Sustainable Palm Oil (certification system)  
 Non-GMO・・・Products that do not use genetically modified organisms





# 1. Review of Medium-term Management Plan (FY2018 to FY2022)

—Fine Chemicals Field—

Initial target	Action	Result
<ul style="list-style-type: none"> <li>Strengthen the development of the downstream field, with aims <b>to enhance competitiveness in the phospholipids for pharmaceuticals and existing fields and to expand our business domain</b></li> </ul>	<ul style="list-style-type: none"> <li><b>Constructed a new plant and an office building</b> with an eye on growth of nucleic acid-based pharmaceuticals using liposomes and LNPs*, and <b>constructed a new plant</b> based on a request for production increase from Gilead Sciences, Inc.</li> </ul>	<ul style="list-style-type: none"> <li>Total capital investment of approx. <b>¥5.3 billion</b></li> <li><b>Established the organizational structure</b> as the Lipid Division</li> </ul>
<ul style="list-style-type: none"> <li><b>Acquire new business domains</b> in functional resins and functional coatings</li> </ul>	<ul style="list-style-type: none"> <li>Promoted the <b>selection and concentration</b> of existing products through reviewing the business portfolio</li> <li><b>Concentrated resources on the products that have potential for high profitability</b>, as the materials for perovskite solar cells developed into a major theme</li> </ul>	<ul style="list-style-type: none"> <li>Withdrew from the leather agent field due to <b>sale of Taicang Nikka Fine Chemical Co., Ltd.</b>, a subsidiary</li> <li>Succeeded in developing materials for solar cells through <b>joint development with AIST*</b></li> </ul>

\*LNP...Lipid nanoparticles, a new pharmaceuticals delivery system

AIST...National Institute of Advanced Industrial Science and Technology





# 1. Review of Medium-term Management Plan (FY2018 to FY2022)

(Household Products Business)

—Environmental Hygiene Field—		
Initial target	Action	Result
<ul style="list-style-type: none"> <li>Further reinforce the core business</li> </ul>	Established a production and supply system for hand sanitizer in response to the spread of the COVID-19 infection, and increased the supply to the market	Achieved the operating profit target for the final year even halfway through the period due to special demand related to COVID-19 Despite falling demand in reaction to it, achieved the operating profit target in the final year, too
<ul style="list-style-type: none"> <li>Enhance the product development capability</li> </ul>	Developed automatic dispensers, and focused on sales of the ARBONURSE hand sanitizer	
<ul style="list-style-type: none"> <li>Expand operations and acquire new business domains</li> </ul>	ARBONURSE brand penetrated	





# 1. Review of Medium-term Management Plan (FY2018 to FY2022)

(Other)

Initial target	Action	Result
<ul style="list-style-type: none"> <li>While striking an <b>optimal balance between capital efficiency and financial soundness</b>, work to enhance corporate value and continuously <b>improve and stabilize the dividend level</b> based on business performance</li> </ul>	<ul style="list-style-type: none"> <li><b>Introduced a consolidated dividend on equity (DOE)</b> as a new dividend policy</li> <li>Promoted <b>reduction of cross-shareholdings</b> and <b>purchase of treasury shares</b></li> </ul>	<ul style="list-style-type: none"> <li>Dividend payments increased for the sixth consecutive year (FY2018: <b>¥30/share</b> ⇒ FY2022: <b>¥57/share</b>)</li> <li>Sold <b>four issues</b> of shares held (currently 26 issues held)</li> <li>Purchased <b>approx. 950,000 shares</b> of treasury shares (approx. 4% of the number of issued shares)</li> </ul>

Implemented operations generally in line with the initial targets in all the businesses, despite the impact of COVID-19  
 Accelerated selection and concentration of businesses as well as enhancement of capital policies



# 1. Review of Medium-term Management Plan (FY2018 to FY2022)

(Quantitative Targets)

(Unit: Millions of yen)	FY2018	FY2022	Changes in comparison with FY2018 (%)	Medium-term Management Plan (Final year)		
	Actual amount	Actual amount		Target amount	Increase/decrease from the target	
Net sales	28,084	36,838	31.2%	39,000	-5.5%	Not achieved
Operating profit	3,199	5,057	58.1%	3,900	29.7%	Achieved
Ratio of operating profit (%)	11.4%	13.7%		10.0%		Achieved
Ordinary profit	3,503	5,389	53.8%			
Profit attributable to owners of parent	2,303	4,079	77.1%			
Basic earnings per share (Yen)	96.98	174.42	79.9%			
Capital investment (five years cumulative)		¥10.9 billion yen		¥10.0 billion yen		Achieved

Net sales fell short in the domestic trading departments, but we achieved the operating profit target mainly due to growth in the Cosmetic Ingredients Business  
Also steadily made capital investment toward future growth

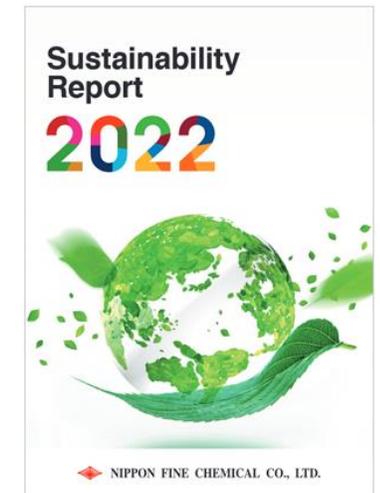


# 1. Review of Medium-term Management Plan (FY2018 to FY2022)

## (Matters implemented other than initial targets)

- Listed on the Prime Market of the Tokyo Stock Exchange (Steadily comply with the Corporate Governance Code)
- Formulated the long-term vision (NFC VISION 2030)
- Took measures for sustainability and TCFD\* issues

\*TCFD・・・Task Force on Climate-related Financial Disclosures



In addition to responding to changes in the external environment, formulated a long-term policy and carried out various measures based on it

⇒ Advanced the transformation into “a corporate group growing sustainably”



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## 2. Summary of Medium-term Management Plan (FY2023 to FY2026)

FY2018 to FY2022

### The 13th Medium-term Management Plan

Stage to  
**strengthen governance**  
toward sustainable growth

#### [Strengthen governance]

\*Get listed on the Prime Market of the Tokyo Stock Exchange  
(Comply with the Corporate Governance Code)

\*Formulate NFC VISION 2030  
(Develop and share the vision of the Company's future self)

\*Take measures for sustainability issues  
(Improve the sustainability promotion structure)

\*Review business and asset portfolios  
(Reorganized subsidiaries and sold non-current assets)

FY2023 to FY2026

### The 14th Medium-term Management Plan

Stage to  
**strengthen growth foundation**  
through aggressive investment

#### [Strengthen growth foundation]

\*Review business portfolio  
(Restructure segments)

\*Establish strategic products  
(Phospholipids)

\*Strengthen capital investment and invest in R&D  
(Improve production capacity, and develop next-generation products and manufacturing technologies)

\*Enhance measures for sustainability issues  
(Take specific actions to achieve numerical goals)

FY2027 to FY2030

### The 15th Medium-term Management Plan

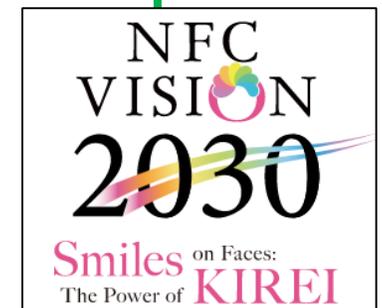
Stage to  
**expand growth and earnings**  
to achieve NFC VISION 2030

#### [Expand growth and earnings]

\*Achieve NFC VISION 2030  
(Achieve the vision of the Company's future self)

\*Realize sustainable growth  
(Achieve numerical goals for "the Company's future self it aims to be")

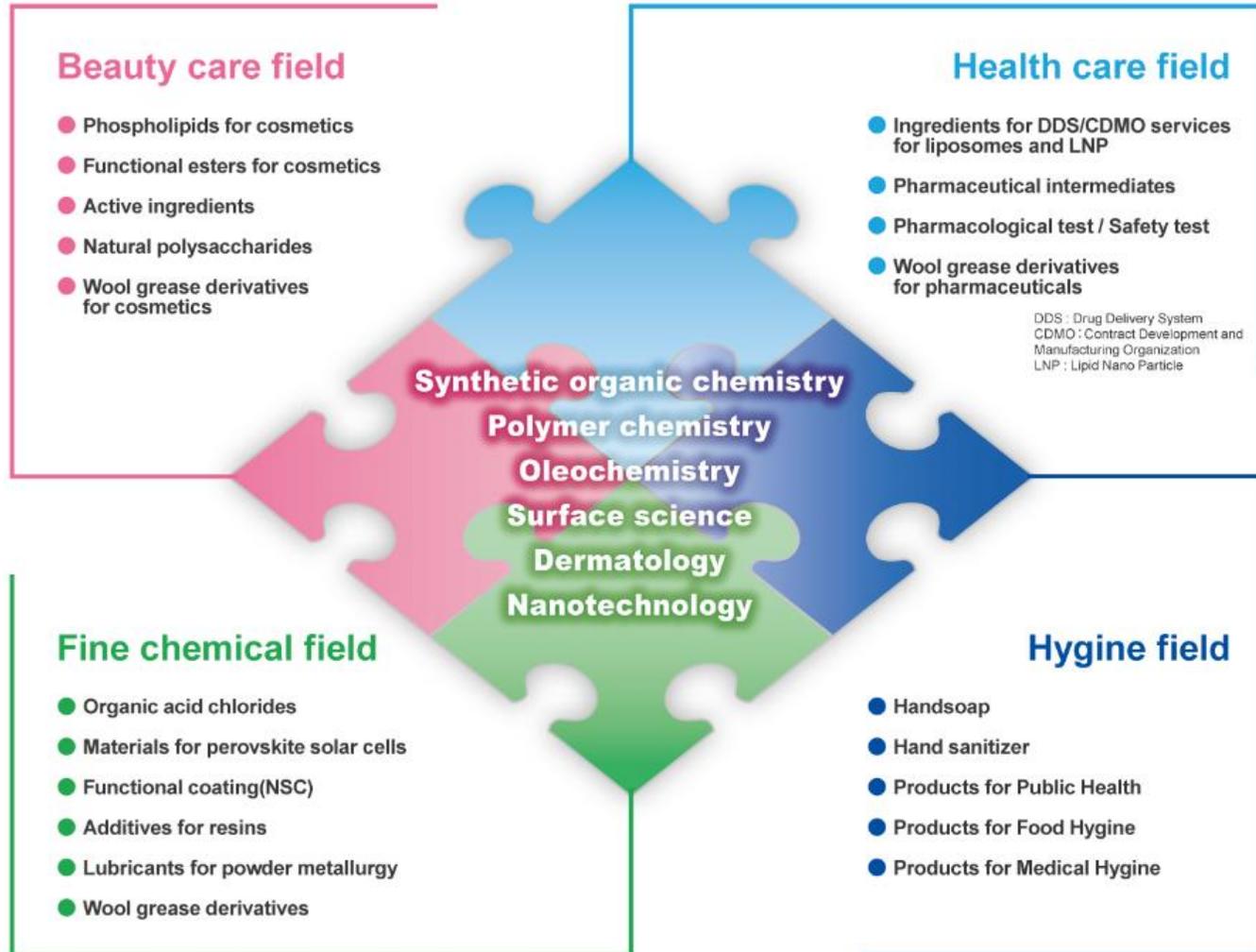
\*Implement measures for sustainability issues  
(Achieve goals by FY2030)





# 2. Summary of Medium-term Management Plan (FY2023 to FY2026)

## • New Business Segment

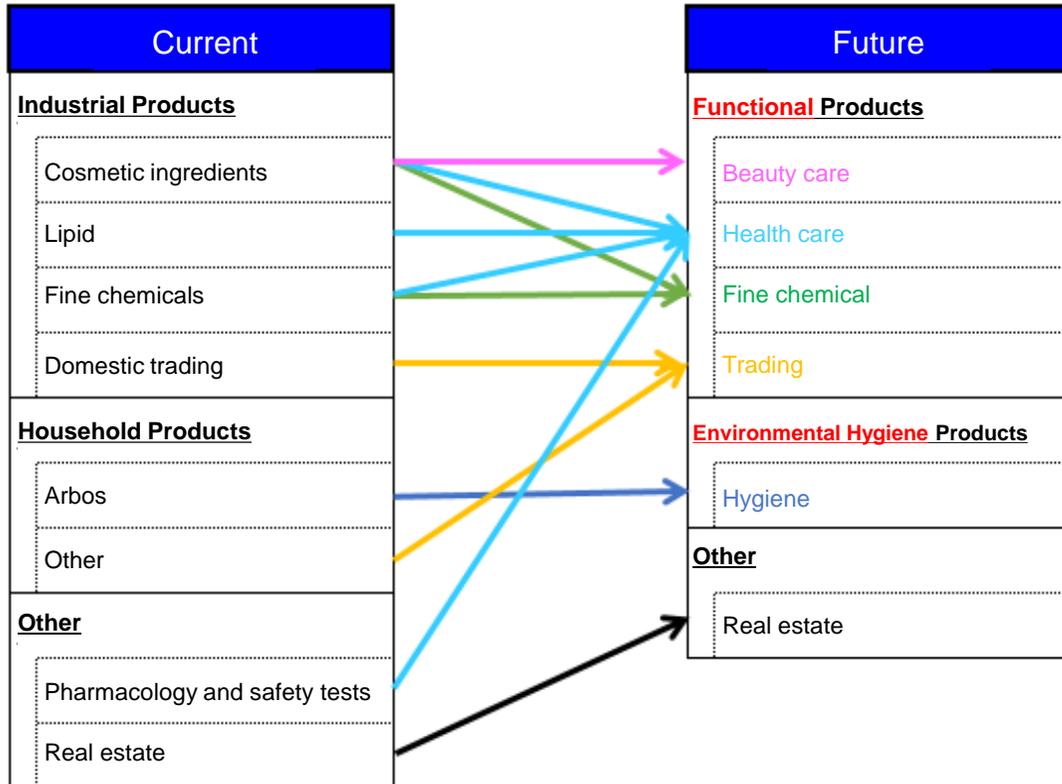




## 2. Summary of Medium-term Management Plan (FY2023 to FY2026)

### • Review the business portfolio (restructure segments)

⇒ With an eye toward strengthening future business strategies, we have subdivided the business segment brought together as industrial products into **beauty care**, **health care**, **fine chemical**, and **trading** based on business fields, and decided to make a voluntary disclosure.



### ● Changes

- Restructured Cosmetic Ingredients Business (including lanolin cholesterol), Lipid Business and Fine Chemicals Business to reorganize them into beauty care, health care and fine chemical based on business fields, and renamed them the Functional Products segment.
- Changed the Household Products segment to only consist of hygiene (Arbos), and renamed it the Environmental Hygiene Products segment.
- Transfer the pharmacology and safety tests from the Other segment to health care in the Functional Products segment.



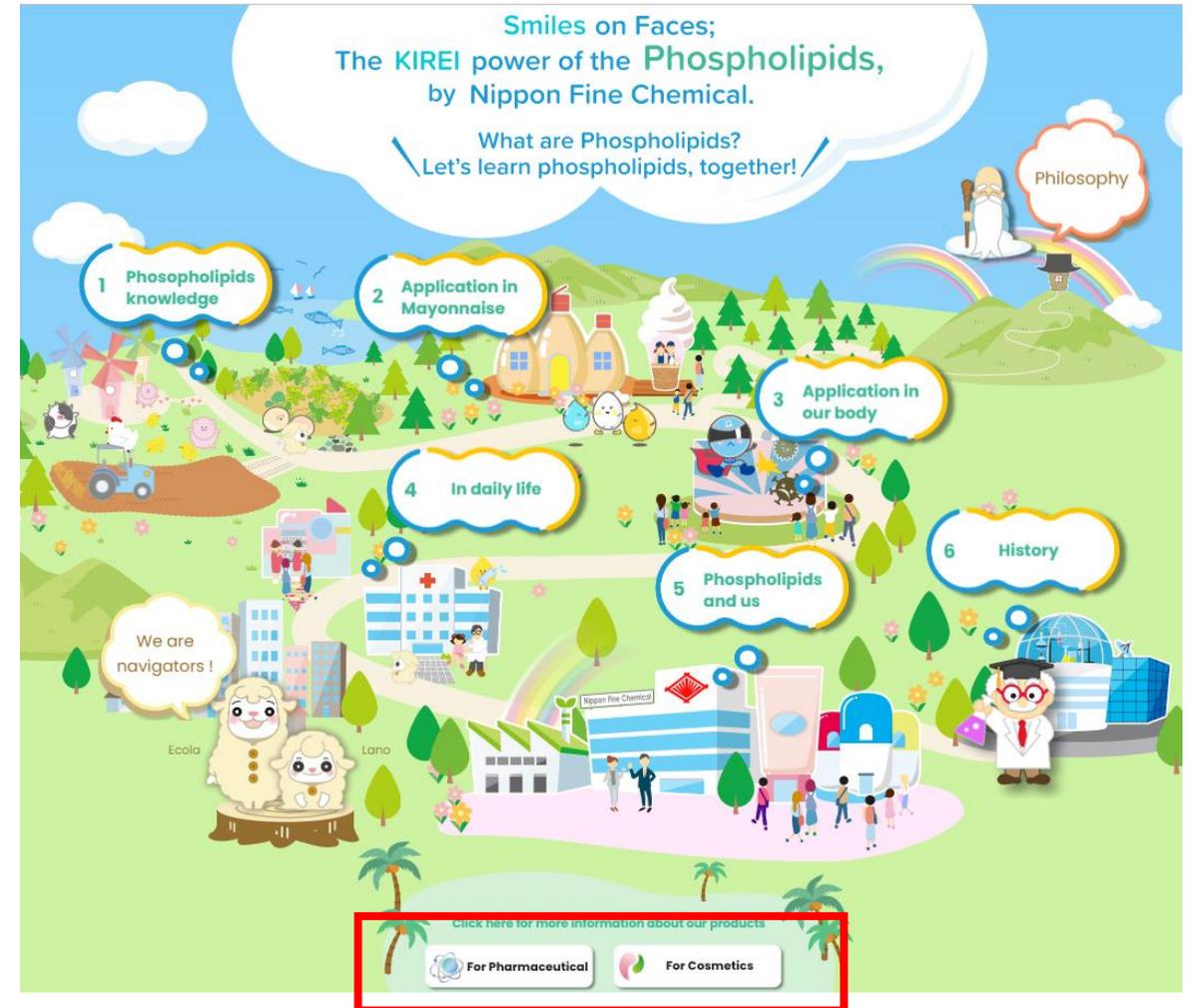
## 2. Summary of Medium-term Management Plan (FY2023 to FY2026)

### • Establish strategic products (phospholipids)

Identify phospholipids\*, the Company's proprietary technology product, as a growth driver

Will strengthen growth foundation with the phospholipids for pharmaceuticals (health care) and the phospholipids for cosmetics (beauty care)

\*Phospholipids: A key component of cell membrane which protects human cells. Phospholipids are compatible with both water and oil, act as an intermediary between components that would otherwise resist each other, and produce effects such as "helping ingredients blend smoothly together" and "protect bodies from ailments, etc."



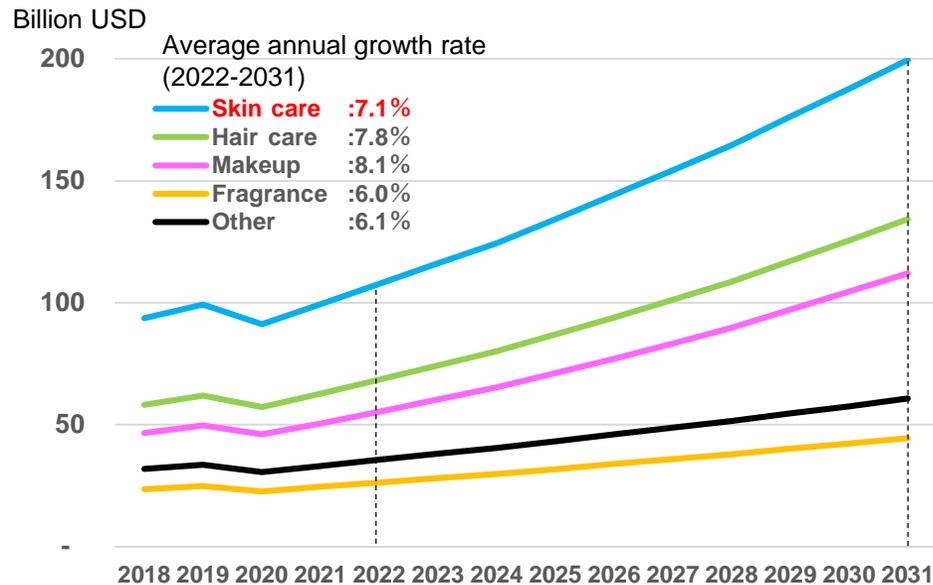


# 2. Summary of Medium-term Management Plan (FY2023 to FY2026)

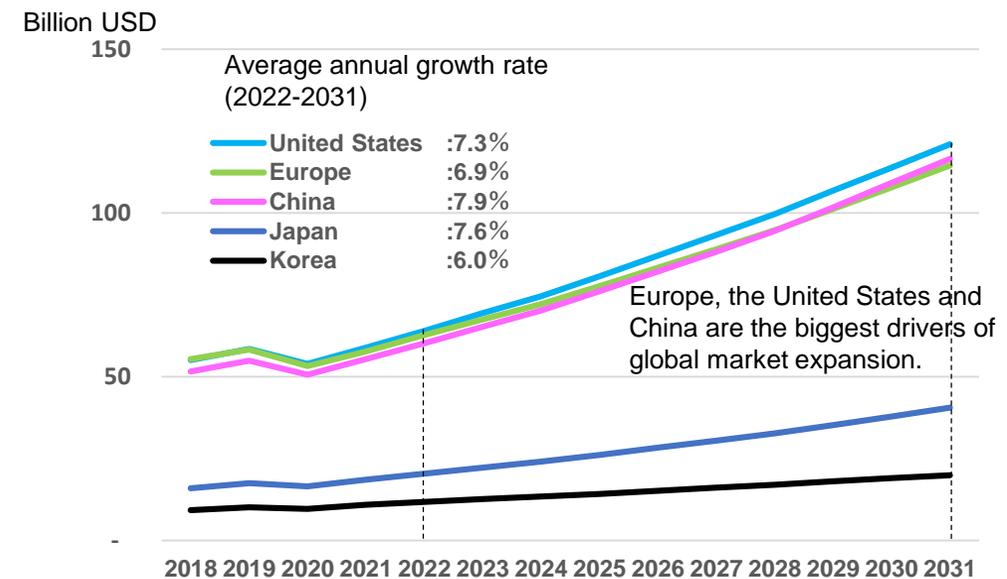
- Establish strategic products (phospholipids) (*beauty care*)

Source: Cosmetics Market Analysis and Segment Forecasts to 2031 (Maia Research)

### Forecast of global cosmetics market size (by field)



### Forecast of global cosmetics market size (by area)



The skin care market, in which most of the Company's cosmetic ingredients are used, is large in size and continues to grow

By area, in addition to continued sales expansion to China, aim to expand sales to Europe and the U.S., the largest market

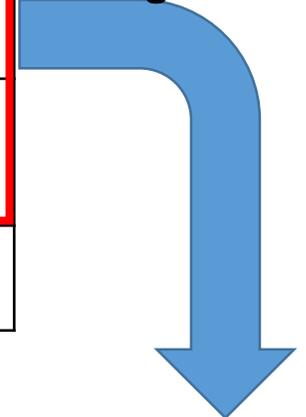


## 2. Summary of Medium-term Management Plan (FY2023 to FY2026)

- Establish strategic products (phospholipids) (beauty care)

Item	Details	Market size (estimate)	Analysis of the current environment	The Company's response
Market	Japan	Approx. ¥2.6 trillion	Inbound demand disappeared and domestic demand declined due to the COVID-19 pandemic ⇒ <b>slow recovery from the COVID-19 impact</b>	Widely adopted by cosmetics manufacturers ⇒ expansion
	Global	Approx. ¥38 trillion	Many countries rebounded swiftly from the COVID-19 pandemic and kept growing ⇒ <b>expect steady growth</b>	Expand adoption by major global cosmetics manufacturers, etc.
Products	Market trends	–	Cosmetics markets expanded primarily in the growing East and Southeast Asian economies, and there was an <b>increase in high value-added products</b>	Combine highly functional ingredients and marketing
	Sustainability	–	<b>Selection of ingredients</b> , use of plant-derived and Non-GMO ingredients mainly in Europe and the U.S.	Develop products to meet the needs

Given the potential for future market growth, particularly focus on these among the Company's strategies



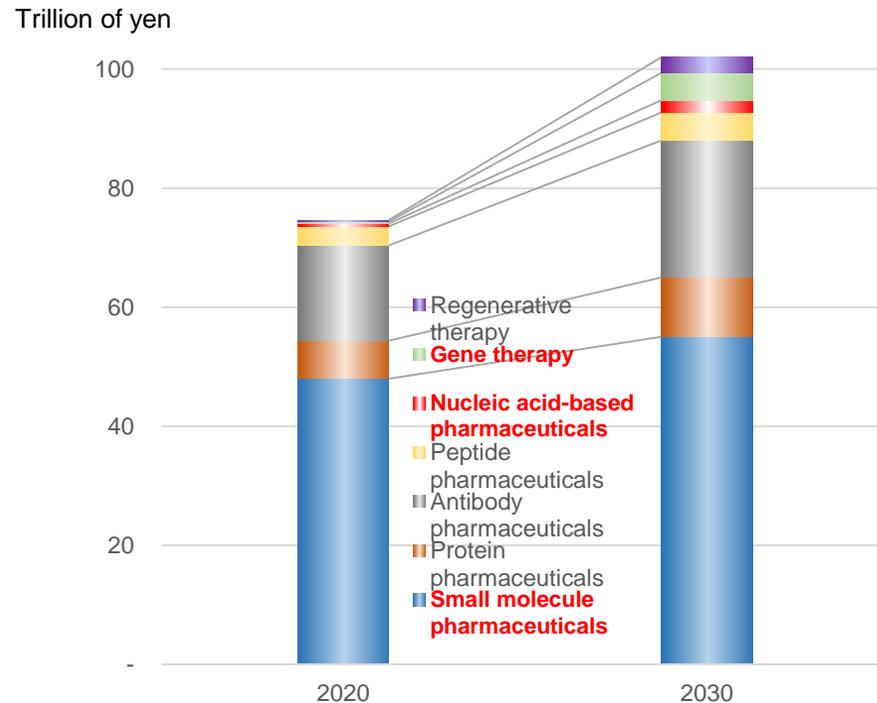
To prepare for future market growth, construct a new plant for the phospholipids for cosmetics



# 2. Summary of Medium-term Management Plan (FY2023 to FY2026)

- Establish strategic products (phospholipids)(health care)

Global pharmaceuticals market size (amount)



Global pharmaceuticals market size and average annual growth rate by modality

Types of treatment (Modality)	Market size (2030)	Growth rate (2020-2030)
Regenerative therapy	¥2.5 trillion	High (approx. 20%)
<b>Gene therapy</b>	¥4.6 trillion	<b>High (approx. 30%)</b>
<b>Nucleic acid-based pharmaceuticals</b>	¥2.1 trillion	<b>High (17%)</b>
Peptide pharmaceuticals	¥4.7 trillion	Moderate (8%)
Antibody pharmaceuticals	¥23 trillion	Moderate (8%)
Protein pharmaceuticals	¥10 trillion	Low (4%)
<b>Small molecule pharmaceuticals</b>	<b>¥55 trillion</b>	Low (slight increase)

Created by reference to materials of Arthur D. Little (March 2021)

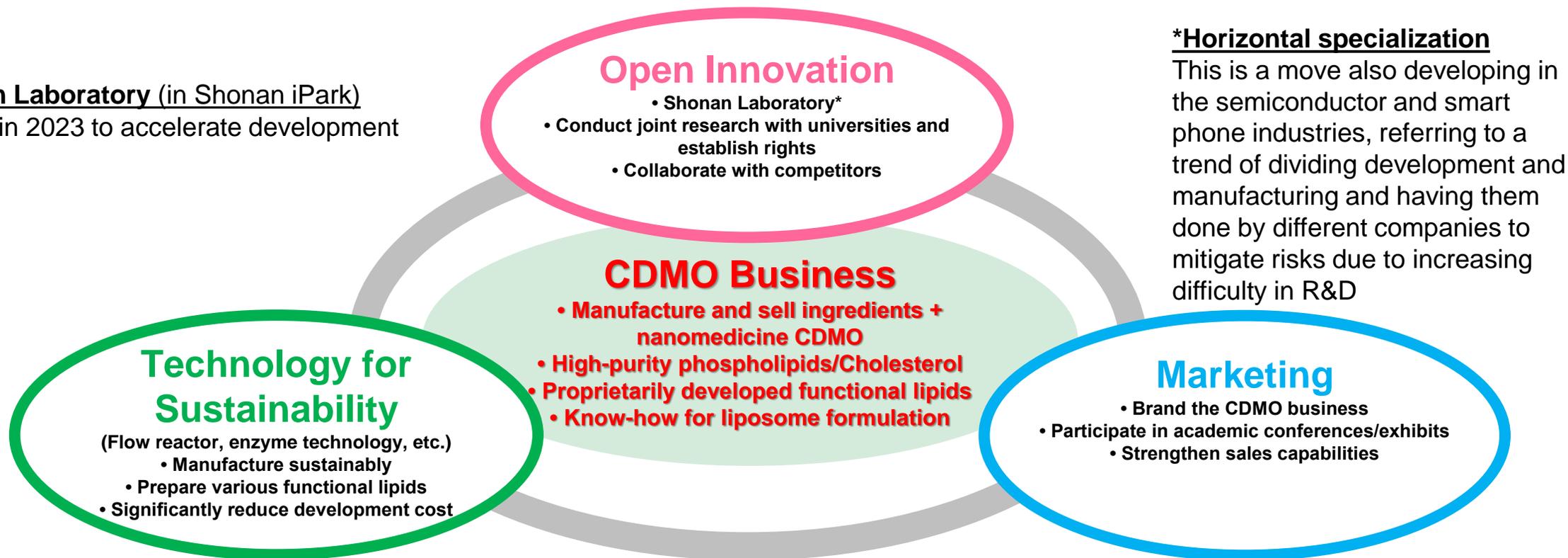
The pharmaceuticals market's center of future growth will move from small molecule pharmaceuticals to nucleic acid-based pharmaceuticals and gene therapy  
 ⇒ While ensuring profits in existing businesses that are large in scale, focus on new fields such as nucleic acid-based pharmaceuticals



## 2. Summary of Medium-term Management Plan (FY2023 to FY2026)

- Establish strategic products (phospholipids)(health care)

\*Shonan Laboratory (in Shonan iPark)  
Opened in 2023 to accelerate development

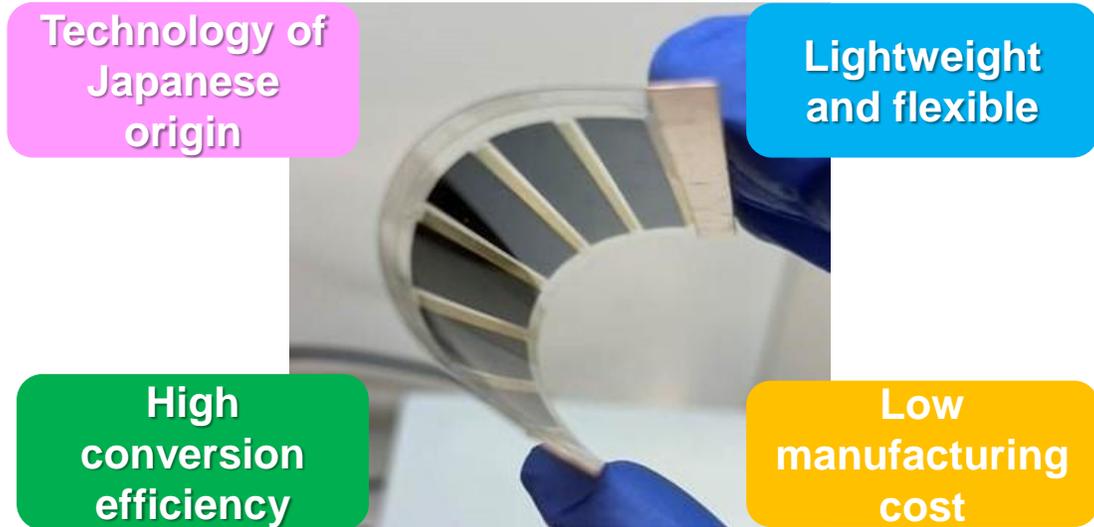


To steadily capture the needs for “horizontal specialization\*,” which has been advanced in the pharmaceuticals industry, focus on CDMO (contract development and manufacturing organization) from now on



## 2. Summary of Medium-term Management Plan (FY2023 to FY2026)

- Perovskite: A material for Perovskite Solar Cells (PSC) (fine chemical)

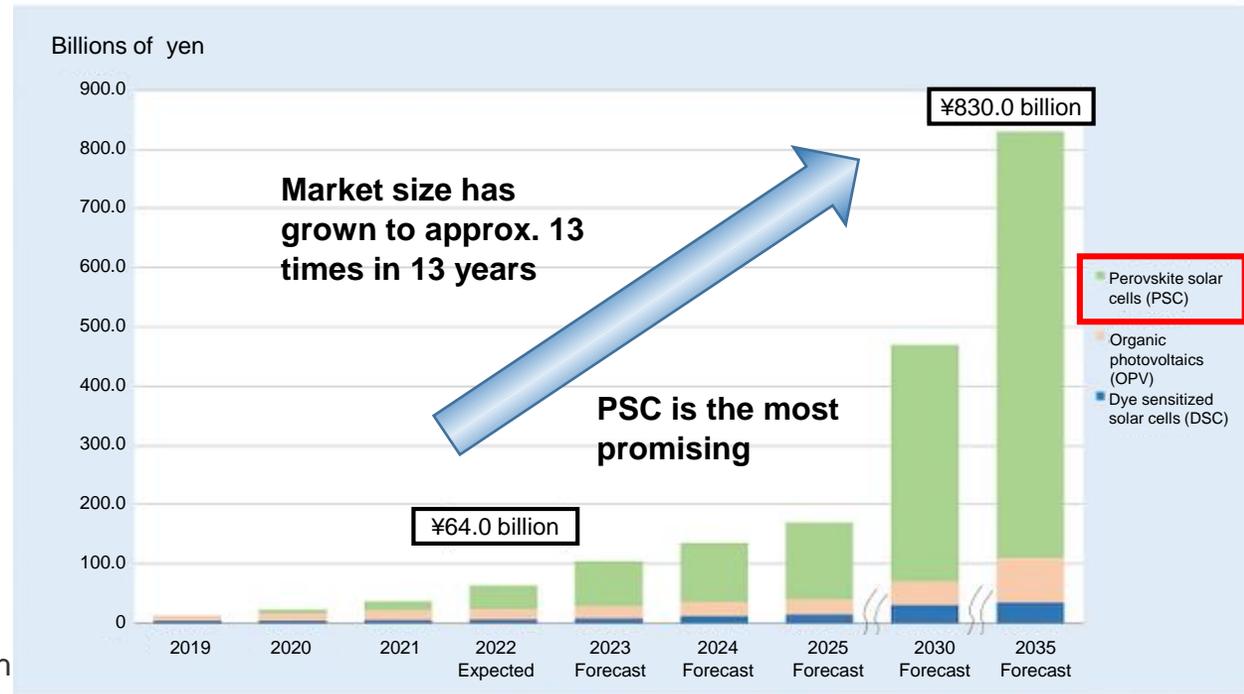


Picture provided by: Toin University of Yokohama

### \*Hole transport material

An extremely important material that takes out a positive electrical charge and send it to an electrode. We strengthen and expand the sales of this material in both the forms of Spiro-MeOTAD produced by the Company's unique manufacturing method, and proprietarily developed items

Global market for new-type/next-generation solar cells



Source: Fuji Keizai Group (April 2022)

Solar cells that are light, bend and can generate power even in a low light condition  
 ⇒ applicable to a use for which currently prevailing silicon cells are difficult to use  
 The market size of hole transport materials\* is estimated to grow to ¥20.0 billion or more by 2035



## 2. Summary of Medium-term Management Plan (FY2023 to FY2026)

- Arbos (hygiene)

### Hand washing soap solutions/hand soaps

Develop environment-friendly products such as pouches, RSPO products and biomass containers



### Hand sanitizer

Enhance the BtoB/BtoC ARBONURSE series



### Concentrated detergents

Add items to the ECO series lineup



Make a difference by advancing development of high value-added products while launching sustainability-compatible products



## 2. Summary of Medium-term Management Plan (FY2023 to FY2026)

- Investment in R&D

- **\*Realize sustainable production activities through implementation of the materialities**

- Carbon neutrality
- Reduce releases of substances subject to the pollutant release and transfer register (PRTR) system (system to manage release of chemical substances)
- Promote the reduction and recycling of industrial waste
- Enhance effective use of water resources

- **\*Creation of future core technologies**

- Consider the use of flow reactors (continuous reaction)\*
- Consider making the technology for enzyme synthesis more efficient

\*Flow reactors (continuous reaction)

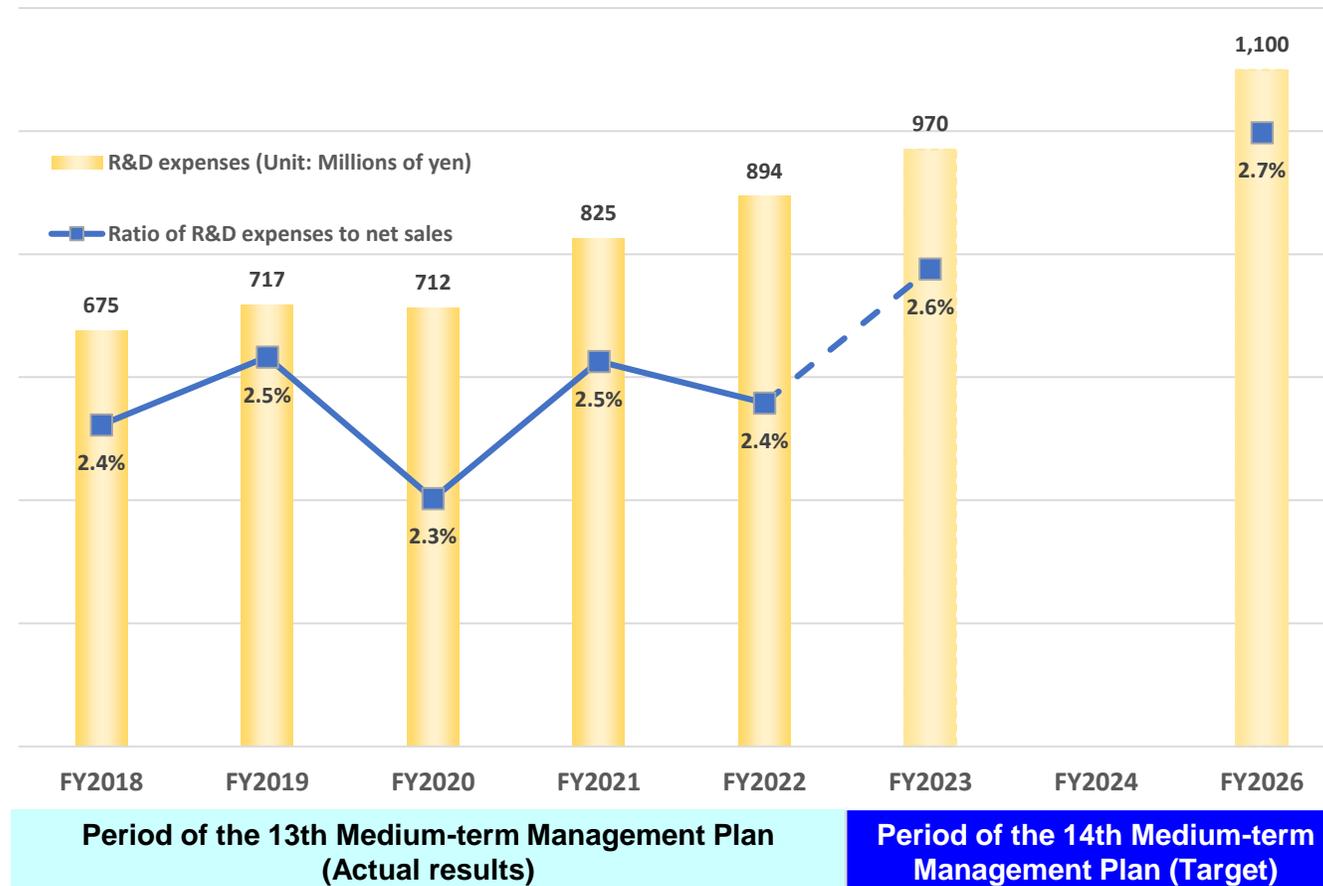
A method under which ingredients are continuously fed into a column to get a product in continuity. Compared with the “batch reaction,” we can expect more energy saving and waste reduction.

Accelerate our measures for sustainability issues, in addition to our sustainable growth, by also working on new technology development of products other than the materials for perovskite solar cells, etc.



## 2. Summary of Medium-term Management Plan (FY2023 to FY2026)

### • Investment in R&D





## 2. Summary of Medium-term Management Plan (FY2023 to FY2026)

### • Numerical managerial goals

	The 13th Medium-term Management Plan		The 14th Medium-term Management Plan		Vision of the Company's future self	
	151st fiscal year Actual results	155th fiscal year Actual results	156th fiscal year Plan	159th fiscal year Target	163rd fiscal year Target	
	FY2018	FY2022	FY2023	FY2026	FY2030	
<b>Growth potential</b>	Net sales (Unit: Billions of yen)	28.0	36.8	38.0	41.0	50.0
<b>Profitability</b>	Operating profit (Unit: Billions of yen)	3.1	5.0	4.8	5.7	7.7
	EBITDA (Unit: Billions of yen)	4.3	6.0	6.1	7.7	11.1
<b>Capital efficiency</b>	ROIC	6.1%	7.9%		8.0%	9.0%
	Capital investment (Unit: Billions of yen)	¥10.9 billion in five years		¥12.0 billion in four years		
	Ratio of R&D expenses to net sales	2.4%	2.4%	2.6%	2.7%	

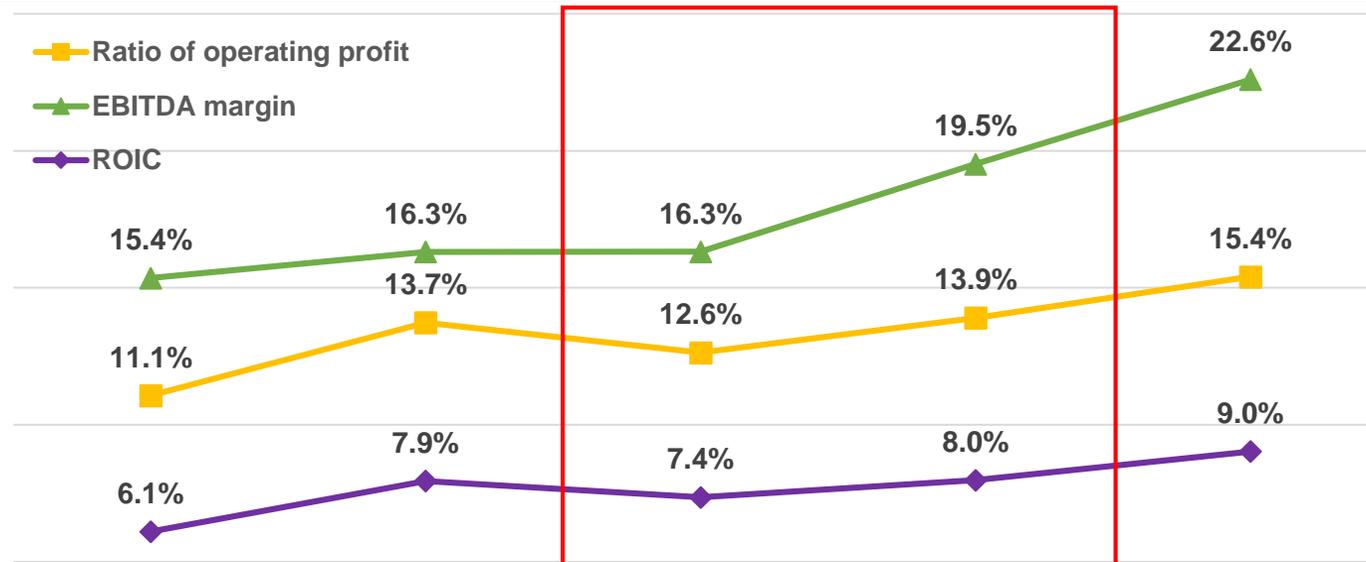
\*EBITDA: Operating profit before depreciation and amortization (Operating profit + depreciation and amortization)

ROIC: Return on invested capital (Operating profit after tax / (interest-bearing liabilities + equity))

Continue aggressive capital investment, and further increase the investment in R&D as well  
Set EBITDA and ROIC as target indicators from the perspective of investment profitability and capital efficiency



## 2. Summary of Medium-term Management Plan (FY2023 to FY2026)



\*EBITDA margin: EBITDA / net sales

ROIC: Return on invested capital (Operating profit after tax / (interest-bearing liabilities + equity))

FY2018	FY2022	FY2023	FY2026	FY2030
151st fiscal year Actual results	155th fiscal year Actual results	156th fiscal year Plan	159th fiscal year Target	163rd fiscal year Target
Period of the 13th Medium-term Management Plan		Period of the 14th Medium-term Management Plan		Vision of the Company's future self

Expect EBITDA margin to grow  
Aim at the ratios of operating profit and ROIC at the same levels as FY2022, given an increase in depreciation



## 2. Summary of Medium-term Management Plan (FY2023 to FY2026)

(Unit: Billions of yen)	The 14th Medium-term Management Plan								
	155th fiscal year Actual results			156th fiscal year Plan			159th fiscal year Target		
	FY2022			FY2023			FY2026		
	Net sales	Operating profit	EBITDA	Net sales	Operating profit	EBITDA	Net sales	Operating profit	EBITDA
Functional Products	28.4	4.1	5.0	28.0	3.7	4.9	28.9	4.4	6.4
Beauty care	7.6	2.0		8.9	2.0		10.3	2.0	
Health care	5.7	0.9		5.9	0.4		7.1	1.1	
Fine chemical	6.4	0.9		5.1	0.9		5.2	1.0	
Trading	8.5	0.2		7.9	0.3		6.0	0.2	
Environmental Hygiene Products	8.0	0.7	0.8	9.7	1.0	1.0	11.9	1.1	1.2
Other	0.3	0.1	0.1	0.2	0.1	0.1	0.2	0.0	0.1
Consolidated Total	36.8	5.0	6.0	38.0	4.8	6.1	41.0	5.7	7.7

\*Beauty care: cosmetic ingredients, the lanolin for cosmetics, etc.

Health care: the phospholipids for pharmaceuticals, the lanolin for pharmaceuticals, pharmaceutical intermediates, pharmacology and safety tests, etc.

Fine chemical: fatty acid amides, functional coatings, fatty acid chlorides, etc.

For beauty care, net sales are expected to increase, but operating profit is expected to remain flat due to increasing depreciation burden associated with large capital investment  
 For health care, profit is expected to increase in line with a rise in net sales in the final year after going through the depreciation burden



## 2. Summary of Medium-term Management Plan (FY2023 to FY2026)

Breakdown of capital investment	Amount (Billions of yen)	Remarks
Expand facilities for the phospholipids for cosmetics (in Takasago)	2.3	Scheduled for completion in FY2026
Digitalization (such as upgrading core system)	1.6	4-year total
Measures for sustainability issues	0.6	4-year total
Business expansion investment (to increase production, construct a new warehouse, etc.)	0.8	4-year total
Construction of the new administration and welfare building (in Kakogawa-higashi)	1.7	Scheduled for completion in FY2024
Investment for renovation	2.5	4-year total
Investment in R&D facilities	1.1	4-year total
Group companies	1.4	4-year total
<b>Total</b>	<b>12.0</b>	

To achieve NFC VISION 2030, strive to strengthen growth foundation through aggressive investment



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# 3. Capital Policies

	The 13th Medium-term Management Plan		The 14th Medium-term Management Plan		Vision of the Company's future self
	151st fiscal year Actual results	155th fiscal year Actual results	156th fiscal year Plan	159th fiscal year Target	163rd fiscal year Target
	FY2018	FY2022	FY2023	FY2026	FY2030
DOE	2.0%	3.0%	3.5%	3.5%	
Dividends per share	¥30	¥57	¥70	¥80	¥100
Total return ratio	31%	79%	50% or more on average		
Ratio of cross-shareholdings	28%	25%		17% or less	10% or less

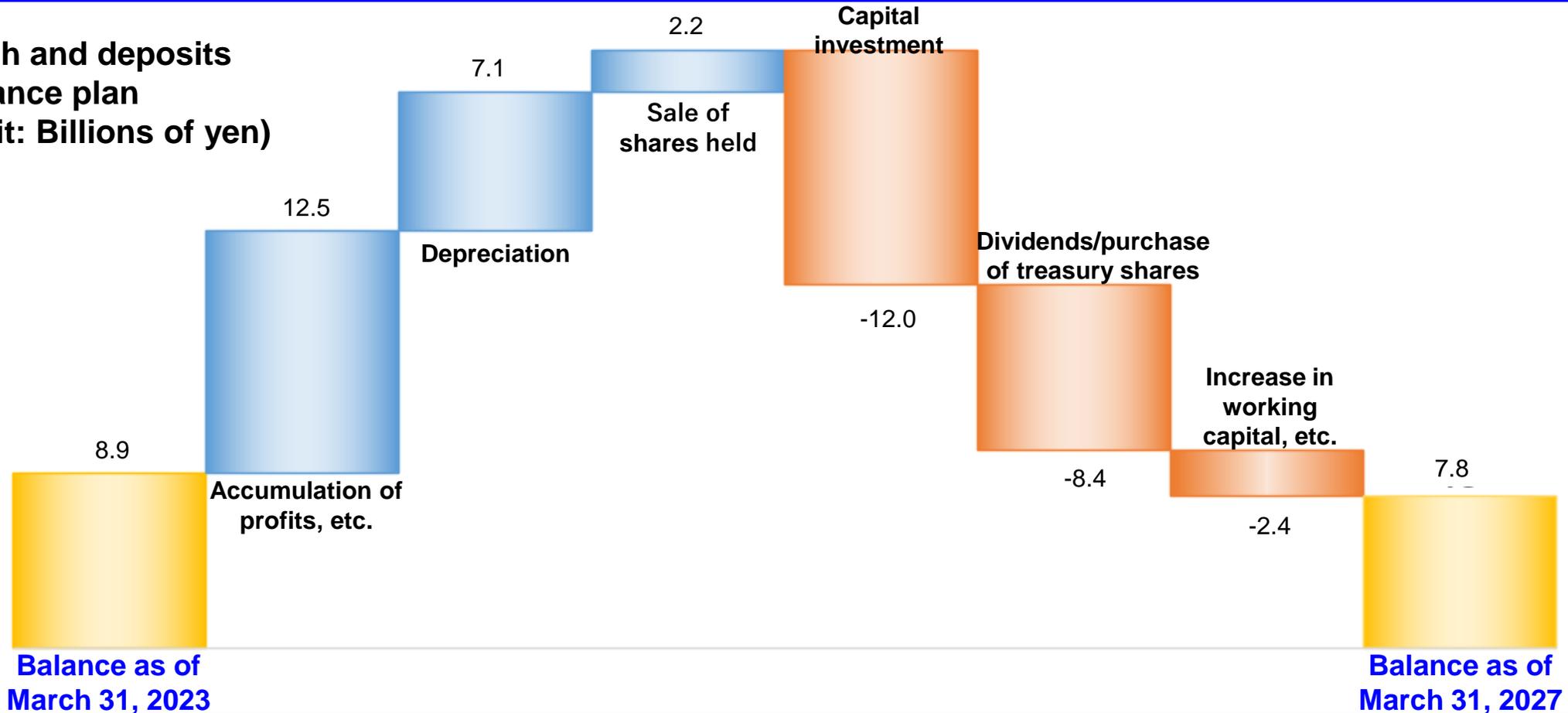
\*DOE: Dividend on equity (Total amount of annual dividends / consolidated net assets, or payout ratio x ROE)  
 Total return ratio: (Total amount of dividends + amount of treasury share purchased) / profit attributable to owners of parent  
 Ratio of cross-shareholdings: Percentage of the “carrying amount” of the “investment shares held for purposes other than pure investment” against consolidated net assets

To enhance shareholder returns, raised the DOE target from 3.0% to roughly 3.5% and set a target for total return ratio  
 Reduce cross-shareholdings by stages, aiming at the ratio of cross-shareholdings at 17% or less within four years



# 3. Capital Policies

Cash and deposits  
balance plan  
(Unit: Billions of yen)

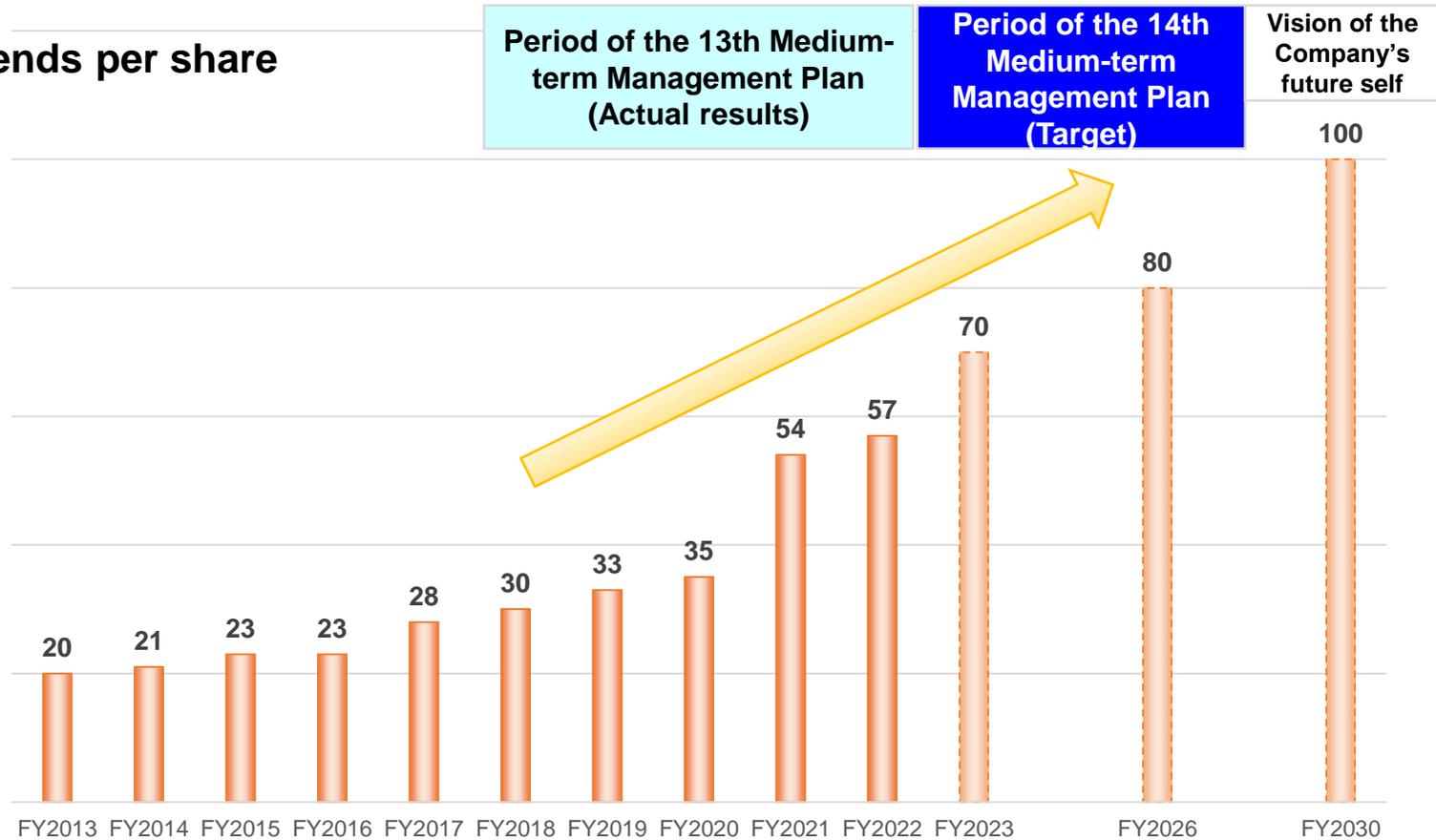


Accumulate not only profits, etc. but also cash by promoting sale of shares held  
⇒ To be allocated for capital investment and shareholder returns (so that we can increase dividends by raising DOE from 3.0% to roughly 3.5%, and purchase treasury shares)



# 3. Capital Policies

Trends in dividends per share (Yen)



**Will steadily increase dividends per share  
In FY2026, aim at ¥80 per share, four times higher than FY2013**



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# 4. Sustainability

## Nippon Fine Chemical's Basic Policy for Sustainability

**“Aiming for our sustainable growth and to bring about a sustainable society”**

Our Basic Policy for Sustainability is established on the basis of the “Smiles on Faces: The Power of KIREI” in our long-term vision, the NFC VISION 2030, and our sub-concept of helping to sustain the three “KIREIs” of the Earth, society, and the future.

### Environment

**Sustaining the KIREI of the Earth through sustainable manufacturing**

- Contribute to achieving a carbon-neutral society.
- Reduce industrial waste and promote recycling.



### Safety and Security

**Sustaining the KIREI of communities through compliance, safety, and actions that ensure peace of mind**

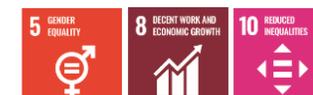
- Prevent workplace accidents and ensure health and safety for workers.
- Contribute to the society through safe and reliable products.



### Human Capital

**Sustaining the KIREI of the future through diversity-driven innovation**

- Be a company where women can play an active role.
- Be a workplace where people can work equally, regardless of disability.
- Achieve a work-life balance by supporting child-rearing and long-term care.





# 4. Sustainability

## Environment

### Sustaining the KIREI of the Earth through sustainable manufacturing

- Reduction of CO2 emissions by 38% by FY2030 compared to FY2013 level
  - Purchase renewable energy
  - Reduce emissions through capital investment/introduction of technologies
- Reduction of the amount of industrial waste by 20% or more compared to FY2019 level and achieve the recycling rate of 90% or more by FY2030
  - Reduce waste through process improvement
  - Reduce the amount of waste by changing equipment specs

## Safety and Security

### Sustaining the KIREI of communities through compliance, safety, and actions that ensure peace of mind

- Zero workplace accident
- Reduction of the number of quality complaints by 50% or more compared to FY2022 level

## Human Capital

### Sustaining the KIREI of the future through diversity-driven innovation

- Percentage of women employees at 20% or more by FY2027
  - Create an environment in which women can continue to work for a long period
  - Create an environment in which women can work, through the investment in manufacturing facilities, etc.
- Percentage of women in management positions at 30% or more in the 2030s
  - Hold leader training sessions for women
  - Review the personnel system (diversify management positions to include specialized management positions, etc.)
- Percentage of employees taking child-care leave at 70% or more by FY2025
  - Introduce a unique system to promote take-up of child-care leave by men
  - Promote creation of culture where employees easily take child-care leave



- Statements regarding earnings forecasts, etc. described in this document are based on the information obtained by the Company at the time of preparation of each document and certain assumptions that it deems reasonable, and are not intended to promise that they will be realized.
- Please be aware that, due to various factors, actual business results may vary from these forecasts.