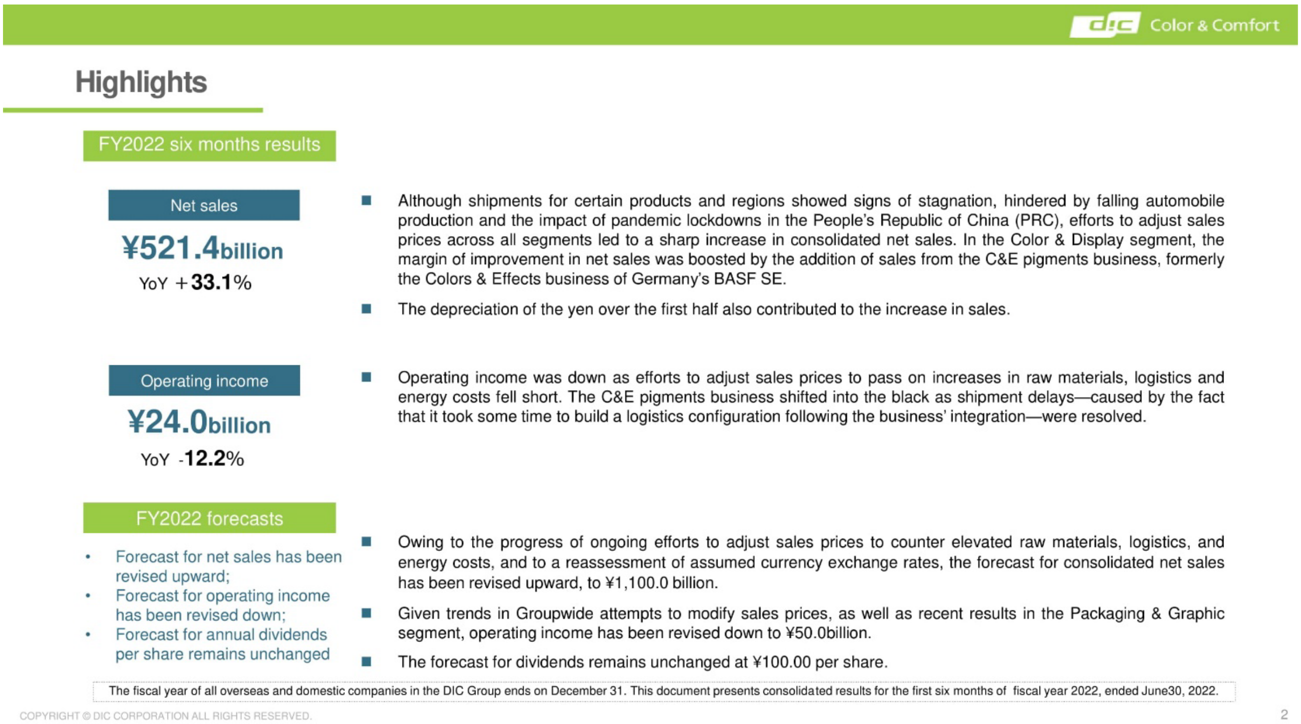
DIC Corporation

Q2 Financial Results Briefing for the Fiscal Year Ending December 2022

August 12, 2022

Presentation

Ino: Good morning, everyone. My name is Kaoru Ino, the President and CEO of DIC Corporation. I would like to thank you for your continued support. Unfortunately, we had to choose a remote meeting format yet again and we would appreciate your understanding.



First, a review of H1 results shows that net sales increased significantly in all segments due to the addition of the C&E business, aggressive pricing initiatives, and the effect of yen depreciation. This was despite stagnant shipments due to automobile production cutbacks and the lockdown in China.

We are pleased to report that the C&E pigments business, which was a cause for concern last year, has achieved sales almost in line with our expectations, following the resolution of the logistics disruption. As a result, total sales increased 33.1% from the previous year to JPY521.4 billion.

Second, I would like to discuss operating profit. Crude oil prices, which rose continuously from the USD70 per barrel level in Q3 last year, have risen further this year against the backdrop of the energy crisis associated with the Ukraine crisis and have remained high at around USD100 per barrel. As a result, the price of domestically produced naphtha was at JPY86,100 in Q2, also due to the impact of the weaker yen.

Last year, in addition to strong shipments of our products to the automotive industry, the operating profit margin was 7% due to the raw material situation at that time. In the current fiscal year, market conditions have deteriorated and raw material and energy prices have risen. As we are rushing to quickly pass on product costs to the pricing, plus, we were able to gain profit thanks to the C&E pigments business, we made good results. Unfortunately, however, the results are not enough to offset the additional cost increases in logistics, utilities, etc. Compared to last year when results were strong, operating income fell 12% to JPY24 billion.

Next, I would like to discuss the outlook for the full year.

Automobile production volume is expected to fall, and the lockdown in China continue to affect the world, while the recession is looming over the European and the US markets. Given the situation, our shipment volume is expected to fall short of the initial forecast. On the other hand, the C&E pigments business starts to be folded into our yearly sales results, plus, continuous cost pass-through and weakened Japanese yen will likely play some role. We revised our forecast upwardly to JPY1.1 trillion. Incidentally, if this consolidated sales target is achieved, it will break the previous record set in the fiscal year ended March 2008.

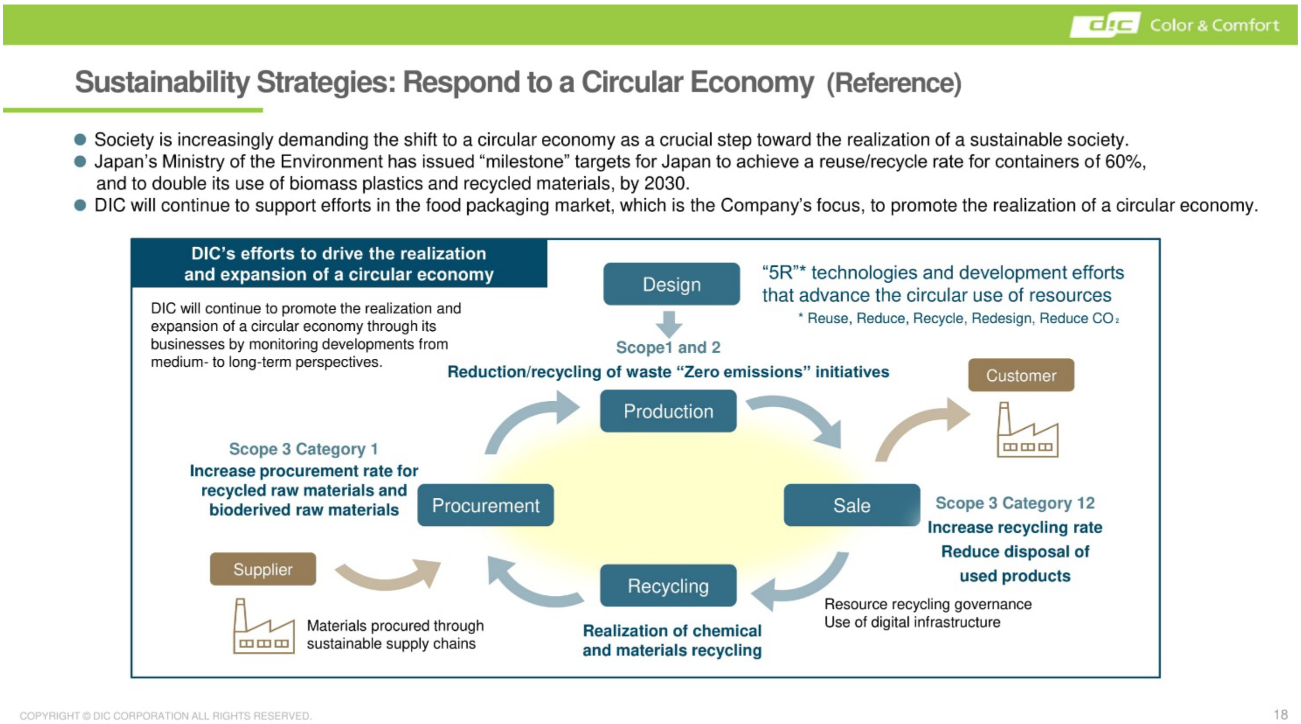
On the other hand, we forecast an operating profit to hit JPY50 billion, taking into account the deteriorating market conditions and rising costs in addition to raw materials costs, while expecting a significant YoY improvement in the C&E business and profit contribution from the Italian adhesives company Sapici, which we had acquired in January this year. While this represents a 17% profit increase over the previous year, it is, unfortunately, a downward revision of JPY4 billion from the original plan.

With the recent news that New York crude oil prices fell to the USD87 level, there are expectations of improved profitability due to a narrowing of the price gap. However, the Group was concerned about the outlook for the global economy due to rising interest rates in the US and elsewhere, the tight supply-demand balance resulting from the ongoing Russian crude oil embargo, and concerns about a further deterioration in the European energy situation due to the prolonged Ukrainian crisis.

Next, I would like to discuss the medium- to long-term outlook. Although we are not satisfied with where we are in terms of cost pass-through, C&E business, and profit contribution from the acquisition of Sapici, I believe that we have started to make progress in the Value Transformation to enhance medium- to long-term corporate value, which is outlined in DIC Vision 2030.

In particular, in the C&E business, we expect to create value-added synergies in cosmetics, heat shielding, and automotive applications, etc. In the Sapici adhesives business, we expect to globally develop packaging solutions centered on environmentally friendly products, and expand our Asian business in environmentally friendly products through acquisitions in China and India. This means that major measures to bring forth Value Transformation have begun to progress in all three segments.

Lastly, in addition to the financial results, we have recently received requests to introduce topics that show the progress of DIC Vision 2030 and ESG management, as well as the progress of Value Transformation. The recent ESG presentation was very well received, but since once a year is not timely enough, we have decided to take advantage of this opportunity, albeit in a very limited amount of time.



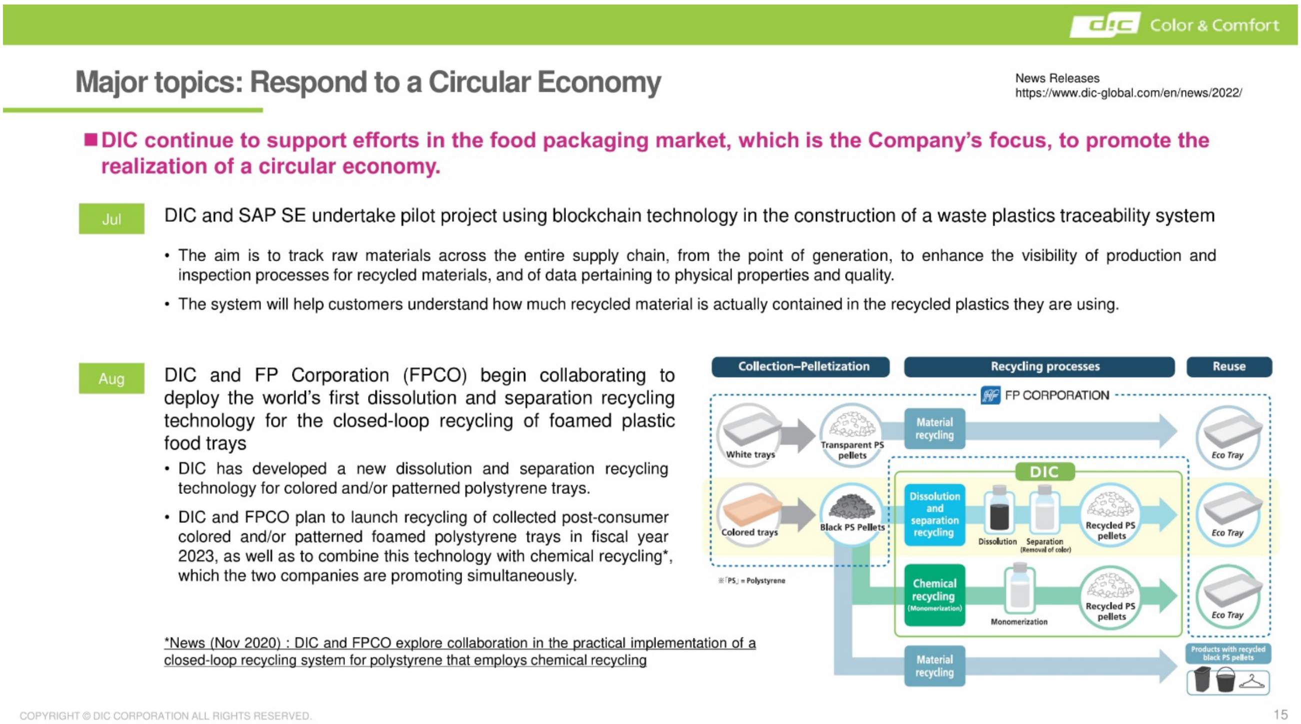
I would like to take five minutes to explain our response to the circular economy while introducing our dissolution and separation recycling technology, which is a bridge to social implementation of the chemical recycling of polystyrene, and which we have released in a press release. Please refer to page 18.

As shown in the DIC Vision 2030, here is a diagram of our sustainability strategy as a response to the circular economy.

As you know, the Ministry of the Environment has set a guideline that 60% of containers and packaging should be reused or recycled by 2030. As shown in the figure below, we have been studying and developing technologies to bring forth a so-called circular economy, an eco-cycle that is unique to DIC.

The diagram illustrates value transformation. As you can see on the right, there are sales. We're eyeing FP Corporation (FPCO) to fit here. Sales activities with customers can increase the recycling rate. On the left side, procurement activities with suppliers can improve the procurement rate of recyclable raw materials. In between the two, we are working hard to bring forth chemical and material recycling.

The production at the top is DIC's zero-emission activities in Scope One and Two as in the past. We are aiming to demonstrate our social contribution to the circular economy through the implementation of this kind of circulation.



Next, please see page 15. The major topics from the recently published press releases are summarized in this page.

Please look at the lower right. This is a blueprint of the initiative that we are collaborating with FPCO. As for white trays, we are currently recycling the trays in a new way using the recycling system of FPCO: tray to tray.

Another group is colored or patterned trays, which is about 40% of the total trays. As with an example of a bento box, enhancement of product design is practiced by many businesses. Inks are used for color printing. When colored and/or patterned products are pelletized, they turn into black pellets, which limits options of recycling to plastic garbage bags, plastic buckets, or black hangers at dry cleaners, as illustrated with an arrow to the right.

To achieve a complete circular recycling model, we are now working hard on chemical recycling, the second step from the bottom. Before we begin, we need to solve the problem of colored trays, hence, we have developed a dissolution and separation recycling process, or Deinking Chemical Process. We call it the Dic method.

This technology, which makes use of the technologies and polymer design capabilities DIC has cultivated as a manufacturer of inks to eliminate colored elements from black pellets, will be adopted at polystyrene production facilities, enabling “tray-to tray” recycling of colored foamed polystyrene food trays as of white trays.

We are working diligently on this dissolution and separation with the plan to start shipping it as a social implementation in about Q4 of 2024, and the chemical recycling below will be delayed about a year from that time. Therefore, by launching this project before chemical recycling, which is the ultimate monomer reduction process, we are working on this circular economy in the image of a so-called hybrid recycling process.

At this point, I cannot lightly say how much economic benefit this will bring, but if we go as far as chemical recycling, there will be an element of external sales of styrene monomer, which will lead to an increase in operating profit to some extent, at least we can expect to compensate for the decline in publishing inks by promoting a new Packaging & Graphic solutions business.

As shown in the top of the page, DIC and SAP are already working concurrently on a system using blockchain that enables true traceability without being taken as greenwashing, on the premise that this circular economy business is realized. We would like to aim for such a situation where consumers can actually know how much-recycled material is contained in the product and what the recycling rate is.

And with that, I would like to close my presentation and turn the briefing over to Mr. Furuta, CFO. Thank you for your attention.

Nakagawa: Next, Mr. Furuta, our Chief Financial Officer, will provide the details of the financial results.

Furuta: Hello, I am Furuta. After President Ino’s overview, I would like to provide a detailed analysis of the financial results. Please refer to page four.

Color & Comfort

Consolidated statement of income

(Billion yen)	2021 6 Months	2022 6 Months	Change	% Change	% Change on a local currency basis
Net sales	**391.8**	**521.4**	**129.6**	+ 33.1%	+ 26.8%
Cost of sales	(301.1)	(415.4)	-114.3		
Selling, general and administrative expenses	(63.4)	(82.0)	-18.7		
Operating income	**27.3**	**24.0**	**-3.3**	-12.2%	-10.2%
Operating margin	**7.0%**	**4.6%**	-		
Interest expenses	(0.4)	(0.9)	-0.5		
Equity in earnings (losses) of affiliates	0.9	1.0	0.1		
Foreign exchange gains (losses)	0.5	2.1	1.6		
Other, net	0.0	0.0	-0.0		
Ordinary income	**28.2**	**26.2**	**-2.1**	-7.4%	—
Extraordinary income	1.1	1.3	0.2		
Extraordinary losses	(7.1)	(3.5)	3.6		
Income before income taxes	22.2	24.0	1.7		
Income taxes	(5.0)	(8.8)	-3.8		
Net income	17.2	15.1	-2.1		
Net income attributable to non-controlling interests	(1.2)	(0.7)	0.4		
Net income attributable to owners of the parent	**16.0**	**14.4**	**-1.6**	-10.2%	—
EBITDA[*1]	**38.2**	**47.4**	**9.2**	+ 24.2%	—

Extraordinary income and loss	2021 6 Months	2022 6 Months
Extraordinary income		
Gain on sales of non-current assets	0.3	0.9
Gain on sales of investment securities	-	0.4
Gain on sales of subsidiaries' and affiliates' securities	0.8	-
Extraordinary losses		
Impairment losses	-	(1.0)
Loss on disposal of non-current assets	(1.2)	(1.0)
Severance costs	(0.2)	(0.9)
Loss on withdrawal from business	-	(0.5)
Acquisition-related expenses[*2]	(5.7)	-

[*2]Acquisition of the C&E pigments business

■Average rate

	2021 6 Months	2022 6 Months
YEN/US$	107.68	123.25
YEN/EUR	129.63	134.89

[*1] EBITDA: Net income attributable to owners of the parent + Total income taxes + (Interest expenses – Interest income) + Depreciation and amortization

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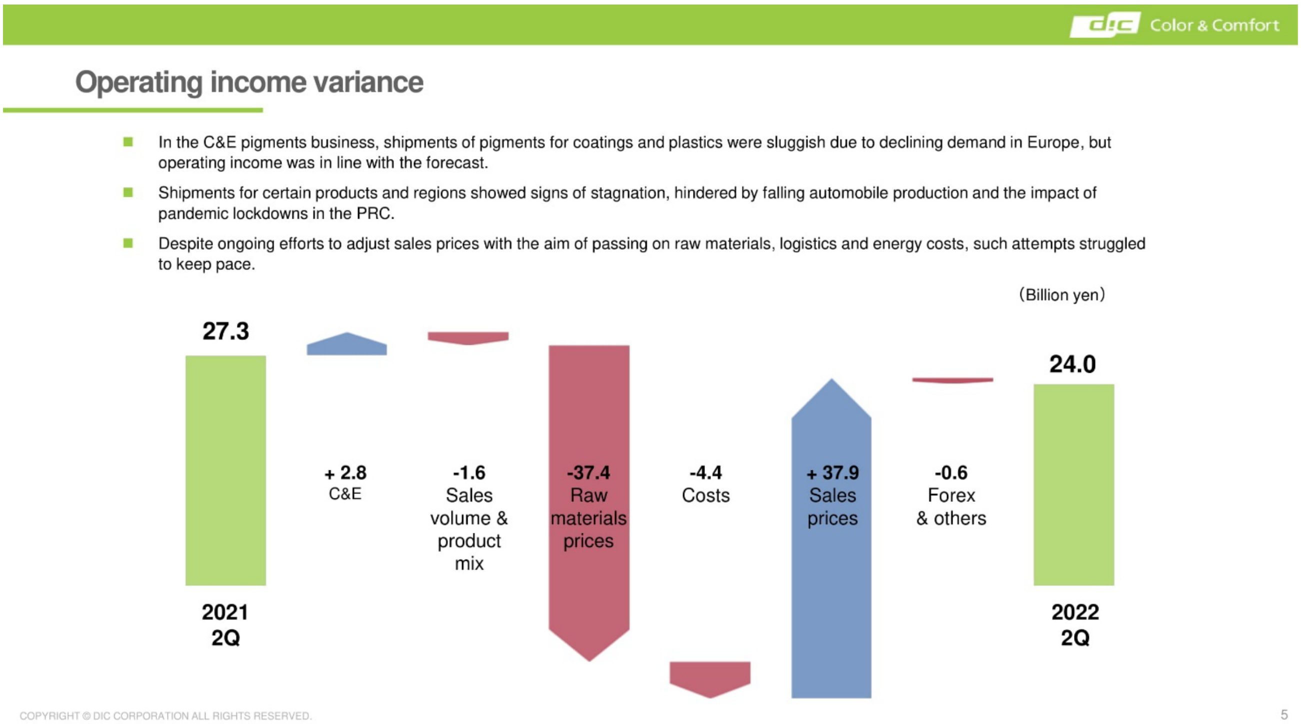
As for P&L, I would like to first look at the sales. JPY521.4 billion was a fairly substantial increase in revenue. There are three factors. One is the consolidation effect of C&E, which is about JPY70 billion. Then there is the progress of cost pass-through, which is JPY38 billion, and most of the remaining portion is foreign exchange.

Cost of goods sold and selling, and general and administrative expenses, will be discussed later, but as expected, utility and logistics costs have increased considerably.

SG&A expenses increased by approximately JPY18.7 billion over the previous year. As I mentioned in Q1, more than half of this increase is attributable to C&E expenses. And the remaining half includes the impact of the weaker yen and the impact of a rise in freight, labor costs, and inflation. Unfortunately, operating profit was a little below the initial target, resulting in JPY24 billion. This will be briefly explained on the next page with a bridge.



First, on the left side, the effect of the consolidation of C&E, which started in H2 of last year, was JPY2.8 billion. In Q1, the order backlog from last year was eliminated as a result of the normalization of logistics, and the business was very strong.

In Q2, sales slowed slightly due to negative factors such as the economic slowdown in Europe caused by the Russian problem, the decline in automobile production, and the lockdown in China. In this environment, utility costs are also rising, but we have been able to avoid these costs by raising prices, and our profits for H1 are almost in line with our previous forecast and plan.

The volume and product mix shows that the overall volume has decreased by several percent compared to the previous year. This is partly because the volume base for H1 of the previous year was quite favorable, but as I have said many times, automobile production cutback and the lockdown in China had a major impact.

In the next section, we have mentioned raw material prices, costs, and sales prices, and the total of these is minus JPY3.9 billion. The price gap remained slightly high in H1. However, the price gap has been reduced from JPY3.4 billion in Q1 to minus-JPY0.5 billion in Q2, so it is safe to say that the price gap has been eliminated.

As explained by the President earlier, WTI has dropped considerably, and we feel that the peak has already been reached in China and Southeast Asia. We are also thinking that in Japan, Europe, and the United States, we may still see a slight increase up to Q3.

In terms of costs, labor costs have increased due to labor shortages in Europe and the United States, and utility costs have increased considerably in areas such as electricity, gas, natural gas, and freight charges. However, although we have made some reductions through restructuring and other measures, the rise in utility-related costs has been particularly noticeable.

I know we bring up this topic every time, as far as the currency fluctuation, the overall impact was not significant, because the impact from the Turkish lira was as expected. Depreciation of the yen has already been included in the selling price, and this has a slight positive effect on products exported from Japan. However, we expect a slight increase in the import of raw materials, due in part to the weaker yen.

Please go back to the previous page. I'd like to move on to below operating profit. Let me note things with a particular increase. Interest expenses are affected by an increase in borrowings due to the acquisition of C&E and an increase in working capital. In terms of foreign exchange, since the yen has been weakening continuously, there is a foreign exchange gain from the difference between the time of sale and the time of settlement.

There are no major extraordinary losses or gains, but on the right side of this page, there is an impairment in extraordinary losses. As already announced, we have decided to liquidate a company in Singapore that has been manufacturing alkylphenols. The loss is included in this impairment and withdrawal loss. The decision was made because of the high cost of the project in Singapore, which was a very difficult situation in terms of revenue and expenditures.

Other items are almost the same as the previous year, but there is one positive change: acquisition costs, which totaled JPY5.7 billion last year, are no longer incurred this year. The final net profit after including these items and corporate tax is JPY14.4 billion. Although profit before income taxes was positive compared to the previous year, unfortunately, net profit decreased slightly.

Corporate income tax expenditures are up this year. The reason is that the previous year's figure was slightly favorable due to the large tax deduction for test and research expenses, and other things. On the other hand, this year, there was restructuring in countries where unprofitable businesses are located, and therefore we didn't gain tax benefits. For various reasons, tax expenses slightly increased.

The average rates were JPY123 for the dollar and JPY134 for the euro, as shown in the lower right-hand corner.

Color & Comfort

Financial health

(Billion yen)	Dec 31 2021	Jun 30 2022	Change
Net interest-bearing debt	346.0	**430.3**	84.3
Sheareholder's equity	345.9	**406.8**	60.9
Net D/E ratio *1 (times)	1.00	**1.06**	
[Net D/C ratio *2]	[47.6%]	**[49.4%]**	
Equity ratio	32.3%	**31.1%**	
BPS (Yen)	3,654.61	**4,297.71**	

Increase attributable to a change in accounting standards requiring lease obligations to be included on the balance sheet: ¥11.7 billion

■Closing rate

	Dec 31 2021	Jun 30 2022
YEN/US$	115.10	**136.37**

*1 Net D/E ratio: Net Interest-bearing debt / Shareholder's equity
*2 Net D/C ratio: Net Interest-bearing debt / (Net Interest-bearing debt + Net assets)

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I will continue with a brief explanation of our financial health. Page six. Net interest-bearing debt, increased by about JPY84 billion. This is due to a special factor, the on-balance of lease obligations due to a change in US accounting standards, which increased by JPY11.7 billion. In addition, the acquisition of the Italian adhesives company I mentioned earlier had some impact, but major reason was due to the increase of working capital.

Since sales have increased, accounts receivable have increased, but the increase in inventories has been particularly large. The increase in inventory on the B/S is about JPY70 billion. This includes, of course, more than JPY20 billion from the depreciation of the yen, so in real terms, the increase is less than JPY50 billion which more than half is due to rising raw materials price and increase of cost from hiking selling price.

In Europe and the US, in particular, there are supply chain problems with raw materials purchased from China and India, and we have increased our inventories, which is the reason for the JPY10 billion increase in raw materials. We are planning to review and reduce this amount slightly toward the end of the term.

Color & Comfort

Segment results

(Billion yen)	Net sales					Operating income					Operating margin	
	2021 6 Months	2022 6 Months	Change	% Change	% Change on a loca currency basis	2021 6 Months	2022 6 Months	Change	% Change	% Change on a local currency basis	2021 6 Months	2022 6 Months
Packaging & Graphic	211.0	257.4	46.4	+22.0%	+17.2%	10.5	7.7	-2.8	-26.9%	-16.9%	5.0%	3.0%
Japan	55.1	62.7	7.6	+13.8%	+13.8%	2.6	2.2	-0.4	-15.4%	-15.4%	4.8%	3.6%
The Americas and Europe	128.2	162.1	33.9	+26.5%	+21.2%	6.4	4.4	-2.0	-31.0%	-13.0%	5.0%	2.7%
Asia and Oceania	34.7	40.8	6.1	+17.6%	+6.3%	1.8	1.4	-0.4	-24.0%	-30.6%	5.1%	3.3%
Eliminations	(6.9)	(8.1)	-1.3	-	-	(0.2)	(0.3)	-0.0	-	-	-	-
Color & Display	59.2	133.9	74.7	+126.2%	+107.8%	7.0	7.8	0.8	+11.0%	+10.3%	11.8%	5.8%
Japan	14.0	19.3	5.3	+37.9%	+37.9%	3.4	3.6	0.2	+4.9%	+4.9%	24.6%	18.7%
Overseas	49.1	122.2	73.1	+148.8%	+125.5%	3.5	4.1	0.6	+17.1%	+15.5%	7.2%	3.4%
Eliminations	(4.0)	(7.7)	-3.7	-	-	0.0	(0.0)	-0.0	-	-	-	-
Functional Products	137.4	153.2	15.9	+11.6%	+7.4%	14.1	13.3	-0.8	-5.5%	-8.3%	10.3%	8.7%
Japan	97.8	107.6	9.7	+10.0%	+10.0%	8.9	9.0	0.1	+0.9%	+0.9%	9.1%	8.3%
Overseas	52.8	61.2	8.4	+15.8%	+4.8%	5.3	4.5	-0.8	-15.6%	-23.2%	10.0%	7.3%
Eliminations	(13.3)	(15.5)	-2.2	-	-	(0.1)	(0.1)	-0.0	-	-	-	-
Others, Corporate and eliminations	(15.8)	(23.1)	-7.3	-	-	(4.3)	(4.8)	-0.5	-	-	-	-
Total	391.8	521.4	129.6	+33.1%	+26.8%	27.3	24.0	-3.3	-12.2%	-10.2%	7.0%	4.6%
YEN/US$	107.68	123.25		+14.5%		107.68	123.25		+14.5%			
YEN/EUR	129.63	134.89		+4.1%		129.63	134.89		+4.1%			

Note: The C&E pigments business is incorporated into results for the Color & Display segment.

The following is the situation by segment. Please see page seven.

This is a table of sales performance. There was a significant increase in net sales in all segments.

However, unfortunately, operating profits are down across the board, except in the Color & Display segment, because C&E has consolidated this term.

As you can see on the right side, the operating profit margin has also declined slightly because the increase in raw material costs was basically passed on to the sales, and therefore profits did not follow the increase in sales as a percentage of sales.

Color & Comfort

Packaging & Graphic

Net sales

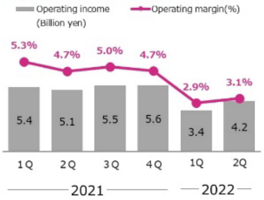
- Segment sales advanced, bolstered by sales price adjustments implemented to counter elevated raw materials costs. Sales of packaging inks, which account for approximately 70% of DIC's printing inks portfolio, were up in volume terms.
- An Italian adhesives manufacturer* acquired in January 2022 saw steady results.

Operating income

- Owing to the progress of efforts to modify sales prices in Japan, the operating margin was higher than in the first quarter. However, such attempts struggled to keep pace, as a result of which overall segment operating income declined.

(Billion yen)	Net sales					Operating income					Operating margin	
	2021 6 Months	2022 6 Months	Change	% Change	% Change on a local currency basis	2021 6 Months	2022 6 Months	Change	% Change	% Change on a local currency basis	2021 6 Months	2022 6 Months
Packaging & Graphic	211.0	257.4	46.4	+ 22.0%	+ 17.2%	10.5	7.7	-2.8	-26.9%	-16.9%	5.0%	3.0%
Japan	55.1	62.7	7.6	+ 13.8%	+ 13.8%	2.6	2.2	-0.4	-15.4%	-15.4%	4.8%	3.6%
The Americas and Europe	128.2	162.1	33.9	+ 26.5%	+ 21.2%	6.4	4.4	-2.0	-31.0%	-13.0%	5.0%	2.7%
Asia and Oceania	34.7	40.8	6.1	+ 17.6%	+ 6.3%	1.8	1.4	-0.4	-24.0%	-30.6%	5.1%	3.3%
Eliminations	(6.9)	(8.1)	-1.3	-	-	(0.2)	(0.3)	-0.0	-	-	-	-

Operating income/margin



Sales of principal products

	% Change	
Packaging inks*	+ 19%	Sales increased, bolstered by sales price adjustments on a global scale. An Italian adhesives manufacturer acquired in January 2022 saw steady results.
Publication inks*	+ 11%	Shipments declined in Japan, and in the Americas and Europe, as demand for use in publishing slumped, but sales rose thanks to sales price adjustments worldwide.
Jet inks	+ 8%	Shipments were brisk for industrial applications, including outdoor signage (billboards and posters) and banners, as well as for commercial printing applications such as direct mail.
Polystyrene	+ 35%	Despite falling demand from supermarkets for use in packaging, owing to the lifting of pandemic restrictions on movement, sales climbed sharply as efforts to adjust sales prices boosted unit prices.
Multilayer films	+ 15%	Sales volume was level, but sales rose, underpinned by efforts to adjust sales prices.

*Change on a local currency basis

*News (Jan 2022) : DIC group acquires Italian adhesives and polymers manufacturer Sapici S.p.A. and its holding company

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Let me briefly explain by segment. Please see page eight. Packaging & Graphic.

Let me explain by major product category, first of all, packaging inks. The shipping volume slightly exceeded that of the previous year. This includes an acquired Italian adhesives company. By region, sales in North America and Japan were relatively strong, exceeding the previous year's levels.

However, Europe and Southeast Asia are showing a slight slowdown, with the number of orders remaining at the same level as the previous year or decreasing slightly. China was considerably affected by the lockdown, which resulted in a significant reduction.

As for publishing ink, as I have explained repeatedly, overall demand was sluggish due to a decline in demand. Then there are jet inks. On-demand printing was also strong, especially for overseas markets. The weak yen also contributed to earnings.

As for operating profit, the operating profit margin for Q2 was better than that for Q1 because of progress in price revisions for the Japanese market. The total profit of the package was JPY7.7 billion in H1, JPY3.4 billion in Q1, and JPY4.2 billion in Q2.

However, the allowance for doubtful accounts in Europe and the Americas is about JPY0.5 billion, which is the cause of a slight decrease in the rate of return for Q2. Since this allowance for doubtful accounts is for the portion of past business rather than the most recent business, there is no particular impact on H2.

In addition, polystyrene and multilayer films also showed a slight decrease in volume, partly due to slightly eased action regulations.

Color & Display

Net sales

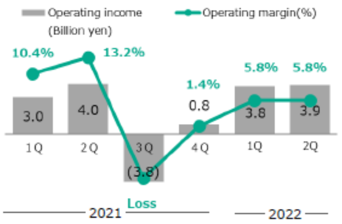
- Segment sales soared, owing to the addition of sales from the C&E pigments business, which resulted in a sharp increase in sales of pigments for coatings, plastics and cosmetics.
- Shipments of pigments for coatings and plastics slowed, particularly in Europe. As a result, overall shipments were down from the corresponding period of the previous fiscal year except in the C&E pigments business.

Operating income

- Although demand fell in Europe from the second quarter forward and shipments of certain high-value-added products, notably pigments for displays and specialty applications, flagged, segment operating income was up, thanks to decisive steps to modify sales prices and the fact that the C&E pigments business reported a profit.

(Billion yen)	Net sales					Operating income					Operating margin	
	2021 6 Months	2022 6 Months	Change	% Change	% Change on a local currency basis	2021 6 Months	2022 6 Months	Change	% Change	% Change on a local currency basis	2021 6 Months	2022 6 Months
Color & Display	59.2	133.9	74.7	+ 126.2%	+ 107.8%	7.0	7.8	0.8	+ 11.0%	+ 10.3%	11.8%	5.8%
Japan	14.0	19.3	5.3	+ 37.9%	+ 37.9%	3.4	3.6	0.2	+ 4.9%	+ 4.9%	24.6%	18.7%
Overseas	49.1	122.2	73.1	+ 148.8%	+ 125.5%	3.5	4.1	0.6	+ 17.1%	+ 15.5%	7.2%	3.4%
Eliminations	(4.0)	(7.7)	-3.7	-	-	0.0	(0.0)	-0.0	-	-	-	-

Operating income/margin



Sales of principal products

(Billion yen)		2021 6M	2022 6M	% Change	
Pigments for	coa ings	8.5	28.9	+ 242%	Sales increased, owing to the addition of sales from the C&E pigments business, but shipments for use in automotive coatings slowed, particularly in Europe.
	plastics	4.9	21.8	+ 348%	Sales increased, owing to the addition of sales from the C&E pigments business, but demand began slipping in Europe in the second quarter.
	printing inks	19.7	29.2	+ 49%	Sales increased, owing to the addition of sales from the C&E pigments business.
	cosmetics	2.2	6.0	+ 177%	Sales increased, owing to the addition of sales from the C&E pigments business. Signs of a recovery in demand were seen first in the Americas and Europe and then in Asia.
	displays	4.9	4.7	-4%	Shipments stagnated, a consequence of production adjustments by display manufacturers.
	specialty applications	6.9	11.2	+ 61%	Sales increased, owing to the addition of sales from the C&E pigments business, but demand began slipping in Europe in the second quarter.
Health food		1.8	1.9	+ 1%	Shipments were level with the same period of the previous fiscal year, as the situation surrounding export delays improved.

The next section is Color & Display.

The addition of C&E naturally led to a significant increase in sales, but unfortunately, existing sales were lower than the previous year. One reason is that we had to divest some overlapping businesses in the United States as part of the transaction for C&E acquisition. There was also a slight slowdown in some areas, such as pigments for displays and specialty applications.

However, cosmetics are doing very well, and although they are not back until FY2019, demand is returning to these areas, especially in Europe and the United States. Overall, we are still affected by the decline in automobile production and the China lockdown.

As for operating profit, as I mentioned earlier, sales of high-value-added products decreased slightly, and this is the reason for the decrease in the existing businesses. C&E has been added to the above, and the YoY change is an increase of JPY0.8 billion.

Color & Display (supplementary information)

Break down of 2022 six months results for the Color & Display segment (Billion yen)

	Net sales				Operating income			
	2021 6 M	2022 6 M	Change	% Change	2021 6 M	2022 6 M	Change	% Change
Color & Display	**59.2**	**133.9**	**74.7**	**+ 126.2%**	**7.0**	**7.8**	**0.8**	**+ 11.0%**
Existing Businesses	59.2	63.8	4.6	-	7.0	5.0	-2.0	-
C&E	-	70.1	70.1	-	-	2.8	2.8	-

- In the C&E pigments business, shipments of pigments for coatings and plastics were sluggish due to declining demand in Europe, but operating income for the full term is expected to be ¥3.2 billion, in line with the initial forecast.
- Operating income in existing categories declined, as shipments of certain high-value-added products, notably pigments used in display materials and pigments for specialty applications, flagged and demand in Europe fell.

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The next page shows the division between the existing business and the C&E business, and the existing business is down JPY2 billion from the previous year. Q1 was JPY2.4 billion, and Q2 was JPY2.6 billion.

As I mentioned earlier, there was a decrease in pigments for color filters, aluminum pigments, and other value-added products, and last year there was a slight rush demand before the divestiture of Bushy Park Business which had some impact.

Functional Products

Net sales

- Shipments of materials for automotive applications declined, owing to falling automobile production, and the impact of pandemic lockdowns in the PRC, but those of digital materials remained firm.
- Overall shipments were down from the corresponding period of the previous fiscal year, owing largely to stagnant shipments in the PRC.

Operating income

- Segment operating income decreased, as ongoing efforts to adjust sales prices to pass on logistics, energy and raw materials cost increases fell short.

(Billion yen)	Net sales					Operating income					Operating margin	
	2021 6 Months	2022 6 Months	Change	% Change	% Change on a local currency basis	2021 6 Months	2022 6 Months	Change	% Change	% Change on a local currency basis	2021 6 Months	2022 6 Months
Functional Products	137.4	153.2	15.9	+ 11.6%	+ 7.4%	14.1	13.3	-0.8	-5.5%	-8.3%	10.3%	8.7%
Japan	97.8	107.6	9.7	+ 10.0%	+ 10.0%	8.9	9.0	0.1	+ 0.9%	+ 0.9%	9.1%	8.3%
Overseas	52.8	61.2	8.4	+ 15.8%	+ 4.8%	5.3	4.5	-0.8	-15.6%	-23.2%	10.0%	7.3%
Eliminations	(13.3)	(15.5)	-2.2	-	-	(0.1)	(0.1)	-0.0	-	-	-	-

Operating income/margin

Sales of principal products

	% Change
Epoxy resins	+ 15%
Urethane resins	+ 5%
Acrylic resins	+ 15%
Waterborne resins	+ 19%
Polyester resins	+ 19%
UV-curable resins	+ 15%

	% Change
Polyphenylene sulfide	-0%
Industrial tapes	+ 15%
Hollow-fiber membrane	+ 28%

In digital materials, sales of ultraviolet (UV)-curable resins, industrial tapes and hollow-fiber membrane modules were robust. In materials for automotive applications, sales of polyphenylene sulfide (PPS) compounds, among others, were impacted by falling automobile production.

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Please refer to page 11. Also, about Functional Products.

Sales are also sluggish, especially in the automotive industry, which is a source of earnings, due to the lockdown in China and production cutbacks caused by the shortage of semiconductors. In the areas of urethane, acrylics, and PPS, the sales of these products slowed down a little compared to the previous year.

On the other hand, it is digital-related. In particular, the epoxy market remained strong. However, there are still many items that are generally negative year over year, and overall volumes are lower than the previous year.

Regarding operating profit, price action has been taken on an ongoing basis. We are trying to pass on utility and freight cost increases, as well as cost increases of raw materials. However, the continuing increase in utility costs has caused a slight time lag, resulting in a slight decrease in profit.

Among them, industrial tape, which is used in smart phones and other products, and hollow fiber membrane modules performed well and contributed to earnings.

DIC Color & Comfort

FY2022 forecasts: Full-term operating results

- Owing to ongoing efforts to adjust sales prices to counter elevated costs for energy and raw materials, and to a reassessment of assumed currency exchange rates, the forecast for net sales was revised upward.
- Shipments are expected to fall short of initial expectations as a result of stagnant demand in Europe and falling automobile production. Accordingly, the forecast for operating income has been revised downward.
- Forecast for annual dividends per share remains unchanged.

(Billion yen)		2021	2022 Forecasts	% Change	% Change on a local currency basis	Old forecasts
Net sales		855.4	1,100.0	+ 28.6%	+ 20.5%	1,040.0
Operating income		42.9	50.0	+ 16.6%	+ 17.5%	54.0
Operating margin		5.0%	4.5%	–	–	5.2%
Ordinary income		43.8	51.0	+ 16.6%		53.5
Net income attributable to owners of the parent		4.4	26.0	+ 495.6%		28.0
EPS (Yen)		46.12	274.68	–		295.81
EBITDA*1		69.0	90.0	+ 30.4%		88.0
Capital expenditure and investment		168.2	82.0	-51.2%		83.0
Depreciation and amortization		38.1	47.0	+ 23.5%		44.0
Average rate	YEN/US$	109.75	129.00	+ 17.5%		121.00
	YEN/EUR	129.73	142.00	+ 9.5%		137.00

	2021	2022 Forecasts
ROIC*2	4.8%	4.5%
Net D/E ratio *3 (times)	1.00	1.05
[Net D/C ratio *4]	[47.6%]	[49.2%]
Annual dividends per share (Yen)	100.0	100.0
Payout ratio	216.8%	36.4%

*2 Operating income x (1–tax rate 28%) / (Net interest-bearing debt + Net assets)
*3 Net D/E ratio: Interest-bearing debt / Shareholder's equity
*4 Net D/C ratio: Interest-bearing debt / (Interest-bearing debt + Net assets)

*1 EBITDA: Net income attributable to owners of the parent + Total income taxes + (Interest expenses – Interest income) + Depreciation and amortization

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Continuing on page 12, we present the forecast for the full year.

As explained earlier, sales here are JPY1.1 trillion, and this figure has increased significantly based on the assumption that prices will be revised. The previous revision was JPY1.04 trillion, so the increase was about JPY60 billion, but this is basically a price revision, not an increase in volume.

Regarding overall shipments, we expect a slight decrease in profit in terms of volume due to stagnant demand in Europe and the impact of automobile production cutbacks. However, we expect a slight recovery from H1. In particular, we expect a slight increase due to the recovery of the lockdown in China and the fact that we do not expect production of automobiles to decrease as much in H2 as it did in H1.

As for raw materials, as I mentioned earlier, the WTI is currently between 90 and 100, which is almost at its peak. Again, this will be delayed until Q3 and will continue to rise in Japan, Europe, and the US. We expect that it will start to stay from about Q4.

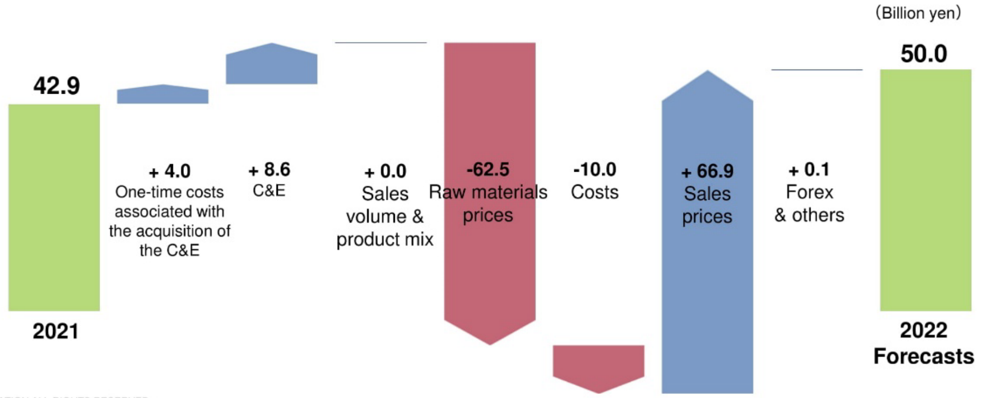
Including these factors, the operating profit figure is JPY50 billion. Including extraordinary gains and taxes, the final figure is JPY26 billion, a reduction of about JPY2 billion from the original plan.

The Company intends to maintain the dividend at JPY100 per share.

Color & Comfort

FY2022 forecasts : Operating income variance

- Forecasts for the C&E pigments business are net sales of ¥136.8 billion and operating income of ¥3.2billion, with contributing factors including the realization of new synergies.
- Forecasts published on August 10, 2022, assume that the West Texas Intermediate (WTI) price for crude oil will remain at approximately US$100.00/barrel. In contrast, both raw materials prices and costs are expected to continue increasing, owing to rising prices for domestically produced naptha—a consequence of yen depreciation—and elevated utility costs.
- While efforts to pass on higher costs by adjusting sales prices will continue, shipments are expected to fall short of initial expectations as a result of stagnant demand in Europe and falling automobile production. Accordingly, the forecast for full-term operating income has been revised down to ¥50.0 billion, from ¥54.0 billion.



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Please see page 13 for the reasons for the change in operating profit.

The C&E operating profit was JPY3.2 billion, JPY0.4 billion in H2 and JPY2.8 billion in H1. Since our business is centered in Europe, there is inevitably a decrease in operations during H2 due to the summer and Christmas vacations. Due to the impact of these factors, H2 profits will be significantly lower than in H1.

Material cost. I have already commented on this one.

Lastly, the volume of shipments is still far below the original plan, and as you can see in the volume and item composition section, it is zero compared to the previous year.

All things considered, the operating profit came in at JPY50 billion. The total amount of raw material prices, costs, and selling prices is JPY5.6 billion, and since H1 was JPY3.9 billion, H2 will be minus-JPY1.7 billion. We expect this figure to recover significantly compared to H1 of the fiscal year.

Color & Comfort

FY2022 forecasts: Full-term segment results

(Billion yen)	Net sales					Operating income					Operating margin	
	2021	2022 Forecast	Change	% Change	% Change on a local currency basis	2021	2022 Forecast	Change	% Change	% Change on a local currency basis	2021	2022 Forecast
Packaging & Graphic	439.8	546.8	107.0	+ 24.3%	+ 19.1%	21.6	17.9	-3.8	-17.4%	-5.2%	4.9%	3.3%
Japan	114.7	135.3	20.6	+ 18.0%	+ 18.0%	4.8	5.1	0.3	+ 5.2%	+ 5.2%	4.2%	3.8%
The Americas and Europe	265.1	336.6	71.5	+ 27.0%	+ 21.7%	13.2	9.4	-3.8	-28.8%	-6.4%	5.0%	2.8%
Asia and Oceania	73.1	91.0	17.9	+ 24.5%	+ 10.9%	3.8	3.4	-0.4	-10.1%	-18.6%	5.2%	3.8%
Eliminations	(13.0)	(16.0)	-3.0	-	-	(0.2)	(0.1)	0.2	-	-	-	-
Color & Display	167.2	269.6	102.4	+ 61.3%	+ 40.9%	4.0	14.0	10.0	+ 253.6%	+ 231.4%	2.4%	5.2%
Japan	32.6	37.6	5.0	+ 15.2%	+ 15.2%	6.9	6.2	-0.6	-9.3%	-9.3%	21.1%	16.6%
Overseas	145.7	248.6	102.9	+ 70.6%	+ 46.2%	(2.8)	7.7	10.5	Into the black	Into the black	-	3.1%
Eliminations	(11.2)	(16.6)	-5.4	-	-	(0.2)	0.0	0.2	-	-	-	-
Functional Products	283.3	334.5	51.2	+ 18.1%	+ 11.7%	26.2	27.9	1.7	+ 6.6%	+ 1.5%	9.2%	8.3%
Japan	201.3	220.8	19.6	+ 9.7%	+ 9.7%	16.1	18.6	2.5	+ 15.4%	+ 15.4%	8.0%	8.4%
Overseas	108.3	143.4	35.1	+ 32.4%	+ 15.5%	10.1	9.3	-0.7	-7.0%	-20.4%	9.3%	6.5%
Eliminations	(26.3)	(29.8)	-3.5	-	-	0.0	(0.0)	-0.0	-	-	-	-
Others, Corporate and eliminations	(34.9)	(51.0)	-16.0	-	-	(8.9)	(9.8)	-0.9	-	-	-	-
Total	855.4	1,100.0	244.6	+ 28.6%	+ 20.5%	42.9	50.0	7.1	+ 16.6%	+ 17.5%	5.0%	4.5%
YEN/US$	109.75	129.00		+ 17.5%		109.75	129.00		+ 17.5%			
YEN/EUR	129.73	142.00		+ 9.5%		129.73	142.00		+ 9.5%			

Note: The C&E pigments business is incorporated into results for the Color & Display segment.

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Next is page 14. Let's look at our business segments. I am happy to answer any questions later regarding the details. We expect to see the effects of the price increases in Packaging & Graphic. In addition, Polystyrene, which will see its profits narrowed down slightly when the raw materials are on upward trend, but we expect to be able to catch up in this area, as the situation is stabilizing and slight profit increase is expected in Japan.

In the US and Europe, as I mentioned earlier, there were some special factors such as allowance for doubtful accounts in H1, so excluding these factors, we expect the results to be on par with H1. As for the rest of Asia, we are looking at recovery from the lockdown in China and a little bit in this area.

As for Color & Display, C&E will, unfortunately, be JPY0.4 billion in H2, but in other areas, we expect a slight recovery in color filter sales, which were quite poor in H1, from about Q4. We are also expecting a slight increase in sales of functional pigments and other products, and we expect an increase of about JPY0.8 billion in H1, excluding C&E.

Regarding Functional Products, we expect automobile production to recover slightly from H1. We do not expect the prices of raw materials to rise much in the future.

That is all for my explanation. Thank you for your attention.

[END]

Question & Answer

Nakagawa: We will now begin the question-and-answer session. The first question is from Questioner1.

Questioner1: Thank you very much for your briefing.

Your presentation covers most points, but could you please explain in detail the current demand trends for major products, such as automobiles, electronics, and inks, as well as the demand trends by region, plus the cost pass-through rate by product? Thank you.

Furuta: Regarding market trends, we are most affected by the automobile market. The automobile market has slowed down considerably in China, especially due to the recent China lockdown. Also, I have the impression that H1 slowed down considerably due to the shortage of semiconductors in other regions as well.

We are not operating an automobile business, so it is difficult for us to comment on this issue. Compared to H1, we think that the supply-demand balance for semiconductors will improve a little, and we expect it to improve a little from around September and better than in H1.

Inventories are swelling, that's one thing; and of course, current supply chain and shipping challenges, among other things, affect our performance. I'm not expecting a sudden drop in demand or drastically cut back. As long as the semiconductor shortage eases up to a certain level, our finance can land slightly higher than H1.

In the semiconductor industry, there have been reports of a slight slowdown in personal computer and smart phone markets. We have been delivering high-value-added products for servers, which are the source of our revenue, and these products were still relatively strong. However, it is still difficult to predict what will happen in the future, but if we look at the first two quarters of the fiscal year, the results were relatively good compared to other areas.

In Europe, the economy has slowed down slightly. The construction and other markets seemed to have weakened a bit overall. In North America, we have yet to see much of a slowdown in the economy. China has been hit hard by the lockdown. The lockdown was lifted at the beginning of June, but the recovery appears to have been a little sluggish so far.

Regarding the cost pass-through, we believe that Color & Display products have made the most progress. We are also working on Functional Products in sequence, as we are aware that raw materials have risen to a certain extent in this area.

The Packaging & Graphic is not easy, but we are working to gain consent from our customers. In particular, there has been a drop in demand in the publishing industry, and we have been revising prices in Japan since April. We finally received a price agreement from a major company in June, so we expect some progress in this area.

In addition, since last January, we raised the price of packaging products for the Japanese market, and to some extent, this was settled. However, since the price of raw materials has risen again since then, we have announced another revision in July, and we will continue to work on the price revision steadily. That's all from me.

Questioner1: Thank you. My second question is this. You mentioned value transformation is progressing toward DIC Vision 2030. About the M&A of Sapici, the restructuring of your business in Singapore, and projected acquisitions, could you please tell us about the progress of the new businesses which you might be planning to expand over the next three years?

Ino: Regarding the progress of value transformation, I have commented on C&E. Adding to this is the Sapici business. China will also come into the mix.

First, Sapici generates roughly JPY700 million profit after deducting amortization this year. Furthermore, there is an initiative related to eco-friendly, ultra-low monomer products, which are attracting considerable attention around the world, including in Japan, Europe, and the US. Adding to the great synergy we already have with Sapici, it provides a scope for us to expand our business in a new collaborative manner.

As for the new project, I believe that it is making steady progress. However, there are still some delays in the development of storage batteries, for example, due to the delay in the installation of some equipment, and the acceleration of development amid competition with other development projects.

Regarding the new healthcare business, I would like to provide more details in the future, with the similar degree of depth we presented today. To give you a quick overview, well, some of them have already been announced in multiple press releases, for examlpe, natural coloring, cosmetic applications, naturally derived biodegradable superabsorbent polymer, biomass, etc.

I have a feeling that we have enough things going on to create one platform. Now, the challenge is the commercialization of all these technologies and pushing them out to market. I want to accelerate the motion maybe in the next one or two years. Did that answer your question?

Questioner1: Yes. For Sapici, is it an annual figure? Also, although short-term performance has been revised downward a bit, if there is no increase in raw materials, the Company is basically doing well toward 2030, is that right?

Ino: It’s JPY0.7 billion per year.

Questioner1: Annual JPY0.7 billion. I understand. Thank you.

Nakagawa: Thank you very much. The next question is from Questioner2.

Questioner2: I believe your surcharge system for the pigments business has taken effect on the shipments with April's first ship date. I would like to know a little about its progress. Please, also share how much those surcharges impacted the two quarters. Also, please tell us how you are doing in domestic and international markets.

Furuta: The surcharges are for our pigments business only. We started out focusing on Europe and the US, but we are now expanding to Japan and Southeast Asia. The cost pass-through is progressing very well.

In Japan, there was a heavy concern at first, but many of our customers have accepted the situation, and we are now putting it into practice. That’s all from me.

Questioner2: If you were to say that a large number of users, what would you say is the penetration rate of the system?

Asai: We haven’t analyzed the penetration rate. I would like to offer one alternative guide, and that is the annual bridge shown on page 13. Here, in the middle, there are raw materials, costs, and selling prices. The cost portion of this is the increase in logistics or energy costs. The portion that is covered by the sales price is the so-called surcharge.

Earlier, Mr. Furuta mentioned that the total net loss for the entire company was JPY5.6 billion, of which, the pigment portion, which you are asking now, was less than JPY1 billion, and a significant portion of this was in H1 of this fiscal year.

In H2 of the fiscal year, the price gap has almost reached the point where there is almost no price gap. From this point of view, I can answer that the progress of the surcharge is quite high. That's all from me.

Nakagawa: Questioner3, are you ready to ask your question?

Questioner3: Thank you. Regarding page 14, since sales and profits for the full year have been changed this time, I would like to ask for a breakdown of these changes.

The significant change in profit is in the US and Europe in the Packaging & Graphic business. The profit forecast for this fiscal year is JPY9.4 billion, but the previous forecast was JPY13.8 billion, so the forecast has been revised down by about JPY4.4 billion. If you divide this into the US and Europe, which was how much? And please give us some idea as to whether it is the outlook for volume, margins, or spreads. This is my first question.

Furuta: Regarding the gap between the actual and original forecast, there are two elements. First, the sales volume in the European market was slightly less than expected. As I mentioned earlier, we thought it would have gone a little further. Also, the Chinese lockdown is a negative factor.

Second, the utilities and freight costs have increased considerably more than originally planned, so there has been a slight delay in catching up with these factors.

Questioner3: What kind of product is the reason why the volume has been lowered compared to the previous forecast?

Furuta: From the unit perspective, the biggest factor was the lockdown in China. This continued from March to June when demand had dropped considerably. As expected, growth in the Southeast Asia region has not been as strong as expected.

As I mentioned earlier, in Europe and the United States, especially in Europe, the economy has slowed down a bit, and although Sapici has compensated for this to some extent, overall, the growth we had hoped for in the package business has been insufficient.

Questioner3: Is it your understanding that the majority of the profit reduction, JPY4.4 billion, is in Europe? And I thought the food packaging was fairly stable, but is there a slowdown there as well, assuming that it's your mainstay field in the Packaging & Graphic segment?

Furuta: I would say that there has been a slowdown, or rather, almost flat compared to the previous year. There may be some reluctance to make purchases due to economic trends and other factors.

Also, as I mentioned earlier, the issue of raw materials and other things has had a slight impact. We were aiming for a high level of growth, but we have not yet reached that point.

Questioner3: I understand. I have one more question. This Functional Products segment. You have raised your profit forecast for this fiscal year, especially for the Japanese market. It's JPY18.6 billion, and I think the previous was JPY14.4 billion, so it is a little over JPY4 billion. Could you tell us about the background behind your decision to raise the profit forecast for these Japanese Functional Products to this level?

Furuta: As I mentioned earlier, we are making relatively good progress in passing on costs. In addition, for high-value-added products, semiconductors related products and epoxy have not declined that much, so we have raised these items a little. Raw material prices have also been relatively stable, so we are looking slightly upward based on the situation in these areas.

Questioner3: Would you say that cost pass-through is progressing across the board? I mean is it for all engineering plastics in general terms?

Furuta: Although there are some products where we are strong and others where we are not, we are making relatively good progress in passing on costs across the board. Other things like adhesive tape and functional devices, these things also worked.

Ino: Let me add something. Cost pass-through by segment is like this: Including logistics and utilities, the businesses that work well with the surcharge model and cost pass-through is permeating in Color & Display.

Next, we have not necessarily covered logistics and other costs, but we have done pretty well to bring the price up in Functional Products.

Among the products I've mentioned, some products in the Packaging & Graphic segment have the potential for price revision. That said, their current price advantage and competitive advantage are less competitive compared to other products. So, even if price revision is possible, it may take some time to execute it.

Questioner3: I understand. Thank you. That's all from me.

Nakagawa: Thank you very much. As we're approaching closing time, I would like to conclude the question and answer session.

Thank you.

[END]

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Color & Comfort

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