DIC Corporation

Q2 Financial Results Briefing for the Fiscal Year Ending December 2023

August 10, 2023

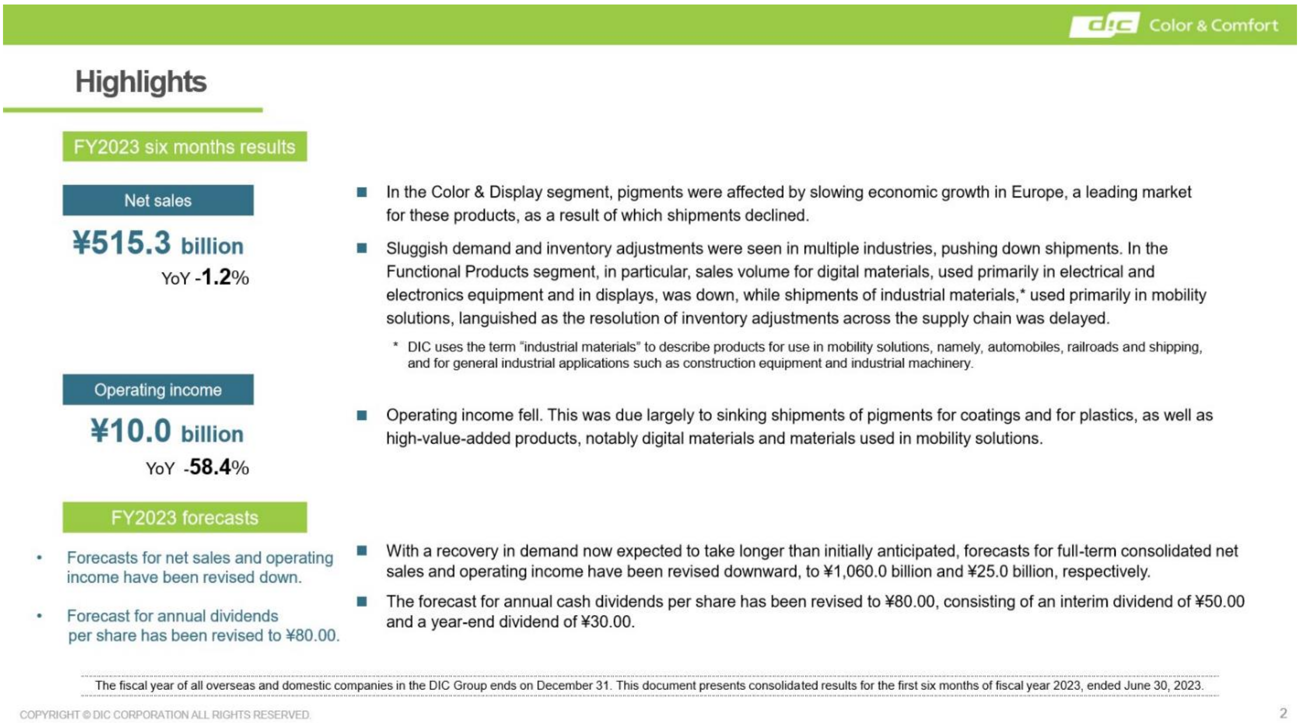
Event Summary

[Company Name]	DIC Corporation	
[Event Name]	Q2 Financial Results Briefing for the Fiscal Year Ending December 2023	
[Date]	August 10, 2023	
[Venue]	Webcast	
[Number of Speakers]	5	
	Kaoru Ino	Representative Director, President and CEO
	Toshifumi Tamaki	Representative Director, Executive Vice President
	Takeshi Asai	Director, Managing Executive Officer, Head of Corporate Strategy Unit
	Shuji Furuta	Director, Managing Executive Officer, CFO, Head of Finance and Accounting Unit
	Hirotaka Komine	General Manager, Corporate Communications Department

Presentation

Ino: Good morning, everyone. My name is Ino of DIC Corporation. We thank you for your continued support.

The financial results for H1 of the fiscal year have been compiled. As usual, I will give an outline of the full-year forecast, including the dividend forecast, and CFO Furuta will explain the details. During the remainder of the presentation, Asai, Head of Corporate Strategy Unit, will introduce some recent topics of our initiatives to bolster corporate value.



Now, let's talk about the financial results. Please see page two and three.

As stated in the document, the results were very severe. Net sales were JPY515.3 billion, down 1.2% from the previous year, and operating income was JPY10.0 billion, down 58.4% from the previous year.

This is due to a significant decrease in shipments of high value-added products, which are our flagship products in the functional products segment, against a backdrop of prolonged market weakness in electrical and electronics equipment, semiconductor, display, and automotive industries. Also, there were a decline in capacity utilization and marginal profit due to a significant decrease in the volume zone for pigments, mainly general purpose products (pigments for coatings and for plastics), as the European economy entered a recession.

With exceptions of pigments for color filters which the market is recovering and automobile related, which have already been seen gradual markets recovery, it is difficult to forecast a recovery in demand for our products in H2 of the year, due to market conditions for electrical and electronics equipment and semiconductors, for example, or a slowdown in the European economy. Therefore, we have no choice but to say that the recovery may be seen in the latter H2 of the year, or in FY2024 and beyond.

Therefore, we, as the Company, regret to say that we have to revise our full-year business results downward at the time of this first-half financial report.

Color & Comfort

FY2023 forecasts: Full-term operating results

- A recovery in demand is likely to take longer than originally anticipated. Accordingly, forecasts of fiscal year 2023 have been revised downward.

(Billion yen)		2022	2023 Forecasts	% Change	% Change on a local currency basis
Net sales		1,054.2	**1,060.0**	+ 0.6%	-1.6%
Operating income		39.7	**25.0**	-37.0%	-35.4%
Operating margin		3.8%	**2.4%**	–	–
Ordinary income		39.9	**20.0**	-49.9%	
Net income attributable to owners of the parent		17.6	**4.0**	-77.3%	
EPS (Yen)		186.05	**42.26**	–	
EBITDA*1		85.5	**70.0**	-18.1%	
Capital expenditure and investment		81.1	**82.7**	+ 2.0%	
Depreciation and amortization		48.8	**50.0**	+ 2.5%	
Average rate	Yen/US$	130.59	**140.00**	+ 7.2%	
	Yen/EUR	137.71	**151.00**	+ 9.7%	

	2022	2023 Forecasts
ROIC*2	3.6%	**2.0%**
Net D/E ratio *3 (times)	1.15	**1.09**
Annual dividends per share (Yen)	100.0	**80.0**
Payout ratio	53.7%	**189.3%**

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

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

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As a result, for the full year. Please see page 11. As shown in the PL, we forecast sales of JPY1,060 billion, operating income of JPY25 billion, and net income of JPY4 billion.

In addition to the decrease in the operating income, the increase in the effective tax rate has also led to a decrease in net income for the current fiscal year. Regarding dividends, although we will maintain the interim dividend of JPY50, we have decided to revise down a year-end dividend forecast to JPY30, which is extremely regrettable. The Company made a prudent decision based on comprehensive consideration of consolidated performance trends, dividend payout ratio, as well as on its policy of providing continuous and stable dividends.

The decline in the Company's business performance is in the pigment business in particular, which is highly dependent on the European economy, as the impact on chemical industry in general is becoming more pronounced. In essence, this is not in any way associated with a decline in corporate value, and we will strive to minimize the impact of H2 of the year while preparing for a rapid recovery in demand from the next fiscal year and increasing dividends.

As for the concerned pigments business in Europe, we expect the business to be in the red this fiscal year, but we are eliminating high priced inventories by the end of the year with temporary plant shutdowns and reducing fixed costs by voluntarily implementing restructuring measures. Therefore, we expect to return to the stage where the original synergy effects of acquisitions will be realized in the next fiscal year, as demand recovers in earnest. In the medium term, we are also planning to implement the optimization plan of pigments ahead of schedule, for highly efficient production.

We will also reap the fruits of several acquisitions other than C&E, which were made as upfront investments. In this way, we will accelerate the transformation of our business portfolio that we have been pursuing.

Progress in the transformation of this portfolio includes, for example, the acquisition of PCAS of Canada, which is announced recently, as a part of the expansion of related businesses in the semiconductor fabrication front-end process, or the development of PFAS-free surfactants. We are not only focusing on investment alone, but are also closing additional plants in the domestic ink business, or liquidating additional low-profit downstream businesses.

We have devoted several pages to this area, and Asai, Head of Corporate Strategy Unit, will explain the details later on.

As for the financial situation, inventories, mainly of pigments, have been building up, against the backdrop of such a shrinking demand. However, we will continue to maintain our financial soundness, including our debt-to-equity ratio, within this year, by optimizing this inventory, anticipating the effects of working capital reduction, or proceeding with the sale of businesses based on the criteria business withdrawing.

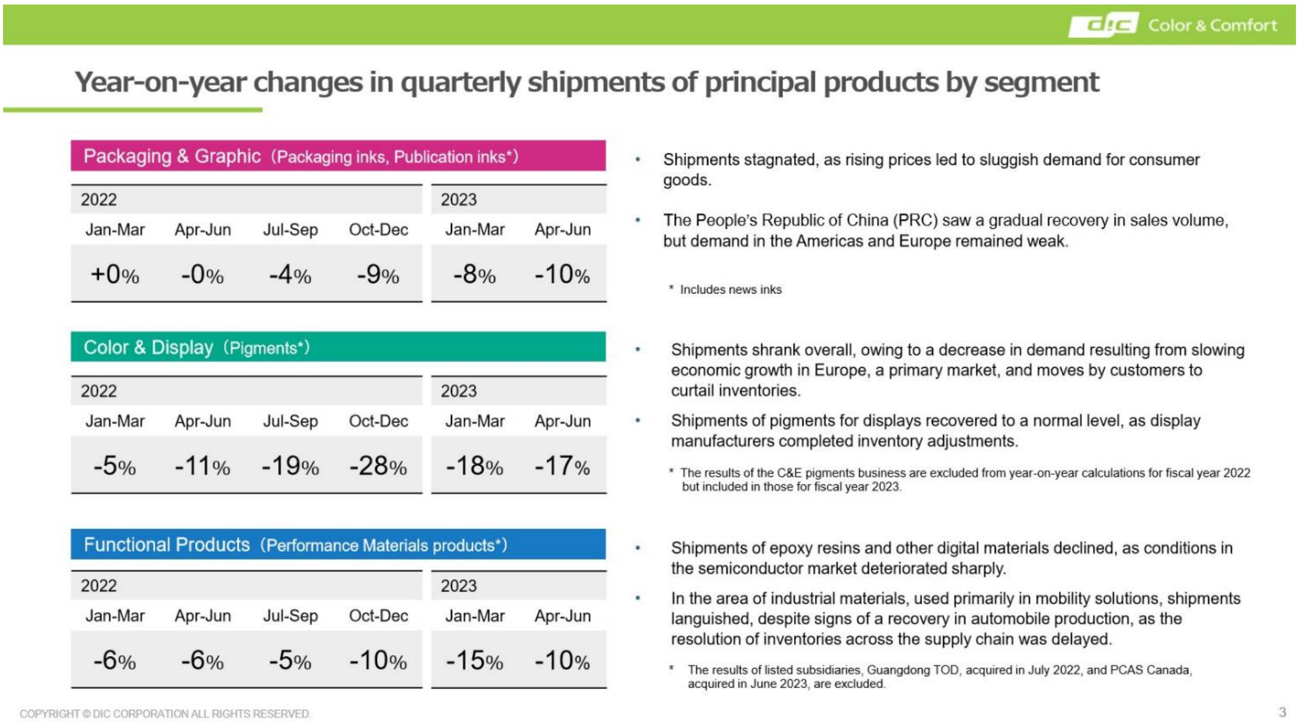
Lastly, the increase in the effective tax rate, which is one of the reasons for the decrease in net income, is also temporary, stems from the provision of deferred tax assets due to the decrease in taxable income caused by the economic slowdown in Europe. We believe that this problem will be resolved as demand recovers in line with the recovery of the European economy.

This is the overall situation that I have to say.

From here, I will pass to Furuta.

Furuta: President Ino has already explained the general situation, now I would like to start with the details.

Please see page three.



It is quite difficult to understand the situation since sales volume has decreased while sales have increased due to price hikes. So, I would like to explain the increase/decrease in volume as you can see.

The first one is Packaging & Graphic. This is the part that is greatly affected by the sales of Sun Chemicals in Europe and the US, which account for approximately 60% of Packaging & Graphic segment sales. Global inflation has been impacting the demand for consumer goods. Unfortunately, the situation has not changed much from Q1, with shipment volumes stagnating.

Q1 was negative 8%, and Q2 was negative 10%. As for package inks, Q1 was negative 6%, and Q2 was negative 8%, with a slight negative increase in Q2. As for publication inks, a decline in demand is inevitable, so the number is larger here.

AS for China, Although the recovery has not been as strong as we had hoped, there has been a gradual recovery in volume. We expect to see a slight recovery in volume in the future as inflation subsides.

In Japan, the increase in the number of travelers and other factors such as inbound travels have been pushing publications into a slight positive change, although it is still in negative slightly.

Then there is color & display. More than 70% of sales are accounted for Europe and the Americas, with Europe accounting for more than 40% and the Americas for less than 30%. These are also very much affected by the economic situation in Europe and the US.

As we have been saying since Q1, the rise in interest rates and the slowdown in the economy have not stopped our customers from reducing their inventories, and the results were extremely severe.

In Europe and the US, shipments were particularly strong in H1 of last year, as C&E was recovering from the logistics turmoil followed the acquisition. Comparing to it, shipments were down 18% in Q1 and 17% in Q2 on a volume basis in H1 of this year.

However, this trend is due in part to customers' inventory reductions and, of course, a decline in actual demand, which is having a double effect. Since inventory reduction has been completed to some extent in H1 of this fiscal year, we expect to return to shipments based on actual demand in H2 and thereafter.

In Europe and the US, the markets for coating and plastics which are for broad-based applications including automobiles, construction, and electrical products, have been in a slump overall.

In the cosmetics industry, there has been no significant growth in Europe and the US which have recovered quickly from the pandemic. We had hoped for an increase in demand in line with the increase in the number of Chinese tourists, but the number has not increased that much yet, so we have been somewhat disappointed in this area.

Considering the increase in the number of group travelers, as reported in newspapers today, it is possible that the demand in this area will increase slightly in H2 of the year.

Another product that contributes significantly to our bottom line is pigments for color filters used in displays. Panel makers considerably reduced their production in H2 of last year, which resulted in a considerable decrease in our sales. However, the panel makers' production cutbacks have run their course, and the market has returned to its normal level since H1 of the year.

Although slightly below the previous year's level on a volume basis, the sales have returned to almost the same level as the previous year on a value basis. We expect this trend to continue in H2 of the fiscal year to the FY2021 level.

Then functional products. There are two major things. One is semiconductor, electronic and electric parts industry and its situation is very bad. The volume of epoxy resins and other products has dropped by about 30%. We are not expecting a recovery in the PC, cell phone, and server markets, which are end products, until the latter of H2 of this fiscal year.

However, there are signs of recovery in some high-performance products, and we expect that they will gradually return after hitting bottom in Q2.

In the automobile industry, automobile manufacturers have returned to production. However, since we are in the upstream of the supply chain, which means parts and paint manufacturers before the automobile manufacturers, and us, it has been taking a long time to eliminate inventory.

We believe that inventory adjustment across the supply chain has been made some progress, although it varies from product to product. As you can see from the shipment situation of some products, the bottom line was from January to March, and the automobile-related products returned a little in Q2, resulting in a minus 10% decrease compared to the previous year. Although the numbers are very low, we are seeing improvement from Q1.

DIC Color & Comfort

Consolidated statement of income

(Billion yen)	2022 6 Months	2023 6 Months	Change	% Change	% Change on a local currency basis
Net sales	**521.4**	**515.3**	**-6.1**	-1.2%	-5.5%
Cost of sales	(415.4)	(420.6)	-5.2		
Selling, general and administrative expenses	(82.0)	(84.7)	-2.7		
Operating income	**24.0**	**10.0**	**-14.0**	-58.4%	-58.3%
Operating margin	**4.6%**	**1.9%**	-		
Interest expenses	(0.9)	(2.4)	-1.6		
Equity in earnings (losses) of affiliates	1.0	0.9	-0.1		
Foreign exchange gains (losses)	2.1	(1.0)	-3.1		
Other, net	0.0	(0.3)	-0.3		
Ordinary income	**26.2**	**7.1**	**-19.0**	-72.7%	—
Extraordinary income	1.3	0.5	-0.8		
Extraordinary losses	(3.5)	(2.3)	1.1		
Income before income taxes	24.0	5.3	-18.7		
Income taxes	(8.8)	(4.0)	4.8		
Net income	15.1	1.3	-13.8		
Net income attributable to non-controlling interests	(0.7)	(0.3)	0.4		
Net income attributable to owners of the parent	**14.4**	**1.0**	**-13.4**	-93.1%	—
EBITDA*	**47.4**	**32.8**	**-14.6**	-30.8%	—

Extraordinary income and losses	2022 6 Months	2023 6 Months
Extraordinary income		
Gain on sales of non-current assets	0.9	0.5
Gain on sales of investment securities	0.4	-
Extraordinary losses		
Impairment losses	(1.0)	(0.9)
Severance costs	(0.9)	(0.8)
Loss on disposal of non-current assets	(1.0)	(0.6)
Loss on withdrawal from business	(0.5)	-

■Average rate

	2022 6 Months	2023 6 Months
Yen/US$	123.25	135.88
Yen/EUR	134.89	146.91

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

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Continuing on, PL.

Sales totaled JPY515.3 billion, of which about JPY22 billion was an increase by foreign currency exchange rates. As I mentioned earlier, the volume base was quite difficult in real terms since the number includes the price increase.

SG&A expenses were a JPY2.7 billion increase from the previous year. Although this may appear to be an increase in the expenses, it is actually a decrease due to a JPY4.5 billion foreign exchange effect is included in this area. In particular, product sales were sluggish, resulting in a decrease in freight charges and other expenses. In addition, personnel costs have increased due to inflation, but this has been offset where it has been reduced through workforce reduction in Europe and the US.

In addition, utility costs are rising in Japan, but the price of natural gas in Europe and the US, especially in Germany, is falling, and this is another factor offsetting the cost.

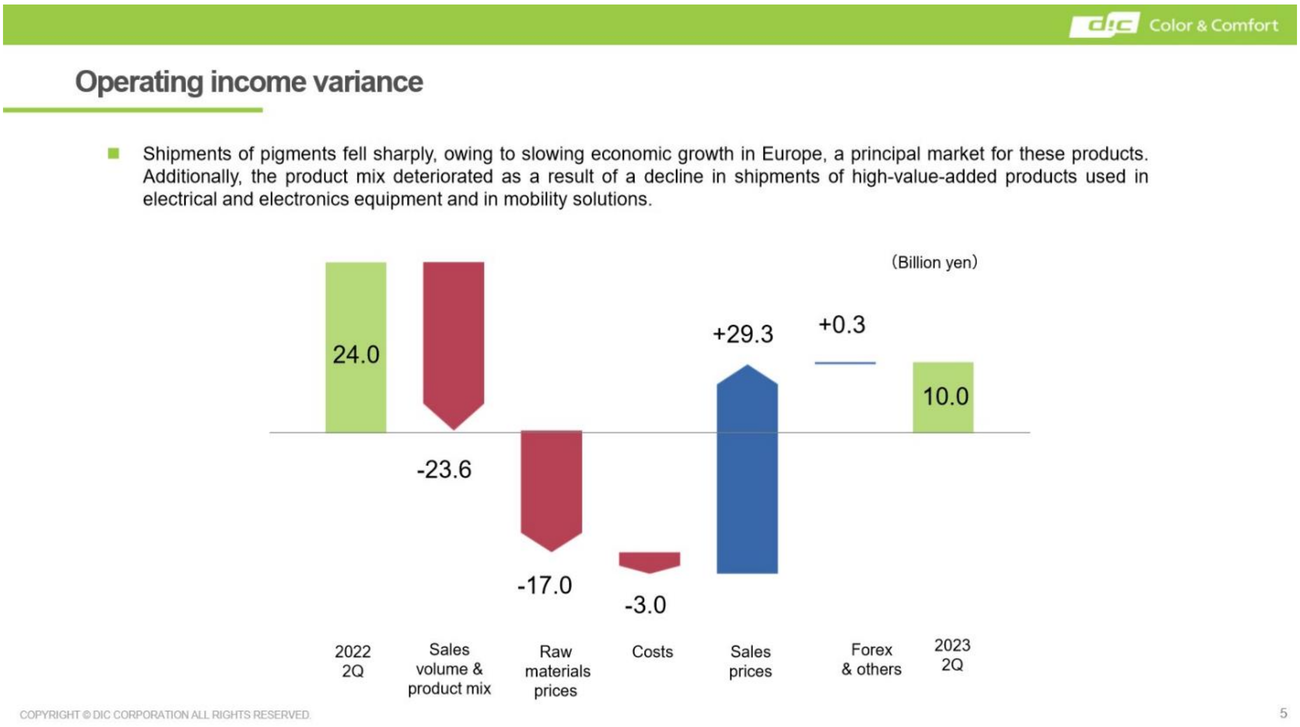
The financial expenses was a JPY1.6 billion increase from the previous year, due to the impact of rising interest rates in the US and Europe. There is JPY1 billion in foreign exchange losses. Inflation in Turkey exceeded 100% in three years, we have applied hyperinflation accounting in the consolidated US financial statements. This had the effect of generating a foreign exchange loss of more than JPY1 billion, mainly related to assets.

Regarding extraordinary gains and losses, the extraordinary gains include the sale of some land. The extraordinary losses include an impairment loss on a plant in accordance with the restructuring of the ink-related production system. We are working on this in connection with the restructuring of the ink segment.

The workforce reduction expenses amounted to JPY800 million, mainly expenses for C&E workforce reduction and retirement, and we expect this to be a positive factor in the next fiscal year.

As explained by the president at the beginning of this presentation, the effective income tax rate is considerably higher than the previous year. The deterioration of C&E business in Germany has prevented us from recording deferred assets for this loss. This is the main reason for the increase in the effective tax rate.

So, in the end, net profit for H1 was JPY1 billion.



On page five, bridge of factors for profit increase/decrease for H1 of the fiscal year.

As I have explained repeatedly, the most important factor is the volume & product mix. Each sector was negative in terms of volume, so this had a major impact.

Regarding raw material prices, we believe that the peak was between Q3 and Q4 of the previous year. Although the price of raw materials has decreased since then, it is still at a slightly higher level than H1 of the previous year, resulting in a negative impact on the price of raw materials.

Although WTI has been rising recently, the supply-demand balance is still not good, and we see a downward trend in raw materials.

As explained earlier, utility and other costs are offset between increase in Japan, and decrease in Europe, and the US, and labor costs are also offset. The impact of the acquisition of the Chinese resin company in H2 of last year, which was included in the consolidation, has had a large impact on H1 of the fiscal year.

As for the selling price, we have relatively kept the price raised in the previous year and are maintaining at this level.

DIC Color & Comfort

Financial health

(Billion yen)	Dec 31 2022	Jun 30 2023	Change
Net interest-bearing debt	445.9	**501.4**	55.4
Shareholders' equity	387.0	**420.1**	33.1
Net D/E ratio *1 (Times)	1.15	**1.19**	
Equity ratio	30.7%	**31.3%**	
BPS (Yen)	4,088.60	**4,438.24**	

* Net D/E ratio: Net Interest-bearing debt / Shareholders' equity

DIC aims to reduce net interest-bearing debt to ¥455 billion by the end of fiscal year 2023 by trimming working capital.

■Closing rate

	Dec 31 2022	Jun 30 2023
Yen/US$	132.63	**144.68**

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Please continue to page six. As for our financial health, unfortunately net interest-bearing debt is in excess of JPY500 billion. This increase was due to the acquisition of a Canadian semiconductor resin company in H1 of the fiscal year and a slight concentration of capital investment in the same period.

We had planned to reduce this area a little more through inventory reduction, but as I explained, pigment sales in Europe and the US have been slow, and we have not been able to do so as much as we had hoped. We plan to make considerable inventory adjustments in H2 of the year. In August, we are considering shutting down the factory in Germany to reduce our inventory, and as we have said, to clear out our high priced inventory first.

Unfortunately, the net debt-to-equity ratio is x1.19, which is close to x1.2, but our goal is to reduce this to less than x1.1 toward the end of the fiscal year.

Next is segment results. I have already explained the situation in the volume section at the beginning of this report, so I will talk on the main points.

Color & Comfort

Packaging & Graphic

Net sales

- Shipments decreased, as rising prices depressed demand for consumer goods, pushing down sales in Japan and elsewhere in Asia.
- In the Americas and Europe, circumstances surrounding sales volume were difficult. Nonetheless, sales remained level on a local currency basis, underpinned by efforts to maintain sales prices.

Operating income

- In Japan, operating income decreased as shipments of high-value-added jet inks sagged and efforts to modify sales prices in the area of packaging inks and publication inks failed to keep pace with cost increases.
- Operating income was up overall, bolstered by efforts to maintain sales prices, particularly in the Americas and Europe.

(Billion yen)	Net sales					Operating income					Operating margin	
	2022 6 Months	2023 6 Months	Change	% Change	% Change on a local currency basis	2022 6 Months	2023 6 Months	Change	% Change	% Change on a local currency basis	2022 6 Months	2023 6 Months
Packaging & Graphic	257.4	266.6	9.1	+ 3.5%	-1.3%	7.7	8.3	0.6	+ 7.7%	+ 6.8%	3.0%	3.1%
Japan	62.7	61.4	-1.2	-2.0%	-2.0%	2.2	1.6	-0.6	-26.7%	-26.7%	3.6%	2.7%
The Americas and Europe	162.1	173.5	11.4	+ 7.0%	+ 0.1%	4.4	5.5	1.1	+ 25.4%	+ 24.4%	2.7%	3.2%
Asia and Oceania	40.8	38.9	-1.9	-4.6%	-8.1%	1.4	1.3	-0.0	-0.8%	-2.4%	3.3%	3.4%
Eliminations	(8.1)	(7.3)	0.8	-	-	(0.3)	(0.2)	0.1	-	-	-	-

Operating income/margin

Sales of principal products

	% Change	
Packaging inks*	+ 0%	Shipments declined in all regions, as rising prices depressed demand for consumer goods.
Publication inks*	-3%	Shipments fell in the Americas and Europe, as well as in Asia.
Jet inks	-3%	Sales were down, owing to flagging demand from overseas customers.
Polystyrene	-11%	Rising food prices depressed demand for use in food packaging, resulting in a decline in sales.
Multilayer films	+ 8%	Rising food prices depressed demand for use in food packaging, but sales rose thanks to efforts to adjust sales prices, which boosted unit prices.

*Change on a local currency basis

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Overall, Packaging & Graphic was challenging in terms of volume. There is a slight recovery trend in China, but it has not yet reached the expected level. However, we are maintaining a certain margin ratio by maintaining the price.

One point in Japan, the price gap has not yet narrowed quite a bit, so we are still raising prices. In part, the conclusion of price increase in publishing ink was reached this past June.

As for jet ink, it is a high value-added product, and its final demand is in Europe and the US, so the volume was slightly lower.

Color & Display

Net sales

- Segment sales declined, as shipments—particularly of pigments for coatings and for plastics—shrank, owing to a decrease in demand resulting from slowing economic growth in Europe, a primary market, and moves by customers to curtail inventories.
- Among pigments for coatings, those for use in building materials and for industrial applications especially felt the impact of slowing economic growth.

Operating income

- The segment reported a steep operating loss, despite the modification of production facility operating rates in response to demand, as efforts to offset dwindling shipments fell short.

(Billion yen)	Net sales					Operating income					Operating margin	
	2022 6 Months	2023 6 Months	Change	% Change	% Change on a local currency basis	2022 6 Months	2023 6 Months	Change	% Change	% Change on a local currency basis	2022 6 Months	2023 6 Months
Color & Display	133.9	117.8	-16.0	-12.0%	-17.9%	7.8	(0.1)	-7.9	Loss	Loss	5.8%	-
Japan	19.3	16.5	-2.9	-14.8%	-14.8%	3.6	2.4	-1.2	-33.7%	-33.7%	18.7%	14.6%
Overseas	122.2	108.8	-13.5	-11.0%	-17.9%	4.1	(2.6)	-6.7	Loss	Loss	3.4%	-
Eliminations	(7.7)	(7.4)	0.3	-	-	(0.0)	0.0	0.0	-	-	-	-

Operating income/margin

Sales of principal products

		% Change	
Pigments for	coatings	+ 3%	A decline in demand was seen, owing to slowing economic growth, which pushed down shipments, but sales were up after translation thanks to a weak yen.
	plastics	+ 3%	A decline in demand was seen, owing to slowing economic growth, which pushed down shipments, but sales were up after translation thanks to a weak yen.
	printing inks	-15%	A decline in demand was seen, owing to slowing economic growth, which pushed down shipments.
	cosmetics	+ 19%	Sales flagged in the United States and Europe, a consequence of deteriorating business confidence. In Asia, demand continued to rally.
	displays	+ 1%	Shipments of pigments for displays recovered to a normal level, as display manufacturers completed inventory adjustments.
	specialty application	+ 4%	Shipments flagged for agricultural use, owing to inventory adjustments by customers, and shipments for use in building materials continued to slump in Europe, but sales were up after translation into yen.
Health food		-18%	Demand decreased, owing to slowing economic growth in the United States and Europe.

Continued on page nine, Color & Display. As I have said from the beginning, it was a very difficult situation. We have explained about the decrease in quantity at the beginning of this report.

As stated, we plan to reduce inventories in H2 of the year by adjusting factory operations, etc. We have been making efforts to reduce costs by adjusting factory operations, etc., but we were not able to fully compensate for the large impact of the decrease in volume.

However, as I mentioned at the beginning of this report, the color filter business has returned to the level of the year before last, and we are seeing a steady recovery in this area.

Unfortunately, we do not expect to see a major recovery in demand in H2 of the year, but we believe that we can expect a slight upturn in the areas where inventory adjustments have been completed.

Functional Products

Net sales

- Shipments of digital materials, used principally in electrical and electronics equipment and in displays, declined sharply.
- With automobile production recovering, shipments of certain products rallied. Nonetheless, shipments languished as a result of unresolved inventory adjustments across the supply chain.

Operating income

- Segment operating income fell sharply, despite efforts to modify sales prices to pass on cost increases, owing to a decline in shipments of high-value-added products and the deterioration of the product mix.

(Billion yen)	Net sales					Operating income					Operating margin	
	2022 6 Months	2023 6 Months	Change	% Change	% Change on a local currency basis	2022 6 Months	2023 6 Months	Change	% Change	% Change on a local currency basis	2022 6 Months	2023 6 Months
Functional Products	153.2	149.4	-3.9	-2.5%	-4.6%	13.3	6.7	-6.7	-50.0%	-51.8%	8.7%	4.5%
Japan	107.6	100.8	-6.8	-6.3%	-6.3%	9.0	2.5	-6.5	-72.2%	-72.2%	8.3%	2.5%
Overseas	61.2	61.7	0.5	+ 0.9%	-4.4%	4.5	4.0	-0.4	-9.7%	-15.4%	7.3%	6.5%
Eliminations	(15.5)	(13.2)	2.4	-	-	(0.1)	0.1	0.2	-	-	-	-

Operating income/margin

Sales of principal products

	% Change
Epoxy resins	-19%
Polyurethane resins	-10%
Acrylic resins*	+ 49%
Waterborne resins*	+ 6%
Polyester resins*	+ 6%
UV-curable resins	-10%

	% Change
polyphenylene sulfide (PPS) compounds	+ 9%
Industrial-use adhesive tapes	-6%
Hollow-fiber membrane	+ 4%

In digital materials, shipments of epoxy resins fell, owing to a slump in the semiconductor market. Shipments of industrial-use adhesive tapes were also down, a consequence of flagging demand for smartphones and other mobile devices. While a gradual recovery was seen in polyphenylene sulfide (PPS) compounds for use in automobiles, shipments of other materials for this application, including waterborne, acrylic and polyurethane resins, remained weak.

* Sales increases reflect the addition of sales from PRC-based Guangdong DIC TOD Resins Co., Ltd., a coatings manufacturer, acquired in July 2022.

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Next is Functional Products. The electrical and electronics equipment and semiconductor-related sectors also suffered greatly, as shipments declined significantly. The automobile industry is struggling, but we believe that inventory in the supply chain has normalized to some extent in H1 of this fiscal year with a gradual recovery. However, a recovery in China is not strong yet, so I think this area will be the key.

In terms of profit, there is an increase in electricity cost, but we have been able to maintain margins as we see decrease in raw material costs. In Q2, the profit level is a little lower than normal due to expenses incurred in the acquisition of the Canadian company I mentioned earlier, but the profit level is steadily recovering.

In H2 of the fiscal year, we expect a recovery in demand for automobiles and a further decrease in raw material prices, which will be reflected after a considerable delay in Japan.

Color & Comfort

FY2023 forecasts: Full-term operating results

- A recovery in demand is likely to take longer than originally anticipated. Accordingly, forecasts of fiscal year 2023 have been revised downward.

(Billion yen)		2022	2023 Forecasts	% Change	% Change on a local currency basis
Net sales		1,054.2	**1,060.0**	+ 0.6%	-1.6%
Operating income		39.7	**25.0**	-37.0%	-35.4%
Operating margin		3.8%	**2.4%**	–	–
Ordinary income		39.9	**20.0**	-49.9%	
Net income attributable to owners of the parent		17.6	**4.0**	-77.3%	
EPS (Yen)		186.05	**42.26**	–	
EBITDA[*1]		85.5	**70.0**	-18.1%	
Capital expenditure and investment		81.1	**82.7**	+ 2.0%	
Depreciation and amortization		48.8	**50.0**	+ 2.5%	
Average rate	Yen/US$	130.59	**140.00**	+ 7.2%	
	Yen/EUR	137.71	**151.00**	+ 9.7%	

	2022	2023 Forecasts
ROIC[*2]	3.6%	**2.0%**
Net D/E ratio [*3] (times)	1.15	**1.09**
Annual dividends per share (Yen)	100.0	**80.0**
Payout ratio	53.7%	**189.3%**

[*2] ROIC: Operating income x (1–tax rate 28%) / (Net interest-bearing debt + Net assets)
[*3] Net D/E ratio: Interest-bearing debt / Shareholders' equity

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

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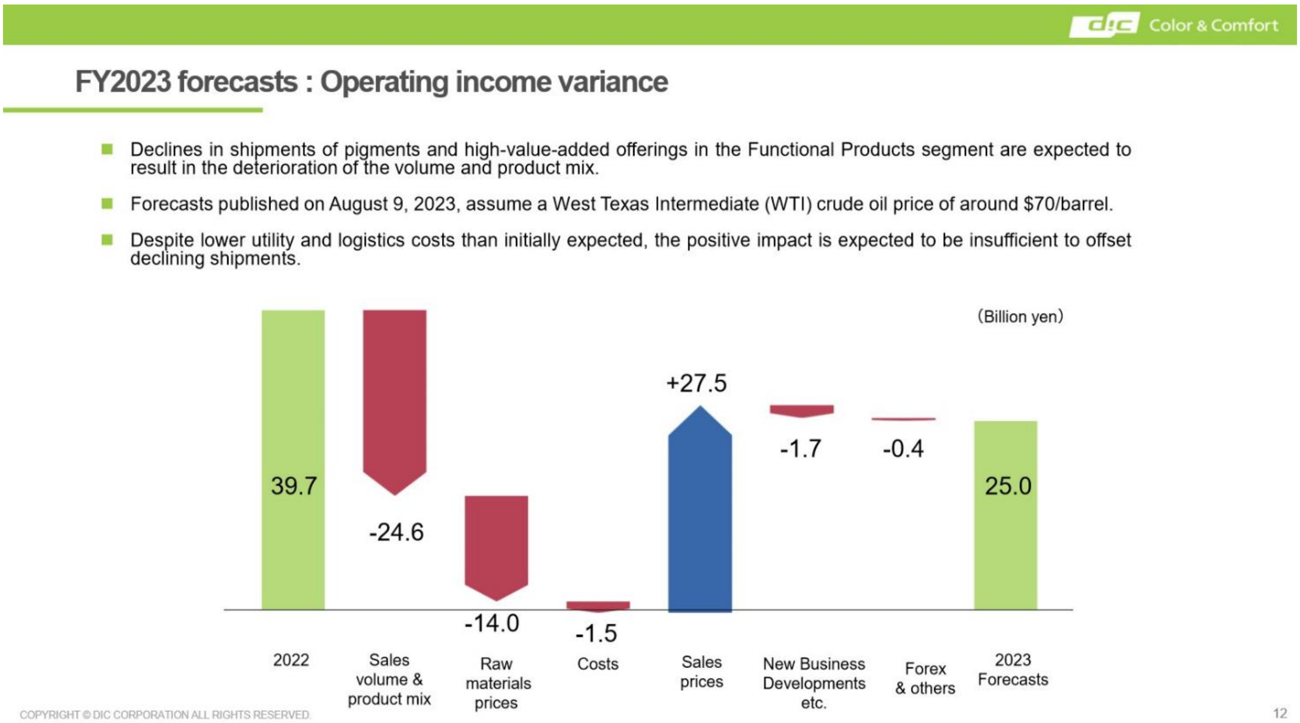
And then on page 11, the full-year forecast.

Sales are expected to be JPY1,060 billion, a slight increase over H1. Operating income is JPY25 billion, which I will explain by segment later, but it was JPY10 billion in H1 and it will be JPY15 billion in H2. We see an improvement in here accompanied by a slight increase in sales.

Unfortunately, the final profit is estimated to be JPY4 billion, due to some extraordinary losses in H2 of the year and tax expenses.

The rate is expected to be JPY140 for USD1 and JPY151 for EUR1.



On page 12, the bridge shows increase/decrease factor for operating income. The sales volume & product mix of negative JPY 24.6 billion was occurred in H1 of the year most of it, so we do not see much of this in H2 of the year. Since the volume base had declined considerably from H2 of the previous fiscal year, we expect that this part will have little impact comparing to H2 of previous year.

As I mentioned earlier, raw material price peaked in H2 of last year, so it will be slightly positive comparing to H2 of last year. Therefore, it will be in the negative JPY14.0 billion.

We expect costs to be slightly positive in H2 of the year, as the impact of the acquisition of Chinese resin company will disappear, which had an impact in H1 of the year. As for sales prices, although there will be some price reductions linked to naphtha, we will keep almost all of our prices. So, we see the sales price of JPY27.5 billion annually.

FY2023 forecasts: Full-term segment results

(Billion yen)	Net sales					Operating income					Operating margin	
	2022	2023 Forecast	Change	% Change	% Change on a local currency basis	2022	2023 Forecast	Change	% Change	% Change on a local currency basis	2022	2023 Forecast
Packaging & Graphic	533.0	545.6	12.6	+ 2.4%	+ 0.1%	20.3	20.0	-0.3	-1.5%	-1.1%	3.8%	3.7%
Japan	127.7	125.2	-2.5	-2.0%	-2.0%	4.2	4.5	0.3	+ 6.4%	+ 6.4%	3.3%	3.6%
The Americas and Europe	337.4	352.0	14.6	+ 4.3%	+ 1.5%	12.7	11.5	-1.2	-9.5%	-7.5%	3.8%	3.3%
Asia and Oceania	84.1	83.9	-0.3	-0.3%	-3.9%	3.4	4.0	0.6	+ 17.6%	+ 13.0%	4.1%	4.8%
Eliminations	(16.2)	(15.5)	0.7	-	-	(0.0)	0.0	0.0	-	-	-	-
Color & Display	248.2	240.5	-7.7	-3.1%	-6.8%	5.1	(1.6)	-6.7	Loss	Loss	2.1%	-
Japan	34.7	34.1	-0.6	-1.8%	-1.8%	4.7	5.1	0.4	+ 8.9%	+ 8.9%	13.5%	15.0%
Overseas	227.1	220.2	-6.9	-3.1%	-7.3%	0.3	(6.8)	-7.1	Loss	Loss	0.1%	-
Eliminations	(13.7)	(13.8)	-0.1	-	-	0.1	0.0	-0.1	-	-	-	-
Functional Products	315.4	314.2	-1.2	-0.4%	-1.8%	23.6	17.8	-5.8	-24.7%	-26.3%	7.5%	5.7%
Japan	216.9	204.7	-12.2	-5.6%	-5.6%	14.7	9.0	-5.7	-39.1%	-39.1%	6.8%	4.4%
Overseas	128.8	135.1	6.3	+ 4.9%	+ 1.4%	8.9	8.8	-0.1	-1.1%	-5.2%	6.9%	6.5%
Eliminations	(30.3)	(25.6)	4.7	-	-	(0.0)	0.0	0.0	-	-	-	-
Others, Corporate and eliminations	(42.4)	(40.3)	2.1	-	-	(9.4)	(11.2)	-1.8	-	-	-	-
Total	1,054.2	1,060.0	5.8	+ 0.6%	-1.6%	39.7	25.0	-14.7	-37.0%	-35.4%	3.8%	2.4%
Yen/US$	130.59	140.00		+ 7.2%		130.59	140.00		+ 7.2%			
Yen/EUR	137.71	151.00		+ 9.7%		137.71	151.00		+ 9.7%			

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Next is the outlook by segment.

In Packaging and Graphic, we expect JPY8.3 billion in H1 of the year and JPY11.7 billion in H2, for a total of JPY20 billion for the year.

In Japan, the profit will increase from H1 of the year with the ongoing price revision, and a slight decrease in raw material prices, as well as a slight recovery in demand due to inbound travel and such.

In Europe and the Americas, the number will be almost in line with H1 of the year. We do not expect a large increase in shipments, but we will maintain margins to a certain extent.

In Asia and China, we expect demand to recover to some extent in China. Shipments in Asia were sluggish in H1 due to poor conditions in Europe and the US, but we are seeing a slight recovery in these areas as well.

In the Color & Display, operating loss was ¥0.1 billion for H1 while ¥1.5 billion for H2. In Japan, we expect a slight increase in profit due to steady sales of pigments for color filters, compared with H1. Overseas operating profit will decrease significantly compared to H1. As I mentioned earlier, we expect to see impact due to a slight decrease in capacity utilization from inventory adjustments and such.

As for Functional Products, we expect a large increase since H1. A recovery in automotive applications, a slight decrease in raw material costs, and an expansion in sales of value-added products will contribute to those recoveries.

That is all I have to say.

Komine: Next, Asai, Head of Corporate Strategy Unit, will explain our initiatives to bolster corporate value. Executive Officer Asai, please.

Asai: Good morning, everyone. I am Asai from the Corporate Strategy Unit. I would like to talk briefly about our efforts to improve corporate value.

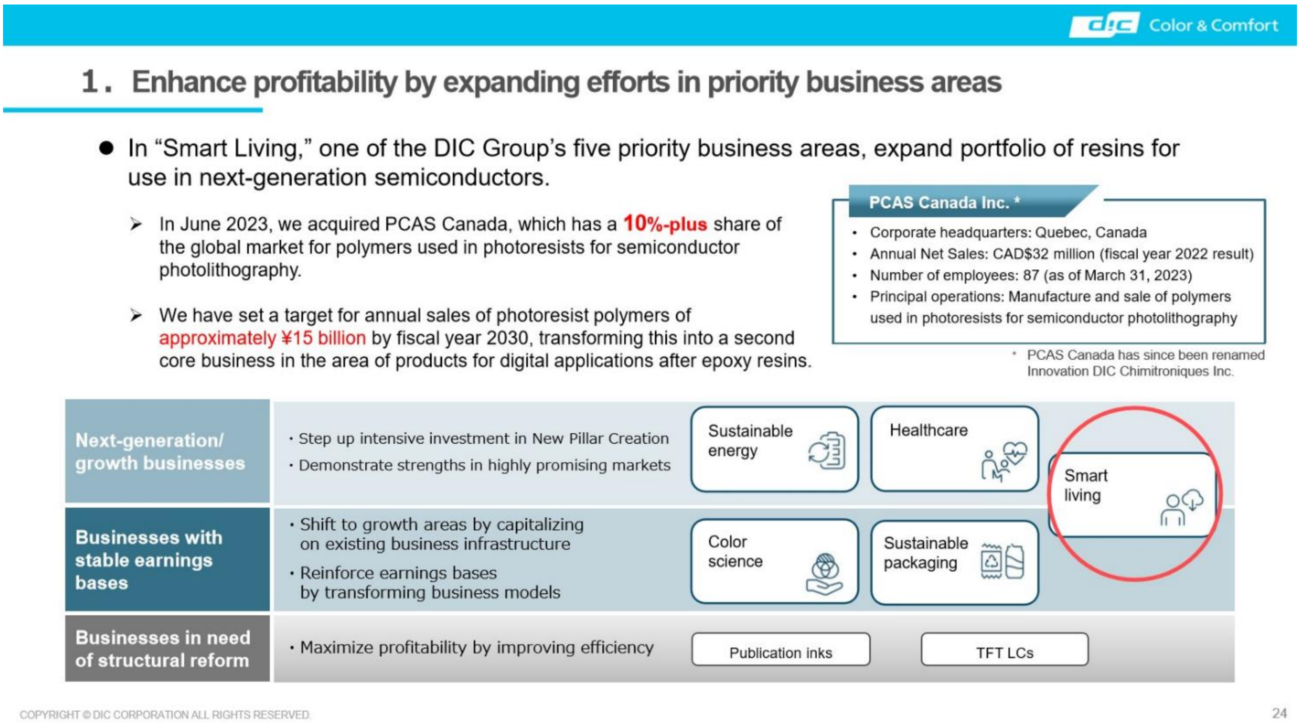
Since Furuta has already discussed our current business performance, I would like to talk about the progress of our efforts to increase our value over the medium to long term.

See page 23.

As you are all aware, we announced our long-term management plan, DIC Vision 2030, in February of last year, and we are currently working on it. Based on the growth potential of the market and its impact on society, we have established five priority business areas where we can leverage our strengths. As you can see, there are the five areas.

The Company will promote portfolio transformation in these priority areas, so that it can maximize the benefits of the demand recovery phase. In addition, in order to allocate our limited management resources to more priority business areas, we will work on measures to improve profitability through business expansion in priority business areas as the first step.

Secondly, the Company will improve asset efficiency by addressing business restructures, and also by withdrawing from low-profit and non-core businesses and selling off assets. We will continue to promote these initiatives.



Now, please see page 24.

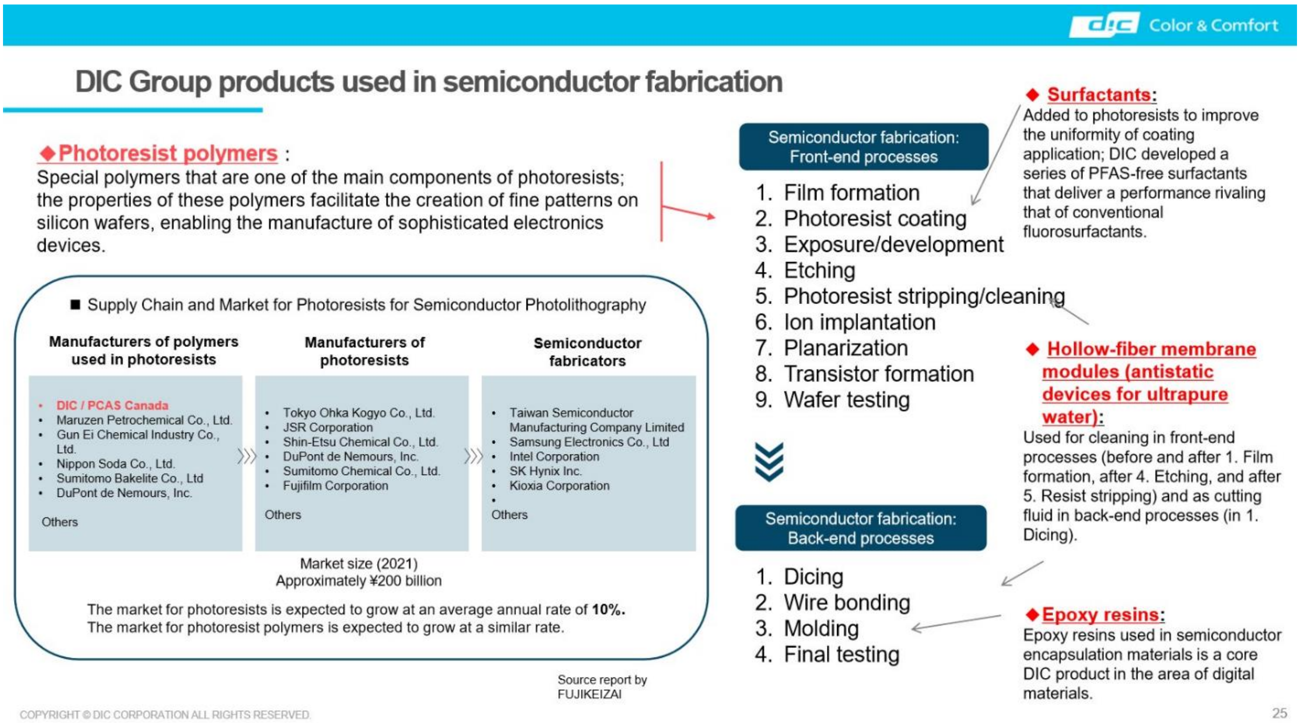
This explains the expansion of profitability through business expansion in priority business areas.

Of the five priority business areas I mentioned earlier, I would like to focus on one area, smart living.

We are aiming to expand our business of resins for use in next-generation semiconductor. In June of this year, we acquired PCAS-Canada, which has a global market share of over 10% in polymers used in photoresists for semiconductor photolithography, for JPY13.2 billion.

By 2030, we would like to increase sales of photoresist polymers to the level of JPY15 billion as a group and make it our core business in the digital field next to epoxy resins.

As you can see below, in our 2030 plan, we have divided our businesses into three categories: next generation/growth businesses, business with stable earnings, and businesses in need of structural reform. The acquisition of the polymers used in photoresists for semiconductor photolithography falls within the smart living area, which is circled in red.



Next page, please. I think I do not need to go into the semiconductor manufacturing process again here, but we have created this chart to give you a better understanding of the fields in which we are offering our products.

The Canadian company we acquired this time is a photoresist polymer manufacturer. The numbers on the right side are in order from number one, which explains the manufacturing process for semiconductors. The upper half, from number one to number nine, is the front-end process, and the lower half, from number one to number four is the back-end process.

The photoresist polymers we purchased this time are from the second step of the front-end process, which applies photoresist to wafers. We have acquired a company that supplies the polymers used to make the photoresist.

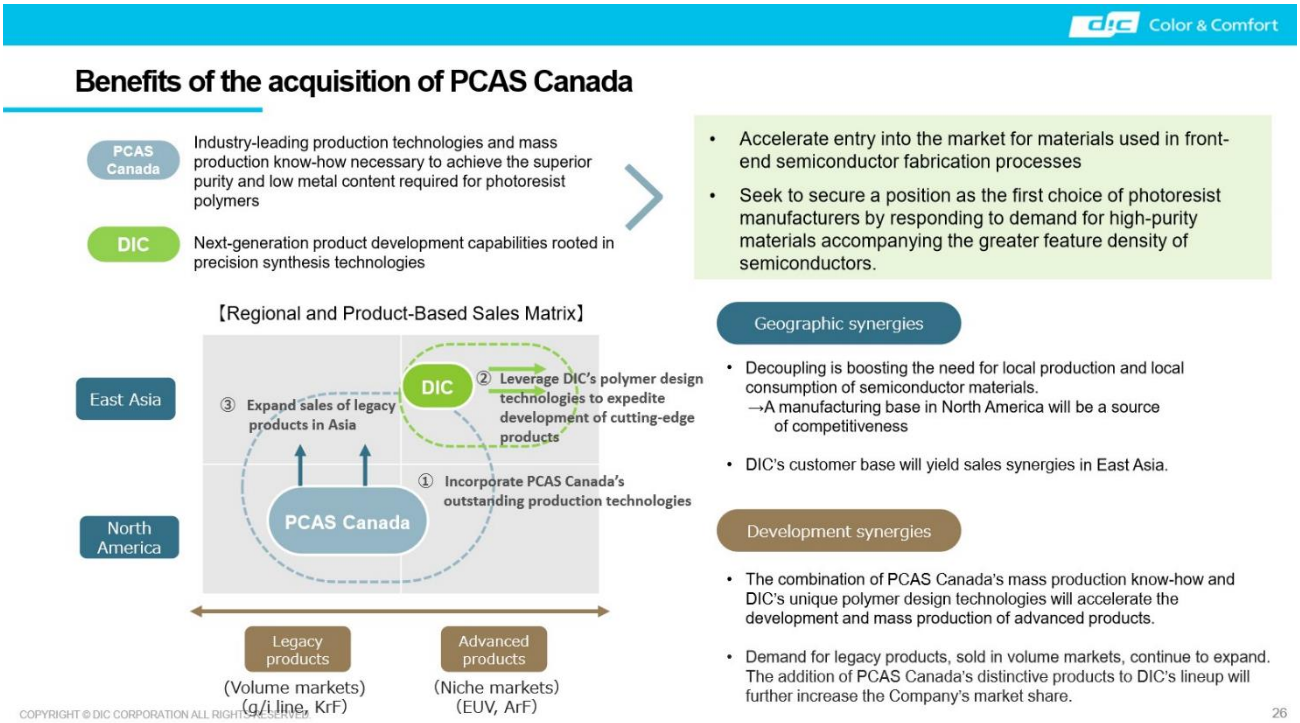
The supply chain of photoresists is shown on the left side of the page, and this time, we, DIC/PCAS-Canada, are positioned as one of the polymers manufacturers used in photoresists. We will supply our products to the photoresist manufacturers in the middle of the page. Ultimately, this is then provided to the semiconductor manufacturers.

Also, there is a section on surfactants in the upper right corner. On the first of this month, we made a public announcement about a fluorine-free, PFAS-free surfactant product that achieves the same performance as fluorine-based products. The MEGAFASE EFS series was released.

This product is used in the second front-end process, the photoresist manufacturing process, so it is also part of the semiconductor process.

We already provide hollow fiber membrane modules, which are shown in the middle of the page. This is used for antistatic devices for ultrapure water, which is used in the cleaning process in the front-end process. We are already offering these products as our mainstay products. Finally, the epoxy resins in the lower right-hand corner.

Epoxy resins used in semiconductor encapsulation materials, which are also the mainstay of our digital products.



The next page, page 26, shows the effect of the acquisition of PCAS-Canada. The matrix is shown on the bottom left. The regional axis and the legacy and advanced generations of products are divided into four.

We have always been involved in the development of cutting-edge products in Asia. However, we have not yet established a base for existing legacy generation products and product markets outside of Asia. We were able to fill this gap by acquiring PCAS-Canada, and as you can see, there are synergies in the region. We believe that having a new manufacturing base in North America will be very effective from the viewpoint of economic security.

In terms of technological synergies, we believe that the main effect of this project will be to place our footprint not only on advanced products, but also on the legacy generation used for conventional power semiconductors and in-vehicle semiconductors.

Color & Comfort

2. Improve efficiency of businesses in need of structural reform; withdraw from low-profit/non-core businesses and sell related assets

- **Improve efficiency of businesses in need of structural reform**
  - In the domestic printing inks business, DIC will fulfill its responsibility to supply products to customers while at the same time working to strengthen profitability by implementing/considering new measures to improve production efficiency that anticipate a shrinking market.
- **Withdraw from low-profit/non-core businesses**
  - The Board of Directors annually evaluates businesses based on criteria for withdrawal. DIC will withdraw from businesses in which it is difficult to maintain a competitive edge due to changes in the operating environment and reallocate resources to priority business areas.
    - ✓ In June 2023, the Company withdrew from the 4-tertiary butylphenol (PTBP) business.
    - ✓ In October 2023, the Company will divest its housing materials business.
  - DIC plans to review/withdraw from businesses in the Functional Products segment with combined annual sales of ¥20 billion (including PTBP and housing materials) in fiscal years 2022 and 2023.
- **Curtail strategic cross-shareholdings**
  - The Board of Directors annually assesses the purpose of each cross-shareholding and consistently promotes reduction.
  - As of the end of fiscal year 2022, cross-shareholdings accounted for 8% of net assets.
  - By fiscal year 2026, DIC aims to reduce cross-shareholdings to below 4% of net assets

  Notes: 1.Strategic shareholdings include deemed shareholdings. 2.Strategic shareholdings do not include unlisted stocks.

- **Shrink other assets**
  - Approximately $5.0 billion in cash—representing proceeds from sales of property, plant and equipment as part of rationalization efforts in the printing inks business—will be applied to strategic investments.

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Next page, please.

The is the second one. Measures for businesses in need of structural reform. I have listed some of them there, and I will briefly explain.

One is to respond to businesses in need of structural reform. In the domestic publishing ink business, we are implementing and studying ways to improve production efficiency in anticipation of a shrinking market while fulfilling our responsibility to supply products to our customers.

Specifically, we have closed our Kansai Plant in 2020 which we had for the publishing ink business. In the following year, we closed the production facility for publishing ink at our Komaki Plant.

In addition, we have decided to stop production at our aging plant in Utsunomiya by the end of March 2025. The loss associated with this was recognized as an expense in the form of an impairment loss in H1 of the fiscal year, as Furuta mentioned earlier.

Next is withdrawal from low profit/non-core businesses. We have established internal standards for withdrawing from low-profit and non-core businesses and we regularly evaluate our businesses and are steadily withdrawing from those with low profitability and non-core businesses.

Most recently, the Company withdrew from the 4-tertiary butylphenol (PTBP) business in the alkylphenol product group.

In addition, as we announced on August 3, we will be transferring our housing materials manufacturing and sales business to another company as of October of this year.

Including this, we are in the process of reviewing and withdrawing from businesses worth approximately JPY20 billion in terms of sales in 2022 and 2023.

The third is the reduction of cross-shareholdings, which the Board of Directors regularly examines to determine the significance of cross-shareholdings and is moving forward with the reduction.

As shown in the graph on the right, this bar graph shows the amount of strategic cross-shareholdings from 2020 to 2022. This is the combined amount of both the portion on the balance sheet and not on the balance sheet. The line graph shows the number of brands. Both the number of brands and amount have been shrinking from 2020 to 2022.

We are currently holding 8% of strategic cross-shareholdings of our net assets as of the end of 2022. We intend to further improve asset efficiency by reducing the ratio to 4% of our net assets by the end of 2026.

For other asset reductions, we will use the cash inflow of approximately JPY5 billion from the rationalization of the ink business and the sale of fixed assets to make strategic investments in the near future.

That is all the explanation from my side. Thank you very much.

Question & Answer

Komine [M]: Okay, we will now move on to Question and Answer session. Let’s begin with Questioner 1. Please ask your questions.

Questioner 1[Q]: Thank you for your explanation. Two, please.

First of all, in the area of increasing corporate value, PCAS more specifically which you just mentioned, how are you planning to increase sales from JPY3 billion to JPY15 billion?

Asai [A]: This is Asai. I will answer your question. First of all, the acquisition of PCAS-Canada will bring photoresist sales to JPY15 billion in FY2030. However, as you can see on page 24, PCAS-Canada's current sales are approximately CAD32 million. That's it for now.

The overall market is growing by nearly double digits year after year right now and as you can see on page 26, PCAS-Canada's products, especially those of the legacy products, are being expanded to Asia. This is especially true since many of the photoresists manufacturers mentioned earlier are Japanese companies, and we will be able to promote sales growth in this area with PCAS-Canada's products.

In addition, we will utilize the production know-how of PCAS-Canada for the so-called advanced generation EUV (Extreme ultraviolet) products that we are currently developing, and PCAS-Canada is planning to expand its production facilities next year. With those, we are aiming to achieve a combined sales growth of JPY15 billion by 2030. This is my answer to your question.

Questioner1[Q]: Thank you very much. Okay. The second is about Color & Display business overseas that you just explained in H1 and H2, but using Q2 as a starting point, the deficit of JPY2.9 billion will be JPY4.2 billion in H2, so I think you are talking about an improvement.

You are also talking about operation halt in August, and if you look at H1 and H2, how will you increase as H2 of the year is the off season, and C&E has been struggling quite a bit, how do you see the impairment risk? Please tell us about this area.

Furuta [A]: As for Color & Display, we are looking at a slightly longer shutdown in H2 of the year, as you just mentioned. However, we are also reducing the number of employees in H1 of the year, which will have a positive effect on some areas.

Other things are that although the double effect from declining actual demand and reducing inventory has been impacting us in H1 of the fiscal year, the inventory part will improve a little so it will be a slight but positive factor.

Questioner1 [Q]: How about the risk of impairment?

Furuta [A]: Regarding impairment loss, of course I cannot say there is no risk at all but we have determined the risk based on the current plan for H1 of the fiscal year, and so far there are no problems. Naturally, depending on future trends in this business and in the industry, such risks may arise. That is all.

Questioner1[M]: I understand. Thank you very much.

Ino [A]: I would like to add. For a risk of impairment loss is just what we just mentioned but we cannot sit on our hands until demand returns. So, we must first adjust production while demand declines since high-priced inventories have accumulated.

One of our measures is to eliminate this problem as soon as possible. This will probably be done in H2 of the current plan, and although there are some areas where losses will increase, we will first eliminate this from the next fiscal year.

In addition, we are now working on an optimal production system for the current pigments plants, which was originally planned to be completed in two to three years, but we have already made a plan ahead of schedule to lower the so-called "break-even point" to build a profitable structure even if demand declines somewhat. That is all.

Questioner1 [M]: Thank you very much.

Komine [M]: Thank you very much. Next, Questioner2. Please ask your questions.

Questioner2 [Q]: Thank you for taking my questions. I have two questions as well. As for the overseas development of the Color & Display business, you said that the overseas deficit will be turned around once the high priced inventory is cleared to some extent.

I would like to know the actual timing of it. Recently, you have been in a difficult situation in terms of profitability, and I am kind lost that how much profit you can make from C&E business once it returns to normal operations.

I would like to know if you have any sort of guideline to how much the earnings of Color & Display overseas will be expected to improve next year.

Furuta [A]: This is Furuta. This Color & Display oversea business is very much suffering. Decrease in demand is one major factor. For example, the major impact in terms of volume was an 18% or nearly a 20% decrease in H1 of this fiscal year. This volume decrease will probably be about 10% on an annual basis.

However, even with a 10% decrease in volume, overseas sales are still close to JPY200 billion, so 10% of this amount is JPY20 billion. I believe this JPY20 billion, in terms of marginal profit, would be at the level of JPY8. 0 billion to JPY9.0 billion, if not half. So, first of all, if this level of sales returns to some extent, I think the negative portion from marginal profit can be covered to a large extent.

Also, the high priced inventory will be eliminated. Currently, there is profit of about JPY5 billion in Japan. So, if sales return to the FY2022 level in terms of volume, we believe that we will be able to secure a profit of nearly JPY10 billion, as Color and Display segment total, including both Japan and oversea.

The biggest impact has been on the decrease in volume, so it will depend on how much recovery will be made in this area first and foremost. That is all.

Ino [A]: This is Ino. If I may add about C&E business. Their EBIT before the acquisition was JPY 8 billion (at the exchange rate at that time), and the original plan was to achieve the similar amount in about 2025 after deducting amortization.

However, last year, when various logistics problems were resolved in H1 of the year and started to get on-the-track, we found ourselves in the current situation. This was because a little over 40% of color materials, especially pigments for coatings and plastics in the volume zone is dependent on Europe, mainly Germany, and we are now directly affected by the situation.

If it returns to normal moderately, which we think it will for sure, we can expect JPY8 billion. With considering the synergies and the factors that Furuta mentioned earlier, we think we can expect about JPY10 billion with the C&E business.

Quesioner2[Q]: I understand very well. Incidentally, H2 of this year shows a deficit of JPY4.2 billion if I subtract out. I imagine that there will still be the deficit remaining in both Q3 and Q4, and we will not see a turnaround until after Q1 of next year. Is it correct to understand?

Furuta[A]: That is correct. In H2 of the fiscal year, we will adjust inventories while taking into operating conditions. The first priority is to reduce inventories. We will continue to focus on business restructuring and, as Ino mentioned at the beginning of this presentation, we are considering production efficiency as well. So, we are simultaneously promoting the integration and improving efficiency of these bases.

Komine [M]: Thank you very much. Questioner3, please ask your questions.

Questioner3 [Q]: Thank you very much for taking my questions. I would like to ask about Functional Products. As you can see on page three of the materials, volume base is down 15% for January to March, and down 10% for April to June, but I believe you explained that semiconductor-related was down 30% in H1. Then, I would like to ask how much was increase or decrease in the automobile-related sector in H1 of the fiscal year.

You also said that inventory adjustments are progressing, and that the automobile industry is expected to recover in H2 of the year. Looking at the profit forecast by region, profit for Japan is expected to recover in H2 of the year, but profit for oversea is not expected to recover much. I wonder what your outlook in this area is.

Tell me about Functional Products.

Furuta[A]: As for growth rates for each automotive, electronics and electrical, and semiconductors, but the epoxy resin I mentioned earlier is one of the semiconductor-related products in electronics and electrical. There are several other product groups, so not all of the 30% is related to semiconductors. This was not particularly good, so if we look at the other items together, it is a little less than 30%.

As for the automobile industry, I do not have the exact figures, but I believe that the negative figure of more than 10 percent has recovered to a single-digit figure in the April to June period.

As for the overseas recovery in Functional Products business, although I mentioned that not much recovery was taking place, H1 of the year was JPY4.0billion, while H2 was JPY4.8billion. One factor is that we cannot expect much positive impact from raw material prices, especially since raw material prices overseas have been falling ahead of those in Japan.

As for Japan, as I mentioned earlier, the ratio of high value-added products is overwhelmingly high in Japan, and the number of those products should increase. In Japan, the price of raw materials will decline slightly , and the increase in profit for Japan is expected to be higher for this portion. That is all.

Questioner3 [Q]: I understand. One more question, please. As for Packaging & Graphic, as you can see on page 3, there has been a continuous decline of minus 8% or minus 10% after the October to December period. I had thought that demand for packaging was stable, mainly for food products. What is the reason for the 10% decrease in volume in this area? Is it food related or are other things having a greater impact? Please explain this area.

Furuta [A]: Unfortunately, as I mentioned earlier, the package-related business is quite negative at minus 6% in Q1 and then minus 8% in Q2.

Food related is main for this business, and inflation has had a considerable impact on this area. As I have said, strong inflation inevitably leads to a decrease in the number of items purchased by consumers, and this is having an impact. Therefore, I see no way to recover the numbers in this area until we see this inflation settle down to some extent.

Most of the packaging inks are food-related, however, there are also building material and industrial applications. The housing slump etc. has been contributing to a slight decline. That is all.

Questioner3 [Q]: So, the food-related which is supposed to be stable, has dropped by that much, too.

Furuta [A]: Yes, that's right. This area has not been affected so much in the past, but I believe that the recent sharp increase in inflation may be starting to have an impact on this area.

Kono [M]: I understand. That's all from me, thank you very much.

Komine [M]: Thank you very much. With that, I will end Question and Answer session.

This concludes the briefing. Thank you for joining us today. Bye for now.

[END]

Disclaimer Regarding Forward-Looking Statements

Statements herein, other than those of historical fact, are forward-looking statements that reflect management's projections based on information available as of the publication date. These forward-looking statements are subject to risks and uncertainties that could cause actual results to differ materially from such statements. These risks and uncertainties include, but are not limited to, economic conditions in Japan and overseas, market trends, raw materials prices, interest rate trends, currency exchange rates, conflicts, litigations, disasters and accidents, as well as the possibility the Company will incur special losses related to the restructuring of its operations.