◆ Summary of Presentation for 2Q Results and Full-year Forecast, FY2023 and Q&A ◆

◆ Consolidated Financial Results For the Six Months Ended September 30, 2023

Net sales decreased 12,686 million yen (8.8%) year on year to 131,735 million yen, operating income decreased 6,586 million yen (67.4%) year on year to 3,190 million yen, ordinary income dropped 7,827 million yen (64.5%) year on year to 4,299 million yen, and profit attributable to owners of parent fell 6,824 million yen (77.6%) year on year to 1,966 million yen. Non-consolidated net sales dipped 6,834 million yen (8.7%) year on year to 71,530 million yen. Net sales of consolidated subsidiaries declined 11,287 million yen (12.4%) year on year to 79,729 million yen. Non-consolidated operating income dipped 1,809 million yen (49.1%) year on year to 1,873 million yen. Operating income of consolidated subsidiaries climbed 5,378 million yen (87.1%) year on year to 794 million yen.

Non-consolidated net sales were affected by the declined demand for semiconductor-related adhesive tapes and related devices, multilayer ceramic capacitor-related tape and optical display-related adhesive products, etc. Although consolidated subsidiaries benefited from currency conversion effect due to the yen's depreciation, U.S. subsidiary MACtac suffered a significant decline in sales volume, and subsidiaries in Advanced Materials Operations and Optical Products Operations were also significantly affected by the drop in demand.

Non-consolidated operating income had a factor for an increase, equivalent of approx. 3.7 billion yen from pass-through of surging prices of raw materials which significantly increased, but it also had a factor for a decrease due to a decline in sales quantity coupled with the resultant operation loss of approx. 3.8 billion yen, an increases in the prices of pulp and petrochemical raw materials and fuel expenses increased approx. 1.7 billion yen year on year. The consolidated subsidiaries reported a decrease in profit due to lower sales volumes at MACtac and its Advanced Materials Operations and Optical Products Operations subsidiaries.

By segment, net sales in the Printing and Industrial Materials Products included a year-on-year decrease of 3,359 million yen (5.0%) to 64,076 million yen in Printing & Variable Information Products Operations and a year-on-year rise of 1,317 million yen (8.2%) to 17,363 million yen in the Industrial & Material Operations segment. Net sales in this segment decreased 2,042 million yen, or 2.4%, year on year to 81,439 million yen, and operating income fell 2,330 million yen to an operating loss of 776 million yen, due to higher main raw material and distribution costs in Japan, as well as the impact of a sharp decline in sales volume and foreign exchange rates on MACtac in the U.S., which reduced operating income from 515 million yen to operating loss of 1,770 million yen.

For Printing & Variable Information Products, in adhesive products for seals and labels, due in part to a decline in demand for these products for use in beverage campaigns and food which was influenced by consumers reluctance for purchase due to price increase, although sales to the logistics and on-line sales industries remained solid in Japan. Overseas, sales volume declined significantly in the U.S. and China. In Industrial & Material Operations, domestic sales of automotive-use adhesive products, window film for buildings, and device for on-line sales were strong. In overseas markets, sales of automobile-use window film and automobile-use adhesive products remained solid in the U.S., India and ASEAN.

Net sales of Advanced Materials Operations decreased 6,831 million yen (20.4%) year on year to 26,722 million yen and decreased 3,664 million yen (34.4%) year on year to 6,974million yen in the Optical Products Operations. Net sales in this segment decreased 10,495 million yen, or 23.7%, year on year to 33,696 million yen, and operating income fell 4,442 million yen, or 50.8%, to 4,304 million yen. Partly due to an increase in operating losses resulting from lower capacity utilization rates at production facilities due to lower sales volumes.

In Advanced Materials Operations, semiconductor-related adhesive tape and -related equipment, and multilayer ceramic capacitor-related tape showed sluggish sales, significantly affected by a decrease in demand for items used for smartphones and PCs. In the Optical Products Operations, sales of optical display-related adhesive products remained weak, affected by a decline in demand for products both for large-screen TVs and for small- and medium-sized devices such as smartphones.

Net sales in the Fine & Specialty Paper Products Operations included a year-on-year increase of 35 million yen (0.5%) to 7,894 million yen and in Converted Products Operations, a year-on-year decrease of 184 million yen (2.1%) to 8,704 million yen. Net sales in the segment fell 148 million yen (0.9%) year on year to 16,598 million yen, in terms of profit, operating income fell 182 million yen, resulting in operating loss of 372 million yen due to a rise in the prices of pulp and other raw materials and fuel.

In Fine & Specialty Paper Products Operations, sales of industrial specialty paper including dust-free paper remained weak. Even so, the performance of mainstay color paper for envelopes, colored construction paper for schoolchildren and oil- and water-resistant paper for the fast food industry was solid. In Converted Products Operations, demand for release paper for electronic materials recovered, but sales of release paper for general adhesive products, casting paper for synthetic leather, and release Film for optical-related products remained sluggish due to a decline in demand.

◆ Forecasts of Consolidated Business Results for the Fiscal Year Ending March 31, 2024

Looking at the consolidated business results for the first half of fiscal year ending March 31, 2024, despite price revisions in response to sharp increases in raw material and fuel prices and the positive impact of yen depreciation, sales volumes of Printing and Industrial Materials Products and Paper and Converted Products declined significantly due to the delayed recovery in demand in Japan, the U.S., China, and other countries. In addition, in Electronic and Optical Products, sales volumes of semiconductor-related adhesive tapes, multilayer ceramic capacitor-related tapes, and optical display-related adhesive products fell sharply on sluggish demand for products used in TVs, smartphones, and personal computers. The severe business situation continued, as a decline in sales volume resulted in operating losses due to lower utilization rates at production facilities. For the outlook for the third quarter and after, orders have generally been recovering since early fall, but are expected to fall short of initial forecasts for the full year.

Considering these circumstances, the Company has revised its forecast of full-year consolidated results announced on May 8, 2023. The net sales forecast in the second half of the fiscal year was revised to 143.3 billion yen against net sales in the first half of 131.7 billion yen, and the full-year forecast was decreased 15.0 billion yen from the initial forecast of 290.0 billion yen to 275.0 billion yen. The operating income forecast in the second half was revised to 5.8 billion yen against operating income in the first half of 3.2 billion yen, and the full-year forecast was decreased 4.5 billion yen from the initial forecast of 13.5 billion yen to 9.0 billion yen. The ordinary income forecast in the second half was revised to 5.7 billion yen against ordinary income in the first half of 4.3 billion yen, and the full-year forecast was decreased 3.5 billion yen from the initial forecast of 13.5 billion yen to 10.0 billion yen. The forecast profit attributable to owners of parent in the second half was revised to 3.5 billion yen against 2.0 billion yen in the first half, and the full-year forecast was decreased 4.0 billion yen from the initial forecast of 9.5 billion yen to 5.5 billion yen.

I will explain the reasons for the revision of the full-year consolidated operating income forecast from the initial forecast of 13.5 billion yen to 9 billion yen. On a non-consolidated basis, the impact of higher raw material and fuel prices, which was initially estimated to be about 2.6 billion yen, is expected to be limited to about 700 million yen, resulting in an increase of about 1.9 billion yen; the impact of fixed cost reductions is expected to be about 2.0 billion yen; and the impact of price revisions, which was estimated to be about 900 million yen less than initially estimated, and the impact of lower sales volume are expected to be about 4.7 billion yen. The company expects non-consolidated operating income to be 6.1 billion yen, down 1.7 billion yen from the initial forecast of 7.8 billion yen. The consolidated subsidiaries expect a 2.9 billion yen, 2.8 billion yen less than the initial forecast of 5.7 billion yen, due to a significant decrease in sales volume of MACtac and the impact of lower sales at electronics and optics-related subsidiaries.

As for Printing and Industrial Materials Products, net sales of Printing & Variable Information Products are expected to fall short of the initial forecast due to concerns about restrained purchases, especially of food-related products, caused by soaring prices, although inbound effects and recovery of personal consumption are expected in Japan. Overseas, the Company expects demand to fall far short of its initial forecast due to a delay in the recovery of demand in MACtac, and also expects a decline in demand in China, resulting in a 2H forecast of 71.1 billion yen versus 64.1 billion yen for the 1H and a full-year forecast of 135.2 billion yen, down 6.5 billion yen from the initial 141.7 billion yen. Net sales in Industrial & Material Operations are expected to be firm in Japan, especially for automotive-use adhesive products, but the sales volume will not reach the initial forecast, and compared to the results of 17.3 billion yen for the first half, 18.0 billion yen for the second half, and 35.3 billion yen for the full year, down 1.7 billion yen from the initial forecast of 37.0 billion yen.

In this segment, the forecast of net sales in the second half was set at 89.1 billion yen against the first half result of 81.4 billion yen, and the full-year forecast was decreased 8.2 billion yen from the initial forecast of 178.7 billion yen to 170.5 billion yen, while in terms of profitability, an operating loss of 0.1 billion yen was forecast for the second half against the first half resulting in an operating loss of 0.7 billion yen. The full-year forecast was decreased 3.2 billion yen from the initial forecast of an operating income of 2.4 billion yen to an operating loss of 0.8 billion yen.

Net sales of Advanced Materials Operations are expected to be below the forecast, although the demands for semiconductor-related adhesive tape and related equipment as well as multilayer ceramic capacitor-related tapes will recover. The forecast of net sales in the second half was set at 31.3 billion against the first half result of 26.7 billion yen, and the full-year forecast was decreased 3.2 billion yen from the initial forecast of 61.2 billion yen to 58.0 billion yen. For the net sales of Optical Products Operations, sales volume of optical display-related adhesive products is expected to decrease, so the net sales forecast in the second half was set at 6.4 billion yen against the first half result of 7.0 billion yen, and the full-year forecast was decreased 1.0 billion yen from the initial forecast of 14.4 billion yen to 13.4 billion yen.

In this segment, the net sales forecast in the second half was set at 37.7 billion yen against the first half result of 33.7 billion yen, and the full-year forecast was decreased 4.2 billion yen from the initial forecast of 75.6 billion yen to 71.4 billion yen, and due to the expected recovery of demands for Advanced Materials Operations segment, the forecast operating income in the second half was set at 6.2 billion yen against the first half result of 4.3 billion yen, and the full-year forecast was decreased 0.4 billion yen from the initial forecast of 10.9 billion yen to 10.5 billion yen.

Net sales in Fine & Specialty Paper Products Operations are expected to be 7.7 billion yen in the second half, compared to 7.9 billion yen in the first half, and 15.6 billion yen for the full year, down 1.4 billion yen from the initial forecast of 17.0 billion yen. Net sales in Converted Products Operations are expected to be 8.8 billion yen in the second half of the year, compared with 8.7 billion yen in the first half, and 17.5 billion yen for the full year, down 1.2 billion yen from the initial forecast of 18.7 billion yen.

In this segment, the net sales forecast in the second half was set at 16.5 billion yen against the first half result of 16.6 billion yen, and the full-year forecast was decreased 2.6 billion yen from the initial forecast of 35.7 billion yen to 33.1 billion yen, and the forecast operating loss in the second half was set at 0.3 billion yen against the first half result of operating loss of 0.4 billion yen, and the full-year forecast was decreased 0.9 billion yen from the initial forecast of operating income of 0.2 billion yen to operating loss of 0.7 billion yen.

Regarding dividends, the interim dividend for the current fiscal year is 44 yen per share, as initially forecasted. The forecast year-end dividend of 44 yen per share has not been revised. Finally, since the third quarter, orders for semiconductor-related equipment for use in generative AI have been brisk, and in addition, orders for building and automotive window film, automotive-use adhesive products, semiconductor-related adhesive tapes, and multilayer ceramic capacitor-related tapes have been recovering. However, we believe that the business environment surrounding the Company is not optimistic. Under these circumstances, the Company is in the process of formulating its next three-year medium-term management plan, "LSV2030 – Stage 2," which will start in April next year. All domestic and overseas group employees will work together to promote digital transformation initiatives and utilization, consider optimization of the business portfolio, and make other concerted efforts to enhance corporate value.

◆ Main Questions and Answers ◆

For Printing & Industrial Materials Products, the Company revised its operating income forecast for the fiscal year ending March 2024, from 2.4 billion yen at the beginning of the period to an operating loss of 0.8 billion yen. The main reasons for the revision are lower profitability on a non-consolidated basis and deteriorating earnings at MACtac, Inc., the Company's U.S. subsidiary. What are your thoughts on improving the profitability of the non-consolidated and MACtac companies for the next fiscal year?

In the Printing and Industrial Materials, the effect of price revisions has been seen in both the Printing and Information Materials and Industrial Materials on a non-consolidated basis, but a decline in sales volume of adhesive paper and adhesive film, the main products of the Printing and Information Materials, has had a significant impact, and the resulting operational losses have caused earnings to deteriorate. Orders are currently recovering, and we expect sales volume to recover toward the second half of the year. However, we anticipate a decrease in sales volume for the full year due to the impact of restrained buying due to rising prices, especially for food products, and a decrease in planning for beverage campaigns. With regard to efforts to improve profitability toward FY2024, we are considering additional price revisions with the understanding of our customers, as well as actively launching and expanding sales of environmentally friendly products such as products using hot-melt adhesive, products using biomass materials, and recyclable products, in order to increase sales volume.

Operating income for MACtac was largely affected by a decline in sales volume due to deteriorating market conditions caused by rising interest rates in the U.S. As a measure for FY2024, the Company hopes to quickly realize synergies with LABEL SUPPLY in Canada, a sales company for adhesive label products acquired in May 2023, and increase the capacity utilization of MACtac. Although market conditions have slumped at a time when the Company is restructuring its business, the Company does not intend to change its original plan and intends to promote the optimization of production, cutting, logistics, personnel, and raw material procurement with Duramark and Spinnaker, which it has acquired, to strengthen earnings and improve performance.

With regard to the Advanced Materials Operations, how quickly do you expect demand to recover? I would also like to know more about semiconductor-related equipment and semiconductor-related adhesive tapes for generative AI.

Although the current sales volume of semiconductor-related adhesive tapes is steadily recovering, we feel that it is not as strong as during the period of strong digital demand due to the COVID-19 pandemic. For business related to generated AI, the main focus is on tape laminators and other equipment used in manufacturing semiconductors to be mounted on generated AI, and we expect an increase in shipments of adhesive tape after the equipment is installed.

The operating loss for Paper and Converted Products for the fiscal year ending March 31, 2024 is increasing. What is your view on the future measures?

The Paper and Converted Products Operations have also been affected by a decline in sales volume and a sharp rise in raw material and fuel prices, mainly for pulp, which have had a significant impact on earnings. However, our business policy for pushing up the sales volume and promoting the optimization of production structure while improving our profitability will remain unchanged. As for the Fine & Specialty Paper Production Operations, overall demand for paper was declining due to a decrease in demand for business card exchange due to the COVID-19 pandemic and the spread of online education. With the lifting of action restrictions, such demand is gradually recovering, and we intend to continue to provide a stable supply. In addition, we intend to develop and market items that meet new needs, such as growing awareness of environmental considerations, including de-plasticization, to compensate for the decline in the volume of existing products. The company also plans to analyze and optimize procurement methods for raw materials and fuels, which have an impact on costs. The Converted Products Operations have been affected by declining demand for various adhesive products, including adhesive products for labels, but we expect market conditions to gradually improve. In particular, casting paper for carbon fiber composite materials, which have been affected by the slowdown in the aircraft industry over the past few years, are expected to have a positive effect, such as an increase in the number of aircraft produced.