

Report of Operations

Consolidated results of operations

Progress and outcomes of operations

We are pleased to report results of the operations for the 51st term (the period from April 1st in 2020 to March 31st in 2021)

During the period, the global economies made a negative growth worse than Lehman Shock period due to COVID-19 pandemic which changed lifestyles dramatically to “With Corona” style. In many countries tightly controlled lockdown had to be executed in certain periods, which gave a massive negative impact on economies. As a matter of fact, in case of the US longest lasted economy upturn was obliged to end. The overall economies have been in a recovery phase since the latter half of the period based on resumption of economic activities and monetary easing executed by each of the countries, however it is still not easy to predict outlook of the global economies due to the pandemic that is continuing in many countries.

Looking at Asia, China was successful to get the pandemic settled down and with an aggressive investment into infrastructure sector, GDP growth reached 2% range, while India was a negative growth of 8% and Korea also resulted in a negative growth of 1%. Although Vietnam was less impacted by the pandemic thanks to growth in export to China and the US, the rest countries declined significantly. In 2021 the overall economies will be recovering based on the sharp recovery in the US and economic stimulus measures taking place across the countries, although speed of the recovery would be heavily hinged on vaccination speed and penetration.

As for Japan, due to the first state of emergency executed in April, first half of the period was super tough in economies while the second half made a gradual recovery especially around manufacturing sector. Having said this capital investment and consumer spending did not catch momentum, furthermore the second state of emergency was called in January, so the economies are still stagnant.

Under such a circumstance, Brown Technologies Co., Ltd. was acquired into AR Brown Co., Ltd. as of April 2020 and simultaneously Institute of Science and Technology was newly established at the same place aiming to make relevant activities efficient and effective. Organizational restructuring took place resulting in formation of Hu-Vet department to look after 3 markets (Reproduction, Veterinary, Food Safety) which should be served synergistically in a more efficient way.

All the entities made growths in Sales resulting in Consolidated Sales of JPY11,884 Million which was 5.0% increase vs. last term despite constrained sales activities. Consolidated Operating Profit was JPY756 Million which was 25.4% more than that of last year's profit, where expense control on nonessential and nonurgent offset, aggressive investments on newly hires and DX (Digital Transformation). Foreign exchange gain and progress in inventory revaluation brought an Ordinary Profit of JPY786 Million which was 38.9% increase.

AR Brown's FY2020 Sales were JPY10,307 Million which was 3.1% increase based on a considerable growth in Fine Chemical business. Strategic investment in Electronics Materials business, DX investment and expense control resulted in an Operating Profit of JPY423 Million and an Ordinary Profit of JPY556 Million, which were 36.5% and 34.3% increases, respectively.

The upcoming 52nd term should be the period that we accept all uncertainties, and we try harder to improve Corporate Value aiming to become a dignified company which is reliable internationally keeping the Management Vision of "Contribute to affluent society creation" in our mind.

Overview of each of the businesses in this period —— Consolidated basis (Sales/Gross Profit) ——

Electronics Materials Business

The business resulted in a negative growth of 3.8% in sales and of 7.6% in profit, respectively. Major reasons for the negative growth were Automotive Electronics decline during 1st half due to COVID-19 pandemic and demand from one of biggest customers in China stayed low. Apart from these, Home Appliance & IT segment was firm during the term, Automotive Electronics made a sharp recovery from summer and a new business started from the same timing, which brought the sales to such a minimum decline through the term. Furthermore, South Korea and India grew nicely via business foundation efforts paid for the last couple of years. As a new capability development, first pilot production for new Coating Material at a manufacturing partner in Thailand completed successfully, which will make it possible to submit samples to customers from mid of the next term. Electronics Chemical segment grew although its business magnitude is not as big as the others. Investment into Aluminum Nitride manufacturing venture company which spined out from Hokkaido University in Japan was made in order to support their operations and agreed to take sales responsibilities where contacts with all potential customers completed before the term end, which have brought us to the point that sales would come up for mass production use purpose during the next term. Equipment business associated with the materials dealt in declined due to uncertain business conditions around customers.

Performance Chemical Business

Sales and profit increased by 6.1% and 6.7% respectively. Biocide segment struggled due to a market price decline based on an excess capacity for supply in the marketplace, Aviation & Aerospace segment, Lubricant segment, and Metal Processing segment also declined because the latter 2 segments are mostly tied with Automotive Industry. Chemical Intermediate segment and Paint & Ink segment made a sharp recovery from the mid of the term resulting in even to the previous term. On the other hand, Adhesive segment and Tire segment grew thanks to tight cooperation with the supplier. Personal Care segment grew again following the previous term including new businesses that started with an alcohol in China and Hyaluronic acid in Thailand. In addition to Japan, China, Thailand, India and Korea, an employee was deployed in Singapore to accelerate synergistic sourcing and selling works amongst the countries, which brought business diversification as well as geographical expansion within the business.

Fine Chemical Business

Sales and profit grew significantly by 79.4% and 44.9% respectively. With exception of turmoil in transportation due to COVID-19 pandemic and negative impact on business for OTC medicines that are related to inbound travelers, the business progressed mostly as planned. Both New Medicine segment and Generic Medicine segment grew nicely. New Medicine segment growth was brought by increase of a few intermediates supplied to a few large Pharmaceutical companies. Furthermore, a new Intermediate made by an Indian company became very close to qualification at a different Pharmaceutical company. As for Generic Medicine segment, although API (Active Pharmaceutical Ingredient) sourced from a Taiwanese company struggled due to a customer specific issue, several APIs imported from Indian companies whom we had developed before the pandemic sold well and Excipients sourced from a Japanese company and sold to a Korean company increased its sales, which made the segment grow. Master File registration for an API for an anti-cancer agent completed successfully, where it is our expectation that the API would start to be purchased for mass production purpose from

sometime in the next term. In addition to Japan and India, the China entity started to explore suppliers for APIs and Intermediates and already started to deliver real sales. Biomedicine segment also grew although its business magnitude is not as big as the others.

Life Science Business

The business showed 14.6% of negative growth in sales and 0.1% of growth in profit. Bioresearch segment and Sterilization segment for Pharmaceutical firms & Medical Instrument companies grew while Water Treatment segment represented by Nano Membrane declined significantly. Although Bioresearch segment struggled during 1st half due to COVID-19 pandemic, it recovered and grew in 2nd half considerably. As for Sterilization segment, business with Medical Instrument companies evolved through the term. On the other hand, COVID-19 pandemic prevented considerable number of projects using the Nano Membrane from moving forward, which resulted in the forecast change that some of the projects would only start mass production from the next term although most of all the project resumed before the term end. Deal of sgRNA started newly, which will lead to one-stop Genome Editing business as a desire.

Hu-Vet Business

Businesses of Animal Breeding equipment, PGT (Preimplantation Genetic Testing) equipment for IVF (In Vitro Fertilization), Livestock milk inspection kit, Food safety inspection kit and Water quality & water level monitoring machines were consolidated forming Hu-Vet department in the Japan entity. In August the license to deal in Animal Breeding equipment was finally obtained from the government and before the term end real sales were delivered. Due to COVID-19 pandemic PGT equipment business struggled until the year end however considerable orders were placed before the term end, which helped this term sales exceed the last term sales. Livestock milk inspection kit business declined seriously during 1st half due to milk production volume decrease led by school shutdown based on the 1st state of emergency made by the government in April, while a sharp recovery was made in 2nd half in combination of market share increase, which resulted in almost even vs. the last term. As for Food Safety inspection kit business, Japan gained a momentum, but no order was placed from the Ministry of Health in Indonesia due to COVID-19 for organophosphate and carbamate pesticide residues' detection kit. Market research about land-based aquaculture system completed where the business team became ready to commercialize the water quality monitoring machines for the application.

Test & Measurement Business

The business showed negative growths of 7.1% and 10.2% in sales and profit, respectively. Japan resulted in a significant negative growth due to budget constrains at many customers based on uncertainties in economies because of COVID-19 pandemic while China grew nicely, and Thailand also grew although its business magnitude is not as big as the others. As for Automotive segment, despite the pandemic, CASE related investments were aggressive enough to place a substantial number for ADAS (Advanced Driver Assistance System) related testing equipment, which was delivered to Government-owned testing firms, Automotive companies and Automotive parts companies in Japan and China, respectively. In addition, Japan started equipment rental business to meet the market needs. In the last term the China entity started to deal in strain gauges targeting at Automotive Industry, which grew nicely and became one of the core businesses. Regarding development of Shock Test equipment, development work completed finally at the supplier where demo equipment was purchased to understand entire characteristics where commercialization from the next term became ready. As to Medical Equipment segment, several Automated Medicine Packaging Machines were shipped to large hospitals in China and gained more successful records to convince other hospitals there.