

Report of Operations

Matters related to the current state of the Corporate group Progress and outcomes of operations

This is to report results of the operations for the 53rd term (from April 1st in 2022 to March 31st in 2023)

The global economies during the period slowed down due to the escalated geopolitical risk based on the Ukraine-Russia issue leading to crude oil and raw material price increases which resulted in energy cost increases, price hikes in consumer goods and sharp policy interest rate rises in Western countries to control inflations.

In Asia, ASEAN and India showed firm economies thanks to domestic demand growth while China's GDP only grew by 3%, that was significantly lower than the previous year, due to the ZERO Corona policy continued until the end of 2022 even after releasing from the cities' lockdown. As for South Korea, although GDP grew by 2.6%, the decline in the global semiconductor demand which commenced in the latter half of the year, gave a massive negative impact on the last quarters' negative growth. Thus, the Asian Area recovery modes were different by country. In 2023, although a recovery trend is expected in Asia driven by recovery in China economies, a further slowdown in the global economies could be the case because of the prolonged Ukraine situation and recession concern in the US.

As to Japanese economy during the period, although socioeconomic activities were getting normalized with easing of measures and restrictions against COVID-19 infection, recovery in the economies was limited due to the impact from the rapid currency depreciation of JPY and price increase. In 2023, a moderate recovery in the economies is expected mainly driven by domestic demand increase including a recovery in investment demand in anticipation of after-COVID-19. Having said that, under the circumstance that prices of consumer goods keep rising if real wages at small and medium-sized companies remain sluggish, as this will depress personal consumption, the risk of a continued slowdown in the economic recovery is not avoidable.

Under such circumstances, the Corporate group made aggressive investments such as entire equity purchase of F. B. Automation Co., Ltd. and capital investment into an Indian API and Intermediate manufacturer to make it possible to penetrate into new markets in a more diversified manner for mid-term growth. In addition, the Corporate group has entered in the second phase of "CREATE NEXT AR BROWN" mid-term management plan where the business strategies were executed, and social contribution activities were conducted across entities aiming to materialize the Management Philosophy fostering dignity and enhancing business continuity. This fiscal year consolidated Sales were ¥14,805M, which was 15.0% growth, mainly driven by Electronics Materials and Fine Chemical

businesses, while consolidated Operating Income was ¥863M, which was 5.3% negative growth. This was due to cost rate increase based on the Asian currency depreciations against Western currencies, increased expenses based on resume of business activities under easing restrictions, and investment in human resources. Efficient asset management, sale of financial asset with the purpose to support the direct investments and inventory clearance via enhancement of quality management brought ¥962M of Ordinary Income, which was 0.7% growth.

As for AR Brown Co., Ltd. as an entity, Sales were ¥12,359M, which was 11.7% growth, mainly driven by Electronics Materials and Fine Chemical businesses, while Operating Income was ¥395M, which was 25.0% negative growth due to cost rate increase based on the currency depreciation of JPY against Western currencies despite expenses were within the plan. Sale of some of listed stocks and increased dividend from the rest of listed stocks brought ¥680M of Ordinary Income, which was almost same as the previous year.

Priority for the upcoming 54th term is to secure and develop human resources so that we can develop and promote the businesses that are well aligned with SDGs.



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

Electronics Materials Business

The business grew by 14.4% in sales and 14.3% in profit, respectively. Japan, China, Thailand, and India made growths in both sales and profit, benefiting from the economic recovery from the pandemic. In South Korea, both sales and profit declined due to semiconductor shortage issues and a negative impact from the Ukraine-Russia issue. In Automotive Electronics segment, despite the impact of production adjustments due to the global semiconductor issues continued from last year, both sales and profit increased based on sales growth of x-EVs and Autonomous related applications. Home Appliance & IT segment grew in both sales and profit, supported by high nesting demands continued throughout the year. Sales and profit in coating/dispensing equipment business for chemicals dealt in declined due to a component business lost at an equipment manufacture, but the number of partners increased which enabled us to get a considerable number of projects. In Electronics Chemicals segment, sales were still small, and it will take some more time before spreading around the entire market, but several major customers qualified the products where the business has entered the phase, to be a Core domain in the future. For Coatings containing organic solvents, efforts to make its productions “Carbon Neutral” started, which may be materialized in FY2024 if things go as expected. In addition, at the new Coating manufacturing partner companies in Thailand, the sampling process of new Coatings to potential customer has already been initiated and is in a process to try to make more products to be made. Moreover, different chemistry-based Coatings were tried to meet supply chain diversification requests from customers.

Performance Chemical Business

Sales and profit increased by 2.6% and 8.8% respectively, although business environment was not favorable due to high logistic cost and skyrocketing worldwide raw material price cost until the 3rd quarter and the sharp currency depreciation of JPY, which impacted existing import businesses to Japan negatively. A new chemical material business in Aviation & Aerospace segment started successfully in the 4th quarter and contributed much to sales and profit growth in the entire business. Personal Care segment also grew sharply, due to business start/restart with bio-based materials to support Global Cosmetic Market trend, brought about by collaboration between “Global Personal Care Segment Team members”. In summary, most of the segments such as Biocide, Metal Processing, Chemical Intermediate, Chemical Paint & Ink and Adhesive segments, showed recoveries or growths despite the above tough business circumstances, while Tire segment, one of biggest segments, declined due to an existing customer’s slow sales and Lubricant segment for textile went down due to the pandemic in China. From a geographical expansion standpoint, salesforces were newly deployed in Korea and Vietnam respectively to accelerate synergistic sourcing and selling strategy amongst the regions, aiming to bring supply chain diversification for customers as well as geographical expansion for the Business.

Fine Chemical Business

Sales grew significantly by 32.9%, while profit grew only by 1.3%. Although almost all businesses planned were successful, some businesses' profitability was heavily impacted by the sharp currency depreciation of JPY against Western Currencies. From a sales standpoint, New Medicine segment grew significantly, and Generic Medicine segment grew nicely. New Medicine segment growth was brought about by start of a few intermediate businesses for large Japanese pharmaceutical companies on the top of existing business growths. As for Generic Medicine segment, existing businesses grew further in Japan, and newly developed businesses started in Vietnam. Excipient business sourced from Japan and exported to Korea grew following the previous year. As to Bio-Medicine segment, an ADC project reached the point that the business would start in 2024. From geographical expansion standpoint a salesforce was deployed newly in Vietnam, which already started to deliver sales in this fiscal year, in addition to salesforce enhancement made at the India entity. It was officially decided to deploy a Quality Assurance specialist in Japan to enhance capabilities and credibility of the entire business. Finally, decision was taken to make an investment to an Indian start-up company called Vannsh Life Sciences Pvt. Ltd. who focuses on API for Oncology and other specialty intermediates, whose capabilities would help to expand geographies further to the U.S. and others.

Life Science Business

The business showed 19.4% of growth in sales and 8.8% of negative growth in profit. In Bioresearch segment, sales of plastic consumables grew by the stable supply through AR Brown's global network and were able to meet the increased demand for auxiliary equipment for semiconductor manufacturing. On the other hand, sales of enzyme reagents and consumables for basic research were sluggish due to the sharp currency depreciation of JPY and cost increases. In Sterilization segment, the sales grew by increase in number of pharmaceutical and medical device customers. Genome editing service business (sgRNA), which had started expanding sales last year, concluded contracts with multiple customers as planned. As a new product, cGMP-compliant reagent product was launched and delivered positive results. Business development efforts for the Bio-industry segment started. Regarding Nano Membrane business, sales increased more than planned as materialization of an OEM business project.

Hu-Vet Business

The business resulted in 9.6% growth in sales but saw a negative growth of 5.6% in profit. The demand for special connectors for medical equipment continued to rise, leading to a significant increase in sales. However, in IVF segment, PGT (Preimplantation Genetic Testing) business struggled due to disruption at customers caused by tight supply of pre-treatment drugs for fertility treatment. As for Livestock Milk Inspection Kit business, the sale grew in the first half of the year, while demand started to decline from the 3rd quarter due to negative impact from the surplus raw milk issue, as well as dairy farmers' leave. As a result, sales in this segment remained flat compared to the previous year. In Food Testing segment, although reagent business was put in a complicated situation due to the supplier-side company acquisitions, stable supply was maintained by an adjustment of our business processes. As for Safety Testing segment, resumption of orders for Pesticide Residue Testing Kits for Asia, which were suspended due to the COVID-19 pandemic, contributed to increase sales. In Water Level/Quality Monitoring Machine business, sales of water level gauges for landslide monitoring (disaster prevention purpose) and small hydroelectric power generation increased.

Test & Measurement Business

Sales increased by 24.1% while profit declined by 0.5%. As for Automotive segment although in Japan a certain number of ADAS (Advanced Driver Assistance System) related testing systems and Pressure Mapping Sensors were supplied to Automotive customers and Tire customers, profitability went down due to the currency depreciation of JPY and soaring transportation cost. In China, CASE-related investment was still aggressive enough to receive orders for many ADAS related Dummies successfully, which were deployed in China Government-owned testing firms, although sales activities were restricted due to the Shanghai lockdown. Strain Gauges, which targeted at China Automotive industry, were delivered to many Chinese customers successfully and grew nicely becoming one of the core businesses although other competitors experienced difficulties in shipping schedules due to semiconductor shortage issues. As for Electronics and Aviation & Aerospace segments, newly developed Shock Testing Equipments, were supplied to several customers in Japan with stable quality. As for Medical segment, although Automated Medicine Packaging Machine had no sales in China in this fiscal year because large hospitals in China were obliged to prioritize pandemic countermeasures in their budget, after getting rid of lockdown new inquiries began to come in from hospitals. In October AR Brown acquired F.B.Automation Co., LTD, a trading company dealing in Electric Valves and Pumps used for Medical Analysis Instruments, and its sales grew nicely, which contributed to growth in sales of the entire Test & Measurement business as well as Medical segment. As a new attempt targeting at a new segment creation in Japan and China, marketing activities on Fiber-Optic Sensing Systems started and the first delivery record was achieved at a Chinese Infrastructure related customer.