

# Report of Operations

## Consolidated results of operations

### Progress and outcome of operations

We are pleased to report results of the operations for the 52<sup>nd</sup> term (the period from April 1<sup>st</sup> in 2021 to March 31<sup>st</sup> in 2022)

The global economies showed a gradual recovery during the period, thanks to economic activities resumed in combination with epidemic prevention efforts of COVID-19 infection.

If we look at China, the economies improved with a GDP growth rate of 8% in 2021 based on recoveries of high-value goods consumption and housing demand through Internet and contribution of exports in accordance with world economies' recovery. Thanks to relaxation of activity restriction measures in each country and reaction to the negative growth in the previous year, India and Korea improved its GDP growth rate to 9% and 4% respectively. As for ASEAN, all major countries made a growth based on recovery of consumer spendings although magnitude and timing were different by country. However, it is necessary to pay close attention to downside risks such as activity restrictions due to the Zero Corona policy in China, shortage of semiconductor supply, skyrocketing raw material prices, and the issue between Ukraine and Russia, and the future remains uncertain.

In Japan economies, recovery of economic activities was seen after cease of the series of emergency statement in conjunction with high vaccination rate, but the current activity volume is far from the level before the pandemic, as a matter-of-fact semi-emergency COVID-19 measures were taken. In addition, the progress of JPY depreciation due to continuation of Japan Bank's monetary easing policy contrary to shift to exit strategy of monetary easing in Europe and the United States is giving a massive impact on import purchasing costs, on the top of shortage of parts supply and stagnation of logistics, which has brought concern that profit structure of many companies represented by manufacturing industry is getting worse.

Under such an environment, making the most use of the footprint expanded in the Asian region, AR Brown Group has been trying to build a business structure that can withstand against severe external environment changes by doing cross entity collaboration such as co-market development and cross sourcing-selling between entities. In addition, based on the management vision of "Contributing to creation of a prosperous society," not only investment into businesses but also investments into SDGs and ESG were made with the examples of purchase of a sustainability bond and donation for an environmental improvement project led by a city utilizing "Regional Revitalization Support Taxation System".

Consolidated Sales in the term were JPY12,876 million, an increase of 8.3% from the previous term, driven by Electronics Materials business growth. Consolidated Operating Income increased by 20.5% to JPY911 million by investing in human resources to prepare for business expansion and strengthening compliance to fulfill social responsibilities, even though sales activities were still restricted. As a result

of recording foreign exchange gains and reducing inventories that have low turnover rates, Consolidated Ordinary Income became JPY956 million with an increase of 21.6%.

As for AR Brown Co., Ltd., Electronics Materials business grew significantly, which lifted sales to JPY11,067 million by 7.4%. Although sales activities were limited due to the pandemic similarly to the previous term, as a result of continuous investment into DX (Digital Transformation), Operating Income was JPY527 million and Ordinary Income became JPY677 million, which were growths of 24.6% and 21.9% respectively.

In the 53<sup>rd</sup> term, we will strive to increase resilience and to create further values as a company that is trusted by the international community and can fulfill its social responsibilities even if the world business conditions are unpredictable.

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

## Electronics Materials Business

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The business grew by 24 % in sales and 20 % in profit, respectively. As for Automotive Electronics segment, although shortage of various parts represented by semiconductors gave a negative impact, growth of x-EV related applications brought the segment sales to a level to exceed FY2019 result. As to Home Appliance & Communication segment, although demand from one of the biggest customers in China did not recover, the increase in the number of customers in Japan and China helped the segment sales grow significantly. Regarding Electronics Chemical segment represented by high thermally conductive fillers, sales for key customers started where the segment has reached the point that in future the segment can be a core segment although it would take some time. Equipment business associated with the materials dealt in slightly grew. From the geographical standpoint, Korea only grew by a few points because of the significant negative impact of semiconductor shortage, while the other countries grew at double digits. New Coating material made at a Thailand manufacturing partner started to be sampled and effort was paid to widen type of such products there. As for conventional Coating materials, together with the other manufacturing partner there, a project to produce more product families started there aiming to make supply chain more diverse. The lockdown in Shanghai city that occurred at the end of the fiscal year gave a massive impact on supply for China-based customers where every possible countermeasure was conducted and continues.

## Performance Chemical Business

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Sales increased by 6% while profit decreased by 1%. 1) Disinfectant sales, that had been a contributor in last fiscal year in China, had no record, 2) delay in deliveries, allocations and price adjustments from suppliers required much time and 3) hard economic condition due to the sharp JPY depreciation from the 4<sup>th</sup> quarter made the quarter a tough period, however through the year, 1) Tire • Adhesive • Paint & Ink segments kept a similar level to last fiscal year and 2) Biocide • Lubricant • Chemical • Chemical Intermediate • Aerospace Chemical segments made dynamic recoveries. As a result, the business in the above numbers finally arrived. From the viewpoint of geographies, due to no sales with disinfectant, China declined, while all the other countries grew. As for Personal Care segment, many new products started to be used by several customers, which lifted the segment sales following last fiscal year. Synergistic sourcing and selling amongst the entities in Asia in an organic manner is the fundamental strategy for the business. To contribute more diversification in supply chains, in addition to Japan, China, Thailand, India and Singapore, a decision was made to deploy a dedicated resource in Korea and more resources in India.

## Fine Chemical Business

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Sales and profit declined by 19% and 12% respectively. This was due to temporary demand decrease of a specific Intermediate used for a new medicine although this had been already considered before this fiscal year commenced. This made New Medicine segment negatively grew, while Generic Medicine segment grew significantly. As for New Medicine segment, a newly sourced Intermediate was sold for process validation purposes where the Intermediate business has reached the point that its commercial use at the customer is expected to start from FY2023. As to Generic Medicine segment, the highlights are following: 1) API (Active Pharmaceutical Ingredient) businesses sourced from several Indian suppliers contributed, 2) an API to be used for a cancer medicine went through GMP compliance inspection successfully, which made it ready for the API to be used at commercial scale, and 3) an Intermediate and API business associated with a German supplier moved to the phase

that commercialization would start from FY2022. Regarding Biomedicine segment, ADC (Antibody-Drug Conjugate) contract manufacturing project proceeded nicely where every kind of preparation started to aim supplying from FY2023. From geographical expansion standpoint, sales in Taiwan took place firstly following Japan, Korea, Vietnam, and Indonesia.

## **Life Science Business**

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The business showed 4% of growth in sales and 5% of growth in profit. Bioresearch segment increased sales of research enzyme reagents and consumables based on increase in demand for genomic medicine (RNA medicine) research. In addition, against global supply constrain of plastic consumables due to COVID-19 pandemic, AR Brown's global network helped the supply issue minimized, which led to gaining the trust from the market. In Sterilization segment, the number of new customers for pharmaceutical field increased, however, in medical device field, orders were postponed to next fiscal year due to customer manufacturing adjustments that made sales sluggish. Regarding Nano Membrane business, a certain number of projects have restarted, and sales have grown more than planned. Deal of sgRNA started newly, that would lead to one-stop Genome Editing business, and sales result met the plan completely. Preparing a new cGMP compliant reagent product, a decision was made to expand the business to industrial field.

## **Hu-Vet Business**

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The business showed 12% of growth in sales and 5% of growth in profit. Affected by customer-side confusion towards commence of insurance coverage from April 2022, PGT equipment (Preimplantation Genetic Testing equipment for IVF; In Vitro Fertilization) business struggled until the end of 3<sup>rd</sup> quarter, but a considerable number of orders were placed in the last quarter and in addition, sales from relevant consumables helped the segment sales exceed to the last fiscal year. As for Livestock milk inspection kit business, demand recovered in the first half and sales grew, while demand started to decline from the end of the 3<sup>rd</sup> quarter due to impact from surplus raw milk issue. As a result, the segment sales increased in even to last fiscal year. As to Food Safety inspection kit business, Japan gained a momentum, while no order for organophosphate and carbamate pesticide residues' detection kit was placed from Asian area due to COVID-19. In Water quality monitoring machine business, orders related to marine aquaculture projects increased, while land-based aquaculture business development struggled because restriction on sales activities prevented from executing demonstrations and market surveys. Demand for special connectors used in medical devices continues to increase where supply structure was strengthened to make sales expansion ready.

## **Test & Measurement Business**

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The business showed negative growths of 7% and 7% in sales and profit respectively. If delivery of a few equipment to Japan were on time, and if March sales in China were able to be recorded under Shanghai city lockdown situation, the business sales would have exceeded last fiscal year. As for Automotive segment, a certain number of ADAS (Advanced Driver Assistance System) related testing systems and pressure mapping sensors for LiB (Lithium Ion Battery) were supplied to automotive customers and automotive parts customers in Japan. In China demand for ADAS related testing systems kept high. To meet market needs, rental business for ADAS related testing systems started and generated some level of sales. Strain gauge business in China, that had started in last fiscal year, expanded its customer base to not only Japanese customers but also Chinese customers, that helped the product sales grew in this fiscal year too. Shock testing equipment developed targeting at Electronics and Aviation & Aerospace segments started to be sold for multiple customers in Japan in the last quarter. Regarding Medical Equipment segment, Automated Medicine Packaging Machine had no sales in this fiscal year because large hospitals in China were obliged to get pandemic countermeasures budgeted as priority. Decision was made to deal in Fiber-Optic Sensing system. Marketing activities started in Japan and China.