

Financial Results Explanatory Material for 2Q FY2023 (Six months ended September 30, 2023)

**November 2023
Nippon Chemi-Con Corporation**

TSE Prime Market, Securities code: 6997

Overview of 1H FY2023 Consolidated Results

1H FY2023 Results

Cost reductions and revision of selling prices absorbed negative factors caused by the surge in the price of materials and electricity, resulting in growth in both net sales and profit.

(Million yen)

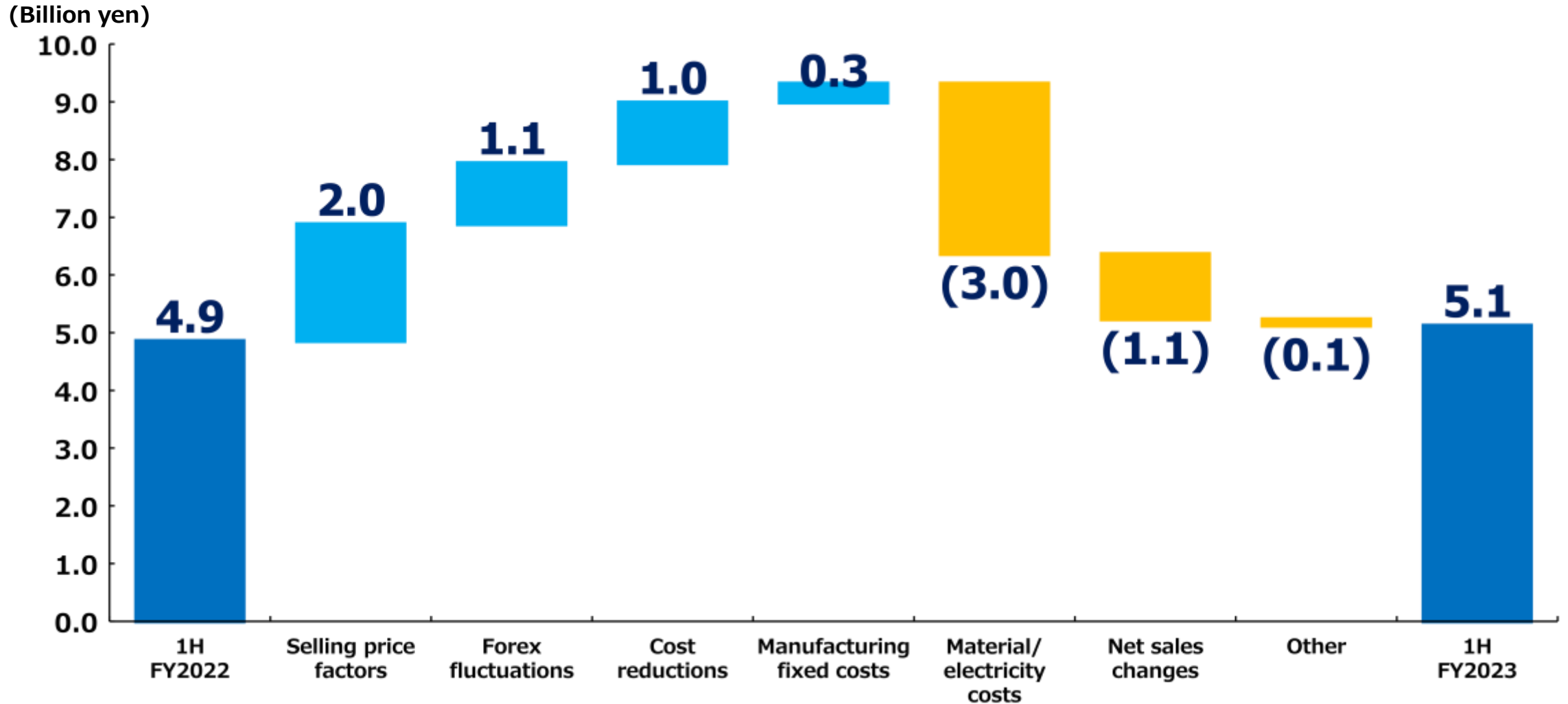
	1H FY2022	1H FY2023	Change	%
Net Sales	77,041	80,341	+3,300	+4.3%
Operating income	4,853	5,123	+269	+5.6%
Ratio to net sales	6.3%	6.4%	+0.1pt	-
Profit/loss attributable to owners of parent	(514)	(22,781)	(22,267)	-
ROE	(1.1%)	(56.5%)	(55.4pt)	-
Exchange rate				
Average exchange rate: USD (yen)	133.97	141.00	+7.03	5.2% weaker yen
Average exchange rate: EUR (yen)	138.73	153.39	+14.66	10.6% weaker yen

1H FY2023 Consolidated Results: Main Points

1 H Main Points	
Net sales	<ul style="list-style-type: none"> • Markets Automotive electronics: Demand was firm due to resolution of the semiconductor shortage. Progress on electrification boosted demand for parts even higher. Industrial equipment: Economic uncertainty from increasing interest rates in various countries slowed corporate capital investment. ICT: Inventory adjustments continued for PCs and data center servers. • Regions Japan: The beneficial effect of the weak yen contributed to strong exports, mainly of vehicles. U.S.: Economic recovery was underpinned by a favorable employment environment. Europe: The prolonged situation in Ukraine suppressed consumer spending. China: Demand was low due to a slump in exports caused by trade friction between the U.S. and China and a decline in demand for real estate.
¥80.3 bn Up 4.3% YoY	
Operating income	
¥5.1 bn Up 5.6% YoY	
Loss attributable to owners of parent	
(¥22.7 bn)	

1H FY2023 Operating Income - YoY -

The surge in the price of materials and electricity was roughly equal to the benefits from cost reductions and selling price revisions.



FY2023 – Consolidated Full-Year Forecast

FY2023 – Full-Year Forecast

We will work to reduce the price of materials and electricity, SG&A expenses, and other costs to address a slowdown in sales in the second half.

(Million yen)

	1H FY2022	Full-year FY2022	1H FY2023	2H FY2023 (forecast)	Full-year FY2023 (forecast)	YoY (%)
Net sales	77,041	161,881	80,341	72,659	153,000	(5.5%)
Operating income	4,853	12,939	5,123	4,876	10,000	(22.7%)
Ratio to net sales	6.3%	8.0%	6.4%	6.7%	6.5%	-
Profit/loss attributable to owners of parent	(514)	2,273	(22,781)	2,781	(20,000)	-
ROE	(1.1%)	4.8%	(56.5%)	--.-%	--.-%	-
Exchange rate						
Average exchange rate: USD (yen)	133.97	135.47	141.00	140.00	140.50	3.7% weaker yen
Average exchange rate: EUR (yen)	138.73	140.97	153.39	150.00	151.69	7.6% weaker yen

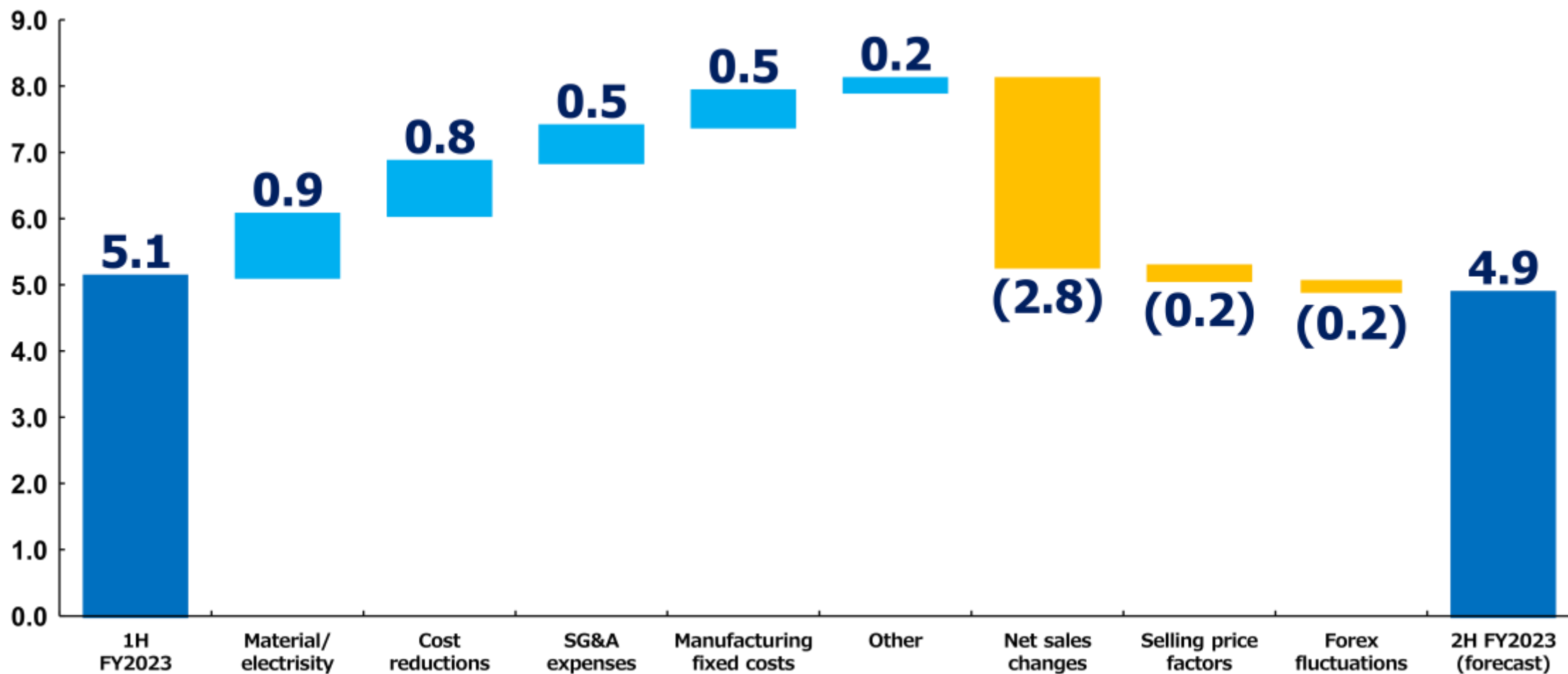
2H FY2023 Consolidated Forecast: Main Points

2H Main Points	
Net sales	<ul style="list-style-type: none"> • Markets Automotive electronics: Pent-up demand in the U.S., Europe, and Japan will remain just as strong as before. Steady progress will be made on the resolution of parts inventory problems during the pandemic and demand will rebound strongly. Industrial equipment: We expect the cautious stance of companies on capital investment to continue as concerns of deceleration of the global economy persist. ICT: We anticipate a rebound in demand during the second half as progress is made on inventory adjustments for PCs and servers. <ul style="list-style-type: none"> • Regions Japan: The beneficial effect of the weak yen will contribute to strong exports, mainly of vehicles. U.S.: The U.S. will maintain positive growth as employment will remain strong and real income will continue to grow. Europe: We anticipate a rebound in consumer spending as energy prices ease and the pace of inflation slows. China: There are concerns over continued worsening of the real estate market and downward pressure on home appliances, elevators, and other construction-related demand.
¥72.7 bn Down 9.5% vs 1H	
Operating Income	
¥4.9 bn Down 4.8% vs 1H	
Profit attributable to owners of parent	
¥2.7 bn	

2H FY2023 Forecast Operating Income – vs 1H -

The decline in sales from the slump in the industrial equipment and home appliance markets will be roughly equal to the benefits from improvement in the price of materials and electricity, cost reductions, and improvement in SG&A expenses.

(Billion yen)

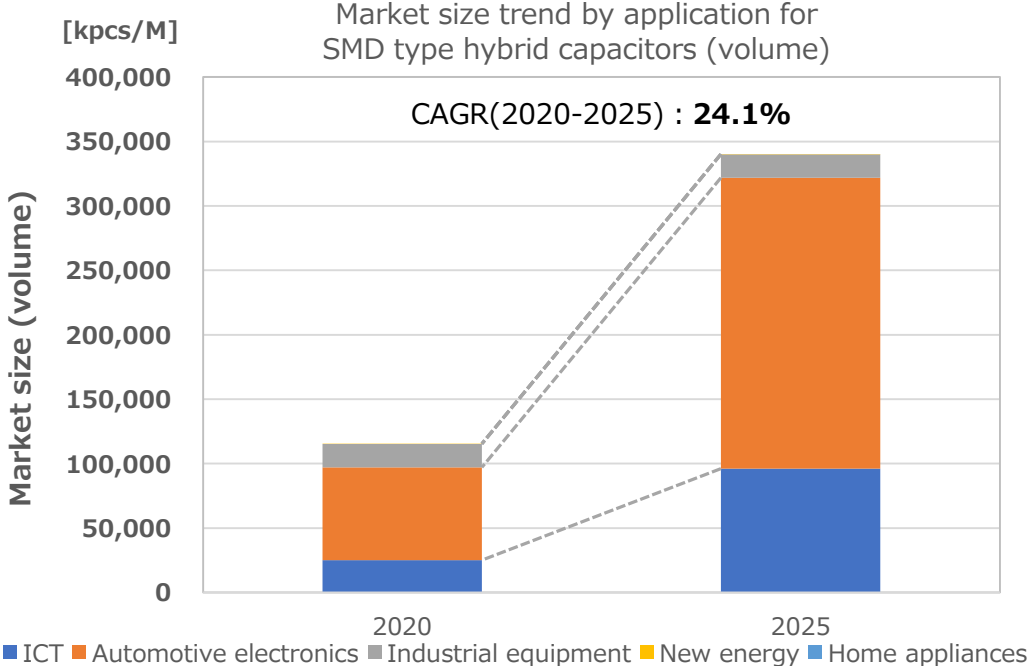


10th Medium-term Management Plan Policy

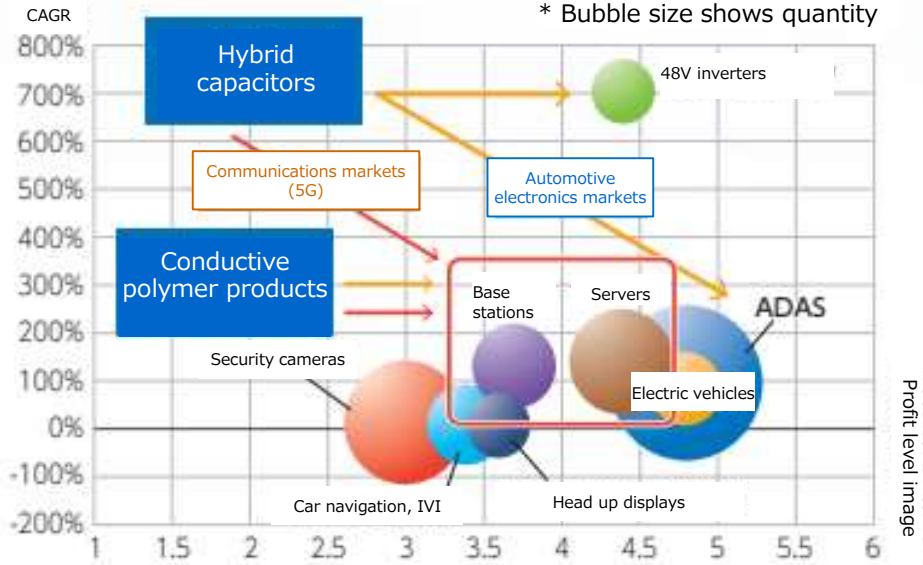
Hybrid capacitor business

- Building a production structure with increased capacity is essential because this is a highly profitable business for our company with a high market growth rate. It is a main use of proceeds from financing this time.

Market Trend



Growth rate, profit level and market size (bubble area) by application for SMD type hybrid capacitors



Company Policy

- (1) Invest in building higher production capacity**
Increase production capacity through investment in our Miyagi Plant and TAIWAN CHEMI-CON CORP., and through technology transfer to our equity affiliate, SAMYOUNG ELECTRONICS CO., LTD.
- (2) Further increase value added**
 - Shift from small-diameter radial lead components to surface mounted components.

Source: Analyses by Fuji Chimera Research Institute, Inc., Nippon Chemi-Con Corporation and other companies.

10th Medium-term Management Plan Policy

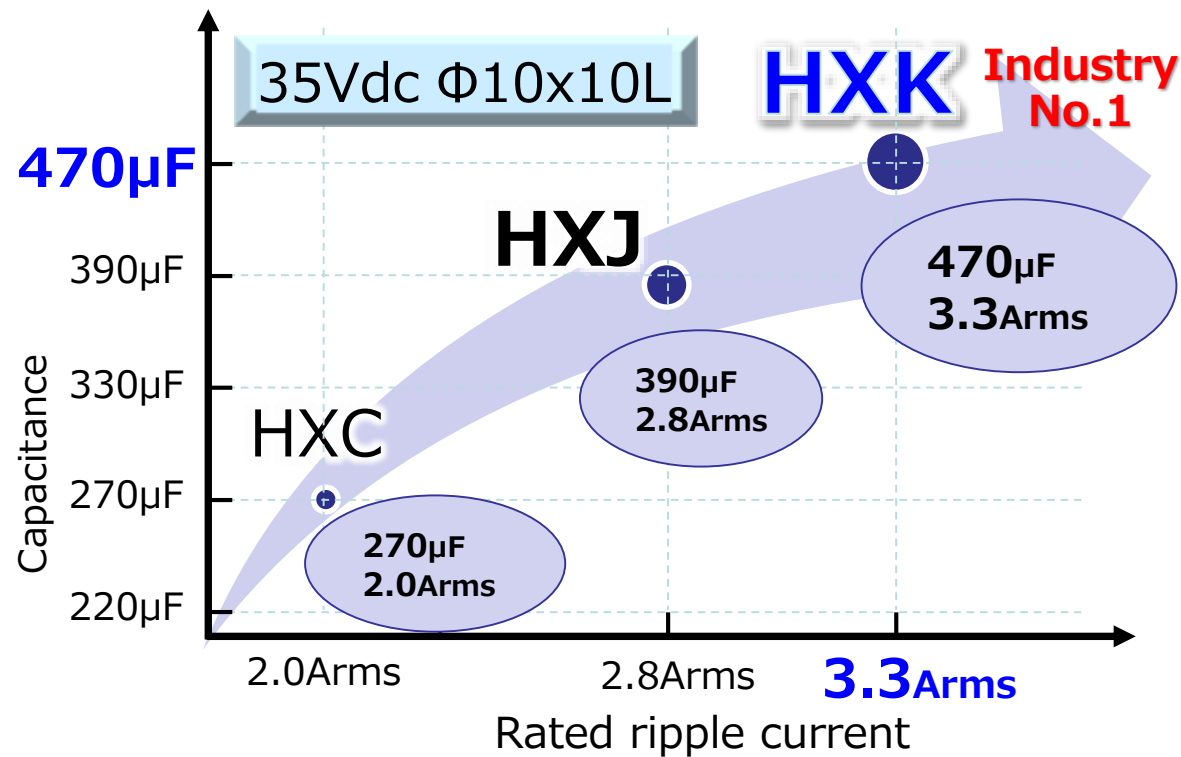
Status of development of new hybrid capacitor products

HXK Series

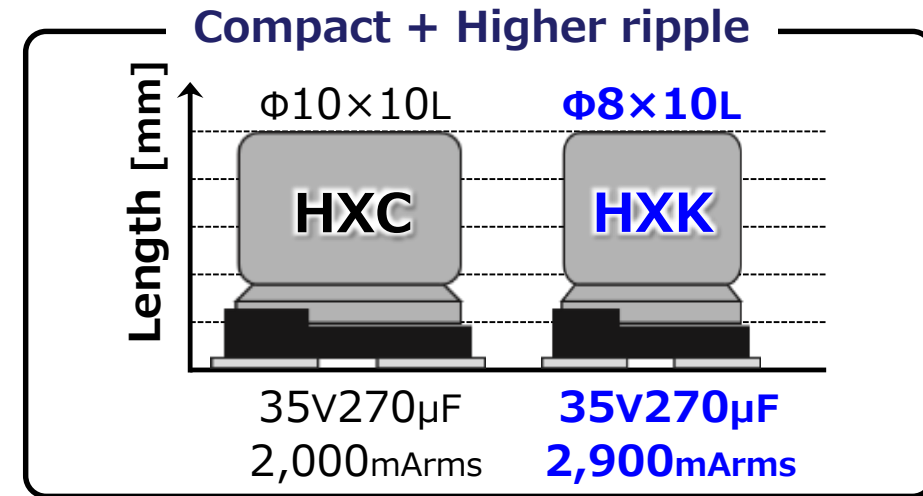
Conductive polymer hybrid aluminum electrolytic capacitors

(Scheduled for release in April 2024)

- Positioning of the development of this series: Achieve **No.1** performance for products incorporating the new technology



- ☑ Achieved the next rank up in high capacitance and high ripple current, compared to the HXJ Series.
- ☑ Guaranteed for 4,000 hours at 125°C



Possible to make more compact with a higher ripple current while maintaining existing capacitance



Facilitates more compact devices!

10th Medium-term Management Plan Policy

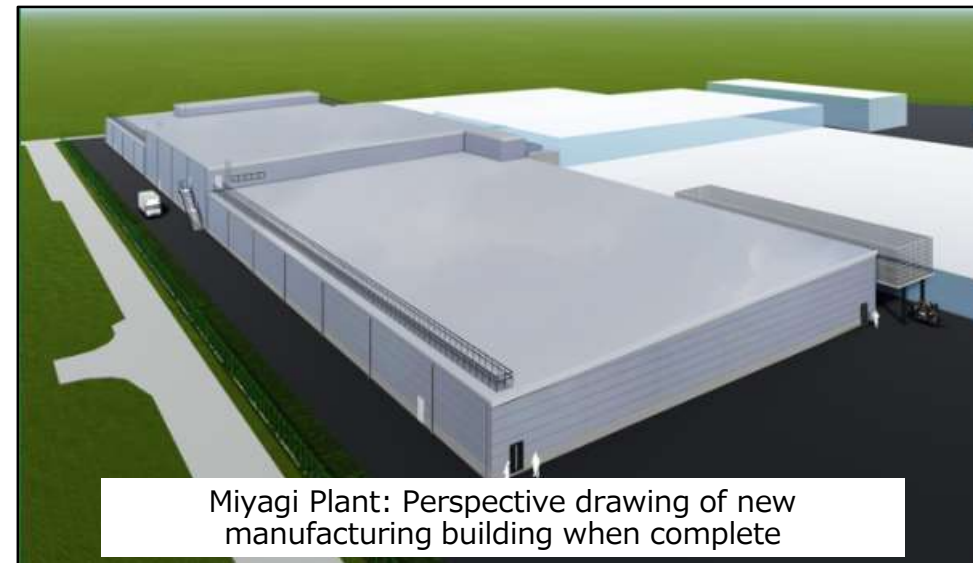
Overview of investment in and progress on hybrid capacitors

- This fiscal year is the preparation stage for expanding production capacity.

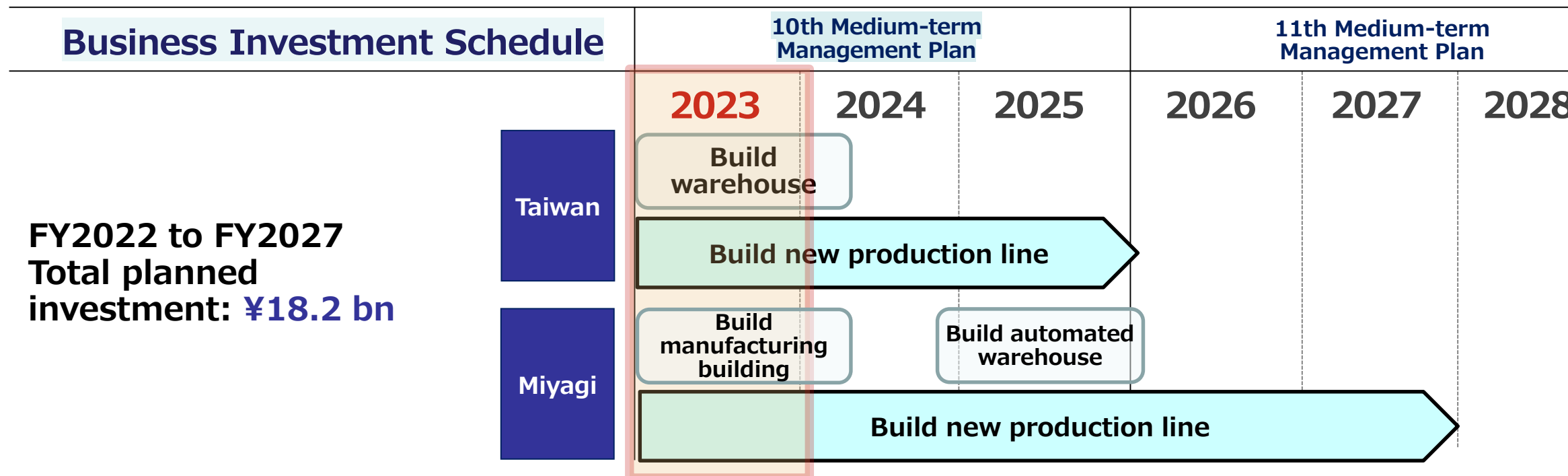


- By increasing production efficiency by building a new production line and conversion to a smart factory,

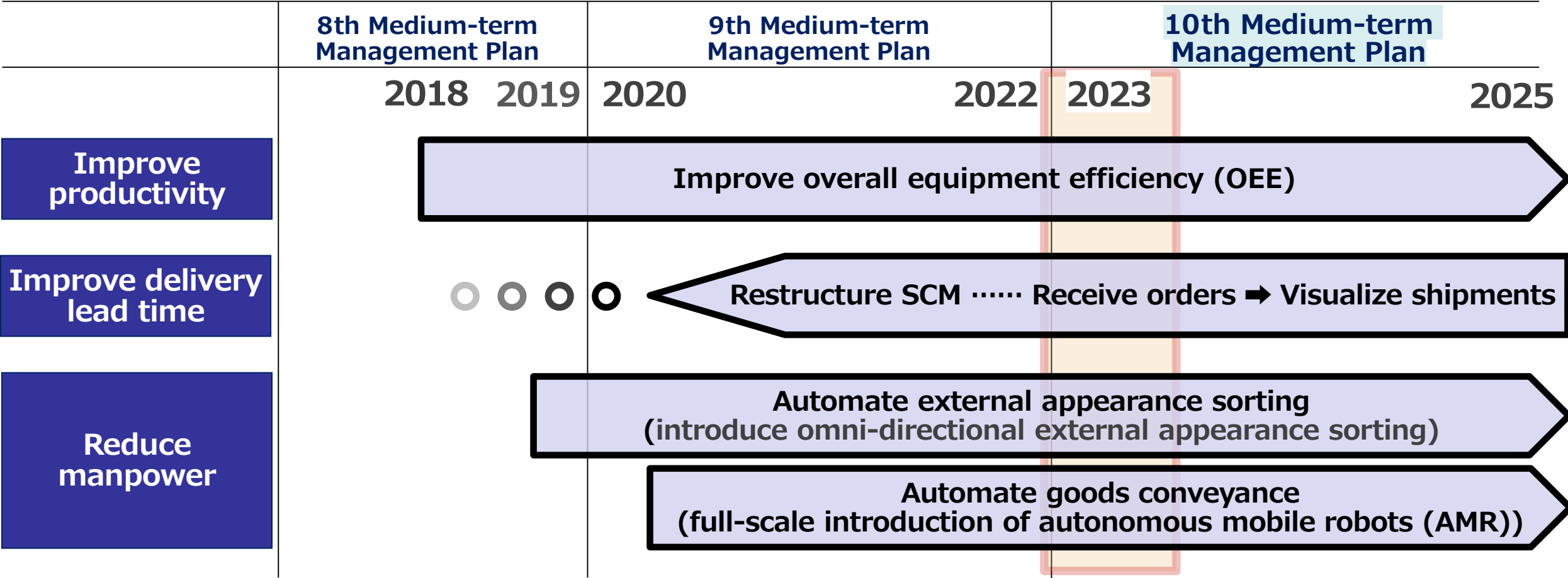
We plan to establish production capacity of 0.1 bn pieces by the end of FY2028 (a 100% increase compared to the end of FY2022)



Miyagi Plant: Perspective drawing of new manufacturing building when complete



10th Medium-term Management Plan Policy



Increase labor productivity by **2x** in 10 years!!

10th Medium-term Management Plan Policy

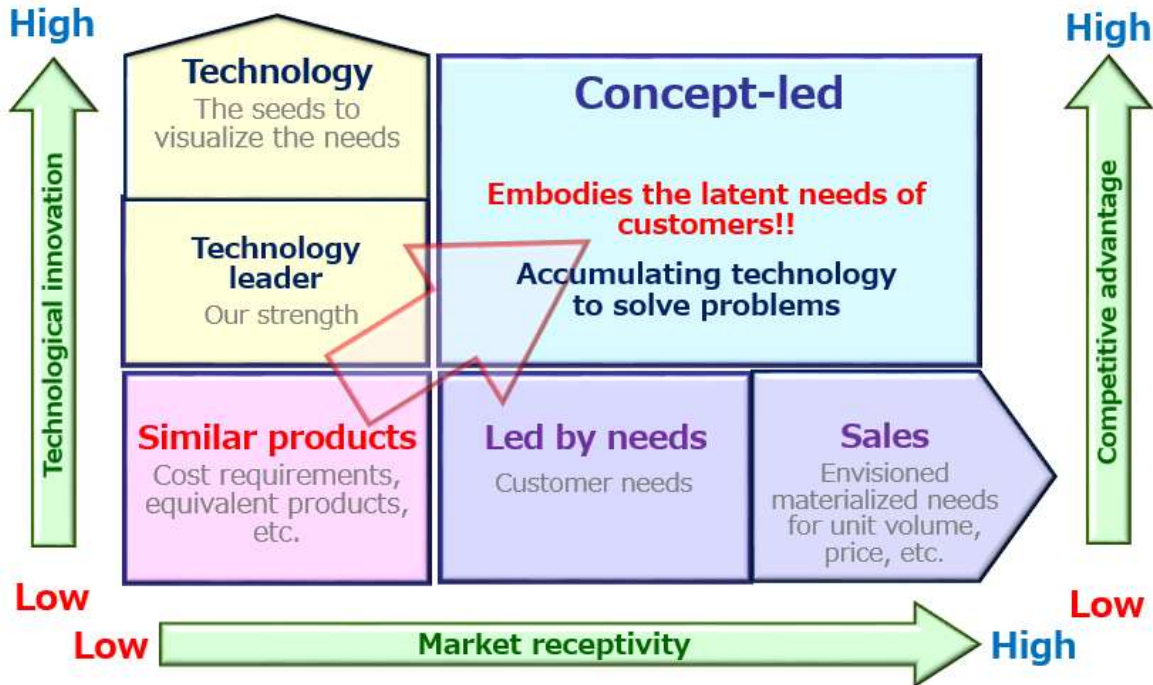
R&D strategy: Shift to higher value added (highly profitable products) through a combination of market-in and product-out.

◆ **Concentrate on strengthening product planning capabilities and key projects**

- (1) Shift to higher value added and more highly profitable products through new product innovation.
- (2) Propose development of new applications using DLCAP.

◆ **Take on the challenge of new technology, create a technology platform, and strengthen intellectual property strategy**

- (1) Pursue the ideal capacitor and take on the challenge of achieving a technological breakthrough.
- (2) Secure a competitive advantage over other competitors through a future-oriented intellectual property strategy (particularly for hybrid capacitors).
- (3) Work to build a technology platform for pursuing early introduction of new materials.



10th Medium-term Management Plan Policy

CAT Project Activities

Connecting Application & Technology development Project

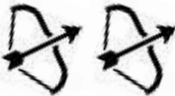
Work closely with customers and delve deeply into their problems, identity latent demand, and connect it to development of capacitor technology.



—Three Pillars of Activity—



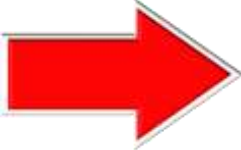
Predict the **needs** and **technological problems** of the next generation.



Perform **theoretical analysis** of technological issues and develop a **simulation model** to resolve problems.



Perform basic research on **technology for evaluating** capacitors that incorporates consideration of customer **applications**.

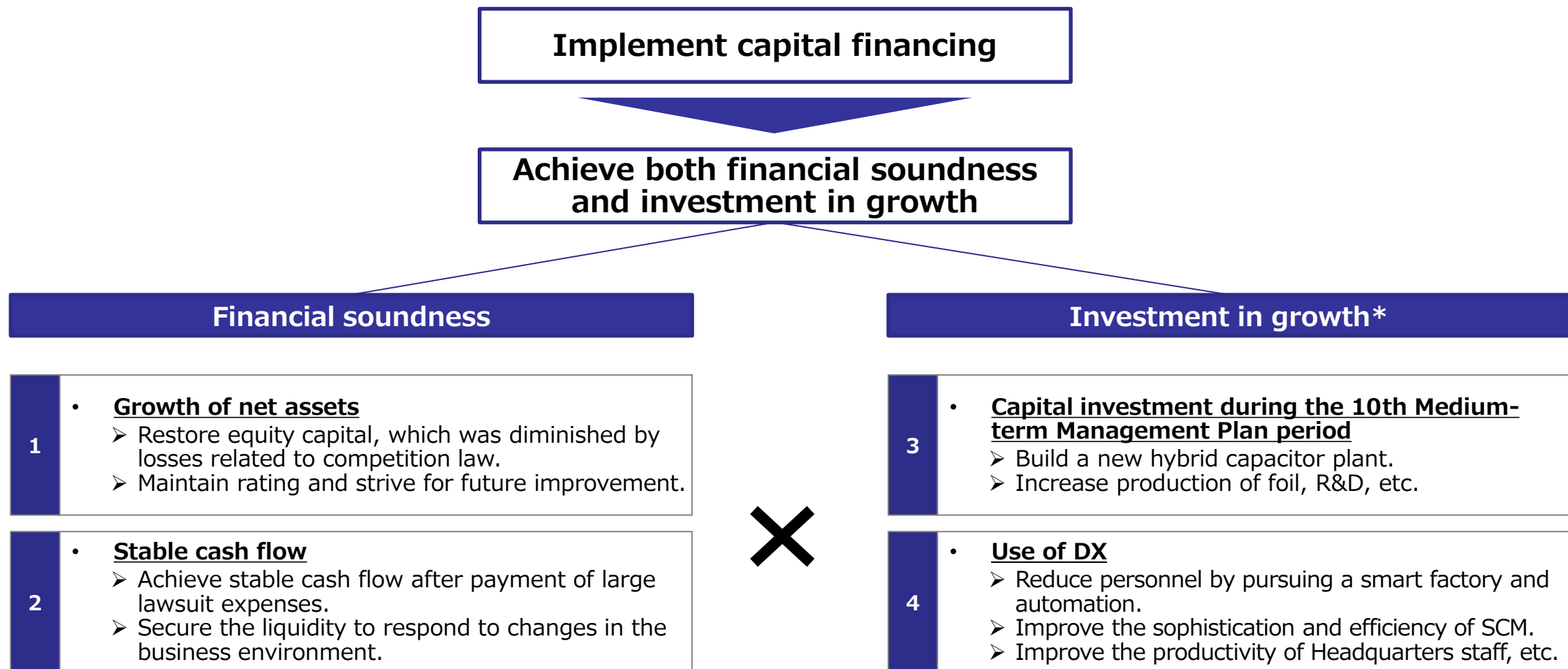


Strengthen product planning capabilities
Make proposals to the capacitor development department and connect proposals to the creation of new products that add high value.

Financial Strategy

Purpose of Capital Financing

- The purpose of the current financing is to (1) strengthen the Company’s financial base and (2) secure the funds to pursue the growth strategy outlined in the 10th Medium-term Management Plan.

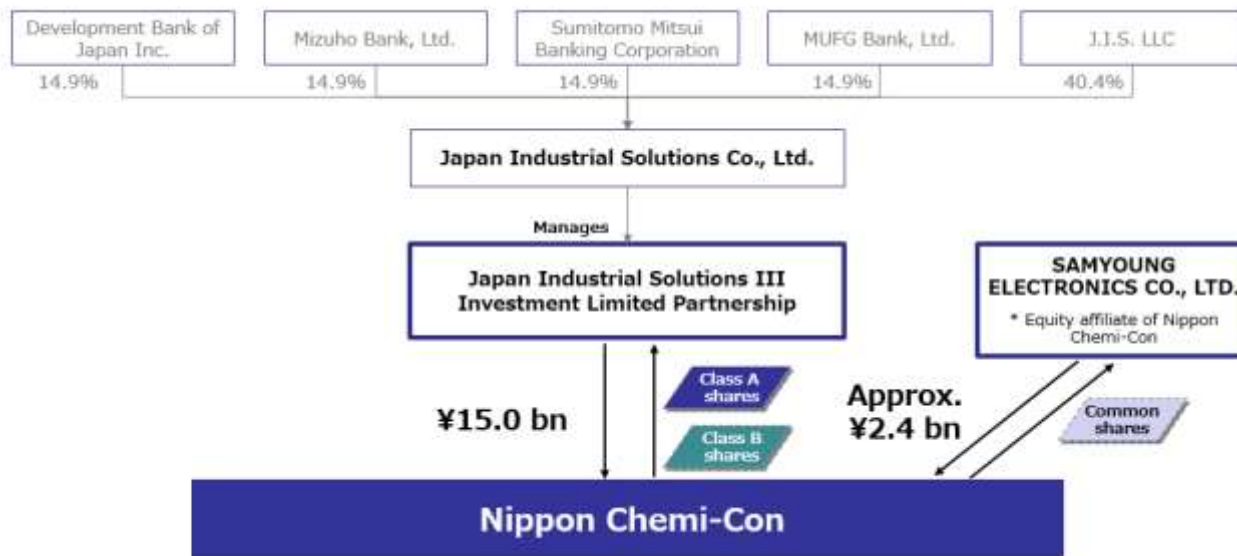


• See the Notice on Issuance of Classified Shares Through Third-party Allocation, Decrease in Stated Capital and Capital Reserves, and Partial Revision of the Articles of Incorporation; Decrease in Stated Capital and Capital Reserves Associated with the Issuance of Classified Shares; and Issuance of Common Shares Through Third-party Allocation published on October 10, 2023 for the detailed purposes of use for the current capital financing.

Type of Financing for Class A and Class B Shares and Specific Purposes of Use for Issue Amounts

- The plan is to procure 15 billion yen in financing through the Japan Industrial Solutions III Investment Limited Partnership, via a third-party allocation of new classified shares.
- Our plan also includes procurement of roughly 2.4 billion yen in financing via third-party allocation of new common shares by SAMYOUNG ELECTRONICS CO., LTD. of South Korea, an equity affiliate of our Company.
- We plan to use the proceeds from these financings for key measures in the 10th Medium-term Management Plan, mainly for capital investment in the hybrid capacitor business, capital investment in conversion of a plant to a smart factory, and R&D-related investment.

Type of Financing



Specific Purposes of Use

(Million yen)

	Classified shares*	Common shares
Capital investment in conductive polymer hybrid aluminum electrolytic capacitor business	7,899	2,374
Capital investment in converting plant into a smart factory	4,443	—
R&D-related investment	2,468	—
Timing of expenditure (planned)	April 2023 to March 2026	December 2023 to March 2026

Note: The amounts for the purposes of use are the amounts of the proceeds after deduction of expenses.

* The amounts listed above include the capital investments already made until today from April 1, 2023, the date on which the Medium-term Management Plan commenced, as well as capital investments planned from today until the Class A and Class B shares are issued. The amount of capital investment needed until Class A and Class B shares are issued will be temporarily funded by the Company's cash on hand, and we plan to use the proceeds from the issuance of Class A and Class B shares to replenish the cash on hand diminished by funding the noted above.

Overview of Class A and Class B Shares

		Class A Shares	Class B Shares
Planned allocatee		Japan Industrial Solutions III Investment Limited Partnership (hereafter, "JIS")	
Issue amount (amount financed)		10.0 billion yen	5.0 billion yen
Voting rights		None	
Date of extraordinary General Meeting of Shareholders		December 22, 2023 (scheduled)	
Pay-in date		December 27, 2023 (until March 29, 2024)	
Preferred dividend rate		Until March 31, 2026: 5.5% (cumulative, non-participatory) April 1, 2026 onward: 7.5% (cumulative, non-participatory)	None (participatory, at the time of dividends on common shares)
Dividend ranking		Preference over common shares	Ranking equivalent to common shares
Acquisition claims (rights of allocatee)	Cash compensation	<ul style="list-style-type: none"> Redemption amount: Paid-in amount x Redemption premium + Cumulative dividends + Prorated unpaid dividends Exercisable timeframe: On or after March 31, 2026, in principle^{*1} 	None
	Common stock conversion	<ul style="list-style-type: none"> Number of convertible shares: (Paid-in amount x Conversion premium + Cumulative dividends + Prorated unpaid dividends) ÷ Acquisition price Exercisable period: On or after March 31, 2026, in principle^{*1} 	<ul style="list-style-type: none"> Number of convertible shares (Paid-in amount x Conversion premium) ÷ Acquisition price Exercisable timeframe: On or after March 31, 2026, in principle^{*1}
Acquisition terms (Rights of Nippon Chemi-Con Corporation)		<ul style="list-style-type: none"> Redemption amount: Paid-in amount x Redemption premium + Cumulative dividends + Prorated unpaid dividends Exercisable timeframe: Anytime after shares are issued (to control dilution from conversion to common shares) 	<ul style="list-style-type: none"> Redemption amount: Paid-in amount x Redemption premium Exercisable timeframe: Anytime after shares are issued^{*2} (to control dilution from conversion to common shares)
Restrictions on transfer		Yes ^{*3}	

Note: This page summarizes the Notice on Issuance of Classified Shares Through Third-party Allocation, Decrease in Stated Capital and Capital Reserves, and Partial Revision of the Articles of Incorporation; Decrease in Stated Capital and Capital Reserves Associated with the Issuance of Classified Shares; and Issuance of Common Shares Through Third-party Allocation, published on October 10, 2023.

^{*1} In the event a reason to cancel conversion restrictions materializes, JIS will become able to exercise its rights even before March 31, 2026.

^{*2} Not exercisable as long as Class A shares still remain.

^{*3} The transfer restriction period extends to March 31, 2026. In the event a reason to cancel the restrictions on transfer materializes, it will become possible to transfer the shares even before March 31, 2026. Please note that the restrictions on transfer to a company operating a competing business will remain in effect even after conversion to common shares.

Supplementary Material

1H FY2023 Net Sales by Product –YoY–

Aluminum electrolytic, conductive polymer and DLCAP™ outperformed YoY due to the positive effects from the increase in vehicle production volume and increase in the number of parts.

(Million yen)

	FY2022		FY2023		
	1H	2H	1H	YoY change	YoY %
Aluminum electrolytic	66,506	74,391	71,205	+4,698	+7.1%
Conductive polymer	10,199	11,180	10,610	+411	+4.0%
DLCAP™	2,057	2,413	2,656	+599	+29.1%
Ceramic capacitors, varistors	1,912	2,028	1,773	(139)	(7.3%)
Mechanical parts and other parts	2,118	2,378	1,872	(245)	(11.6%)
Capacitor materials	3,269	2,462	2,141	(1,127)	(34.5%)
Other	1,178	1,166	692	(485)	(41.3%)
Total	77,041	84,840	80,341	+3,300	+4.3%

2H FY2023 Forecast of Net Sales by Product

The automotive electronics market will remain strong, supported by pent-up demand. The industrial equipment and ICT markets are seeing a delay in the timing of recovery, beyond the initial forecast.

(Million yen)

	FY2022 Full-year	FY2023					
		1H	2H (forecast)	Full-year (forecast)	Composition (full-year forecast)	YoY change	YoY %
Aluminum electrolytic	140,897	71,205	64,695	135,900	88.8%	(4,997)	(3.5%)
Conductive polymer	21,379	10,610	10,390	21,000	13.7%	(380)	(1.8%)
DLCAP™	4,471	2,656	2,344	5,000	3.3%	+529	+11.8%
Ceramic capacitors, varistors	3,940	1,773	1,527	3,300	2.2%	(640)	(16.2%)
Mechanical parts and other parts	4,496	1,872	1,528	3,400	2.2%	(1,097)	(24.4%)
Capacitor materials	5,731	2,141	2,059	4,200	2.7%	(1,531)	(26.7%)
Other	2,345	692	508	1,200	0.8%	(1,145)	(48.8%)
Total	161,881	80,341	72,659	153,000	100.0%	(8,882)	(5.5%)

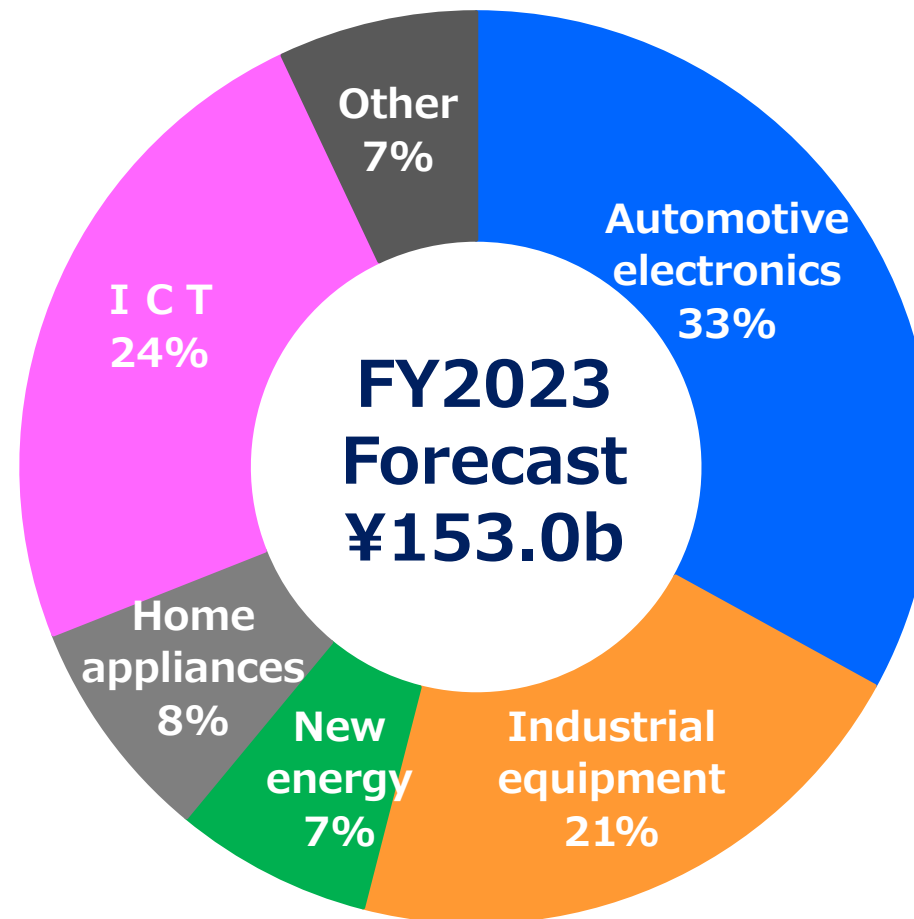
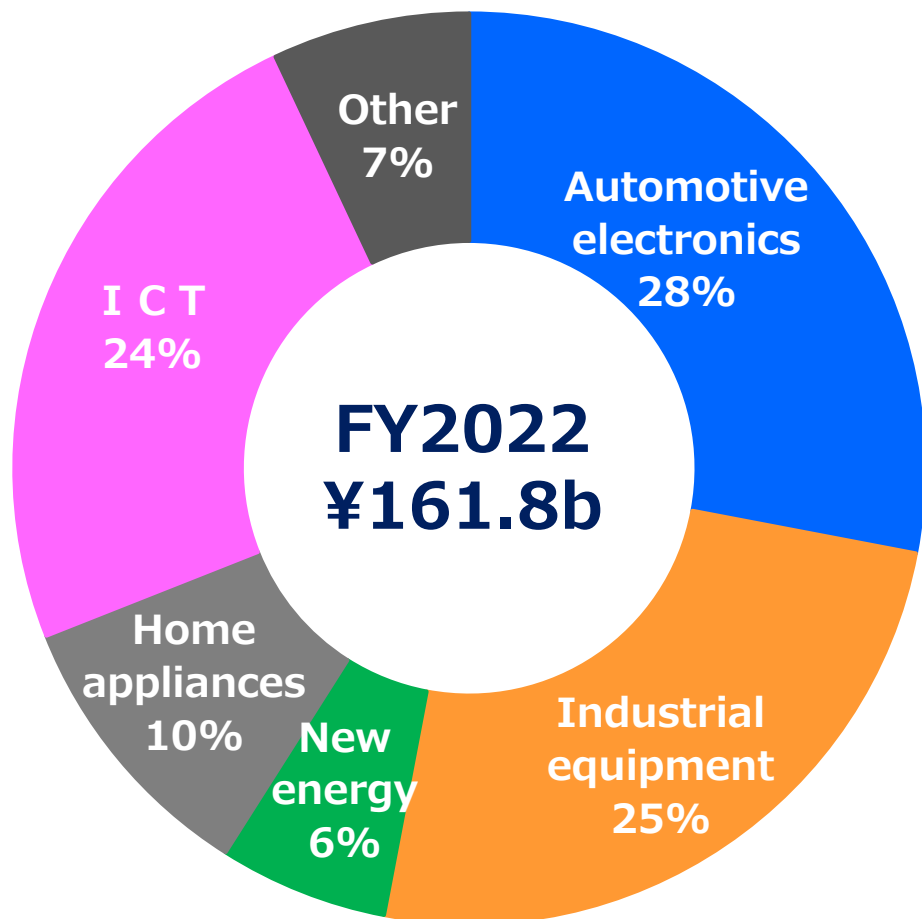
Net Sales by Market – FY2022 Results, FY2023 Forecast–

Automotive electronics, up five percentage points:

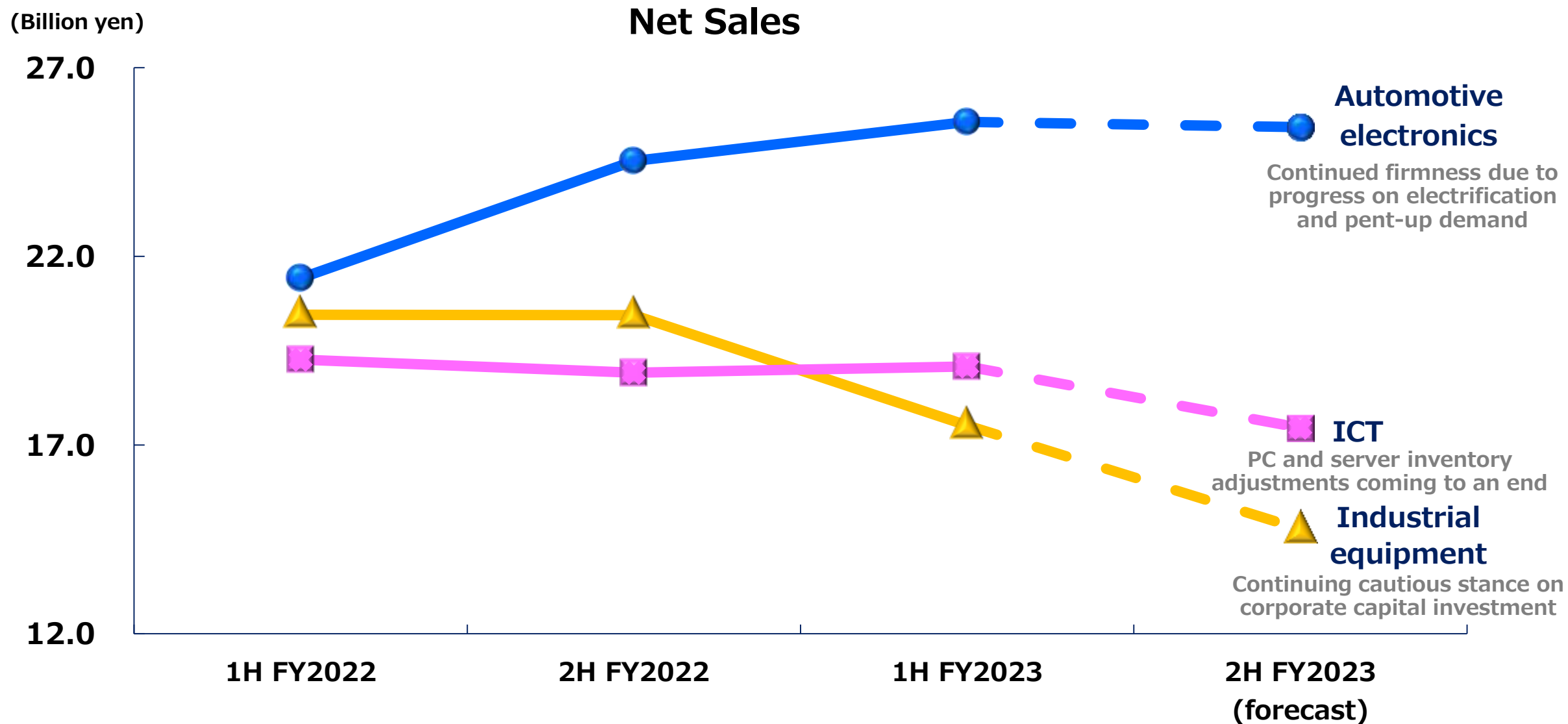
Increase in the number of parts accompanying robust pent-up demand and progress on electrification

Industrial equipment, down four percentage points:

Continuing decline in corporate capital investment and slump in the Chinese economy



Three Main Market Trends – 2H FY2023 Forecast–



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The projected performance figures in this material are based on information available to Nippon Chemi-Con's management at the time this material was prepared.

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