T. HASEGAWA CO., LTD.

Summary of Questions and Answers from Financial Results Briefing for FYE September 2023

Question: Please explain why the U.S. subsidiaries recorded operating losses for FYE September 2023. Are they expected to turn upward in FYE September 2024?

Answer: In the United States, since 2022, companies have been concerned about the future trends and have been destocking inventories to reduce their interest burden amid rising inflation and interest rates. Net sales of the U.S. flavor industry for 2023 fell about 10%, and those of our U.S. subsidiaries decreased about 6% year on year. However, companies must make new orders to fill inventories. The order pattern has been normalized since September of 2023 and we expect it to continue. For FYE September 2024, the U.S. subsidiaries are expected to record net sales of about $95 million, up about 5% year on year, and operating profit of approximately $0.7 million, up from operating loss of roughly $1 million for FYE September 2023.

Question: In terms of capital structure, the equity ratio of your company is 83%, while that of competitors in and outside Japan is around 50%. Should an equity ratio be as high as 83% for a company in the stable growth flavor industry? What do you think of improving capital efficiency by using more debt financing which requires lower cost of capital than equity financing does?

Answer: One of the factors driving our cost of capital is the lack of borrowing. Our company's capital efficiency is low due to a high cost of capital and a high level of cash and cash equivalents. For the time being, cash on hand will be used for growth investments and shareholder returns. We are also considering lowering the cost of capital by increasing borrowings to improve capital efficiency, while examining the risk of investment targets, etc. in determining future capital structure.

Question: What was the impact of the sharp rise in raw materials in FYE September 2023? Do you also expect the impact to continue in FYE September 2024 and beyond?

Answer: The sharp rise in raw materials prices in FYE September 2023 was more than we expected. We initially forecasted that raw materials and utility costs would rise by about 800 million yen and 200 million yen, respectively, resulting in an overall revenue squeeze of about 1 billion yen. However, the actual revenue squeeze was about 2 billion yen compared with the initial forecast of 1 billion yen, with the effects of the sharp rise in raw materials of about 1.8 billion yen and an increase in utility costs of about 100 million yen. To solve this revenue squeeze of about 2 billion yen, we worked to change the product mix, improve business conditions in China and negotiate a price increase, among others, and succeeded in limiting the final operating loss to about 500 million yen. Since raw materials prices are still high, the effects are expected to continue in FYE September 2024. We will work to absorb the effects of hikes in the prices of raw materials by streamlining business operations and reducing SG&A costs, etc.

Question: The capital investment plan includes a large-scale investment in a new Fukaya Facility project in Japan and a construction plan for a new plant in Suzhou, China. Please explain the purpose for making capital investment in each plan.

Answer: We started the Fukaya Facility project because the building was partially aged and needed to be renewed. As for China, we plan to build a second plant near the existing Suzhou plant because the production capacity for highly coveted liquid flavor is expected to be full.

Question: How was your performance affected by the weaker yen compared with the same quarter of the previous year? Please also mention your Forex sensitivity.

Answer: The overseas sales ratio is growing every year, and so are trades in local currencies. Trades in the U.S., China, and Malaysia are calculated based on the U.S. dollar, Chinese yuan, and Malaysian ringgit, respectively. On a FYE September 2023 actual basis, a 1 yen change in the value of the U.S. dollar translates into a gain in net sales of about 100 million yen and operating profit of about 4 million yen, and a 1 yen change in the value of the Chinese yuan translates into a gain in net sales of about 530 million yen and operating profit of about 150 million yen.