

T. HASEGAWA CO., LTD.

Summary of Questions and Answers from Financial Results Briefing for  
FYE September 2024

Question: Please explain why the U.S. subsidiary, which was loss in FYE September 2023, returned to profitability 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. However, if inventories decrease, orders naturally be placed. Compared to FYE September 2023, in FYE September 2024 the order pattern returned to normal and returned to profitability.

Question: How was your performance affected by the weaker yen? 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. In FYE September 2024, the depreciation of the yen had the effect of increasing net sales by about 2.1 billion yen and operating profit by about 400 million yen. On a FYE September 2024 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 2 million yen, and a 1 yen change in the value of the Chinese yuan translates into a gain in net sales of about 560 million yen and operating profit of about 170 million yen.

Question: Gross profit margin (gross profit / net sales) increased in FYE September 2024, but what is the background for a further increase in FYE September 2025?

Answer: In all bases, the cost-of-sales ratio has been improved by FYE September 2024. We expect further improvement in the cost-of-sales ratio in FYE September 2025, but we believe that the factors will be a decline in the fixed ratio due to higher sales at all bases, changes in the product mix, including an increase in sales of low-cost products and reduction of unprofitable products, a decline in raw material prices, which had continued to rise, and a rise in selling prices. Since raw material costs are expected to remain high in FYE September 2025, the two main factors for improvement are expected to be a decline in the fixed ratio due to higher sales and a change in the product mix.

Question: Regarding the forecast for FYE September 2027 in the medium-term three-year plan, operating profits in Japan, China, and Southeast Asia will be expected to decrease compared to FYE September 2026. With the investment in the new factories in China and Malaysia, how many years into the future will we be able to meet the demand increases?

Answer: In China and Southeast Asia, we plan to start operations of new factories in FYE September 2027, and depreciation of each factory is scheduled to begin in FYE September 2027. In Japan, we expect an increase in depreciation from DX promotion and IT reform projects, and overall depreciation in FYE September 2027 is expected to be approximately 1.4 billion yen higher than in FYE September 2026. Due to the increase in depreciation resulting from these large capital investments, the company expects a decrease in profits at each of its business sites. Demand for liquid compounded flavors is increasing in the Chinese market, and the construction of a third plant in China is planned to double production capacity for flavors, which will enable the subsidiaries to respond to demand growth for the next 10 years or so. The new plant in Malaysia will also be invested in anticipation of increased demand, increasing production capacity by about 30%, and further investment in the future will enable the subsidiary to double its production capacity in 10 years.

Question: Regarding capital allocation. What level of cash and cash equivalents do you expect in the future? Have you considered using debt to lower your cost of capital? What is your estimated cost of capital, and what are the ROE and ROIC targets you expect to achieve, which have not been indicated? What is your view on the return on investment and what is the hurdle rate at which the investment will lead to an increase in corporate value?

Answer: While securing the internal reserves necessary to further strengthen the Group's management base and for future business development, the Company is working to return profits to shareholders in line with business performance. The company has cash inflows of approximately 14 billion yen each year, which it plans to use for dividends and capital investment. With cash and deposits of about 34 billion yen at the end of FYE September 2024, about 14 billion yen in working capital will be needed, and it hopes to use this cash balance for growth, including M&A. The hurdle rate for investment is set at 8% IRR, and we are investing capital in excess of the hurdle rate. Although we have not set a specific target for capital efficiency,

the fact that we have no borrowings is one of the factors pushing up our cost of capital, and we will practice management with an awareness of cost of capital and return on capital.

Question: You mentioned that R&D expenses were 8% of the total sales. Where will you focus its efforts in differentiating itself from others and competing with foreign companies?

Answer: Our accumulated formulas are the culmination of our know-how. In addition, we have a consistent framework beyond barriers from basic research to product development through collaboration among analysis, synthesis, flavor creation, and evaluation, and our "analysis, synthesis, and flavor creation" technology, which is the foundation of our development, is our strength. In particular, through our longstanding business relationships with numerous customers in the food industry in Japan, we have a lineup of various flavors for various applications, and can propose flavors that match the tastes demanded by the Japanese market. In the Business Solution Division, the research, sales, and marketing departments work together to transcend boundaries, and are striving to expand market share through proactive proposals that match customer needs. Japanese R&D is exported to each overseas base, and further localization is a key differentiator between us and our competitors. We have built a strong relationship of trust with its clients through detailed and precise response that leverages these strengths.

Question: What are the areas of focus in sustainability? What about decarbonization of raw materials?

Answer: As for sustainability, there is no change in our basic policy of meeting the needs of our many stakeholders by striking a balance between "sustainable corporate growth" and "resolution of social issues" as part of our management strategy. Most recently, we plan to focus on further strengthening "environment," "human rights and labor," and "ethics" on a global level. As for decarbonization of raw materials, for synthetic materials, we have improved manufacturing processes in consideration of green chemistry, and for natural materials, we have strengthened engagement with suppliers to procure raw materials that have less environmental impact during raw material processing.