
Presentation for Agrochemicals Business Briefing Q&A Session Summary

Date: Wednesday, September 28, 2022: 10:00am to 12:00pm

Presenter:

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Q&A Respondents:

Miyazaki, Special Advisor to the Board of Directors

Daimon, Director, Managing Executive Officer & CFO

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Presentation Materials:

https://www.nissanchem.co.jp/eng/news_release/release/en2022_09_28.pdf

<Questioner 1>

Q: I think the market environment for agricultural materials has been favorable for the past few years. Please tell us how long this favorable environment is expected to continue, taking into account factors other than population growth, including the impact of Russia and Ukraine.

A: Around 2014-2015, crop prices soared to make a very good business environment, but after that we recognize the business environment had been sluggish, and then now a similar favorable time comes again. Against this backdrop, demand for grains is extremely firm and demand for grains is expected to increase further, so we think that this bullish trend will continue for some time.

Q: Please tell us about your pipeline and new product development (R&D). In recent years, new APIs have been developed about every 5 years. Is there any change in the success rate compared to the past?

A: In the past few years, we have been able to consistently develop our own APIs once every 5 years. However, there have been waves in the past, and there have been periods when new products were not released for several years, or continuously developed new APIs. Currently, we have established a research system that could develop new APIs constantly.

Q: How do you see the pipeline from 2027 onward?

A: We cannot disclose the future pipeline that we have not shown this time, but we are proceeding with patent applications for some agents, and we are working to enhance our pipeline in the future.

Q: The peak annual sales target for NC-656 is 10.0 billion yen, but when we heard explanations about marketability and characteristics, I felt that you could also aim for even larger figures. Please tell us the background of setting 10.0 billion yen.

A: The peak target of 10.0 billion yen for NC-656 is a figure approximated by the laboratory. We are continuing our efforts to achieve our targets and further exceed them by expanding sales channels through collaboration with partners and other means.

<Questioner 2>

Q: Regarding domestic products portfolio on page 14, you explained that the weight of herbicides will be decreasing even after 2021 Agrochemical Year¹. What do you think of the riskiness of agrochemicals business that specializes in herbicides? Please tell us it including your thought of an ideal product portfolio.

1: 2021 Agrochemical Year: From Oct 2020 to Sep 2021

A: A business model specializing in herbicide is by no means risky. Rather, insecticide and fungicide can be greatly affected by occurrence of insects and diseases year to year, while occurrence of weeds is relatively stable each year, resulting in a stable business. However, considering the pursuit of an opportunity, customers and producers do not use herbicide alone, so we believe that delivering insecticide and fungicide together with herbicide is fundamental to expanding our business. We will continue to increase non-herbicide portion in a balanced manner by expanding sales of GRACIA and launching NC-520.

Q: As a part of the mid-term plan for oversea agrochemicals on page 31, you expect Asia to grow by a net sales of 1.8 times from FY2021 to FY2027. GRACIA and TARGA are cited as

factors behind on page 31, but what products are contributing significantly?

A: Growth in GRACIA is quite noticeable in the growing Asian market. Currently, this product is selling in only 1 country (Indonesia) in Southeast Asia, but we expect to launch it in several countries in the future, so this impact is significant.

Q: In terms of GRACIA, in the mid-term plan announced in May, the number was to increase net sales by about +185% from FY2021 to FY2027. Can I think of it as the same as this base?

A: +185% of GRACIA growth rate is the sum of domestic and overseas figures. Page 35 is for overseas sales only and it will grow by about 5 times.

<Questioner 3>

Q: Please tell us more about GRACIA's conditions and outlook. As shown on page 21, a competitor's product made an impact in 2022, but when looking at your 1Q results, we feel that you are very strong. Could you tell us whether you take the view that the competitive environment is becoming increasingly severe?

A: We cannot mention other companies' products very much, but we think the impact of a competitive product is appearing in some large production areas. While it is difficult to comprehensively assess the situation nationwide, we are aware of all the impacts in large production areas. The honest answer is that we have not been pessimistic, although we have never been optimistic, based on such information. The introduction of a large-scale 5L bottle is familiar with the strategies we have been taking in ROUNDUP in the past, so there are no major concerns, and we expect to move forward.

Q: Please tell us about GRACIA's advantage over a competitive product.

A: We believe that the major competition with a competitive product is in the area of leafy vegetables such as Chinese cabbage and cabbage, and not in other areas. For GRACIA, although leafy vegetables are a large market, they do not account for the majority, and we see them as a market of less than half. In some situations, each has an advantage, but the advantage of GRACIA is that it has an extremely immediate effect and is effective against a wide variety of insects. In these 2 points, we believe that we are well placed to protect plants from pests.

Q: Regarding GRACIA's overseas expansion on page 35, please tell us which region in Southeast Asia is growing significantly, and which country is making a significant contribution among newly launched countries.

A: Sales expansion in Indonesia, which has already been launched, is significant. In addition, Thailand and Vietnam are expected to account for a large portion of the newly launched countries, which is expected to be almost the same share percentage level.

Q: Is it correct to imagine that the contribution to sales in the newly launched countries will grow in the 2024-25 timeframe?

A: That's right. Please understand from Stage 2 (FY2025-FY2027) of the mid-term plan term.

Q: In recent years, you have strengthened fungicide by acquiring QUINTEC and DITHANE. Please tell us once again what areas will be strengthened in M&A in the future, and what are your thoughts on M&A, as well as what areas will be targeted in the field of microbial pesticides?

A: First of all, with regard to product acquisitions, product does not always come out, so we will always look at the sale of various companies and acquire any products that fit our needs. We will not prioritize any particular field like herbicide, insecticide, and fungicide, but will look at each project. On the other hand, with regard to microbial pesticides, there are so many emerging ventures and it is difficult to predict future developments, so we think it will be a little early to make purchases through M&A. Rather, we would like to have M&A proceed as an extension of the partnership while deepening collaboration with emerging venture companies.

<Questioner 4>

Q: I think your company's profitability is higher than that of other companies in the same industry, even if you exclude Fluralaner, but can you explain the background to this?

A: Basically, we think that it is largely derived from the highly efficient sales force, per capita net sales, and high profitability. Although the overseas ratio is still lower than that of other Japanese companies, which mainly export products, we believe that one reason for the strong ratio of operating income to net sales is that we are concentrating sales of high-margin

items while we have narrowed down our sales force structure considerably. Regarding R&D expenses of a new ingredient, we will not broadly roll out it to all nations. Our policy is to prioritize high-margin products and allocate resources to them. We will continue to work to expand earnings while following this policy.

Q: As shown on page 9, animal health product issues include measures to deal with patent expiration. Please tell us in particular about the status of approval for patent extensions in the United States and how you will deal with them in the future.

A: Regarding the expiration of the U.S. patent, we are waiting for a response from the authorities. We cooperate with Merck to respond appropriately to the necessary work required for the application.

Q: Please tell us whether you can get a patent if you use a mixtures patent apart from the patent on the API itself after the patent expires, whether you can take a patent on the manufacturing method, or whether there is room for your company to work proactively on defensive measures.

A: In addition to manufacturing patents, we recognize that there are also cases where patents for mixture products and uses are permitted. Our strategy is to create the best defense strategy while looking at the time when these applications are submitted, and when they are approved, and the period of effectiveness will change.

<Questioner 5>

Q: Regarding ROUNDUP, on page 15, you mention that there has been a sharp rise in prices for Chinese Glyphosate, so would you explain the background to that?

A: The background is the environmental regulations in China since 1 - 2 years ago, the demand for electricity in China, and the strong demand for Glyphosate. In addition, there has been a sharp rise in the prices of phosphoric acid and fertilizer, and the prices of generic Glyphosate in China have risen considerably.

Q: Is there any possibility that the boom sprayer nozzle can be applied to generic products and other competitors' products other than ROUNDUP?

A: Regarding the use outside of ROUNDUP, we are making a video of the difference in the

formulation. Comparing our ROUNDUP with the typical Glyphosate in the world, it is obvious that the physical properties, stickiness, surface tension, pattern of spray, effectiveness, drift, etc. are completely different. Through that video, we plan to alert our customers to using ROUNDUP to avoid any unforeseen circumstances.

Q: Regarding the pipeline NC-656, I think there have been HPPD inhibitor types in the past, but would you explain the difference from the existing HPPD inhibitor? Also, this time it is for paddy rice, but could you explain if there is a possibility that it can be applied to dry field crops, etc. by the compound of backup?

A: HPPD inhibitor has been used in some domestic paddy rice applications, but it was entirely in-water application. The most important difference point is that NC-656 is a HPPD inhibitor for foliar application.

In terms of dry field development, there are already many HPPD inhibitors in the field worldwide. Naturally, we are also continuing to discuss these areas. We are first prioritizing the development of paddy rice, but if we have a chance, we would like to expand our business in the field as well.

Q: Regarding the foliar application to dry fields, would it be okay to have an image of grass weeds?

A: There are a variety of types, not only for grass weeds but also for broad leaf weeds, anyway we would like to choose the best one.

<Questioner 6>

Q: In various fields other than agrochemicals, the quality of Chinese products is improving, and it seems that competition with Chinese products will deepen in the future. Could you tell us your company's thoughts on whether this could be a potential threat?

A: Regarding agrochemicals, the current Chinese product is still a generic product, and the quality of the product as a generic is surely improving, but the original product has brand power, so we believe we still maintain an advantage in this aspect. In addition, Chinese manufacturers are currently starting in-house development, but they are not yet able to get a registration in foreign countries. While closely monitoring the trends of Chinese manufacturers, we intend to continue to differentiate ourselves by building the superiority and brand power of our products.

<Questioner 7>

Q: Regarding the target KPI for chemical pesticide consumption of Strategy for Sustainable Food System MeaDRI on page 23, it is a 10% reduction by 2030 by the Ministry of Agriculture and Fisheries, but your company is aiming to steadily increase net sales. Please tell us if the market will decline 10% by 2030, but if your sales will grow, or whether you do not expect a 10% decline by 2030 itself would not be realized.

A: Certainly, the figures show a 10% decline by 2030 and a 50% decline by 50, but this is not linked to the decline in the agrochemicals market. It is only the amount used in the risk coefficient. When calculated by multiplying the risk factors, some of the active ingredients, which are not so many, have high-risk factors. We think that it will probably be urgent to develop alternatives for such products in the future, and we understand that the Japanese agrochemicals market will not decrease by 10% or 50%.

Q: This is a fairly long-term story, but what is your vision for the Japanese agrochemicals market as of 2030 and 2050?

A: Basically, there is no growth, but we think there is no major decline also. In order to reduce by 10% or 50%, alternative agents that are safer than the products currently in use will be needed. If these agents are not developed, it will not be possible to reduce them easily. Therefore, we think that the agrochemicals market in Japan will continue to stably move forward as a realistic measure. On the other hand, when biological pesticides or alternative agrochemicals come into existence, it is natural to switch to them. However, we believe that the overall market in the meaning of protecting crops is unlikely to change significantly.

Q: You have shown that chemical pesticides will decrease over the medium to long term, but how are the remaining chemical pesticides and disappearing chemical pesticides screened out? Also, if you have any idea of your company's products that will remain, please explain them to us.

A: Looking at the world as a whole, we have not yet seen alternative biological pesticides in the part of the herbicide area, where we are relatively strong. In the future, if pests occur locally, they may be controlled locally or instantaneously by drones, and thus chemical pesticides that can be used in this way will remain. We are unable to mention what pesticides will remain due to it depends on future regulations, but unless alternative technologies are

found, we believe that important pesticides will remain in that area.

End of Q&A Session