

MARGIN OF SAFETY

BALANCE OF POWER

MANAGEMENT ANALYSIS



JAPAN PURE CHEMICAL CO., LTD

DISCUSSION MATERIAL

20TH, FEBRUARY 2023.

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KEY DISCUSSION POINTS



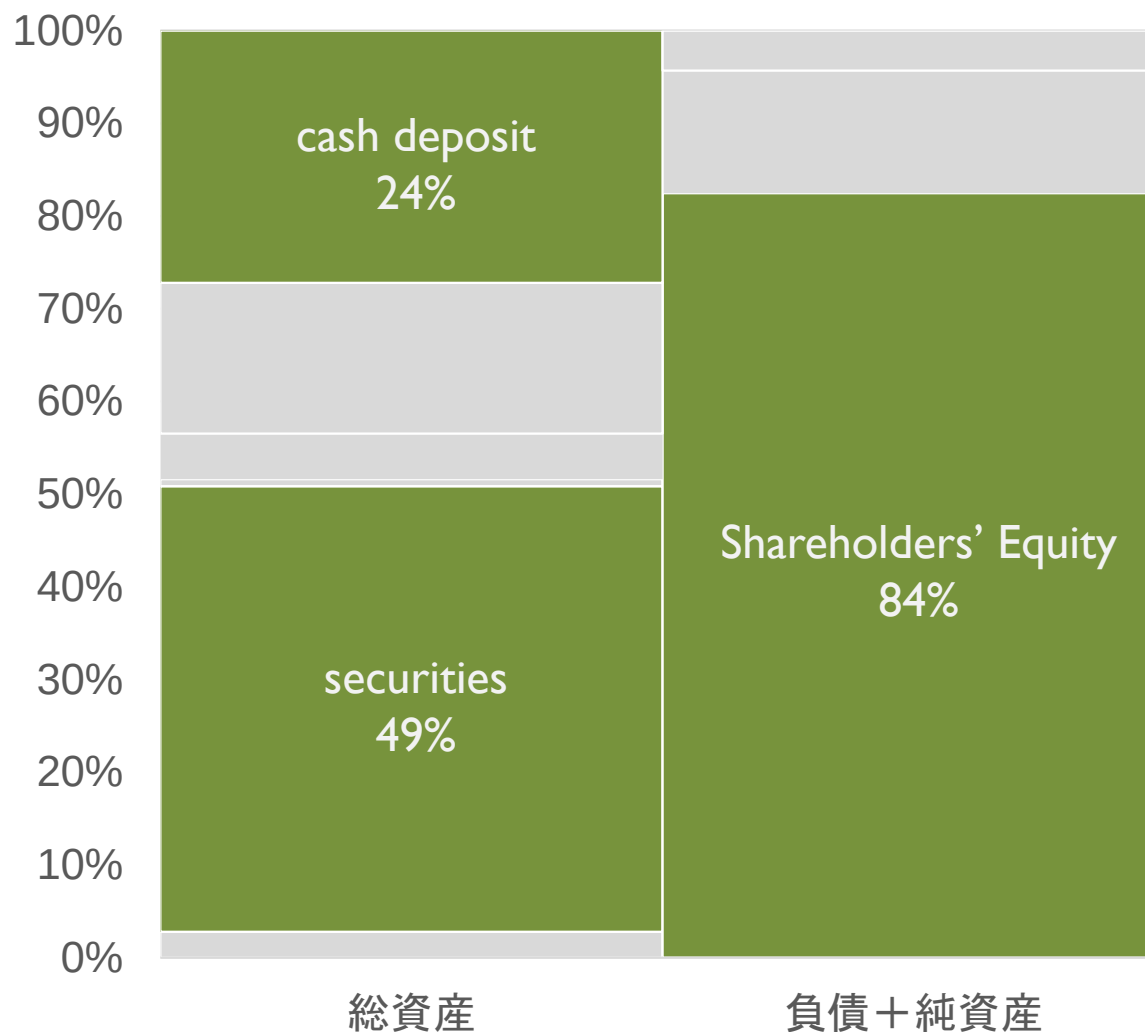
- Balance Sheet Management and Securities Holdings
- Composition of the Board of Directors
- Capital Market Valuation

PREMISE



- As one of the substantial outside shareholder, Hibiki supports the business plan written in your medium-term management plan (MTP)
- We are genuinely aware that it takes at least 10 years for an R&D-based business to achieve major discoveries and to commercialize its achievements
- However, whether the capital markets appreciate this situation is another matter, and the capital markets are not evaluating it well, considering your stock price. We would like to discuss issues here.

FY22/3 BALANCE SHEET



Source: Hibiki calculation from your Annual Report

CAPEX, R&D AND WORKING CAPITAL



(Yen mn)	7 year Average	Largest	Smallest
Capex	87	159	11
R&D	276	345	199
Working Capital	2,142	3,662	1,276
Free Cashflow	839	1,006	710
Annual Dividend	471	526	459
Cash and Deposits	4,424	4,838	4,031

- Cash and deposits remain in excess, having remained in the range of \$4B+ over the past 7 years which is more than twice the annual net working capital
- Free cash flow remains positive even if R&D expense is double the 7 years avg
- Further on top, you hold over 8 billion yen in Investment Securities

INVESTMENT SECURITIES



特定投資株式

銘柄	当事業年度	前事業年度	保有目的、定量的な保有効果 及び株式数が増加した理由	当社 株式の 保有 有無
	株式数 (株)	株式数 (株)		
	貸借対照表 計上額 (千円)	貸借対照表 計上額 (千円)		
㈱ JCU	880,000	880,000	当社の製品開発や問題解決に協力、フィードバックが期待できるため、継続して保有しています。	有
	3,652,000	3,669,600		
㈱三井ハイテック	53,900	53,900	当社めっき薬品の取引があり、同社との良好な関係の維持、強化を図るため、継続して保有しています。	無
	671,055	249,557		
イビデン㈱	101,194	98,708	当社めっき薬品の取引があり、同社との良好な関係の維持、強化を図るため、継続して保有しています。持株会に加入しており株式数の増加があります。	有
	612,224	502,426		
アルコニックス㈱	400,000	400,000	取引があり、同社との良好な関係の維持、強化を図るため、継続して保有しています。	有
	559,600	661,600		
シチズン時計㈱	671,000	671,000	ターゲットの販売等の取引があり、同社との良好な関係の維持、強化を図るため、継続して保有しています。	有
	349,591	253,638		
山一電機㈱	170,000	170,000	当社めっき薬品の取引があり、同社との良好な関係の維持、強化を図るため、継続して保有しています。	無
	319,090	254,660		
メック㈱	85,000	85,000	当社の製品開発や問題解決に協力、フィードバックが期待できるため、継続して保有しています。	有
	286,875	204,765		
住友金属鉱山㈱	40,500	40,500	当社めっき薬品の取引があり、同社との良好な関係の維持、強化を図るため、継続して保有しています。	有
	249,601	193,549		
太陽ホールディングス㈱	65,200	32,600	当社の製品開発や問題解決に協力、フィードバックが期待できるため、継続して保有しています。	有
	211,900	196,578		
四国化成工業㈱	155,000	155,000	当社の製品開発や問題解決に協力、フィードバックが期待できるため、継続して保有しています。	有
	207,700	196,075		

- Total shareholdings of 8.34 billion yen (as of 22/3)
- 44% of such in JCU stock
- 6.38 billion yen of shares in top 10 companies (76%) listed left

Source: Your Annual Securities Report for the Third Term

Source: Bloomberg

- Your holding in JCU currently worth 2.7 billion yen (3,065 yen x 88 million), 3.2% of outstanding shares (3,065yen is as of 17 Feb 2023 share price)
- JCU's shareholding in JPC shares is only approx. 100 million yen, 0.64% of outstanding shares
- We are unaware of any meaningful success in joint R&D development with JCU in the past 15 years. If our understanding is incorrect, you should disclose the details in your presentations to all shareholders.
- Current ownership of JCU shares is not enough to cast meaningful impact to JCU management. We believe one or the other needs to be considered;
 - that either party purchase more shares in each other so that a meaningful capital and business alliance be formed to create true synergy, or
 - sell the excess value portion you own in comparison to JCU's ownership to your shares and distribute the value to shareholders

SHARE BUYBACK SCENARIO



Full sale of the current securities held → repurchase and canceling own shares fully

EPS (Yen)	Est.	Aft. B/S conv
2023/3	117.2	202.7
2023/3	148.7	257.1
2025/3	168.1	290.7

BPS (Yen)	Est.	Aft. B/S conv
2023/3	2,482	2,094
2023/3	2,550	2,140
2025/3	2,629	2,257

P/E (x)	Est.	Aft. B/S conv
2023/3	20.3	11.8
2023/3	16.0	9.3
2025/3	14.2	8.2

ROE (%)	Est.	Aft. B/S conv
2023/3	4.7%	9.7%
2023/3	5.8%	12.0%
2025/3	6.4%	12.9%

Equity to Total Asset ratio

Current 84% → 73% est after conversion.

This is not even near the level where you need to be worried on B/S safety

P/B (x)	Est.	Aft. B/S conv
2023/3	1.0	1.1
2043/3	0.9	1.1
2025/3	0.9	1.1

※PER is calculated on a stock price of 2,386 yen (Dec 2022), and all share buybacks are assumed to be performed at the same price

DIRECTORS' COMPOSITION (INCLUDING AUDITORS)



- 3 Internal Directors, 3 Independent Directors, 1 Full-time Corp Auditor, 3 External Corp Auditors
- The average age of the Board of Directors and the Audit & Supervisory Board, is 69 and 65, respectively.
- In the board, Chairman Watanabe and Kenjiro Hayashi are both above 80 years old
- 3 people are from Fujitsu and 2 from the NEC.
- Mr. Hayashi has been involved in the management of JPC for nearly 20 years since he became the corp auditor, and is generally difficult to consider him to be an independent director being involved in such tenure
- We hope you can rejuvenate the board by introducing diversity as well as by bringing in new people with experience in managing smaller publicly listed companies compared to large conglomerate-ish companies such as Fujitsu or NEC

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TOKYO STOCK EXCHANGE JANUARY 25, 2023



2. a) Raise Awareness and Literacy regarding Cost of Capital and Stock Price

Purpose

- Encourage listed companies to raise awareness and literacy regarding cost of capital and stock price/market capitalization and promote efforts to improve them.

Specific Actions

Actions		Implementati on Timing	Market Segment
a	Require that management and the board of directors properly identify the company's cost of capital and capital efficiency, evaluate those statuses and its stock price and market capitalization, and disclose policies and specific initiatives for improvement and the progress thereof as necessary.	Spring 2023	Prime and Standard
	➤ Especially for companies that clearly need to improve, such as those with a PBR consistently below 1x. Note: Notify listed companies of the above request as a principle-based response in accordance with the intent of the Principle 5.2 of the Corporate Governance Code. Note: Approach for companies listed in the Growth Market will be considered based on their characteristics, etc.		
b	Review and revise the Code of Corporate Conduct as necessary to clarify the responsibilities of listed companies, such as awareness of the cost of capital profitability and respect for shareholders' rights, especially protection of minority shareholders' rights, and to ensure their effectiveness, among other things.	During FY2023	All
c	In addition, in order to raise awareness among management in listed companies, promote understanding and recommend stock compensation plans, inspect and update e-learning and other training content related to capital markets and corporate governance, and compile and publish case studies.	Implement at appropriate timing from Spring 2023	All

AWARENESS OF STOCK PRICES



- TOPIX (including dividends) has a 27% win rate with 4 wins and 11 losses over the past 15 years. ※ Calculated from April to the end of December
- The difference is also large in the Total-shareholder Return (see table below)
- While we fully understand the nature of your business that patience is required to produce R&D results, it is necessary for listed companies in general to listen sincerely to the **"silent voice of the market"** (= stock prices)

Period	Past 3 yrs	Past 5 yrs	Past 10 yrs
JPC	10.1%	18.9%	56.9%
Topix	29.3%	44.4%	183.5%
(diff)	-19.2%	-25.5%	-126.6%

※ Return up to 2022/3 for all above periods.

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DISCLAIMER



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