



**euglena Co., Ltd.**

Q2 Financial Results Briefing for the Fiscal Year Ending September 2021

May 20, 2021

## Event Summary

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<b>[Company Name]</b>	euglena Co., Ltd.	
<b>[Company ID]</b>	2931-QCODE	
<b>[Event Language]</b>	JPN	
<b>[Event Type]</b>	Earnings Announcement	
<b>[Event Name]</b>	Q2 Financial Results Briefing for the Fiscal Year Ending September 2021	
<b>[Fiscal Period]</b>	FY2020 Q2	
<b>[Date]</b>	May 20, 2021	
<b>[Number of Pages]</b>	29	
<b>[Time]</b>	10:00 - 11:05 (Total: 65 minutes, Presentation: 40 minutes, Q&A: 25 minutes)	
<b>[Venue]</b>	Webcast	
<b>[Venue Size]</b>		
<b>[Participants]</b>		
<b>[Number of Speakers]</b>	2	
	Mitsuru Izumo	CEO, President, and Representative Director
	Akihiko Nagata	Executive Vice-President, Healthcare Company Head
<b>[Analyst Names]*</b>	Takonobu Murakami	SMBC Nikko Securities

\*Analysts that SCRIPTS Asia was able to identify from the audio who spoke during Q&A.

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# Presentation

**Izumo:** Good morning, everyone. This is Izumo from euglena Co., Ltd. Thank you very much for joining us in our financial results briefing for Q2.

At the beginning of this presentation, I would like to provide you with a one-page overview of the Executive Summary for Q2. After that, we will move on to explain the details of each section.

## FY9/2021 Q2 Results: Executive Summary

Consolidation of Q'sai<sup>\*1</sup>

We increase our ownership of SPC to 49% and thereby make Q'sai a consolidated subsidiary. Our group annual sales will jump to around the size of JPY 40 billion

Schedule of Q'sai consolidation


- May 14: Exercise the call option
- May 17: Acquire additional shares of SPC (our ownership increased **from 13% to 49%**)
- Jun 30: Consolidation (deemed acquisition date)
- After Q'sai consolidation, our group annual sales will reach **around JPY 40 billion**

Funding through Int'l Equity Offering

- Raised **JPY 12.9 billion** through **international-only equity offering** (approx. JPY 8.9 billion applied to the exercise of the call option)


Revision of Annual Forecast

We revised annual earning forecast of FY9/2021 upward to Sales JPY 22 billion and Adjusted EBITDA JPY (0.2) billion, due to consolidation of Q'sai (3 months from Jul to Sep)



Healthcare Domain (Financial Highlight)


1H Sales progressed in line with the original annual forecast. We are going to expand advertising investment in 2H and revise annual sales forecast upward



- 1H sales **progressed 51%** to the original annual forecast. 2Q sales slightly declined QonQ, because of reduced advertising expenses for cash management toward Q'sai consolidation.
- Number of subscribers recovered to its peak level, **295K**, driven by LIGUNA consolidation
- Ratio of online direct sales exceeded **30%**, the target of FY9/2021, **ahead of schedule**

Advanced Technology Investment Domain (Biofuels)

Completed development of sustainable aviation fuel and aim to accomplish the first flight within this year



- Mar 15: Completed development of **sustainable aviation fuel**. We aim to accomplish the first flight in 2021
- Apr 9-11: Sold our **renewable diesel/high-octane fuel**<sup>\*2</sup> to general customers at a gas station in Katsushika-ku, Tokyo for a limited period of 3 days

\*1: To acquire additional shares of Q-Partners on 17 May 2021 and make Q-Partners and Q'sai consolidated subsidiaries on 30 June 2021, which is the deemed acquisition date in consolidated accounting  
\*2: High-octane fuel containing bio-based naphtha manufactured at the demonstration plant

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First of all, I would like to talk about the Executive Summary, and there are 4 items to report today.

The first point is the conversion of Q'SAI into a consolidated subsidiary, and the second point is the revision of the earnings forecast due to this consolidation. Our business domains are healthcare and advanced technology investment (Biofuel), and I will explain the progress of each of these in detail later.

First of all, with respect to the conversion of Q'SAI into a consolidated subsidiary, we have completed the procurement of funds through an overseas public offering. We raised JPY12.9 billion through an overseas public offering and exercised the call option on May 14.

Accordingly, the following week, on May 17, our equity stake in the special purpose company increased from approx. 13% to 49%, making Q'SAI a consolidated subsidiary. As a result of this acquisition, the Group's net sales for the full year will grow to the scale of JPY40 billion, as described.

We have announced upward revisions to our earnings forecasts for the fiscal year ending September 2021 in conjunction with the consolidation of Q'SAI, in this fiscal year only the 3 months, July, August and September, will be consolidated.

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Sales were originally announced to be JPY15.2 billion but were increased by JPY6.8 billion since there will be an increase in sales due to the consolidation of Q'SAI. As a result the forecast for sales is JPY22 billion. Adjusted EBITDA is expected to be improved by JPY0.4 billion from a deficit of JPY0.6 billion to a deficit of JPY0.2 billion.

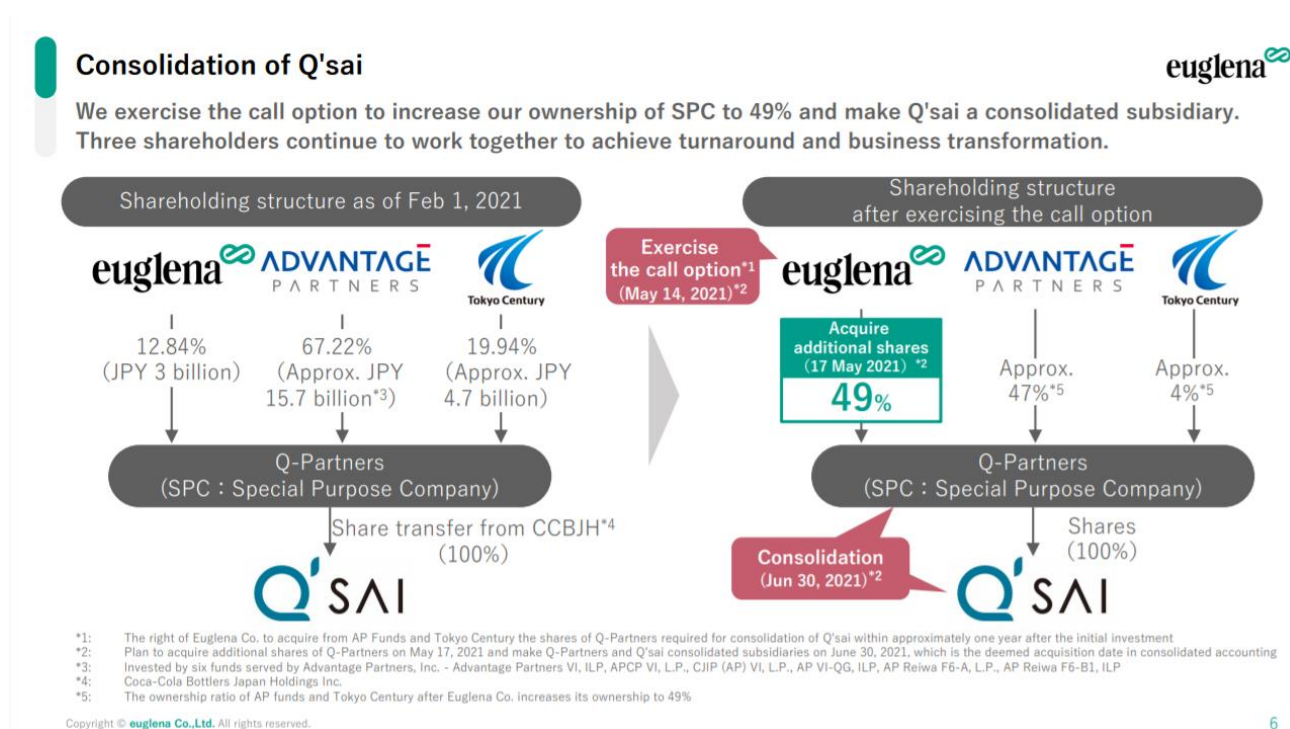
Our sales progress in the healthcare domain in the first half of the year was 51% of the initial forecast of JPY15.2 billion before the consolidation of Q'SAI, which is almost in line with the initial forecast.

In addition, the number of subscribers was 295,000, thanks to the contribution of LIGUNA. The number almost reached 300,000, recovering to its peak level. We would like to step it up.

As for the ratio of online direct sales, which directly leads to the improvement of profitability, we had been working on the target of acquiring 30% until September 2021, and we were able to achieve this goal in March, which was 6 months ahead of schedule. We are also becoming more proficient in how to acquire customers online.

Finally, with regard to the biofuel business, We, euglena Co.,Ltd, completed the development of domestic sustainable aviation fuel on March 15, and we are now working on the final adjustments to make it ready for flight in 2021.

That's it for the executive summary. Each of the 4 highlights will now be explained in detail.



**Nagata:** I would like to begin by explaining the conversion of Q'SAI to a consolidated subsidiary, as well as the overall market share transition and the future direction of the Company.

We have confirmed that there are a reasonable number of people who have never attended this meeting before, and so, I would like to begin by explaining how we have proceeded with the structure.

First of all, Q'SAI is currently 100% owned by Q-Partners, which is a special purpose company. Prior to the exercise of call option, euglena Co., Ltd., Advantage Partners Inc., and Tokyo Century Corporation held approx. 13%, approx. 67%, and approx. 20%, respectively. I will explain more later, in order to acquire this approx. 13%, we used JPY3 billion.

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We had had a call option to increase our share to 49% within a year since this initial stage. In order to exercise this, we conducted a public offering this time. As a result of the exercise of call option, Advantage Partners' share became approx. 47% and Century Tokyo's share became approx. 4%, making us the largest shareholder.

In addition, as we have actual control over Q-Partners and the management of this special purpose company, although we do not hold more than 50% of the Company, we made Q'SAI our consolidated subsidiary.

We will be able to exercise our call option on the remaining 51% in about 2 years from now. Including this, we would like to deepen our commitment and involvement with Q'SAI.

## International-only Equity Offering and Exercise of the Call Option

We raised funds to exercise the call option through international-only equity offering. Considering the progress of preparation for consolidation-related tasks\*1, we decided to acquire the shares on May 17, 2021, the earliest date in practical terms, and make Q'sai a consolidated subsidiary on June 30.

**Summary of international-only equity offering**

**Summary of Exercise of Call Options**

**Objective**

- To further increase enterprise value of our group, including Q'sai consolidation
- To diversify shareholder base, especially gain foreign institutional investor base\*

\*: The public offerings were conducted in international markets, mainly in Europe and Asia

● Net proceeds from offering: **JPY 12.9 billion**

**Use of proceeds**

Uses of proceeds	Amount (JPY million)
Exercise of the call option*2	8,941
Repayment of debts related to initial investment*3	2,800
Working capital such as advertising expenses for healthcare business*2	1,159

**Payment Date**

- April 22, 2021

**Objective**

- To accelerate the growth of healthcare business of both companies and increase of the enterprise value in the mid-term
- To strengthen collaboration between the two companies in business development

**Acquire SPC shares on May 17, 2021**

**Consolidate Q'sai on June 30, 2021**

**Schedule**

- May 14, 2021: Exercise the call option
- May 17, 2021: Acquire additional shares of SPC
  - JPY 8,941 million to be paid for acquisition
  - Our ownership of Q-Partners to be increased from approx. 13% to 49%
- June 30, 2021: Deemed acquisition date in consolidated accounting
  - Q'sai to be consolidated

\*1: Tasks related to consolidated accounting, audit, and J-SOX, etc.

\*2: Size of funds to exercise the call option by January 4, 2022 were estimated to be JPY 10,100 million, however, the necessary size was reduced because of the early exercise of the call option, and the surplus was appropriated for the working capital of the healthcare business. For details, refer to the "Notice of international-only equity offering" disclosed on 7 April 2021.

\*3: Repayment was completed at the end of April 2021.

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I would like to explain the details of the overseas public offering and the exercise of the call option, which led to the consolidation of Q'SAI.

Regarding the overseas public offering, the main purpose was to exercise the call option and make Q'SAI a consolidated subsidiary.

In addition, by conducting this public offering overseas, we also aimed to increase the ratio of overseas institutional investors in our shareholders, who until now was composed predominantly of individual investors, and we decided to have the public offering only for overseas investors.

As a result, the total amount raised was JPY12.9 billion which was conducted by a fixed amount. Of that, JPY8.94 billion was used for the exercise of call options and as I mentioned earlier in the previous page, we initially spent JPY3 billion to acquire approx. 13% market share, JPY2.8 billion was used to repay loans related to that. Therefore, about JPY11.7 billion was used for the acquisition of 49%.

The remaining funds will be used as working capital for the healthcare business, which will continue to grow in the future. This amount has already paid in, and we exercised the call option using this paid-in funds.

It is important to note that the deemed acquisition date for the consolidated financial statements has been set on June 30. Therefore, in terms of P&L, only the fourth quarter of our fiscal year, which is July, August and September, will be included. In terms of B/S, it will be disclosed at the end of the third quarter.

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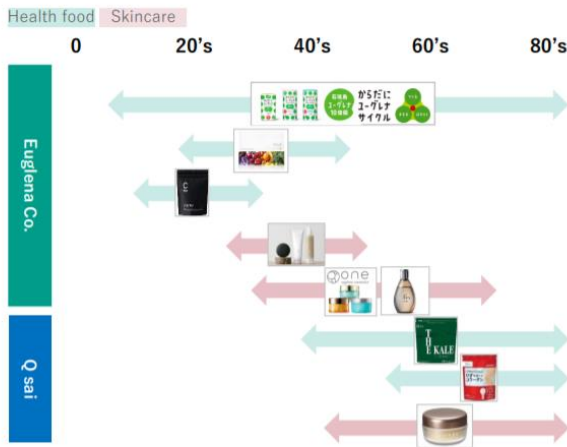


## Background of Consolidation of Q'sai



Investigation after the initial investment proved, as expected, that high similarity and complementarity with Q'sai's business would provide great opportunities for business collaboration and synergies. We are convinced that the best way to accelerate business growth was Q'sai consolidation to strengthen business collaboration

### Support Mental/Physical Health of All Generations



Note Prepared from internal data of Euglena Co. and Q'sai  
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### Create Synergies by Similarity & Complementarity

	Similarity	Complementarity
Product Lineup	Health food, Skincare	Health food, Skincare
Value Chain	Common functions such as logistics, call centers, and systems are similar	
Sales Channels	Transitioning from tel/mail order to multi-channel	
Target Customers	Accelerating the digital marketing	Tel/mail order through TV infomercial
Brands	Acquisition of younger customers is ongoing	Focused on seniors
	Original branding through initiatives in ESG/SDGs areas	Safe and secure brand backed by 55-year history

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Now, I would like to explain the background of the acquisition of Q'SAI's shares and the possibilities for the future, which some of you have already heard of.

First, on the right, Q'SAI is a mail-order company with a 55-year history. While it has this long history, it is one of the leading companies in Japan to have sales of over JPY20 billion on a continuous basis.

As you can see on the left side, for the first reason why we want to work together with such a company, we have a portfolio of products that we can supply to various generations and categories of customers through mergers and acquisitions.

For the younger generation, the C COFFEE brand is growing very fast, and we have the Akyrise brand for those who are very conscious of the environment and sustainability. Of course, we also have a portfolio of products that utilize our main ingredient, euglena.

By adding Q'SAI's products for seniors with functional labeling and products for people aged over 60, the overall product portfolio will expand to more and more people in Japan. By doing so, we will create a situation where it is easy to allocate upfront investment funds such as advertising expenses to the brands that are performing best at that time.

As for the greatest value from the standpoint of euglena Co., Ltd. alone, Q'SAI has a long history of building value chains that are far more robust than ours, including logistics, call centers, and systems.

We have been increasing our sales rapidly over the past 10 years, and so, we have been strengthening these basic structure as we needed. Now that we are working together with Q'SAI, we will be able to greatly strengthen this area. We believe that this will become the foundation for stable growth.

We hope to use these synergies to achieve even stronger growth.

On the other hand, as for the synergies from euglena to Q'SAI, the biggest part is that we are now digitizing at an accelerated pace and increasing the digital ratio, but Q'SAI has not yet made progress in this area. We

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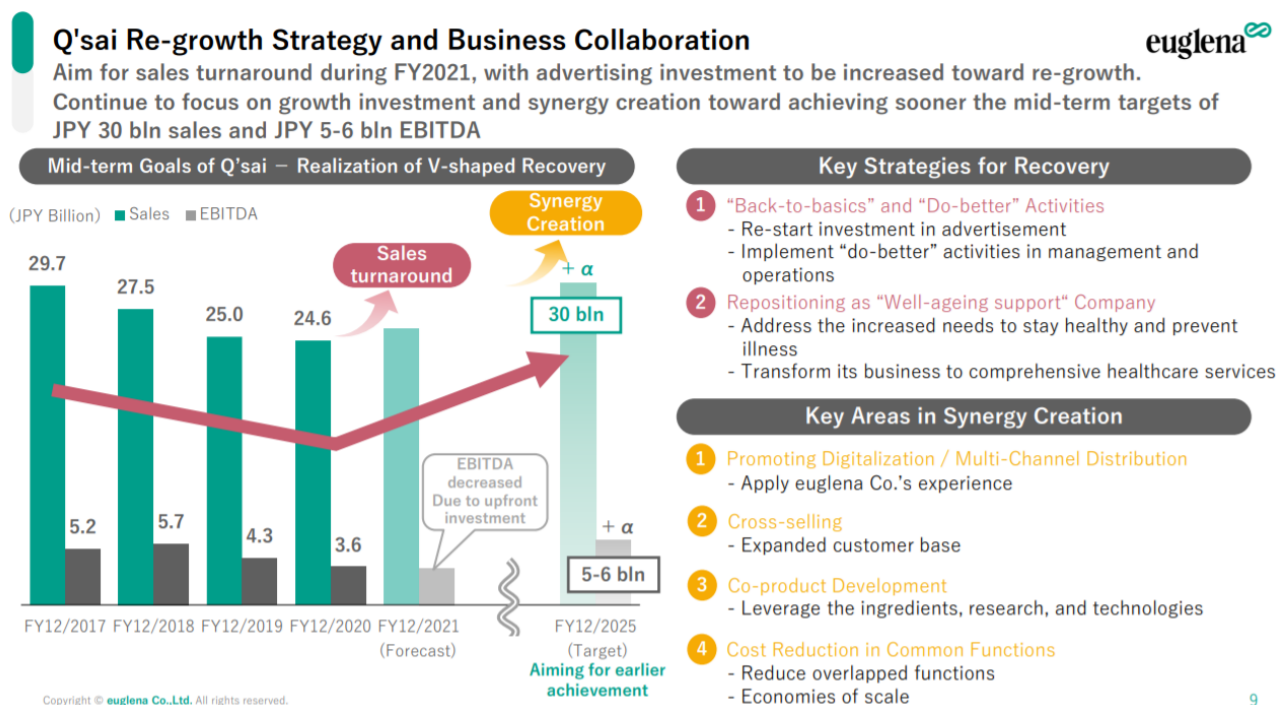
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believe that providing Q'SAI with this kind of digital transformation experience and know-how from euglena will lead to value for Q'SAI.

Thus, while achieving the value to us, the value to Q'SAI, and the value of our mutual existence, we would like to establish a more powerful healthcare business by complementing each other.



On top of that, if you look at Q'SAI as a standalone company, sales have been in a steady decline since around 2017.

In December 2020, the sales was a little stagnant, and from this fiscal year onward, sales have turned around. Euglena Co., Ltd., Advantage Partners, and Century Tokyo, as shareholders, will invest more proactively and improve management for renewed growth.

During this period of declining sales, Coca-Cola Bottlers was a shareholder. The company's management style focused on profitability rather than investment in re-growth, but with us, the company will thoroughly aim for re-growth.

In addition, in terms of business development related to well-aging support, we will transform it into the number one company in Japan that provides services and products for pre-seniors, who experience problems and concerns as they age, rather than a simple health food company.

Through this, our main scenario is to achieve re-growth to sales of JPY30 billion or more and EBITDA of JPY5 to JPY6 billion or more by the fiscal year ending December 31, 2025.

I have already explained about synergies earlier, so I will skip this part. Basically, we would like to create synergies for the renewed growth by sharing channels, brands, and systems.

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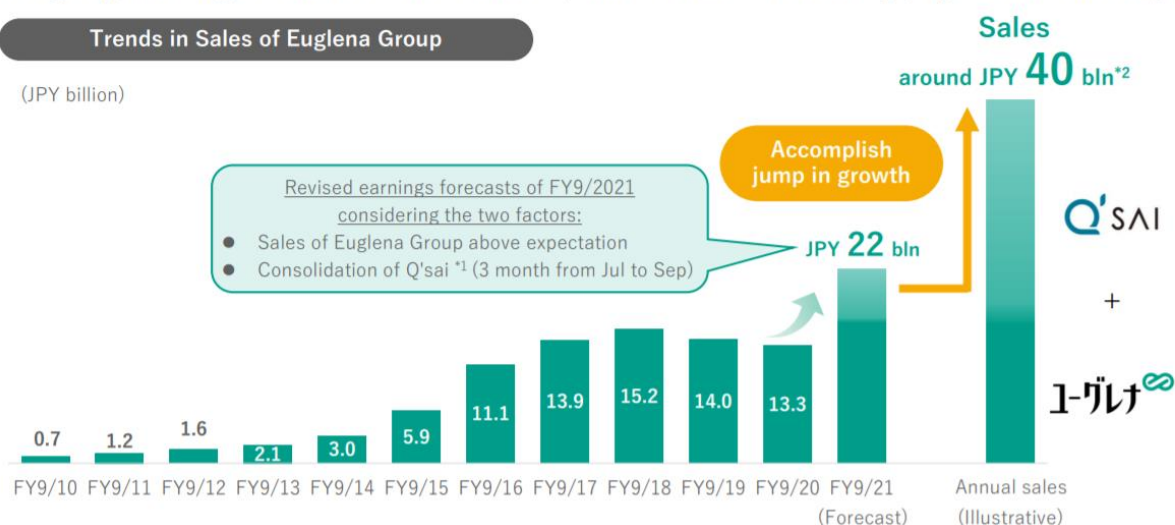
## Accomplishment of Jump in Growth

euglena<sup>∞</sup>

Q'sai consolidation enables jump in growth of our group sales, reaching around the size of JPY 40 bln. Our group, covering health foods and cosmetics, will become one of the key players in the industry.

### Trends in Sales of Euglena Group

(JPY billion)



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\*1: Plan to make Q'sai a consolidated subsidiary on June 30, 2021, which is the deemed acquisition date  
\*2: Rough sales estimate obtained by combining our consolidated sales of FY9/2021 (forecast) and Q'sai's sales of FY12/2021 (forecast)

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This is the transition of the entire euglena Group with the consolidation of Q'SAI.

We have been growing rapidly since our listing in 2012. Sales have since peaked out once in 2018. Over the past 3 years, we have been working to thoroughly improve euglena Co., Ltd. and euglena Group business.

The first message I would like to give is that we are now at a stage where we can expect to exceed the JPY15.2 billion forecast with the euglena Group alone, excluding Q'SAI. On top of that, with the consolidation of Q'SAI for 3 months, we have revised our earnings forecast to JPY22 billion.

In the next fiscal year and onward, Q'SAI will make a full-year contribution, and we will be transformed into a company with a healthcare business of at least JPY40 billion.

This scale of JPY40 billion is a certain size in the mail-order businesses and B2C healthcare businesses across Japan, and we would like to continue our growth while maintaining such a presence.

These were about the consolidation and re-growth of Q'SAI, and the financing associated with the exercise of the call option.

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## FY9/2021 1H Financial Results

Sales progress rate is 51% to the original annual forecast and adjusted EBITDA turned into the black

(JPY million)	FY9/20	FY9/21				Original Forecast
	1H	1Q	2Q	1H		
Sales	6,081	3,910	3,826	7,737	15,200	
Operating income/loss	(360)	(365)	(143)	(508)	–	
Adjusted EBITDA*	212	(129)	345	215	(630)	
Ordinary income/loss	(137)	(306)	179	(127)	–	
Net income/loss attributable to owners of the parent	(143)	(360)	164	(196)	–	

Sales progress rate to the original annual forecast

**51%**

\* Adjusted EBITDA is our own financial measure. Adjusted EBITDA = EBITDA (Operating income (loss) + Depreciation and amortization + Amortization of goodwill) + Subsidy income + Stock-related remuneration (including stock option)

Note Above figures are rounded down to the nearest million, and may not coincide with the previously disclosed figures and the figures in the following pages where they are rounded off to the nearest million

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I now would like to explain the financial results for the first half.

In the first half of the fiscal year, sales reached JPY7.73 billion. Since the initial forecast was JPY15.2 billion, we have made 51% progress and are making good progress.

Sales declined in the first and second quarters, which may seem to be a concern. However, in Q2, we exercised the call option for Q'SAI and went through the M&A process, and so, we basically tried to avoid spending too much cash.

Therefore, while operating income was reduced, adjusted EBITDA was improved in the first and second quarters, and we took safety rather than growth in Q2.

Given these, we still achieved 51% of the total, and we believe that we are making satisfactory progress.

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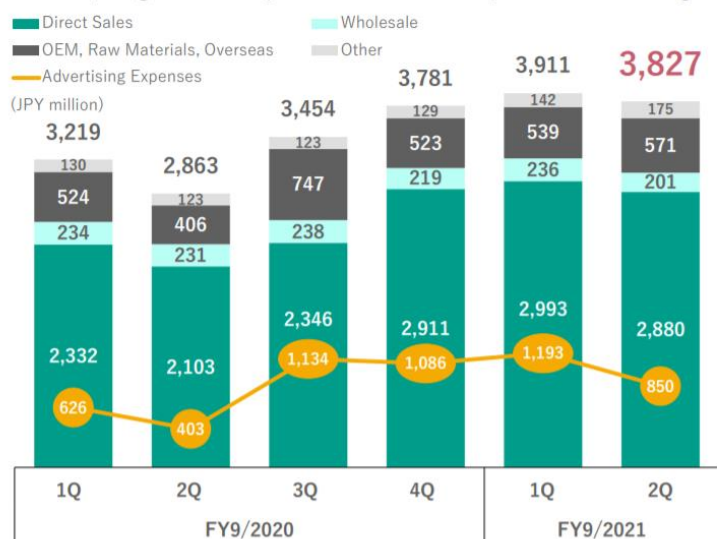
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## Quarterly Trends in Sales by Channel

In 2Q FY9/2021, direct sales slightly declined when compared with 1Q, because of the reduced advertising investment due to cash management toward Q'sai consolidation.

In 2H, re-growth is expected because of expanded advertising investment and LIGUNA consolidation



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### Direct Sales

- In 2Q FY9/2021, advertising investment was reduced for cash management toward Q'sai consolidation. Direct sales slightly declined when compared with 1Q, however, the progress in 1H was in line with the original forecast.
- With LIGUNA consolidation, the number of subscribers at end-2Q recovered to its peak level, 295K
- Expect re-growth in 2H through the increase of advertising expenses and LIGUNA consolidation

### Wholesale

- Sales did not increase despite various efforts including mass promotion. New actions are planned to be taken in 2H

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In terms of sales by quarter, we believe that we are on a full recovery track after bottoming out in Q2 of the fiscal year ended September 2020.

We think we can explain to you with an addition of Q'SAI in Q4 onward that we are well into the re-growth of overall sales.

As for Q2, our main objective was to control cash in preparation for the consolidation of Q'SAI, and so, we spent the least on advertising and publicity expenses among the last 3 quarters. As a result, we achieved the sales target for the first half as a whole and also achieved positive EBITDA or ordinary income.

On the other hand, if we reduce our advertising expenses, the overall number of regular purchasers will generally be negatively affected, but we also carried out an important strategic M&A in Q2, the M&A of LIGUNA. As a result of this consolidation, the number of regular purchasers recovered to a record high of 295,000.

The number of regular purchasers, excluding LIGUNA, has not shown any sharp decline, and the situation has basically remained almost the same for euglena alone.

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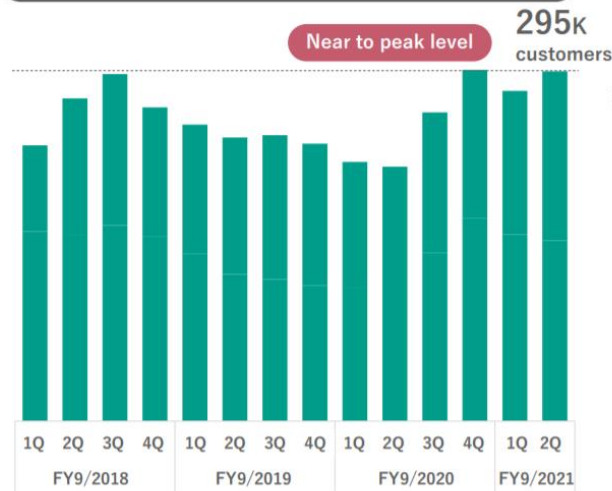
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## Trends in Major KPIs for Direct Sales

With LIGUNA consolidation, the number of subscribers recovered to its peak level.  
The ratio of online direct sales exceeded the annual target of 30%, well ahead of schedule.

### Trends in the Number of Subscribers in Direct Sales



### Ratio of Online Direct Sales



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We have received some questions in advance about our main KPI, the number of regular purchasers for direct sales.

As I mentioned in the P&L last year that it bottomed out in Q2 of 2020, the overall number of regular purchasers is also showing the same trend.

In Q2, we recovered to 295,000 people, almost the same level as in the fourth quarter of the fiscal year ended September 2020.

As Izumo explained earlier, the online ratio of mail-order sales, which is the main battleground for digitalization and DX, exceeded 30% at the end of Q2, and we believe that this trend will continue in the future.

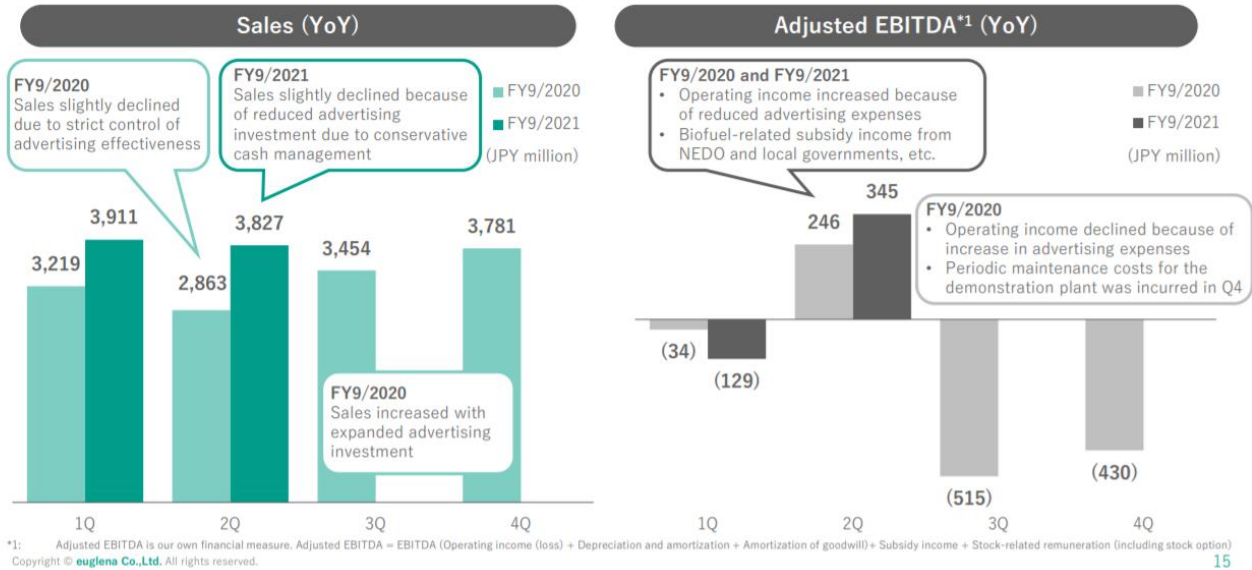
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## Sales and Adjusted EBITDA

In FY9/2021, 2Q sales slightly declined QoQ, because of the reduced advertising expenses.  
Adjusted EBITDA increased with biofuel-related subsidy income



Under these circumstances, I would like to share with you the image of what we will be able to achieve when looking at this fiscal year as a whole.

Now, let's look at the sales figures for the last fiscal year.

In terms of last year's sales figures, they were JPY3.2 billion in Q1, JPY2.8 billion in Q2, JPY3.4 billion in Q3, and JPY3.7 billion in Q4. For the decline from Q1 to Q2, we had the same transition in this year.

Last year, profits were negative JPY34 million in Q1, positive JPY240 million in Q2, and larger negative figures in Q3 and Q4. We expect this trend to continue this fiscal year as a whole.

In particular, the tendency for deficits to increase in the first and third quarters is that advertising is more likely to be placed in the first and third quarters, considering the replacement of shelves with products for distribution. In addition, from the perspective of the regular mail order business model, we tend to spend more on advertising in the first quarter and the third quarter, which means that costs are more likely to be incurred in the first and third quarters.

On the other hand, as for the tendency for the fourth quarter to be more negative than Q2, the biggest factor is the regular repair of our biojet fuel demonstration plant, which costs hundreds of millions of yen. This has occurred in the past and will continue to occur every year.

Therefore, overall, Q2 tends to be more profitable and the third and fourth tend to be less profitable. If you only look at the results for the first half of the fiscal year, the numbers seem to be better in the future, but this is the reason why we have not disclosed a forecast that shows a large positive turnaround for the full year.

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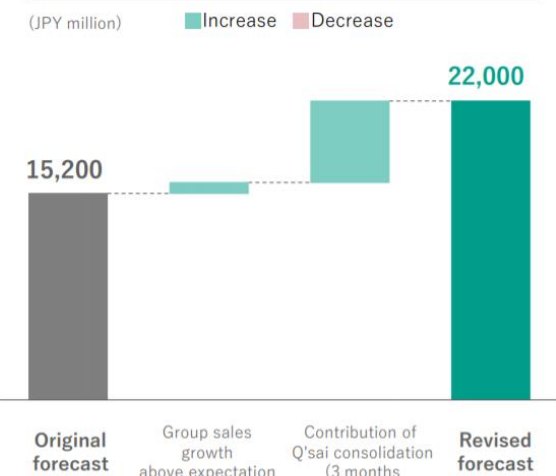
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## Revision of Consolidated Financial Forecast of FY9/2021

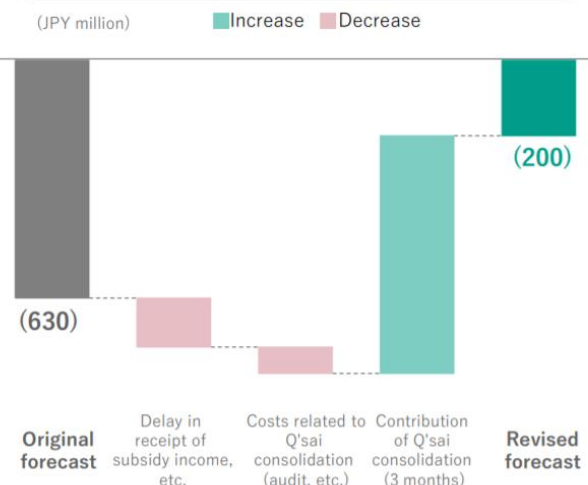


Revised consolidated financial forecast upward, mainly because of Q'sai consolidation expected at the end of June 2021, the deemed acquisition date

### Factors behind the revision of Sales forecast



### Factors behind the revision of adjusted EBITDA forecast



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As I explained a little earlier, our initial sales target was JPY15.2 billion. In contrast, the euglena Group on a stand-alone basis also saw an upturn.

In addition to this, the consolidated contribution of Q'SAI will be added for 3 months, resulting in a total revised forecast of JPY22 billion.

As for adjusted EBITDA, the initial figure was negative JPY630 million. In addition, it was decided that the subsidy for biofuel production would be postponed until the next fiscal year, instead of during the current fiscal year, so this part is negative.

And now, with Q'SAI's consolidation, there will be a certain amount of consolidation support cost.

On the other hand, Q'SAI itself has a positive EBITDA, and so, it will be recovered for that amount. As a result, it would be negative JPY0.2 billion.

The movement of adjusted EBITDA for one year, which I explained earlier on this page 15, is the movement of EBITDA excluding Q'SAI. On top of the consolidation of Q'SAI and other companies, adjusted EBITDA would be negative JPY0.2 billion.

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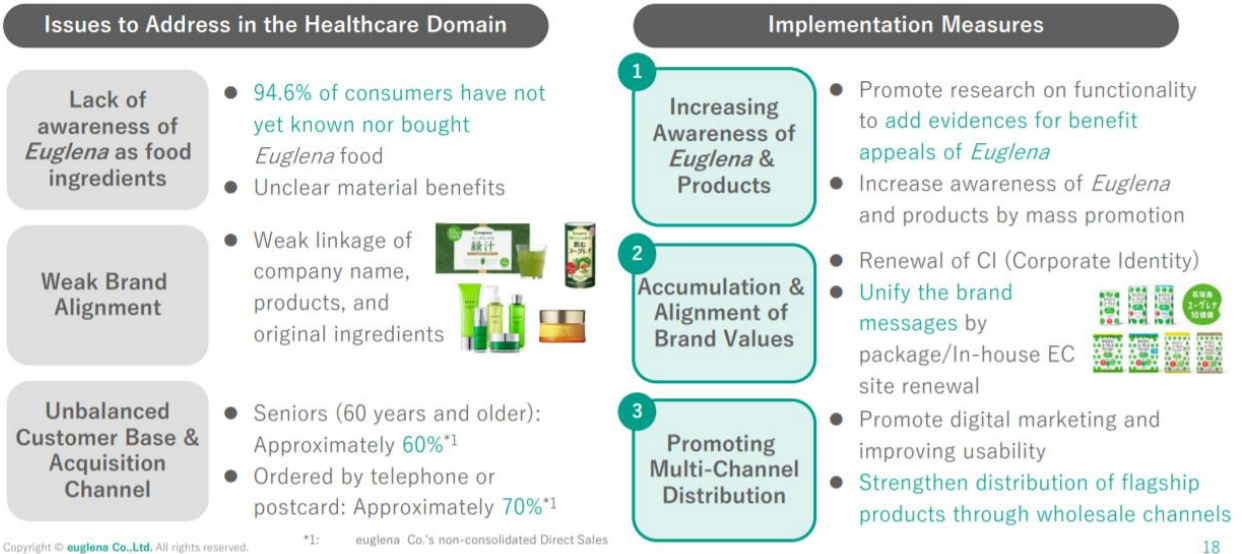
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## Measures Implemented to Address the Identified Issues

We have implemented several measures to address the issues identified at the beginning of FY9/2020; 1) increasing awareness of *Euglena* & products, 2) fostering brand values, and 3) promoting multi-channel sales, leading to Euglena Group's sustainable growth



Let's take a look at each of the 2 key areas.

As for health care, we have already explained all the quantitative aspects in the earnings forecast, and so, I would like to focus on the qualitative aspects.

To date, we have been proactively implementing improvements to the issues identified for the fiscal year ended September 2020. Of these, increasing awareness of materials and products means euglena's materials and the euglena brand.

We currently have 5 major brands out of JPY15 billion in sales. These 5 are brands with sales of around JPY2 billion.

Of these, there are 2 brands related to euglena, and we have stated that we will expand the recognition of materials and products related to euglena.

In addition, the accumulation of the Company's brand value and transition to multi-channel are mentioned. This multi-channel approach is not limited to the euglena brand but also includes the brands of Group companies. We have been promoting the multi-channel approach such as digital sales, mail order sales, and sales at brick-and-mortar stores.

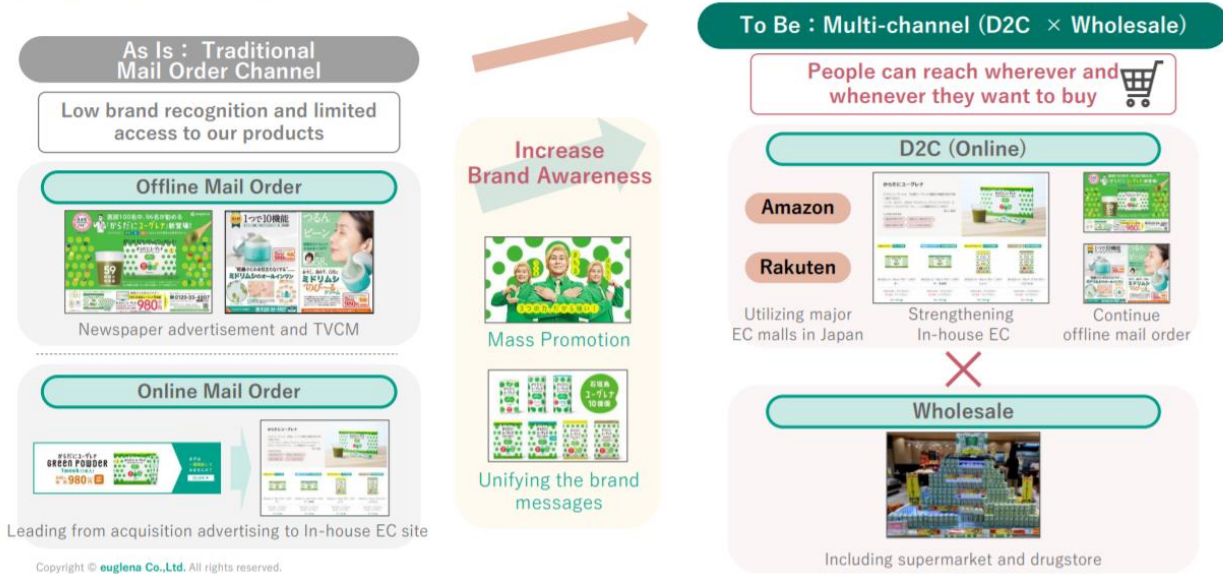
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## Future Strategies in Healthcare Domain - Multi-Channel Distribution

Aim to increase brand recognition through mass promotion, etc. for the enhancement of multi-channel distribution



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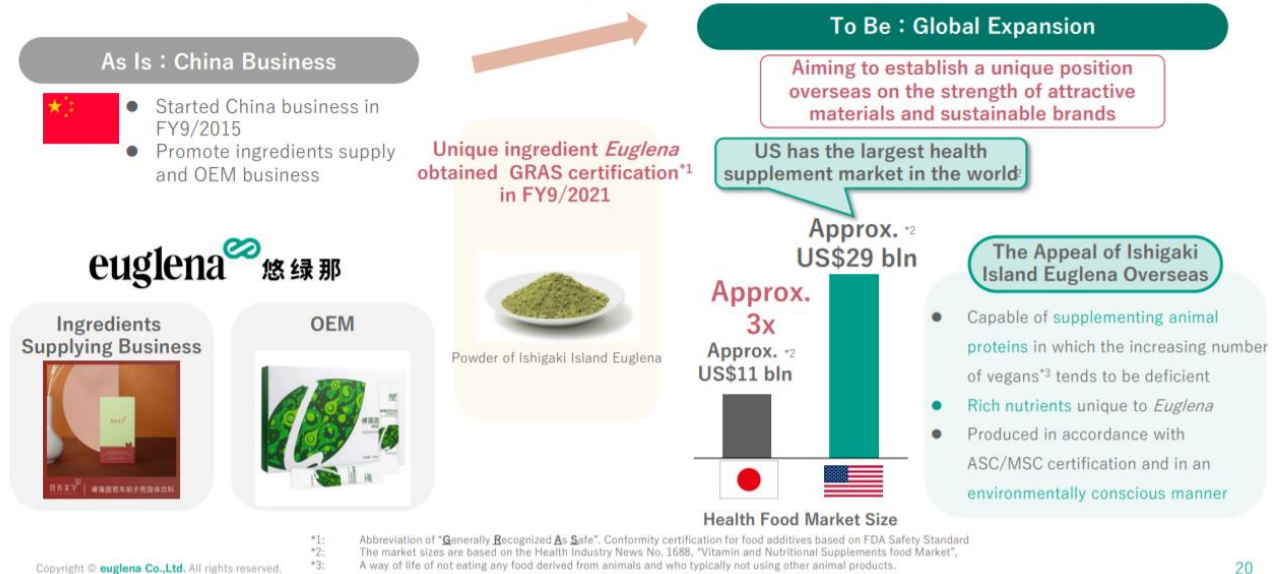
In fact, many of the companies in the healthcare business, which we consider are markers of success, are shifting from offline to online, as well as promoting sales in stores and malls.

Overall, we are following this trend, and we believe that expanding the ratio of in-store sales, the ratio of digital sales, and the ratio of mall sales will ultimately improve overall profitability by making it possible for customers to buy our products anywhere and at any time. We are working on it continuously.

## Future Strategies in Healthcare Domain - Overseas Expansion

Euglena acquired GRAS certification and is ready for introduction in the U.S market.

Continue to focus on the business in China while aiming for further expansion in overseas markets.



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Finally, with regard to the scope of future growth, our overseas business has so far been focused on China.

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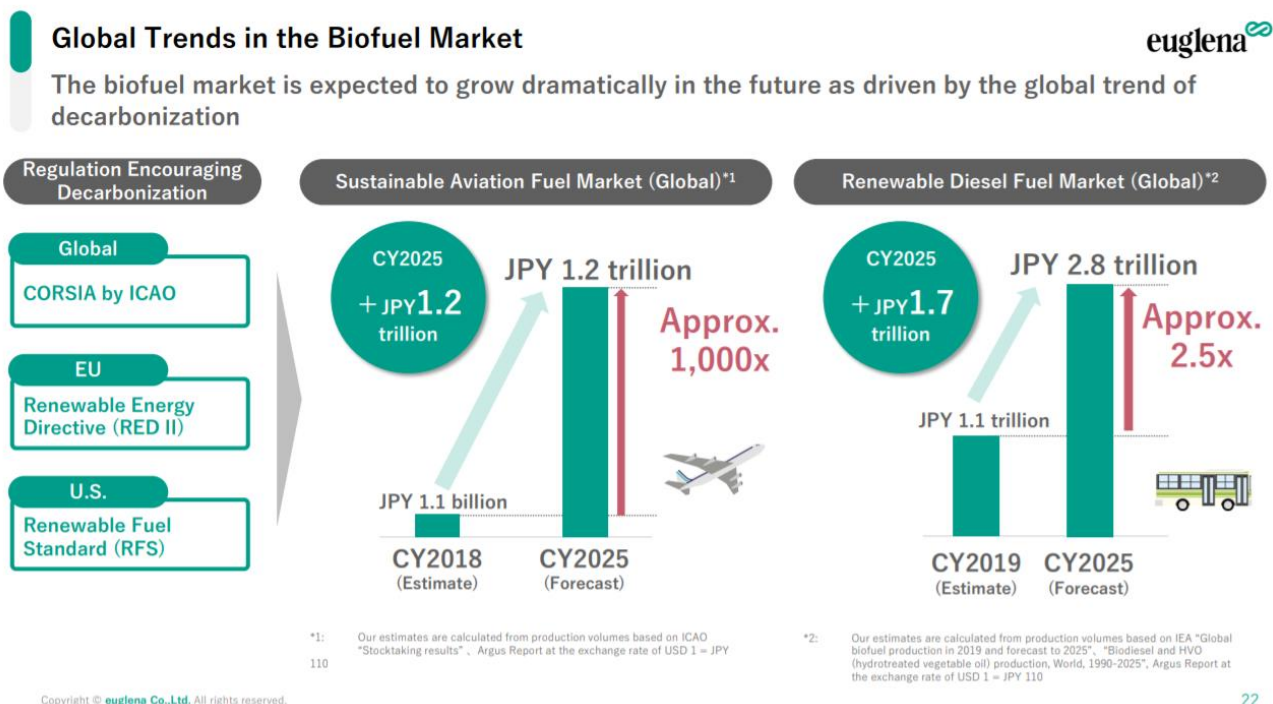
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Because euglena is a proprietary material, each country requires its own approval to export and sell it. This fiscal year, we completed GRAS certification in the US, and so, we will be expanding our business overseas.

I think the key to the discontinuous growth of healthcare will be how and when we can deliver this.

This is all for my presentation of the overall sense of figures, the contents of budget revision, and the qualitative aspects of health care.



Next, Izumo will explain the advanced technology investment domain centered on biofuels.

**Izumo:** Now, let me start to explain the recent trends in the biofuel market.

First, I would like to talk about global trends.

Particularly for aviation fuel, CORSIA by ICAO, the International Civil Aviation Organization, stipulates the upper limit of CO2 emission to be the amount of CO2 emitted in 2019 and in the long term, to curb the amount in the aviation industry and the aviation sector.

In the EU, the Renewable Energy Directive II, RED, which is what is called EU directive, will be strengthened. With the implementation of the Renewable Fuel Standard, RFS, the new Biden administration in the US and so on, the global trend toward decarbonization remains unchanged and is expected to continue to grow.

The biojet fuel global market is about JPY1 billion and will grow into JPY1.2 trillion in just a few years.

The number of users and customers in the existing energy sector will not increase 1,000-fold, but in the context of green revolution, such a huge change in the market can occur. In the energy market, the greening of aviation is considered to be the most rapidly developing area and we believe so, too.

In addition, biodiesel is expected to grow 2.5 times to about JPY3 trillion in just a few years. This trend is expected to accelerate in the future.

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## Trends in Japan and Overseas for Decarbonized Society

Following the trends in foreign governments/companies, the development/use of biofuel is accelerating in Japan as well

### Actions by Foreign Governments/Companies

#### Actions in Europe and the U.S.



- Setting the target as 55% cut in CO<sub>2</sub> emissions by 2030 when compared with the levels in 1990
- Announced the European Green Deal to invest EUR 1 trillion (JPY 130 trillion)\*1 in public and private sectors in 10 years



- Raised the CO<sub>2</sub> emission reduction target by 2030 from 26%-28% to 50-52% when compared with the levels in 2005
- Announced the plan to invest USD 2 trillion (JPY 220 trillion)\*2 in infrastructures for clean energy, etc.

#### Expansion of Commercial Use of Biofuel

- Since 2011, sustainable aviation fuel has been used on approximately 330K commercial flights as of May 2021
- NESTE, the industry leader, maintains high growth and profitability in Renewable Products segment

### Actions by Japanese Government/Companies

#### Green Growth Strategy by Japanese Government

- Raised the CO<sub>2</sub> emission reduction target by 2030 from 26% to 46% when compared with the levels in 2013
- METI developed the "Green Innovation Fund" of JPY 2 trillion
- The green growth strategies aiming for carbon neutrality by 2050 include increasing supply of sustainable aviation fuel

#### Actions by Two Major Japanese Airlines

- Setting the target of carbon neutrality (net-zero carbon dioxide emissions) by 2050
- The planned actions include emissions trading and introduction of non-fossil jet fuel such as sustainable aviation fuel

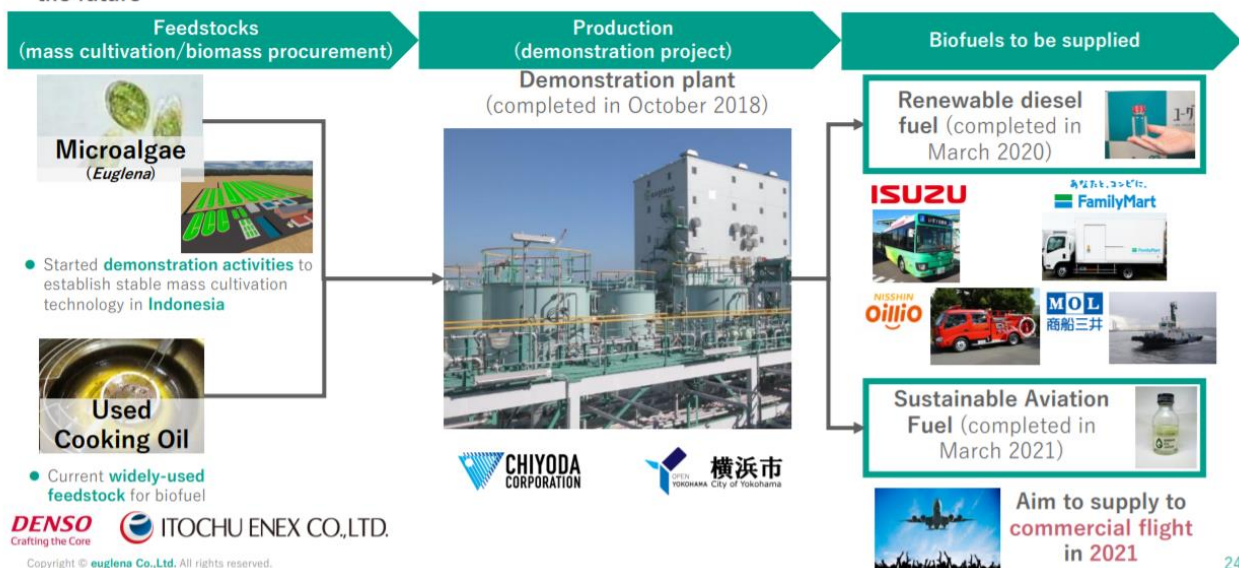
\*1: At the exchange rate of EUR 1 = JPY 130  
 \*2: At the exchange rate of USD 1 = JPY 110  
 Sources: Global Warming Prevention Headquarters (website of Prime Minister's Office of Japan) and METI APRIL 22, 2021 "The Basic Policies for the Project for the Green Innovation Fund", White House APRIL 22, 2021, "FACT SHEET: The American Jobs Plan", White House APRIL 22, 2021 "FACT SHEET: President Biden Sets 2030 Greenhouse Gas Pollution Reduction Target Aimed at Creating Good-Paying Union Jobs and Securing U.S. Leadership on Clean Energy Technologies", International CCUS and Hydrogen Symposium "Perspectives and challenges for carbon neutrality by 2050", European Commission "2030 Climate Target Plan", European Union, "A European Green Deal", Aviation Benefits Beyond Borders website

As I mentioned on major developments overseas, Japan has also significantly raised the CO<sub>2</sub> Emission target from the COP21 standard that is to reduce CO<sub>2</sub> emissions by 26% by 2030 compared to the level of 2013, to 46% as mentioned in the Prime Minister's speech.

In addition, as a breakthrough in Japan, Japanese government have created a JPY2 trillion Green Innovation Fund, and they are now gathering wisdom from all over Japan and the world, and green innovation and greening are becoming the number one priority in their growth strategy.

## Overview of the Supply Chain in Biofuels Business

Producing renewable diesel fuel and Sustainable Aviation Fuel at the demonstration plant with procuring biomass feedstocks. Aim to establish technology for mass cultivation of *Euglena* and provide a stable supply in the future



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We are experiencing a tailwind from this huge global megatrend and also the trend in Japan. In the supply chain of our biofuel business, as for the supply of biofuels, the next generation biodiesel fuel was completed in March 2020.

Finally, this year, in March 2021, the biojet fuel manufactured by euglena will be completed, and we are now working hard to achieve flights by the end of 2021.

**Biofuel Supply - Production of Sustainable Aviation Fuel Finally Completed** **euglena**<sup>∞</sup>

With the production completed, we are ready for supplying SAF compliant with the international standards, aiming to accomplish the first flight within this year

<b>January 2020</b>	<b>March 2021</b>	<b>In 2021</b>
BIC process techniques were certified by ASTM D7566 Annex6*1 standard	<b>Completed Production of Sustainable Aviation Fuel</b> *2	Aim to start supply and accomplish the first flight
 <p>ASTM INTERNATIONAL</p> <p>Certified as fuel that can be used for civil aviation</p>		

\*1: ASTM D7566 Annex6 is an international standard defined by ASTM International (former American Society for Testing and Materials) for pure bio-based jet fuels produced by the BIC processes using bio-based oil such as microalgae and waste cooking oil  
 \*2: The fuel we succeeded to develop is pure bio-based jet fuel, not mixed with conventional fossil-based fuel. ASTM D7566 Annex 6 specifies as follows: to use as aircraft fuel, mix with conventional fossil-based jet fuel up to 50% and ensure that the mixed fuel complies with the ASTM D7566 Annex 6 standard  
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This biojet fuel, completed to be manufactured in March 2021, has been certified to ASTM D7566 Annex 6 and is approved for use in aircraft. We are now in the process of discussing with the related parties about the logistics and other aspects of how to proceed with the supply.

## Biofuel Supply - First Sale of Biofuel to General Consumers

Renewable diesel/high-octane fuel\*<sup>1</sup> was sold to general consumers for the first time at a gas station in Katsushika-ku, Tokyo. The 3-day event attracted a lot of users and media attention

- Manufactured bio-based diesel/naphtha from *Euglena* and used cooking oil
- Mixed the bio-based diesel/naphtha with commercially available diesel/high-octane fuel, and manufactured/sold them as renewable diesel/high-octane fuel
- The renewable fuels are available for general vehicles without changing their internal combustion engine



Press conference on April 9 (Fri)



Refueling of biofuel

### Results of the event



\*1: High-octane fuel containing bio-based naphtha manufactured at the demonstration plant  
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The next generation biodiesel fuel, which was completed to be developed in March 2020, has the words next generation attached to it.

Unlike so-called B5 biodiesel, which is allowed to be blended only up to 5% under the existing compulsory standard, the next generation biodiesel fuel is recognized as equivalent to light oil under the Act on the Quality Control of Gasoline and Other Fuels and JIS standards.

Therefore, in April this year, LIFE HAKUDO Inc. in Katsushika started selling the fuel blended with our next generation biodiesel to the general public at their gas station without remodeling the existing gas station at all.

We had a lot of media visitors, and the customers that filled their gas tanks on the day were surprised at first but we think this event made them realize that they are actually contributing to CO2 reduction.

More importantly, many people were pleased to see that they can easily participate in the Green Revolution without having to buy a new car, and I was reminded of the importance of this drop-in service in which there is no infrastructure conversion required.

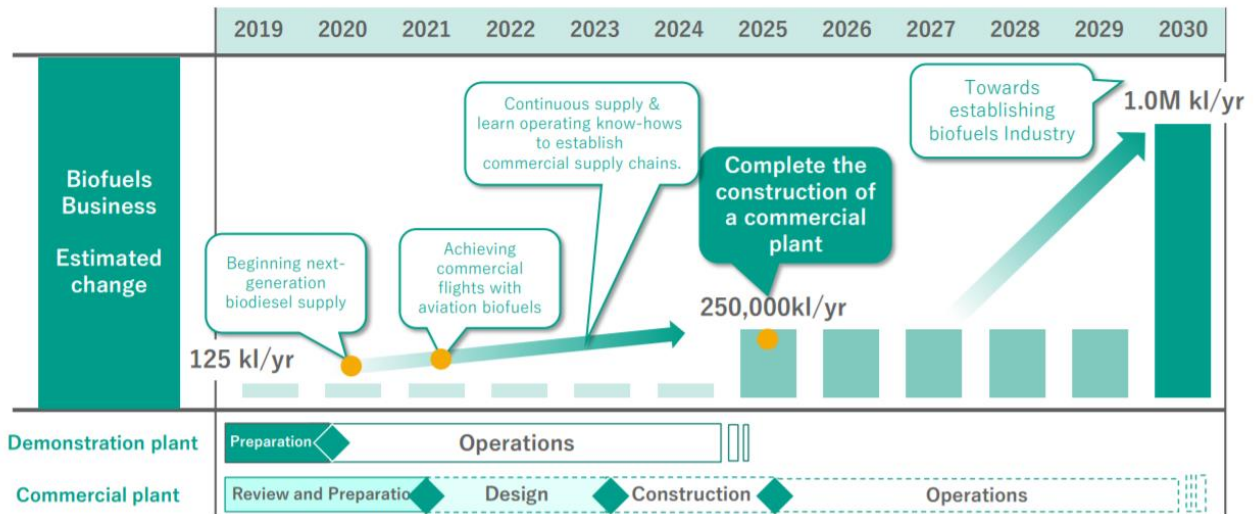
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## Roadmap for Construction of a Commercial Plant

Aiming to start construction of a commercial plant around 2023 and complete in 2025, we plan to select locations/partners during 2021 and move to the plant design phase.



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We will definitely achieve the flight with aviation biofuels by the end of 2021. It is with this strong desire that we are currently working on this project and our next step is the commercialization of the biofuel plant.

We will use the economies of scale to reduce the price, which is very expensive at the moment as the scale is small. We will realize that its cost will be so low that people will be able to use it easily and as a matter of course.

In order to achieve this goal, we are currently in the process of selecting a candidate site for construction of this commercial plant, and we are having discussions with various domestic and international partners.

As for the specific location, we expect to make an announcement by the end of 2021, but we are working to make an announcement on the selection status as soon as we have a decision. So, please look forward for it.

That is all for the progress of the biofuel business.

This is all from me.

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