



# **Capital and Business Alliance with NIHON NOHYAKU CO., LTD. a Subsidiary as well as Commencement of Takeover Bid and Underwriting of Capital Increase through Private Placement**

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**August 21, 2018**

**ADEKA CORPORATION**

**Hidetaka Shirozume**

**President and Chief Operating Officer**

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# Overview of This Matter

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# Overview of This Matter

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## Details announced on August 21

- ADEKA CORPORATION (“ADEKA”) has decided to acquire 51% of the shares of NIHON NOHYAKU CO., LTD. (“NIHON NOHYAKU”) in combination with a takeover bid (“TOB”) and capital increase through private placement or third-party allocation shares (“TPA”) (total amount: approx. 20 billion yen).
- In addition, ADEKA will enter into a capital and business alliance agreement with NIHON NOHYAKU to maximize synergies for both companies.

## Overview of TOB

- TOB price: 900 yen (the premium on the closing price on August 20 is 34.3%).
- Assumed acquisition rate: 35.7% – 42.2% (6.9 billion yen – 10.9 billion yen).  
51% in combination with TPA.

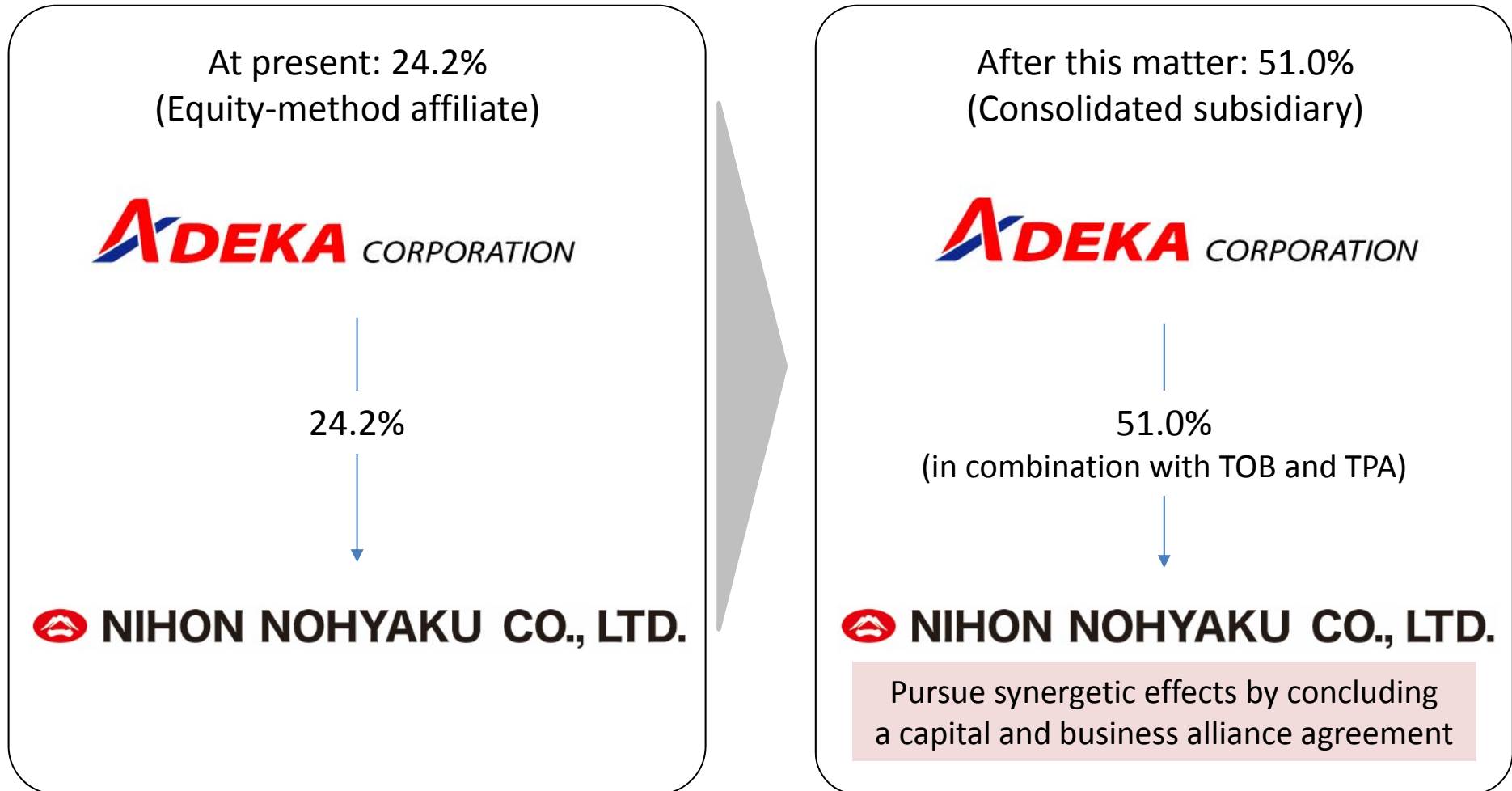
## Overview of TPA

- Amount to be paid: 8.0 billion yen – 14.0 billion yen (this may change as a result of TOB).

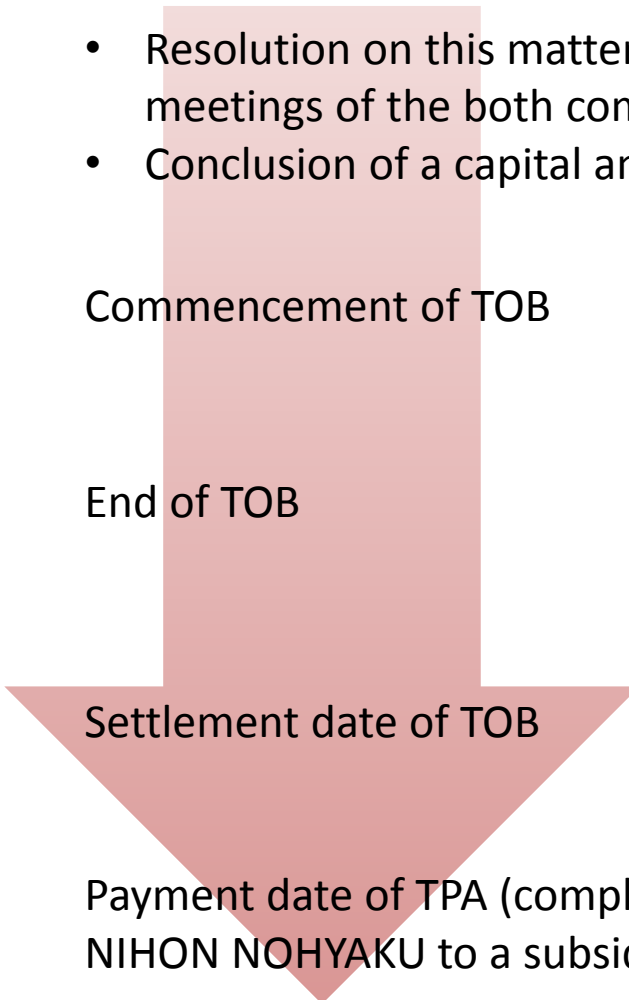
# Scheme of This Matter



NIHON NOHYAKU will become a consolidated subsidiary of ADEKA as a result of TOB and TPA.

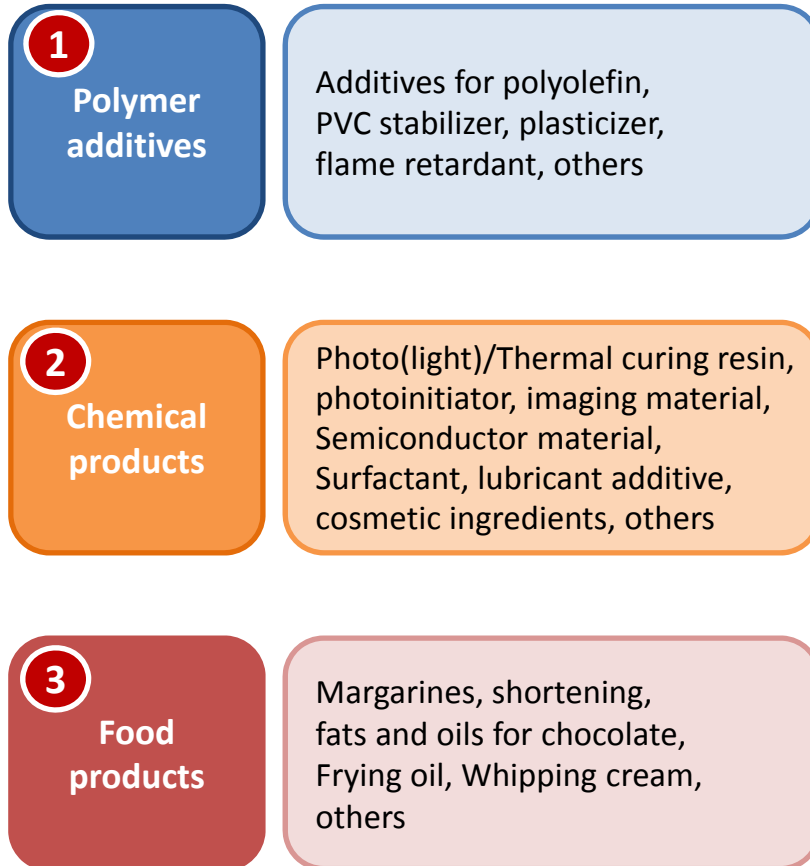


# Future Schedule



August 21 (Tue.) , 2018	<ul style="list-style-type: none"><li>• Resolution on this matter at the Board of Directors meetings of the both companies</li><li>• Conclusion of a capital and business alliance</li></ul>
August 22 (Wed.)	Commencement of TOB
September 19 (Wed.)	End of TOB
September 27 (Thu.)	Settlement date of TOB
September 28 (Fri.)	Payment date of TPA (completion of the conversion of NIHON NOHYAKU to a subsidiary)

## Three Main Business



## Strengths of ADEKA

1. Various materials and solutions
  - Organic synthesis technology
  - High purification technology
  - Light wavelength control technology
  - Polymer functionalization technology
  - Surface active stabilization technology
  - Stabilization technology
  - Fat and oils processing technology
2. Response to diverse applications
3. Response to multiple needs including electronic materials, materials for automobiles and personal care materials
4. Contribution to food cultures in Asia
5. Global expansion of production and sales networks

## Aims of This Matter

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# Aims of This Matter

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## 1. Strategic acquisition to achieve the mid-to long-term vision

- Initiative with a view to a mid-term management plan (FY2021 -) after the current Mid-Term management Plan “BEYOND 3000”.
  - Actively promote M&A growth for the purpose of expanding business domains and developing new businesses.

## 2. Growth and expansion of the fourth business pillar “life science”

- Form a capital and business alliance with NIHON NOHYAKU, which has comprehensive knowledge of authorization process, to accelerate business development with a view to expanding the life science business (the authorization process of diagnostic pharmaceuticals and medical devices, etc.) by adding the agricultural business to our portfolio.

## 3. Growth prospects of NIHON NOHYAKU

- Support growth strategies to become a “Global top 10 agrochemical company.”



		FY 2020	
Financial indicator	Net Sales	Over 300 billion yen (organic growth)	
	OPM	10%	
	ROE	10%	
Investments and loans	Total amount	100 billion yen (Three-year total)	
	Break down	Capital investment	50 billion yen (Three-year total)
		M&A funds	Prepared with 50 billion yen as the limit (Three-year total)
Dividend		Dividend payout ratio: 30% (target for the final year of the mid-term plan after incremental increases) Appropriate shareholder returns decided after comprehensive consideration.	

# Basic Strategies

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## Basic Policies

- Become an excellent company with sales exceeding 300 billion yen.

## Basic Strategies

- Global expansion of three main businesses
  - Globally expand sales of strategic products defined for each of our three main businesses; Polymer additives, Chemical products, and Food products.
- Entering new domains
  - Build business models and promote commercialization in the target domains of Life sciences, Environment, and Energy.
- Enhancing our management foundation
  - Promote CSR to increase our contribution to society and trust from society.
  - Enhance mutual cooperation within the ADEKA Group to leverage our comprehensive ability.

# Expansion of Life Science Business



FY 2018 -

- FY2020

FY 2021 -

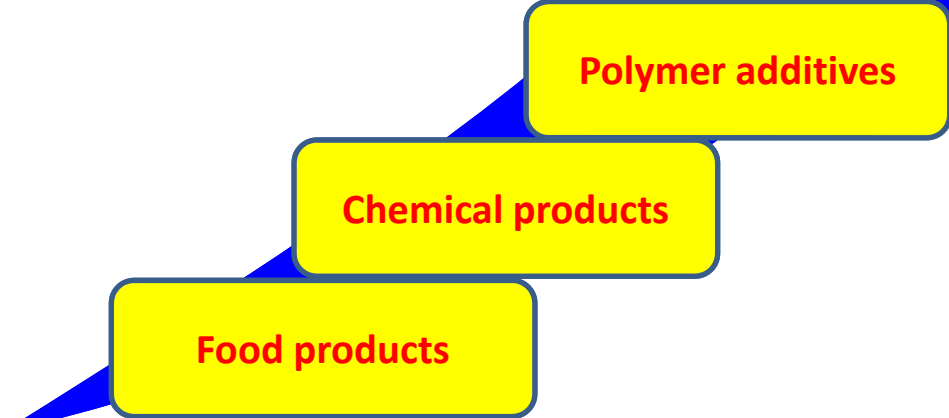
Mid-Term Management Plan "BEYOND 3000"

Next plan

Consolidated sales :  
Over 300 billion yen

Life science  
business

Enhance the portfolio with  
a view to the next mid-term  
management plan (FY2021 - ).

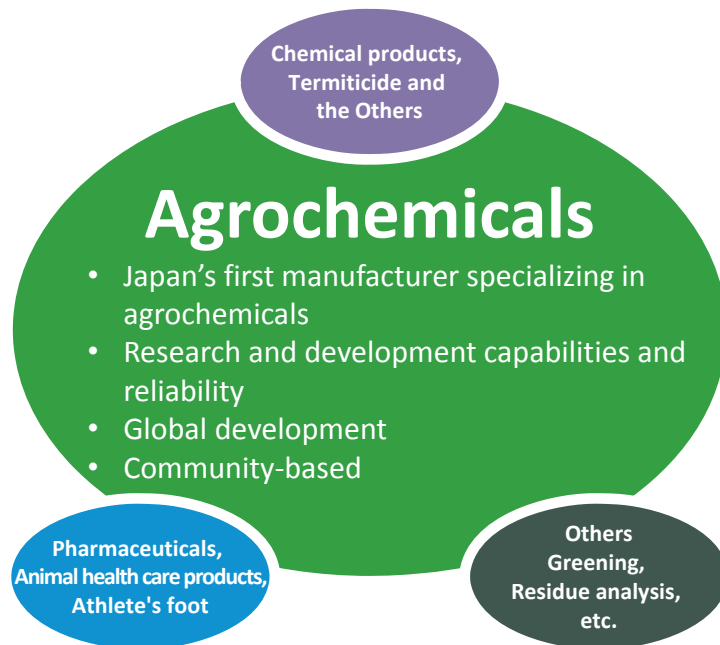


Item	Contents
Established	January 27, 1917 ( <u>101st year in 2018</u> )
Paid-in capital	22.9 billion yen
Main business	Chemicals business(Polymer additives, IT chemicals, Advanced chemicals) and Food business (Margarine, Shortenings, Fat and oils for Chocolate etc.)
Listed stock exchange	TOKYO STOCK EXCHANGE First Section (4401)
No. of share issued	103,651 thousand shares * As of June 30, 2018
No. of shareholders	4,965
Fiscal year-end	March 31
Net sales (FY2017)	Consolidated: 239,612 million yen Non-Consolidated: 131,319 million yen
No. of employees	Consolidated: 3,551 Non-Consolidated: 1,639 * As of March 31, 2018

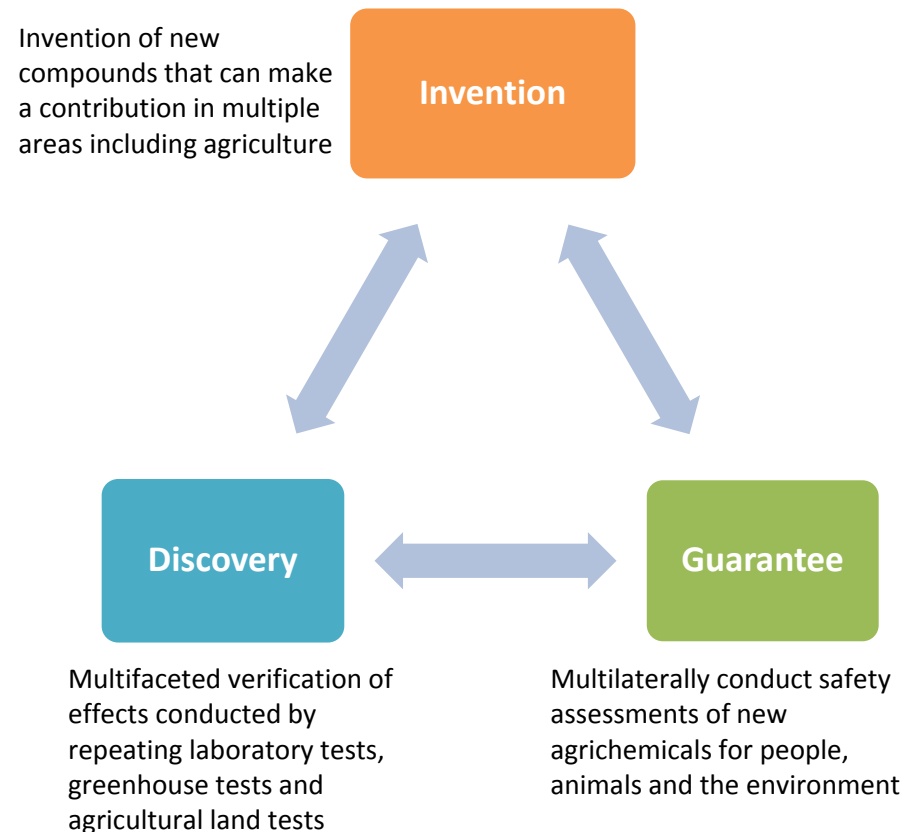
Item	Contents
Established	November 17 , 1928
Paid-in capital	10,939 million yen
Main business	Manufacture, import/export and sale of Agrochemicals (Agriculture/Professional Turf/Home & Garden), Wood Preservative, Agricultural Materials, Pharmaceuticals & Veterinary Products
Listed stock exchange	TOKYO STOCK EXCHANGE First Section (4997)
No. of share issued	66,836 thousand shares * As of June 30, 2018, treasury stock 3,190 thousand shares is deducted
No. of shareholders	14,347 * As of March 31, 2018
Settlement Period	September 30
Net sales (FY2017)	Consolidated: 60,033 million yen, Non-Consolidated : 37,829 million yen
No. of employees	Consolidated: 1,461 Non-Consolidated : 419 * As of September 30, 2017

Main business

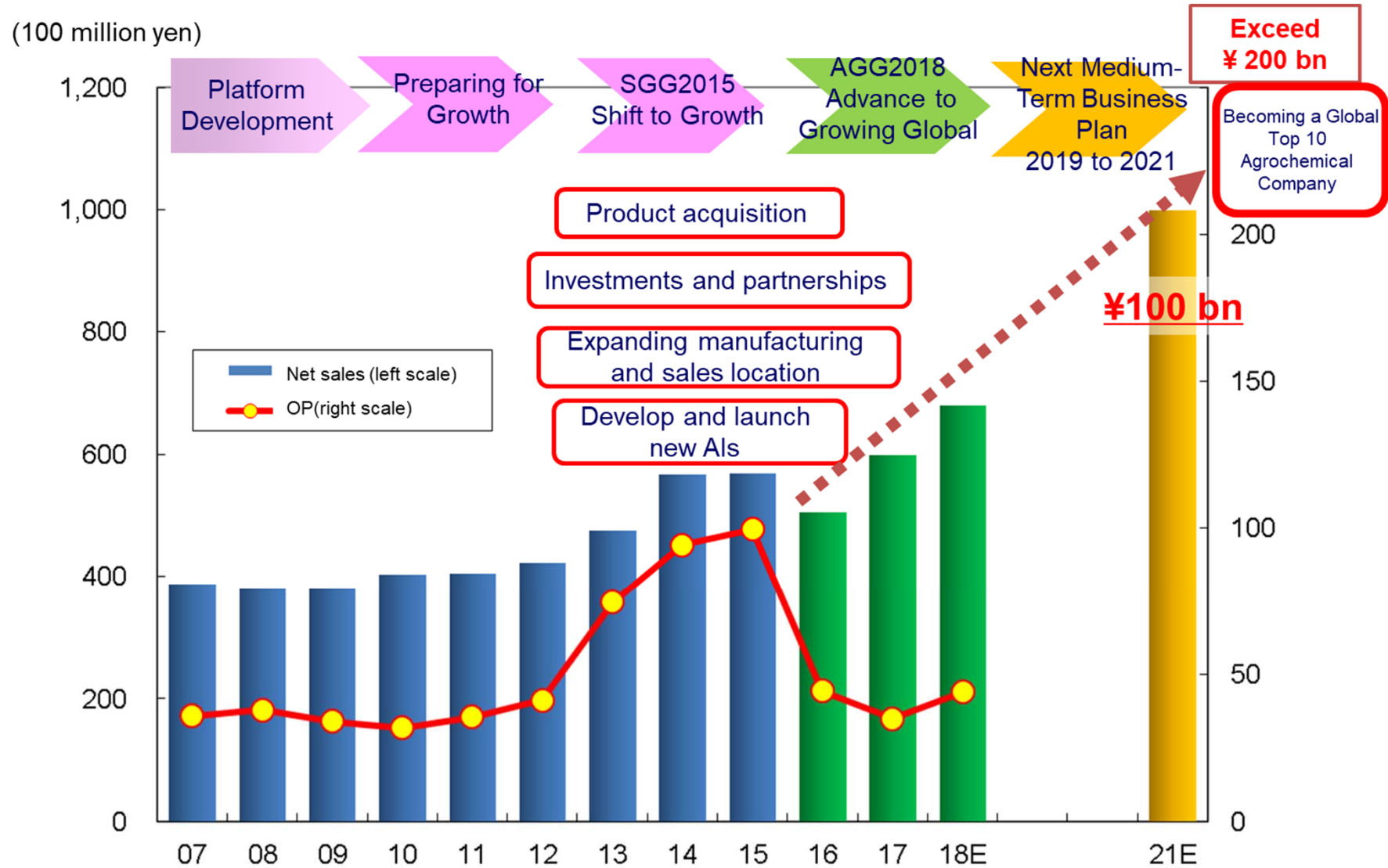
With the manufacture and sale of agrochemicals as the core business, NIHON NOHYAKU has expanded its business domains to chemical products, pharmaceuticals and animal health care products and provides safe, high-quality products.



Strengths of NIHON NOHYAKU  
(solid base for creating new drugs)



# Growth Prospects of NIHON NOHYAKU





# Overview of the Agrochemical Market

## Overview of the agrochemical market

### (Japanese market)

- Decline in bearers due to the aging of farmers
- Downward pressure on expenses for agricultural materials

### (Overseas markets)

- Large-scale mergers of leading agrochemical companies and the acquisition of items
- Increase in demand for food due to the increasing population and economic development
- Expansion of generic products
- Expansion of emerging markets

## Direction of NIHON NOHYAKU



Securing of profit and influence



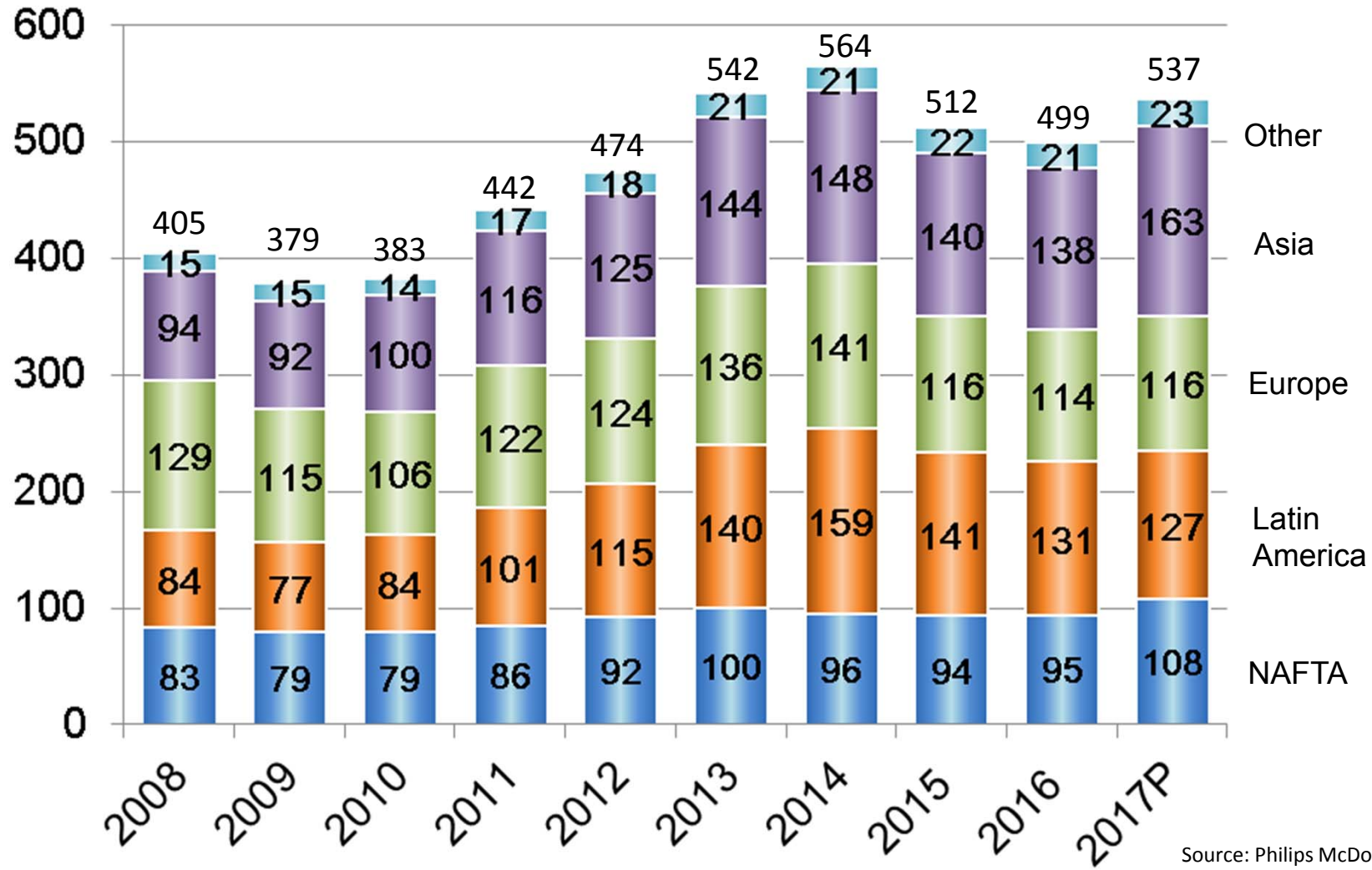
Active development in overseas markets

Reference

# Trends in the Global Agrochemical Market



(Billion dollars)



Source: Philips McDougall  
Note: Provisional value for 2017

## Synergies Expected from This Matter

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# Synergies Expected from This Matter



## Synergies for ADEKA

- Acquisition of a range of expertise in the area of life science
- Expansion of sales and profit

## Synergies for NIHON NOHYAKU

- Acquisition of funds and stability of management due to TPA
- Expansion of the agrochemical business, development in emerging countries and consideration of M&A

**Personnel exchange, enhancement of mutually complementary power in the R&D domain, mutual utilization of production technologies and process chemistry, and mutual exchange of organic synthesis technologies with “chemicals” as the platform**

Because NIHON NOHYAKU is a company created by the merger of the agrochemical department of ADEKA and FUJII SEIYAKU CO., LTD. in 1928, it has high affinity.

# Future Prospects



We will proceed with the preparations for the business alliance so that we will be able to create synergies at an early stage while complementing each other's business domains by building a more solid cooperative relationship as a result of NIHON NOHYAKU becoming a consolidated subsidiary of ADEKA.

## Details of business alliance

1. Acceleration of development speed through mutual complement in the R&D domain
  - a. Enhancement of the life science area
  - b. Utilization of compound database
2. Improvement of productivity through the mutual utilization of production technologies and process chemistry
3. Expansion of sales channels through the mutual utilization of global networks
4. Development of high performance compounds through the provision of technologies such as synthesis reaction, dispersion technology and analysis technology
5. Exchange of researchers with knowledge in multiple areas

# Summary

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# Summary

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## Overview of this matter

- ADEKA has decided to acquire 51% of the shares of NIHON NOHYAKU in combination with a TOB and capital increase through private placement (TPA) (Total amount: approx. 20 billion yen)

## Aims of this matter

- ADEKA Group will add the portfolio of the agrochemical business as the fourth business pillar.
- Though ADEKA is advancing the development of diagnostic pharmaceuticals and medical devices as the life science business, it has determined that expertise in the authorization process shall be necessary for further business expansion.
- ADEKA has decided to implement this matter because business synergies are expected given that NIHON NOHYAKU's core business is the authorization process of agrochemicals, pharmaceuticals, quasi-pharmaceuticals and animal health care products, etc.

## Schedule for this matter

- Period of TOB: August 22 (Wed.) – September 19 (Wed.)
- Settlement date of TOB: September 27 (Thur.)
- Payment date of TPA: September 28 (Fri.)

# Disclaimer statement

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The Tender Offer is not being made directly or indirectly in or into the United States, and no application to the Tender Offer will be accepted from any person resident in the United States or from any U.S. person. Copies of this document and any related materials to the Tender Offer are not being and should not be mailed or otherwise distributed or sent directly or indirectly in or into the United States by any means (including facsimile, e-mail, Internet communication, telex, or telephone). This document does not constitute the solicitation of an offer to buy any securities from any person resident in the United States or from any U.S. person.

In case of an application, applicant shareholders (standing agent in case of foreign shareholders) may be asked to represent and warrant to the Tender Offer agent to the effect that they are not in the United States neither at the time of the application nor the time of sending an application form for the Tender Offer, that no information regarding the Tender Offer, including copies, has been received or sent in, to or from the United States, directly or indirectly, that mail systems in the United States, other methods or means of inter-state trade or international trade (including but not limited to, facsimile, e-mail, Internet communication, telex, or telephone) or securities exchange facilities in the United States have not been used for signing and delivering the application form for the Tender Offer, directly or indirectly, and that they are not acting as an agent, custodian or a fiduciary for others without discretion (excluding cases where such others are giving all the instructions on the Tender Offer from outside the United States).





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**New Growth Strategy**  
through a capital and business alliance  
with ADEKA Corporation

August 21, 2018

Nihon Nohyaku Co., Ltd.

President Yosuke Tomoi

# Background of business alliance (1)

## 1. Current state of NNC\*/Nichino Group

- a) With Group Vision “Nichino Group - Growing Global to become an outstanding globally competitive group”, we’re promoting growth strategy with the aim of becoming an enterprise with sales over 200 billion yen.
- b) On the other hand, improvement of our capital base is required for further strengthening of R&D capability and expansion of business through M&A etc.
- c) NNC can be said to be a company that has relatively few total assets and cheaper stock prices than large companies, so we need to improve our corporate value.

\*NNC=Nihon Nohyaku Co., Ltd.

## 2. Current state of ADEKA

- a) In recent years, ADEKA has been working to strengthen life science business as a growing field.

# Background of business alliance (2)

## 3. Relationship with ADEKA

- a) Originally NNC spun off from ADEKA 90 years ago, and ADEKA has been a major shareholder of NNC since then.
- b) The top executives of NNC & ADEKA have always exchanged the views on the business environment, management strategies and capital policies.
- c) NNC & ADEKA shared the view that further cooperation in the future will contribute to acceleration of growth strategies and improvement of corporate value of both companies.

# Aim of business alliance

## 1. Stabilization of capital base

(to be described later)

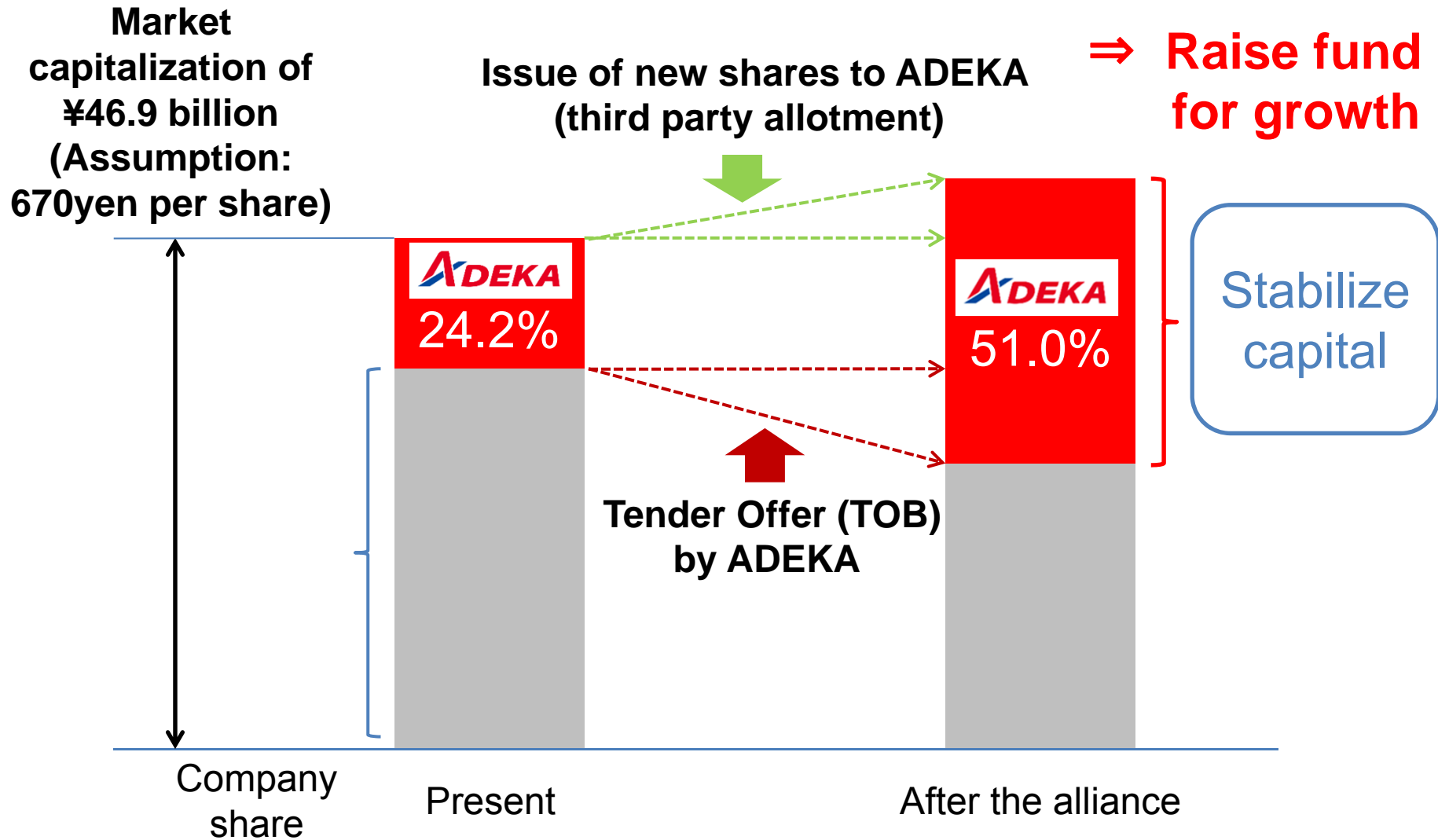
## 2. Strengthening of life science business through collaboration with ADEKA

- a) Agrochemical business will be main business of ADEKA's Life Science sector
- b) Expand business by utilizing know-how and experiences of both companies
  - (1) Improve efficiency of new agrochemicals/pharmaceuticals creation through integration/mutual utilization of organic synthesis technology of both companies
  - (2) Utilize production technology mutually
  - (3) Expand agrochemical derivative products business through collaboration
  - (4) Utilize global business bases of both companies mutually

## 3. Human resources development and mutual expansion of business fields through personnel interactions

- a) Expand business field and maximize business synergies through exchange of research personnel
- b) Develop managers with global perspective in both companies through exchange of managerial personnel of sales, production and administration division

# Stabilization of capital base (1)



# Stabilization of capital base (2)

1. Raise 8 to 14 billion yen through the issue of new shares
2. Use of funds
  - a) R&D cost for new products; 11 billion yen
  - b) Investment in production facilities (for new products or existing products); 2-3 billion yen
  - c) Others (M&A etc.)

# Conclusion

1. We promote new growth strategy through a capital and business alliance with ADEKA.
2. As a result of this alliance, NNC will become a consolidated subsidiary within ADEKA group, but we will maintain listing on the First Section of the Tokyo Stock Exchange and secure independent management.
3. We pursue synergies with ADEKA and improve corporate value of both companies.

**Nichino Group - Growing Global**

To become an outstanding globally competitive group



## Summary of Questions and Answers at Joint Press Conference on August 21, 2018

Date/Time	August 21, 2018 (Tuesday) 6:00PM~7:30PM
Briefer	ADEKA CORPORATION President and Chief Operating Officer Hidetaka Shirozume (here in after referred to as Shirozume) Nihon Nohyaku Co., Ltd. President Yosuke Tomoi (here in after referred to as Tomoi)
Explanatory Materials	“Capital and Business Alliance with NIHON NOHYAKU CO., LTD. a Subsidiary as well as Commencement of Takeover Bid and Underwriting of Capital Increase through Private Placement” “New Growth Strategy through a capital and business alliance with ADEKA Corporation”

**Q1 :** I would like you to explain the specific details of the business alliance agreement to as far as you can tell. In addition, each of the strengths of the company's technologies has been identified. What are the specific strengths of the company's technologies?

**Shirozume :** At this point, we have not yet decided about the details. After the TOB and TPA are concluded, we will organize a Business Alliance Promotion Team and determine the ways to strengthen our interaction with the specific content of the business alliance.

**Tomoi :** Nihon Nohyaku(here in after referred to as NNC) has earned profits through R&D on the synthesis of chemicals specializing in agrochemical and pharmaceuticals. ADEKA sells resin additives, electronic materials, and compounds such as liquid crystal materials. Although the chemical structure of each company's products differs, we share the same point that we synthesize organic compounds and commercialize them. By gathering researchers from both companies and exchanging opinions, we hope to find out what can be obtained from them and link them to new synthetic methods and new technological developments that have not been achieved yet.

**Q2:** Adding about ¥60 billion of NNC's sales, ADEKA will achieve its mid-term Management Plan target of ¥300 billion. I would like to know if ADEKA will review the mid-term Management Plan or not, referring NNC's growth, as well as what is expected to be a synergy between ADEKA and NNC.

**Shirozume :** We do not currently plan to revise our BEYOND 3000 medium-term management plan by 2020. In addition of NNC's sales, we exceeded ¥300 billion, however we will not review the mid-term Management Plan. Rather, we intend to achieve ¥300 billion in organic growth in the field of plastics additives, chemicals, and foodstuffs under our current medium-term management plan. In addition of NNC joining the ADEKA group, firm pillars of life science and agrochemical will stand in our portfolio. However, we intend to proceed with the steady commercialization of life science-related materials that are currently being developed. Whether or not firm collaboration can be seen as a result at this point depends on what kind

of exchange of opinions can be made in the research field. For example, in the case of ADEKA's chemical products, it is necessary to consider existing chemical substances first. We will continue our approach of creating new compounds, registering them as existing chemical substances, and making them one of the foundations for our sales activities. However, I feel that it is difficult to respond to such a situation in small quantities. If it is a compound that can make some profit even in small quantities, this approach would be appropriate. Otherwise, ADEKA had not actively added substances that are not conventional chemical substances to its product lineup. On the other hand, NNC has the spirit of drug discovery to create compounds that are not in the world. NNC has a very abundant database on how to guide new compounds using various synthetic routes. Therefore, I think that there is a great possibility that chemical structures that ADEKA does not have at present can be used immediately. I think this point is very important in terms of whether synergies can be realized immediately.

Tomoi : I also think that there are great synergies in the sharing of NNC's technologies and compound databases. However, in development pharmaceuticals and agrochemical, we need to conduct thorough safety studies, and it takes more than 10 years for us to obtain agrochemical registrations and make them available to the public. I think that synergies that lead to new technologies through joint research will take some time before they can be reflected in NNC's business as profits.

Q3 : Which proposed the business alliance? ADEKA or NNC? Why is this timing?

Shirozume : In July 2017, ADEKA proposed the alliance to NNC. Although it is difficult to explain why this is the current situation, it is true that how to commercialize the life science business in ADEKA was an extremely important issue. There have been many interesting materials and revolutionary merchandise, but I was just beginning to realize that ADEKA was immature, such as how to sell as a life science business or how to build platforms.

In formulating the BEYOND 3000 medium-term management plan, one of the major goal was to establish a solid business goal for life science, environment, and the energy field during this mid-term Management Plan. When we clearly recognized the issues and objectives of the ADEKA and decided which companies we should work together, we had NNC, which can deeply sympathise with. This was the process and the background to this implementation.

Q4 : Taking this alliance as a opportunity, will the life science business be further expanded through M&A?

Shirozume : In the Mid-term Management Plan, it does not specify priorities for M&A. With a three-year M&A budget of 50 billion yen, we decided to use part. Although I can't talk about specific issues at this stage, I believe that there is a possibility that if there is any relationship in the process of advancing various businesses, there will be a possibility that they will be implemented.

**Q5 : How will NNC compete as major global agrochemical companies merge?**

**Tomoi :** Major agrochemical companies around the world have sales of about ¥1 trillion, making it difficult for NNC to compete on a global scale. However, NNC has the fifth to sixth most efficient drug discovery probability in the past 20 years. We intend to further enhance and counter this. Yes, without a certain business scale, the amount of money spent on R&D investment is limited. NNC invests about 10% of sales in R&D, 10% of the sales of 60 billion yen is about 6 billion yen, if it is 120 billion yen, 12 billion yen can be invested in R&D, so we want to actively expand the scale. We intend to expand our business by effectively using the ¥10 billion growth fund acquired through this capital and business alliance.

**Q6 : Is there a possibility that ADEKA will continue to engage in M&A with other agrochemical manufacturers?**

**Shirozume :** This M&A does not mean that agrochemical will be our business framework. Since NNC was the main premise for consolidation this time, we have no intention of actively acquiring other agrochemical manufacturers at present. However, in the growth strategy of NNC, if there is a request for cooperation, I think that it is possible to take up the topic for discussion at that time.

**Q7: Are there any changes in NNC's growth strategy since NNC will obtain a large amount of fund?**

**Tomoi:** We invest considerably in R&D and aim to launch a new drug every three years.

Although we have made steady progress in recent years, we still have a number of new drug candidates in our pipeline.

If the current financial condition remains unchanged, it will be necessary to select and develop limited number of candidates. However, by acquiring funds for growth this time, there is a possibility we will develop new drug more aggressively and launch them at a faster pace than before. Therefore, we intend to make such efforts.

Then, we are, and will continue to, considerate further acquisitions of other companies in the sense of discontinuous growth of the company.

I can't talk about any specific details, but I believe that we can make effective use of this fund for such growth.

**Q8: Are you thinking about transferring businesses to each other to enhance synergies between ADEKA and NNC? Do you have any ideas about setting up a joint laboratory in view of advances in chemical technologies?**

**Shirozume:** I believe it is necessary to organize Business Alliance Promotion Team and fully discuss them. Since we and NNC have been actively exchanging technologies among different generations, I believe the foundation for business tie-ups has been established to a certain extent. I would like to entrust whether to create a platform to the committee that will be organized in the future, and to further deepen the discussion.

**Q9: Are there any synergies that can be expected other than R&D?**

Tomoi: I think there are synergies outside of research and development too.

For example, in manufacturing, NNC has synthetic techniques for agrochemical TGs and formulation techniques for TGs.

Formulation requires various techniques, such as pulverizing, mixing, solidifying and so on. ADEKA also recognizes that resins and other additives require technologies, such as pulverizing and formulating the drug substance.

In this sense, we have similar technology base, and we are looking to collaborate with each other to mutually utilize each other's production bases.

NNC's Indian and Brazilian subsidiaries could use NNC's pharmaceutical technologies for production of ADEKA's products, and conversely, ADEKA could produce NNC's products.

In addition, we believe that NNC's know-how in the pharmaceuticals field will help ADEKA develop their life sciences business, and we expect synergies in a variety of situations.

**Q10: R&D expenditure has been about 10% of sales. Is there a possibility of raising the percentage in the future? Did NNC suddenly need money because NNC has a plan to development drugs with large potential?**

Tomoi: We invest about 10% , recently about 12%, of sales in R&D.

The reason for the increase in R&D expenses is that it is expensive to development new drugs, and we have registered about 25 our own agrochemical in Japan, Europe, the United States and other countries, but due to the tightening regulations on agrochemical, maintenance of registrations itself costs a lot.

In addition, we promote R&D activities aiming to create a drug every three years, but it is also true that there are some potential pipeline drugs at present.

In the current situation, we can't invest more than "one drug every three years" pace, so I would like to utilize this fund for acceleration.

It is true this project will strengthen our financial base, and we would like to use it to invest more than ever before.

**Q11: In the formulation process of the Mid-term Management Plan of ADEKA, I suppose the story of this alliance, which began in July last year, has been included in the plan. However, why does the Mid-term Management Plan of life sciences business contain no agrochemical?**

Shirozume: I have known about this issue, but the people who formulated the Mid term Management Plan did not know it at all.

Therefore, Mid-term Management Plan "BEYOND 3000" announced in April, 2018 dose not include this alliance.

**Q12: ADEKA's current Mid-term Management Plan does not have any synergies with NNCs in the life sciences field, so can we expect the synergies with NNC will be a surplus above the plan?**

Shirozume: I hope so. Mid-term Management Plan does not expect NNC to become our consolidated subsidiary, and we have not include it in the numerical figures.

As an expression, the Mid-term term Management Plan included the concept of "cultivating life

science business into the next pillar". Please understand that this alliance agreement is for the acceleration of this concept.

Q13: NNC aims to be the world's top 10 with net sales of more than ¥200 billion. However, when NNC becomes ADEKA's subsidiary, are there any concerns that the restriction will increase on NNC own activity like M&A, and make them slow down?

Tomoi: It is difficult to create new drugs more efficiently, and we cannot reach our goal without expanding our business scale. ADEKA also understands this situation and NNC will continue to be listed and operate independently in order to develop markets more agile and capture more external value.

We have consulted with ADEKA as our major shareholder until now, and after 51 % share acquisition, we intend to continue consulting with them as before.

We are able to obtain growth funds for the purpose of expanding business scale, and we intend to use this to accelerate NNC's growth.

Rather than being unable to do so because of 51% share acquisition, ADEKA has agreed that we will take the lead in restructuring and expand the scale of our business.

If we fail to achieve our goals, NNC will not grow, and there will be no return on the investment made by ADEKA. Therefore, we are aiming at the same thing, and ADEKA will cooperate in NNC's future growth.

It is possible that ADEKA's capital structure may decline slightly in the future due to capital increases through mergers and acquisitions, but I am confident that ADEKA will continue to adhere to this framework and support NNC's growth. I think there is no concern.

Q14: If NNC would make additional M & A, will ADEKA maintain 51% stake in NNC? Will ADEKA invest in M&A?

Shirozume: It will be executed based on the agreement, but we intend to discuss on that premise.

Q15. I think the decision to invest ¥20.0 billion was made with a view of returns. How did you examine the consistency between the return of 51% share acquisition of NNC and the targets of operating income and ROE set in Mid term Management Plan?

Shirozume: Consideration of consistency is a somewhat difficult issue. However, as a result of this deal, we are estimating the projection of our financial position, operating income margin, and ROE as of FY 2020. This consideration was made on the assumption that both ADEKA's business and NNC's business proceeded as planned, the numerical figure will be like this in FY 2020.