

Condensed Transcript of Q&A Session at MGC's FY2022 1Q Results Briefing

Date/time: August 5, 2022 (Friday) 6:00-7:00pm (webcast)

Presenter:

Motoyasu Kitagawa, Director, Managing Executive Officer, responsible for Corporate Planning and in charge of CSR & IR Division

Q1: Regarding specialty chemicals, the progress in 1Q appears to be considerably higher than the company's revised forecast. What is your 2Q forecast? Also, what is your outlook for BT materials?

A1: We revised down our first-half and full-year forecasts for optical polymers. 1Q results showed very strong sales in April. However, sales were sluggish in May and June, possibly due to inventory buildup before the lockdown. If evened out, sales and profits increased from the 1Q of the previous fiscal year. There are some positive topics. Periscope-type lenses are becoming more popular, and many more lenses are being layered to achieve higher pixel counts. We expect this to be a tailwind for us, as our EP materials have both high refractive index and low birefringence.

Orders for BT materials were strong until April, as was the case with optical polymers, but began to slow slightly in May. We revised the outlook for BT materials downward slightly on a conservative basis for both the first half and the full year. However, the downward revision is not as large as that for optical polymers. General-purpose materials are down slightly from the previous year. On the other hand, sales of low warp materials and high-frequency materials, which are our forte, have not declined much. Even though the unit sales of smartphones themselves temporarily stagnate and become sluggish, we are still confident that the number of semiconductors installed in 5G smartphones will increase, due in part to the widespread use of AiPs.

Q2: Overall, you conservatively forecast demand of optical polymers and BT materials for smartphones and home appliances, but you are not too concerned about the high-end side?

A2: We think as you mentioned.

Q3: What is the background to the fact that the methanol market has weakened considerably against gasoline and ethylene? Are there any special factors? Also, you mentioned exchange rate earlier, is that about the exchange loss in Venezuela?

A3: The foreign exchange loss in your second question refers to the foreign exchange loss on the foreign currency borrowings of Japan Saudi Arabia Methanol.

Regarding the first question, methanol market conditions. First, from March to April, market prices soared in response to the global situation and other factors. Then, methanol for Europe was supplied from North America among others, and plants in Iran started to recover their operations, which has slightly eased the supply-demand balance. In addition, the weakening of demand in China due to the lockdown and other factors is assumed to have affected the market. The methanol market is influenced in part by crude oil and coal, but is basically determined by the supply-demand balance for methanol itself.

Q4: Do you see the Chinese market is somewhat fragmented, and the supply-demand balance has eased a bit due to the recovery of methanol production in Iran, but if the economy recovers to some extent in the second half of the year, methanol prices are likely to recover to the expected level?

A4: Regarding the reason for setting the market price at \$420/MT in the second half of the year as initially estimated, we assume that on the supply side, heating-related demand will remain strong for the winter season this year and that natural gas restrictions may occur in Iran or even China. On the demand side, a new MTO is scheduled to start up in China. We expect the supply-demand balance to tighten and the market to rise.

Q5: What is the background behind the increase in earnings of the (former) Specialty Chemicals segment from the 4Q to the 1Q?

A5: This is due to the depreciation of the yen and the fact that the supply-demand balance for polyacetal remained very tight and favorable. In addition, optical polymers have also been up and down a bit, but sales volume increased from 4Q to 1Q.

Q6: Regarding the polycarbonate business, was there any impact from the lockdown in Shanghai?

A6: In April and May, sales volume declined about 30% and returned to full operation in June. As for 1Q, factors such as the low-cost method and the change in the timing of a scheduled maintenance had a positive effect. In addition, the price of Bisphenol A has been calming down, and high value-added products were shipped on a priority basis, which also contributed positively to profit.

Q7: What is the outlook for engineering plastics in the 2Q and beyond?

A7: Polyacetal is performing well, but polycarbonate is still affected by the lockdown. Demand for polycarbonate is not rising and there are many local suppliers in China, so the supply-demand environment is still harsh. We will increase added value of our products and promote cost reductions, including variable cost improvements.

Q8: Regarding ICT-related semiconductors and smartphones, there seems to be a slight disconnect between the BT materials situation and the operation of semiconductor devices from the perspective of chemicals for use in semiconductor manufacturing. How do you perceive it?

A8: The three ICT-related businesses (chemicals for use in semiconductor manufacturing, BT materials, and optical polymers) each have their own characteristics, with different cycles.

Chemicals for use in semiconductor manufacturing are in demand throughout all types of semiconductors, especially demanded by strong manufacturers. In addition, it is not easily affected directly by the number of semiconductors produced or shipped. In other words, as long as factories are in operation to a certain degree, it can be said that the demand for the chemicals is relatively stable, since they are used like infrastructure and there is also demand for replacement.

On the other hand, for smartphone-related applications, we expect production for new models to ramp up in the second half of the year. As for BT materials, there is a lull in demand in the general-purpose area compared to last year, but the trend for smartphones, which I just mentioned, is one key point. We intend to expand our business mainly in the areas of low warp and high-frequency characteristics, where we have advantages.

Q9: You said that polyacetal sales were extremely strong in the 1Q and the supply-demand balance will remain tight in the second half of the year. What is the background behind MGC's strong performance, while other companies have seen a decrease in automobile-related sales? Also, raw material prices have been rising, but have you been able to pass on the cost?

A9: We assume that there was a regional difference between our main markets and those of other companies. Our main markets are South Korea and Southeast Asia, and the impact of the lockdown in China was rather minor. In addition, while the polyacetal market itself is still not very large, the two major manufacturers and MGC Group account for approximately 60% of the global market share, which is relatively stable. We have been able to maintain our stronghold in areas where we are strong, and we have also been able to pass on higher raw material and fuel prices amid a tight supply-demand balance.

Q10: The operating profit forecast for Specialty Chemicals by former segment has been revised upward from the forecast announced in May; which product area is the main reason for the revision?

A10: First of all, optical polymers are a major negative factor for Specialty Chemicals as a whole. On the other hand, strong performance of polyacetal and the depreciation of the yen are positive factors. We maintained our forecast for chemicals for use in semiconductor manufacturing.

Q11: Regarding BT materials, how do you expect sales for high-end smartphones to change from 1Q to 2Q?

A11: Sales for smartphones are in a severe situation this fiscal year, but we assume that the decline for high-end smartphones will be less than the decline for low-end and mid-range smartphones.

Q12: Please explain why you expect a significant increase in profits in Specialty Chemicals segment from the first half to the second half of the year.

A12: We have factored into our performance forecast an improvement in the profitability of the polycarbonate business in China and the difference due to the scheduled maintenance at Kashima Plant among others.

Q13: You are forecasting the methanol market price at \$380/MT in 2Q, which is a rapid return in two months against the current \$340-350/MT. Could you give us some background on this?

A13: Market conditions have bottomed out and are on a slight recovery trend. Our sales base in Shanghai is also on the road to recovery in general, and we believe that the Chinese economy is now at its bottom. The utilization rate of MTO and CTO plants also seems to be at more than 80%. Therefore, we expect that the methanol market in China will also recover.

(Note about this transcript)

This transcript was edited for clarity and brevity at the Company's discretion. Additionally, forward-looking statements, including plans and targets, contained herein, like those in the briefing's presentation materials, are judgments based on information in the Company's possession as of the briefing's date and certain assumptions deemed reasonable by the Company. Forward-looking statements involve uncertainty. Actual outcomes may differ substantially from such forward-looking statements as a result of various factors.