

## Condensed Transcript of Q&A Session at MGC's FY2022 2Q Results Briefing

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Presenter:

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**Q1:** What is the background behind the downward revision of the full-year forecast despite the strong 1H results? Please explain the background behind the production adjustment at MXDA and the downward revision of equity in earnings of Specialty Chemicals, as well as the outlook for semiconductor-related products.

**A1:** In 2H, we expect the recovery of semiconductor-related BT materials, electronics chemicals (EL), and optical materials to still be weak, and we slightly lowered our earnings forecast. Demand for MXDA has remained strong, but trouble occurred with a drive section of the manufacturing equipment in September. We needed to repair it outside the plant, but the repairs were completed, and production resumed at the end of October. Production of MXDA and its derivative 1,3-BAC will be reduced, and the impact of lower sales on profit is expected in 2H. Since production has already restarted, we will work to ensure that this will lead to sufficient production and sales volume.

Polycarbonate (PC) is facing difficult conditions worldwide. A significant drop in demand, especially in China, is disrupting the market, leading to lower volumes and lower prices. The price of raw material Bisphenol A is stable at a low level, but utilities are becoming expensive, which is a cost-increasing factor. Although price adjustments are being made, the current situation is that PC and resins handled by equity-method affiliates as a whole are not keeping pace with cost increases, which is the reason for the downward revision in 2H. We also expect a slight price adjustment in 2H for polyacetal (POM), which is performing well.

As for the semiconductor-related market, a change in the situation began to appear since past July of this year. We have sensed a change in the supply-demand balance, especially in the memory sector, and to date, we see that inventory adjustment is underway. With regard to BT materials, we see the current situation as the bottom and expect new demand to arise over the New Year holiday period, but it will be difficult to make up for the decline in 3Q with overall 2H sales. Although there is also a slowdown in EL, we think it is close to bottoming out and expect to see a variety of demand from January onward.

**Q2:** It is probably true that the semiconductor-related market has bottomed out, but is the company's forecast based on the assumption that weak demand will continue throughout 2H?

**A2:** BT materials are expected to gradually recover from January to March, as production of new smartphone models usually begins around the year-end and New Year holidays. As for EL, we expect various semiconductors to pick up amid the overall semiconductor production adjustment, and assume an upward trend toward spring.

**Q3:** Regarding Circular Carbon Methanol concept, I think that overseas expansion, such as to countries with natural resources, will be considered in the medium to long term, but is it too early to talk about it? Is it correct to assume that if the demonstration of this concept makes some progress, we will know that it will be implemented in the 2030s, as originally envisioned?

**A3:** As shown on page 25 of the presentation material, the production of circular carbon methanol itself has already been determined to some extent, and we are proceeding to scale this up to tens of thousands of tons, a hundred thousand tons, and a million tons. The project in Australia on page 26 is one that is being considered for implementation overseas. In addition, we are also considering the implementation

for our existing JVs in accordance with the policies of each country. We have received many inquiries about circular carbon methanol, which is not a fossil fuel, and would like to try to respond to them as much as possible. Feasibility studies (FS) are being conducted for potential projects while concluding NDAs and other agreements. We believe that the three cases shown in the document are also highly feasible. We announced Circular Carbon Methanol concept about a year ago with an eye toward 2030 and 2050, and we hope to accelerate the process.

**Q4:** Can I envision some large projects on a commercial scale by 2030? Are there any obstacles to scaling up to the 1-million-ton level?

**A4:** That is right. We do not see any significant technical obstacles to scaling up to the 1-million-ton level at this point. However, there are various uncertainties, such as social evaluation and a tax system, which will have a significant impact on the economics of the project. Therefore, we will proceed with the FS while carefully assessing the impact. Because of the diverse location conditions, some projects will be viable and some will not, especially in the early stages, but we would like to proceed with what we can do and make significant progress.

**Q5:** The exchange rate sensitivity is 0.6 billion yen for operating profit and 0.5 billion yen for ordinary profit. Is it correct to understand that this difference is the foreign exchange loss on dollar-denominated borrowings of the Saudi Arabian joint venture for methanol? If so, what is the impact on 1H and 2H?

**A5:** Exactly. Exchange loss of Japan Saudi Arabia Methanol Company (JSMC) was about 4.5 billion yen in 1H. Since the assumed exchange rate for 2H was 140 yen/\$ and the rate at the end of September was 144.81 yen/\$, we expect to make a foreign exchange gain, and a foreign exchange loss of about 3 billion yen for the full fiscal year.

**Q6:** Demand for optical lens materials, if divided it into 1H and 2H, will probably come back a little in 2H, but if divided it into 3Q and 4Q, what kind of trends do you expect to see? Also, is this due to the recovery of Chinese smartphones, or new projects such as periscope-type cameras and VR?

**A6:** We had thought that high-grade smartphones would sell well, but indeed there was less replacement demand than we had expected. Chinese smartphones also did not sell as well as anticipated, and performance in the first half of the year was not as good as expected. In 2H, we cannot foresee trends in Chinese smartphones well, but we feel that they will not be extremely good. As for the high-end, replacement demand is picking up partly, but it is not spreading to the entire market, and there will be no extreme changes over 3Q and 4Q. However, new model smartphones will be launched, which may affect the sales of the phones.

**Q7:** Will new applications such as periscope cameras and VR boost sales?

**A7:** While our products are being adopted more widely for periscope cameras and new applications, which may lead to increased sales, we think that it will take a little longer than this quarter to boost overall sales. We think this will contribute to sales not in the current fiscal year but beyond that. We believe that we must capture the demand not only in the smartphone market, but also in VR, AR, in-vehicle, and security cameras, which are expected to grow in the future. We will continue to develop high-refractive materials and use recycled materials as before. On the other hand, in new application fields, we will be competing with glass, so we want to further develop materials with heat resistance and other properties to capture new markets.

**Q8:** You mentioned that you expect EL volumes to weaken in 2H, but what are the characteristics of each region? Also, is the demand expected to be sufficient to meet the additional line in Oregon, which is scheduled to begin commercial operation in 2023?

**A8:** Although it is difficult to capture the characteristics of each region, we see semiconductor production adjustments currently taking place worldwide for memory/logic in general, except for some power semiconductors. Regarding the capacity expansion in North America, we are not sure if the timing of the

increase in supply and demand will match, but considering the trends in semiconductors and the importance of semiconductors in the U.S., it makes sense for us to strengthen our North American operations and we should definitely go for it.

**Q9:** I feel that the EL business is experiencing sluggish earnings growth due to rises in raw material and fuel prices and transportation costs, and that a huge investment will be required. in the medium to long term. While it is one of differentiating businesses and has a high market share, what steps are being taken to improve profitability and what is the outlook for profits?

**A9:** We have been troubled by the recent extreme rise in the freight rate, which has affected 1H results, and we expect some of the effects to remain in 2H and are factoring them into our forecasts. However, we are proceeding with the price revision with the understanding of our customers. Regarding large-scale investments, we believe that we must make various requests while positioning our products as important materials for semiconductors in North America or worldwide.

**Q10:** The PC business, including Shanghai PC, seems to be in a difficult situation, but what synergies do you expect from the consolidation of Mitsubishi Engineering-Plastics (MEP) in the next fiscal year? I would like to ask again about the positioning of the PC business as a whole.

**A10:** MEP will restart next fiscal year dedicated to PC business, and the main objective is to strengthen the competitiveness of PC under our initiative. Currently, there are multiple locations and grades, and since these have not been able to collaborate sufficiently, we will consider how we can reorganize them in the best mix to improve competitiveness.

**Q11:** Regarding POM, you said market conditions are expected to soften as the tight supply-demand balance eases in 2H. I recognize that market conditions are already down a bit, but what factors lead you to expect them to deteriorate further in the future?

**A11:** The POM market is not very large worldwide and, unlike PC, has a limited number of players. A major point of demand is that POM has distinctive properties and is often used in precision parts for automobiles and office automation. The tight balance is loosening and prices are falling slightly, but there are no plans to increase capacity until around 2024, and since POM is a very niche resin, we do not expect a major collapse in balance.

**Q12:** I would like to ask about progress toward the operating profit target of ¥70 billion for the next fiscal year, which is the final year of the current medium-term management plan. Despite the downward revision in the current fiscal year, I believe that the progress is not that bad because of extraordinary factors such as the implementation of large-scale scheduled maintenance and equipment trouble at MXDA.

**A12:** We assume that there are no major negative factors in the medium-term management plan at this time. Fundamentally, the semiconductor sector is strong, and we expect recovery in some other areas. For the next fiscal year and beyond, we would like to accelerate our growth strongly again.

(Note about this transcript)

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