

## Condensed Transcript of Q&A Session at MGC's FY2022 3Q Results Briefing

Date/time: February 9, 2023 (Thursday) 6:00-7:00 pm (webcast)

Presenter:

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**Q1:** Demand for optical polymers, BT materials, and other products for information appliances seems to be tough because the target industry is experiencing quite a difficult situation. What is your current outlook for the 3Q situation, the 4Q forecast, and the timing of recovery? Also, can we expect chemicals for semiconductors to remain steady?

**A1:** First, as for BT materials, demand for general-purpose applications did not return in 3Q, and there seemed to be a sudden brake on everything, including application processors, AiPs, and RF. We expect a slight recovery in 4Q as some products for high-end smartphones begin to show signs of emerging demand. For the next fiscal year, demand in 1Q will be still weak, and our guidance will probably be somewhat weighted toward 2H. The increasing ratio of 5G smartphones is a tailwind for BT materials, and we intend to capture market share in areas where we have not had a track record of adoption.

Optical polymers were significantly affected by sluggish smartphone sales. The shipments were relatively strong in 3Q due to the production period of new smartphone models and inventory buildup before the Chinese New Year. However, in reaction to that, January's performance was not so good, and we see 4Q sales to be slightly lower than 3Q. For the next fiscal year, we expect smartphone production to recover. In addition, the trend toward higher pixel counts itself will continue. We have heard that smartphone cameras are becoming high-resolution not only in high-end smartphones, but also in the mid-range. The percentage of our materials in all lenses per unit is also increasing. New adoption has begun for automotive and VR applications, which we are focusing on, and we would like to put our efforts into the ultra-high refraction area of lenses for eyeglasses as well.

Demand for chemicals for semiconductors varies by region, falling slightly in the U.S. and holding steady in Korea. We expect profit to increase from 3Q to 4Q, partly due to the effect of price revisions.

**Q2:** In engineering plastics, you explained that sales for polycarbonate (PC) is expected to be a little weak, but I think the effects of the reorganization of Mitsubishi Engineering-Plastics (MEP) and synergies will show up soon. Please comment on your strategy for the next fiscal year and beyond.

**A2:** With regard to PC, the Chinese base is struggling, and the management recognizes that this is one of the most important issues. The Thai base is also struggling this fiscal year due to the supply-demand imbalance, but there are signs of recovery. We hope to generate the benefits of the reorganization of MEP as planned in the future. Through this reorganization, MEP will become a company specializing in PC. We also took in 100% of polyacetal (POM) and made it a specialized business, allowing us to operate at our own discretion. We are willing to hand over our technology to them and let them use it to the fullest extent of their abilities. Sales were strong at both the Thai and Korean bases. By closing production at Yokkaichi in the near future and shifting that production to Thailand, we expect to have a stronger earnings base in Thailand.

**Q3:** Regarding PC, you mentioned that you are planning to negotiate with suppliers to improve the competitiveness of raw materials at your struggling Chinese base. Please let me know the progress on this. Is there any other way to improve the situation, or must you wait for demand to recover for a while?

**A3:** Although we have reviewed major raw materials such as Bisphenol A (BPA) and chlorine as planned, the expected effects have not been realized. In BPA, the spread between upstream feedstock and BPA became smaller, which did not produce the expected effect. The effect of the review on Chlorine has been offset by higher electricity and other utility costs. We are taking the steps required, but unfortunately, they have not yet led to an improvement in profit due to factors beyond our control. However, since we

cannot wait for market recovery and demand, we are considering other improvement measures. The competitiveness is inferior to that of our Thai and domestic plants. That said, we believe that demand in China will surely return as well. For example, EVs are spreading rapidly in China, partly due to its national policy, and the amount of high-transparency grade PC installed in vehicles is also increasing. We will work on the issues while grasping the demand.

**Q4:** Regarding VR/AR applications of optical polymers, there seems to be a slight increase in adoption. Is the added value for these applications considered to be about the same as for smartphone lenses, or will it be slightly lower than that?

**A4:** The scale of sales is currently two digits smaller than that for smartphones. In some cases, a different type of resin is used than that required for smartphones, so the selling price is also set slightly differently.

**Q5:** With regard to optical polymers, I believe that periscope lenses will be installed in smartphones in earnest in the next fiscal year. How do you feel about that? Also, with respect to eyeglass lens monomers, I think MGC products have a very high refractive index, but this characteristic seems a bit different from that of the sole domain of other top manufacturers. Are you going to address this with refractive index or other features?

**A5:** Adoption for periscope lenses has already begun, and we would like to seek actual results. Regarding eyeglass lens monomers, our products specialize in ultra-high refraction, and we recognize that we have a large market share in this area.

**Q6:** What is the scale and growth potential of sales of optical polymers for VR/AR in 2023 and beyond? Do you expect growth of optical polymers as a whole to be greater than the smartphone market in the next fiscal year on a sales basis? If smartphone production volume grows by 6%, for example, in the next fiscal year, do you envision that the growth of optical resin will exceed the 6% and reach 10% or so, due to higher pixel counts, expanded applications, etc.?

**A6:** We have high expectations, but at this point we cannot say for sure how much of this will be factored into the next fiscal year's forecast. The scale of sales is small compared to smartphones, so I would like to refrain from giving quantitative figures. We are aware of the need to expand applications and destinations, and we will take steady steps to address this issue.

**Q7:** Regarding POM, please tell us about market conditions, 2Q and 3Q results of the Thai and Korean subsidiaries, and your forecasts for 2H of the fiscal year and beyond.

**A7:** The market has peaked out, but we feel it is holding up surprisingly well. Qualitatively, we recognize that the key points are relatively diverse applications of our products in automotive, office automation, lifestyle-related, medical, and other fields, as well as the fact that our bases are dispersed and mutually complementary. In addition, the price of methanol, the raw material for POM, remained lower than the forecasted assumption, resulting in significant downward pressure on POM prices in 3Q. However, we were able to achieve a decent performance. Although the Korean base has begun to struggle a bit, its products are mainly for the automotive industry, and it has a firm grip on customers. We believe that we are also able to differentiate ourselves in technical services and that prices will not fall all at once. We think the major difference with PC is that we hear little about new installations on the supply side at this time.

**Q8:** Regarding inorganic chemicals, you mentioned that you expect to make progress in passing on higher raw materials, fuel and transportation costs to prices in 4Q. Was the price pass-through factored into your plan? Also, does the degree of acceptance vary by region?

**A8:** Although the effect of the price hike was conservatively factored into our plan, we were able to retroactively revise prices up to the elapsed months, resulting in an increase in profit this time. The price hikes have been accepted even in regions with weak demand, including the U.S.

**Q9:** Regarding BT materials, when do you expect applications other than smartphones, such as computers, home appliances, and memory devices, to bottom out and start recovering? You mentioned that demand for 1H of the next fiscal year will be slightly lower, but is there a risk of a drop?

**A9:** First, we think that the growth in demand for computers and home appliances was due to increased demand resulting from people staying home because of COVID-19. Inventory adjustments dragged on for a long time after that, and is finally coming to an end. However, the inventory has not yet reached the level of being built up, and only items are ordered as they run out. We see these conditions continuing up to 1Q FY2023, and our guidance for 1H of the year is weak. Demand for memory devices is also weak, and we are cautiously watching the trend. Recovery of demand for 5G base stations will also take some more time, and the level in 1Q FY2023 is not expected to change significantly from the current level.

**Q10:** I would like to ask about MXDA and aromatic aldehydes. You explained that although the failure in MXDA production equipment was resolved in October, 2H performance will be affected by this problem. Is the reason for the decrease in operating profit in 4Q compared to 3Q despite the absence of bad news in 4Q, because the impact of the scheduled maintenance at Mizushima plant and the Chinese New Year's holiday have been factored in your forecast? And also, are there any changes for the next fiscal year?

**A10:** The reason for the large decrease in profit from 1H to 2H is that MXDA and Aldehydes will require more than 1 billion yen for scheduled maintenance costs in 2H. In addition, a combination of bad factors, such as a decrease in marginal profit due to the failure at Mizushima plant in 3Q, as well as a decline in demand, are also affecting our performance.

In 4Q, operating profit is expected to be approximately 1 billion yen lower than in 3Q. Aldehydes are mainly used in fragrances and polypropylene transparency nucleating agents, and sales for fragrances are extremely strong. On the other hand, sales for polypropylene transparency nucleating agent are expected to recover in the next fiscal year, although sales will decline in 4Q due to time lag in shipments. In addition, because sales weighted toward 3Q, 3Q profit was higher than 2Q, but 4Q profit is expected to be lower than 3Q.

Sales for epoxy curing agents declined from 3Q due to the economic downturn in Europe and the U.S. in addition to the failure of production equipment for MXDA, but demand is expected to recover once the economy returns to normal. In MX-Nylon, demand for PET bottles in Europe and the U.S. was slightly affected by the economic downturn, but demand for films remains strong and is expected to grow.

**Q11:** I would like an update on the market conditions for methanol. Market conditions are reversing in China and Southeast Asia around the end of 2022 and January 2023. I think China's reopening will have a significant impact on those market conditions. With crude oil prices down a bit, isn't the energy-related demand environment weak?

**A11:** The market bottomed out in December, and market conditions are reversing, especially in China. The reason why we looked at 2H market price at \$390 on November 8, but are now looking at \$355 for 4Q is because weak demand outweighed the reduction in methanol plant operations due to the limited supply of natural gas in winter. The olefin market in China was weak and the MTO plant utilization rate was extremely low. We think that if the rate increases, market conditions will return a bit in January-March and the next fiscal year.

**Q12:** Is the operating status of each methanol production base normal? Also, I believe there are foreign exchange gains or losses in Saudi Arabia due to exchange rate fluctuations. Have you factored this into 3Q and 4Q forecasts?

**A12:** There has been no major change in operations, and all bases are performing well. There are no irregular problems. The foreign exchange impact on borrowings in Saudi Arabia has been somewhat disruptive. Our foreign exchange sensitivity is high, but a stronger yen offsets dollar-denominated borrowing in a positive way. The amount incorporated into the forecast is basically unchanged.

(Note about this transcript)

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