

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

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(Note about this transcript)

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**Q1:** Regarding the progress of the medium-term management plan, the presentation material shows that ROE for the current fiscal year, the third and final year of the plan, is expected to be 9%, achieving the target. On the other hand, ROIC is expected to be 6.4%, far below the target of 10%. Please explain the factors behind this and future efforts to reach 10%.

**A1:** Although we are taking various measures including investments, we are in a difficult situation profitably due to a larger and longer-than-expected decline in semiconductor-related demand since the latter half of last year. In the current fiscal year, while we are steadily advancing investments and loans, depreciation and interest-bearing debt have increased ahead of the results of these measures, causing the ROIC forecast to be low at 6.4%. In the medium to long term, we hope to improve ROIC by recouping these results.

**Q2:** Please explain your initiatives and the direction of specific measures for the next medium-term management plan.

**A2:** In 2H of the last fiscal year, we were affected by the downturn in the global economy and the semiconductor market, so we must further promote the "shift to a profit structure resilient to changes in the business environment" in the next medium-term management plan period. In addition to increasing investments and loans in differentiating businesses, we intend to proceed with business portfolio reforms by making decisions to withdraw from or restructure unprofitable businesses or those needing rebuilding.

**Q3:** I have very high hopes for Circular Carbon Methanol. In the next medium-term management plan period, can I see your contribution in a little more detail?

**A3:** Circular Carbon Methanol is attracting attention from various sectors, and we are receiving a variety of information from overseas customers, as well as proposals to work together with them. We would like to move forward with the project as soon as possible, but there are many issues to consider, including the scale, assumptions, and structure. We have to examine more closely this fiscal year to see if it will be able to contribute to earnings during the next medium-term management plan period. However, some small projects in Japan are in the process of materialization, and we believe that they will be realized in the near future.

**Q4:** I would like to ask you about your differentiation strategy for synthetic resins. What do you intend to do with the polycarbonate (PC) business in the current and the next medium-term management plan with the reorganization of Mitsubishi Engineering-Plastics (MEP)? I recognize that about half of MGC's PCs are high-grade differentiated products, but profitability at this point seems to be in an undesirable situation. And also, as for polyacetal (POM), is it correct to assume that trade conditions will worsen slightly in this fiscal year, but this simply means that the impact of the excessively high market prices will disappear, and afterwards ROIC will further increase due to higher value-added products?

**A4:** As a result of the reorganization, MEP will handle approximately 500,000 tons of PC worldwide annually. With the addition of PC derived from melt fusion method to PC derived from interfacial method, in which MGC has particular strength, MEP now handles a full lineup of major PC products. The role and goal of MEP and MGC is to enhance the overall strength, including manufacturing, quality, and sales strategies, as well as the R&D system that supports these strategies. With regard to strategy, we have suffered badly from the sluggish market conditions. Since about half of the products MEP handles are high value-added grades and half are not, we think that the major point is how to expand the product lineup and sales system, which are not impacted by market conditions.

The POM business was greatly affected by the extremely tight supply-demand balance and special demand related to COVID-19 in the previous fiscal year. Currently, there are some disturbing factors, such as the poor inventory clearance, rising raw material and fuel costs in Korea, and price reduction requests from Chinese manufacturers, but we believe that these factors will be resolved as the Chinese economy recovers. The challenge for the POM business after this restructuring is how to integrate the two brands, Lupital, which has been handled by MEP, and Kepital, which has been handled by Korea Engineering Plastics. As GPAC's mission, we intend to make these brands more value-added products speedily.

**Q5:** I understand that high value-added PC products are not so much affected by market conditions; is that correct? And as for POM, is it right to assume that compound-type products are less susceptible to market softening because they are based on long-term contracts, but are still affected by market conditions in the short term?

**A5:** High value-added products are less likely to fall in price, and the higher the ratio of such products, the greater the effect on earnings, especially when the main raw material prices are stable at low levels. Please consider that while POM has some compound-type products, there are others, and not all of them are strong.

**Q6:** The FY2023 forecast for optical materials and electronic materials (BT materials) is up compared to FY2022 results. On the other hand, according to the financial results of other companies, the recovery of downstream demand is highly uncertain, both for electronic materials and for smartphones, which are the downstream of optical materials. Is it possible for MGC to forecast this way because of increased market share and other reasons? Have you already received some inquiries from customers? Please give us a more detailed picture of the recovery.

**A6:** We think that the extremely weak performance of optical materials in 4Q of FY2022 was mainly due to a reaction to a modest volume of orders in 3Q of the same fiscal year and a backward shift in demand for new smartphone models. As for the overall trend of optical materials, last fiscal year's results were comparable to the level of the year before last, and we think this means that adoption and sales for high-end models are progressing steadily to some extent. In addition, demand for Chinese smartphones remains sluggish, but we expect the Chinese market to recover in the latter half of this year.

Regarding electronic materials, this business is currently having problems, especially for memory, with excess inventory and weak market conditions. With no progress related to data centers and no replacement demand for computers, sales of semiconductor materials for these applications are not good. On the other hand, we see demand emerging in so-called general-purpose applications. For general-purpose semiconductors, such as those for home appliance and automotive applications, it has been more than a year since demand began to slump, and inventories are being cleared, so we think they have begun to move closer to actual demand. Another point is semiconductors for smartphones. High-end models will be launched shortly, and we assume that demand for semiconductors will increase. We expect growth in general-purpose products and for smartphones.

**Q7:** Is it correct that electronic materials (BT materials) will also benefit from further application expansion?

**A7:** We think so

**Q8:** I think that ceramics are used for semiconductor substrates in automotive and other packaging-related applications, but I heard that they may be replaced by resin. Please let me know if resin packaging is feasible with MGC's BT and other materials.

**A8:** While we have high expectations, we are not yet able to analyze the trend. We would like to explain it in the future.

**Q9:** Regarding EL chemicals, what is the background and factor behind the expected increase in sales in FY2023, despite the not-so-good semiconductor market conditions?

**A9:** Our EL chemicals are not in an optimistic situation due to the poor operation of computer- and memory-related semiconductor plants. Meanwhile, new fabs will be built and begin operating in Japan and overseas this year and next through upfront investment, and will be used for start-up and test runs. Since increased demand for flashing is also expected, these factors are taken into account.

**Q10:** Are there ROIC targets by business sector for the Basic Chemicals and the Specialty Chemicals? Please let me know how that indicator has changed over the years and why.

**A10:** Company-wide ROIC is targeted at 10% or more in the current medium-term management plan, and although we internally monitor ROIC for each business management unit, ROIC by business sector is not disclosed at this time.

The Basic Chemicals Business Sector is in a phase of aggressive investment, and the investment in MXDA in Europe is expected to return as profit from July next year onward. Therefore, both assets and liabilities are heavy on the balance sheet, and ROIC has not reached its goal. Though we will not achieve our target until the next medium-term management plan period, we intend to increase sales as quickly as possible and aim for ROIC of 10% or more.

In the Specialty Chemicals Business Sector, because of the many business fields with different business operations, each has its own concept and approach to investment. The key point for synthetic resins is to increase earnings. EL chemicals and electronic materials related to semiconductors require upfront investment, but it is important to earn profits in line with the growth of semiconductors. While making investments, we will work to recoup them. For optical materials, we would like to generate earnings based on demand for smartphone camera lenses, which is currently the main application, while also capturing new application fields. Through these efforts, we intend to achieve ROIC of 10% or more.

**Q11:** Is the delay in profit structure reform of unprofitable businesses or those needing rebuilding one of the reasons why ROIC has not reached the target?

**A11:** We will work tirelessly to reform our portfolio with the aim of reducing the number of unprofitable businesses to almost zero over the four years from the current fiscal year, the final year of the current medium-term management plan period, to the next medium-term management plan period. We will have to make some decisions first especially on businesses with poor return on investment. We believe that is a very important issue when managing the company with an awareness of PBR and other indicators.

**Q12:** Even though MGC has a number of profitable and growing businesses, the PBR is far below 1x, which I find disappointing. Regarding the unprofitable businesses or those needing rebuilding, I feel that the explanations provided in the briefing materials alone has little impact. And also, there seems to be room for improvement in commodity products in aromatic chemicals, PC in Shanghai, MMA in Niigata, and the positioning of JSP. Will you undertake a drastic portfolio reform for the next medium-term management plan?

**A12:** We are aware of the issues you have just mentioned and are discussing various directions at the Board and other meetings. We think it is too early as of today to explain the direction of each individual

business, but we take seriously the fact that the business portfolio reform is halfway through the process. We would like to explain the directions once they have been decided.

**Q13:** How do you see the growth of optical materials this fiscal year? Please explain the adoption for periscope lenses in smartphones including Chinese ones, and the expansion of new applications such as VR/AR.

**A13:** We expect a certain level of growth in this fiscal year. With actual demand for high-end smartphones becoming solid, and additionally the adoption for Chinese smartphones, we think we have entered a stage where we can increase sales volume. The number of periscope lenses is increasing, but it has not yet reached the point where it will boost the overall market, and we will keep a close eye on how it grows. As for the development of new applications, we intend to capture the growth in demand, particularly for automotive applications, and will focus on how we can develop new materials in the future. It is true that inquiries about VR/AR are increasing, but at this point we have just entered the phase where we can casually use and enjoy VR/AR, and feel that it is still far from its peak.

**Q14:** How do you envision the demand for electronic materials (BT materials) to increase? Also, there was a news release about capacity expansion in Thailand. Can I expect growth in demand not only for FC-CSP but also for FC-BGA?

**A14:** Demand for BT materials is weak in the April-June period following the January-March period, and unfortunately, we do not expect significant growth this fiscal year. Demand is expected to gradually recover around the July-September period, and positive factors such as a boost in sales of general-purpose products and the launch of smartphones will become apparent from 2H of the fiscal year.

Regarding the capacity expansion in Thailand, we believe that the capacity should be increased even if we consider the supply volume to the existing market because semiconductors are expected to grow almost certainly in the medium term. In addition, we are working on new areas such as FC-BGA, and have established a JV with a Taiwanese company. We would like to think about expanding the scope of our business while taking advantage of these opportunities.

**Q15:** I would like to know about the utilization of melt fusion method for polycarbonate (PC), including application development.

**A15:** There are various melt fusion methods, some of which have cost advantages. Since these methods can also be applied to optical materials, we intend to make effective use of them while examining the performance difference from interfacial method in the future.