

## Condensed Transcript of Q&A Session at MGC's FY2023 1Q Results Briefing

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Presenter:

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(Note about this transcript)

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**Q1:** What cost reduction measures are you implementing in the face of overall sluggish sales and volume growth? Also, are you affected by changes in terms of trade such as raw material costs?

**A1:** With sales volume declining significantly and margins hard to be secured, cost reduction is absolutely necessary. For example, PC sheet film business is facing a very difficult situation, and we are working to reduce costs, including optimization of the manufacturing system. We have also been making efforts to reduce variable costs for PC raw materials at Shanghai since last year. JSP has been struggling to make margins, but with sales prices finally revised and raw material and fuel prices coming down, the revised full-year forecast exceeded the previous forecast. I cannot explain everything here, but please consider that there are several measures that we are working on individually.

**Q2:** 2H forecast for consolidated operating profit of 32.0 billion yen remains unchanged from the initial plan, but the forecast for Basic Chemicals such as Natural Gas Chemicals and Aromatic Chemicals has been revised downward, while the forecast for Specialty Chemicals and Information and Advanced Materials has been revised upward slightly. Please explain the background behind the change from the initial 2H forecast.

**A2:** For Natural Gas Chemicals, we revised down the operating profit forecast from the previous forecast, as demand for methylamines, NPG, MMA, and other products is expected to be severe and market conditions sluggish. Aromatic Chemicals and Specialty Chemicals are expected to remain in line with the previous forecast, with no particular change in outlook. The forecast for BT materials, one of the Information and Advanced Materials, has been revised upward slightly, as sales for memory devices and other applications are expected to recover in earnest. As a result, we expect 2H results to be on par with our previous forecast.

**Q3:** Is the increase in the operating profit forecast for Specialty Chemicals by about 1.0 billion yen due to the positive impact of foreign exchange sensitivity? As for Information and Advanced Materials, do you expect the slightly lower shipments of BT materials in 1H to be offset in 2H?

**A3:** Sensitivities are not disclosed by business segment. The slight upturn in Specialty Chemicals is mainly due to a shift in profit from 1H to 2H at Mitsubishi Engineering-Plastics (MEP) in the PC business. No change is expected for the full year.

**Q4:** With regard to Information and Advanced Materials, is inventory adjustment almost complete for back-end products? Earlier you mentioned the recovery of demand in memory devices. Is there demand for HBM3 for data servers? Please explain the situation for each application.

**A4:** BT materials include general-purpose materials, low-thermal-expansion materials, and high-frequency materials, and are divided into materials for memory devices such as 5G smartphones and data centers, as well as for AiPs and laptops. Demand bottomed out in 4Q of the previous fiscal year, and recovered steadily in 1Q, including general-purpose materials and low-thermal-expansion materials, and

this is why we have revised our outlook for 2H as shown. Demand for use in memory devices has been sluggish for a long time for servers and computers in general, but is expected to recover in 3Q, leading to slight upward revisions of 2Q and 2H forecasts.

**Q5:** What factors are expected to contribute to the recovery in 2H, for example, a recovery in demand for servers, which had been sluggish, expansion into new applications, increased demand related to FC-BGA, or taking market share away from competitors? Please give us your feeling on the recovery in 2H and your outlook based on orders received.

**A5:** We recognize that our high-frequency materials have become the de facto standard, and the sales are expected to grow steadily once the high-end brand is launched. We look forward to the return of demand for low-thermal-expansion materials in a wide range of applications such as smartphones and data center memory devices. We have factored into our forecast that inventory adjustment of products for laptops will settle down and demand will recover. Furthermore, sales of OPE for motherboards have increased. We have been promising OPE for years as a material for data centers and base stations, which require high speed and low latency, and are looking forward to future growth as sales have increased.

**Q6:** Is it correct to recognize that BT materials and ABF are not in competition with each other, but are growing together?

**A6:** As you recognize, they are growing together rather than competing, and the affinity for each other is important.

**Q7:** Profit of Specialty Chemicals fell sharply from the previous 4Q to 1Q. How do you expect them to perform through 2H? In particular, I think the gap between 1H and 2H is large, so please explain the prospects and the reasons separately by PC, POM, and optical materials.

**A7:** We expect to increase profits in Specialty Chemicals overall, including PC, POM, EL chemicals, and optical materials in 2H, compared to 1H. On the operating profit basis, we expect engineering plastics and optical materials to improve more than inorganic chemicals. Although profit from POM will fall sharply in 1H, we expect it to recover in 2H. Optical materials profit growth is largely due to an expected increase in shipments for new smartphone models. We are continuing to cut costs, but do not have any particular plans for business restructuring or other measures that would contribute significantly to profit growth.

**Q8:** What applications led to the improvement in sales of BT materials in 1Q from the previous 4Q? Also, what are the major factors behind the expected increase in sales from 1Q to 2Q and from 1H to 2H?

**A8:** Sales of general-purpose materials bottomed out in the previous 4Q and recovered considerably in 1Q. 2Q sales are expected to grow further, and we expect a slightly larger sales volume in 2H after inventory adjustments are completed. In addition, we saw an improvement in sales of low-thermal-expansion materials from the previous 4Q to 1Q. We expect sales for these applications to continue to increase steadily and to grow even more significantly in 2H.

**Q9:** Are there any new demand areas for BT materials, such as China?

**A9:** There has been no change from the past.

**Q10:** With the consolidation of Mitsubishi Engineering-Plastics (MEP), it is difficult to see whether the inventory is increasing. Please comment on the contribution of MEP and the actual status of the balance sheet.

**A10:** The increase in sales and purchases on the balance sheet and statement of income is mainly due to MEP consolidation, not excess inventory.

**Q11:** With regard to BT materials, do you see that your customers' inventories have reached an appropriate level? Is the unit sales price being maintained?

**A11:** We see that our customers' inventory adjustments are making considerable progress. We have been able to maintain the unit sales price.

**Q12:** Are competitors in the POM business increasingly attacking at lower prices?

**A12:** Although demand has been very weak, causing the market price to decline and local Chinese manufacturers to show strength, we think that the impact will be limited, and we will be able to secure a certain level of profit.

**Q13:** Please explain the trends by location with regard to the expected recovery in demand of EL chemicals in 2H and beyond.

**A13:** In 1Q, this business was affected by poor operating conditions at a major North American customer. Compared to the start of the year, the utilization ratio is on an upward trend, but we have not yet seen a full-fledged recovery. A Korean customer also continued to reduce production, but this had been factored into our forecast from the beginning of this fiscal year. The recovery of operating conditions at a Taiwanese customer was also stagnant. In 2H, we expect EL chemicals sales volume to pick up due to the recovery of the semiconductor market in general.

**Q14:** Is demand from a North American customer still weak in 2Q? Also, when will memory inventory adjustments by a Korean customer settle down?

**A14:** Although we have not heard very good forecast from a North American customer, we expect EL chemicals sales to increase in 2H along with the recovery of the semiconductor market as a whole. Sales to a Korean customer are also expected to recover in 2H. In addition, we look forward to the demand from the Korean customer as a foundry manufacturer.