Condensed Transcript of Q&A Session at MGC's FY2024 3Q Results Briefing

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Presenter:

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(Note about this transcript)

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Q1: Can you tell us about the status of your semiconductor-related products, EL chemicals and BT materials in 3Q and 4Q? You commented that recovery for EL chemicals has been slow. Can you tell us how the company is currently doing in global markets? You noted that in BT materials, costs have increased in association with customer service measures implemented by subsidiaries. Is this temporary? Or have earnings declined for other structural reasons? And what are your views on the OPE™ business environment in 3Q, 4Q, and next fiscal year?

A1: Let me start with an overview of our semiconductor-related businesses. While sales of OPE™ and certain types of EL chemicals such as hybrid chemicals are benefiting from demand related to AI, other products fell short of the previous forecasts. Sales of products such as super-pure hydrogen peroxide remain largely unchanged from the last fiscal year, and while we see them having bottomed out overall, the recovery in demand is slow and varies by region. Demand for BT materials is centered on mobile applications such as smartphones. Efforts to address AI-related demand for BT materials remain a topic for the future. The rising costs of BT materials are due to efforts to strengthen quality. Yields are worsening and costs increasing due to efforts to enhance customer service in response to problems in that area. We expect the situation to resolve gradually in the next fiscal year. Increasing demand for AI servers has led to steady growth in the OPE™ business. We expect year-on-year growth of several ten percent on a profit basis. Results in 4Q have been robust, as they were in 3Q, and applications are expanding to include various fields such as ASIC and switches in addition to the existing field of motherboards. Next fiscal year, we plan to continue steadily developing our supply structures to meet customer demand.

Q2: Since EL chemicals are used generally as chemicals for semiconductor manufacturing, my understanding is that while AI-related demand for EL chemicals was strong, the recovery in other demand was slow, which led to the forecast revised downward. Is that correct? Also, do you expect a recovery in FY2025?

A2: The chemicals used in wafer cleaning, such as super-pure hydrogen peroxide and super-pure aqueous ammonia, which we refer to as straight chemicals, were affected by lower sales to North American customers, something we have significant exposure to, and by failing to capture sufficient market share from the competition in sales to a dominant customer in Taiwan. At the same time, favorable performance of our South Korean plant in chemicals for highly functional memory devices helped make up for revenue shortfalls at other plants, which we expect will continue in the next fiscal year.

Q3: Do you expect favorable results from the South Korean plant to continue to drive results in the next fiscal year?

A3: Yes. We expect results for highly functional memory devices and other applications to remain strong next fiscal year. However, for other applications, the conditions in South Korea are similar to those in other regions—in fact sales volumes for super-pure hydrogen peroxide in South Korea has been below expectations.

Q4: How were (Companywide) 3Q results compared to 2Q? Can you go over the extraordinary factors in 3Q, if there were any?

A4: I'll respond to your question for each of the former segments. First, earnings in the Natural Gas Chemicals segment were down sharply from 2Q to 3Q. But as noted earlier, this was due in large part to differences in regular maintenance (maintenance expenses), which account for more than one-half of the QoQ difference. In the energy resources and environmental businesses, which had the second-largest QoQ difference, while business conditions themselves were robust, including those of the iodine business, 3Q results reflect a reaction to the concentration of sales of non-iodine products in the first half. Earnings were up in the Aromatic Chemicals segment due to increased sales of aromatic aldehydes and MXDA. The spread also improved for purified isophthalic acid (PIA), a general-purpose chemical. Earnings were down in the Specialty Chemicals segment because fixed costs and other expenses were concentrated in 3Q, mainly for engineering plastics and EL chemicals. In the Information & Advanced Materials segment, earnings were down due to weak growth in sales of BT materials and higher costs associated with efforts to strengthen quality, as described earlier. Taken together, these factors resulted in lower operating profit in 3Q than 2Q, which to some degree was the result expected.

Q5: Are 3Q results generally in line with your internal plans? Also, are there any regular maintenance or other factors that could be expected to lead to major differences from 3Q to 4Q?

A5: Final results for 3Q reflect weaker semiconductor-related sales, although costs were largely as expected. We expect earnings to decline somewhat from 3Q to 4Q. As touched on in the overview, we plan to undertake regular maintenance at the Mizushima Plant in the Aromatic Chemicals segment, while fixed costs are rising for polycarbonates in the Specialty Chemicals segment.

Q6: Can you give us some background for the need for action in response to customer quality issues in BT materials? You noted that their cause had already been identified, but what kind of impact do you expect these issues to have from 3Q to 4Q?

A6: I'm compelled to avoid specifics because these matters involve other parties. However, we've already identified the phenomenon and its cause. Since some of the affected products have made it into customer processes, we recorded a compensation-related loss in connection with the recalls. Countermeasures are underway, and these have generated costs due mainly to the increased workload involving inspection processes. Around one-third of the decrease from previous forecasts in the Information & Advanced Materials segment was due to higher costs associated with these matters. This incident has not led to any problems with continuing orders, and we expect the increased costs associated with quality enhancement measures to gradually resolve. Also, since we believe demand has already bottomed out, we expect sales to increase next fiscal year. That should cover the higher costs.

Q7: You noted that while sales of electronics materials (BT materials, OPE™) are projected to increase from 3Q to 4Q, OPE™ sales would remain largely unchanged QoQ. Am I correct in seeing the QoQ growth in sales of BT materials to mean an overall recovery in demand is already becoming apparent?

A7: Yes, that's correct. We expect OPE™ sales to be largely unchanged QoQ, while sales of BT materials, which we expect to continue recovering in 4Q, should drive growth in sales and profit. However, since they are not as strong as projected in November, we expect results to be down slightly from those forecasts.

Q8: Do you expect to achieve the figures of the latest forecasts if output of BT materials increases, despite higher costs related to inspection processes and other areas?

A8: Yes, we do. General-purpose products are recovering. We expect demand for the major product line of low thermal expansion materials to grow for several reasons, including an apparent recovery in memory devices and the production of spring smartphone models in South Korea and China. Sales for FC-BGA use

are also trending up thanks to robust demand for laptops and other devices. While challenging conditions persist for high-frequency materials for AiP use, we expect those conditions to be offset by positive trends in the three fields mentioned just now, resulting in overall growth.

Q9: Can you tell us how results for engineering plastics and optical materials changed from 2Q to 3Q and give your projections for 4Q? You noted that while optical materials results were robust for applications like smartphone cameras, they have tended to peak in 3Q in the past. I believe the 3Q trend in the industry is for a decline in North American smartphones while Chinese smartphones remain relatively stable. How were your businesses trending? Additionally, can you touch on matters related to engineering plastics, including the situation at the Shanghai plant that manufactures products for automotive and other applications?

A9: Earnings for engineering plastics and optical materials were down from 2Q to 3Q. For optical materials, the decline in earnings was small, even though fixed costs increased. A key factor here is the polycarbonate (PC) business, which was affected by regular maintenance and other factors at its Thailand plant. Regarding forecasts for 4Q, while sales for optical materials were down somewhat in January due to advance orders owing to Chinese new year holidays and other factors, they have been robust since February for reasons such as preparations for new models coming out in spring. We expect sales volumes to remain more or less unchanged from 3Q. We should be able to maintain robust performance and high market shares in the next fiscal year. In the PC business, earnings are growing thanks to the smooth combination of sales and cost-cutting actions at the Shanghai plant. We expect 4Q earnings to remain largely unchanged or down from 3Q based on the decrease from strong 3Q sales and the effects of the lower of cost or market valuation accounting method. We project higher earnings at the Thailand plant due to a rebound from the regular maintenance in 3Q and higher sales volume. On the other hand, we realize that the sheet film business will be an issue in the next fiscal year and beyond, since sales have not improved from previous forecasts despite progress according to plan on cost cutting efforts. The performance of the polyacetals (POM) business was ahead of previous forecasts, thanks to favorable sales for office equipment use in 3Q. We do not expect significant change from 3Q to 4Q.

Q10: Regarding Inorganic Chemicals, I believe thoroughly recovering investments made in the past and those currently underway during the period of the current Medium-term Management Plan is one pillar of that plan. The progress of this business clearly appears to be delayed in this fiscal year. How will you overcome this situation?

A10: As you point out, while the numerical targets in the Medium-term Management Plan reflect the understanding that EL chemicals are a leading driver of earnings growth, the delays in the progress of individual projects cannot be denied. Since new fab construction and fab expansion by customers are delayed

in general, we believe it is vital to supplement sales growth under Medium-term Management Plan targets prepared in large part in line with fab startups by customers. We plan to reach our targets while revising the sales portfolio and price strategies through means such as growing sales targeting new semiconductor plants in Japan and enhancing efforts targeting advanced semiconductor plants in Taiwan.

Q11: Have any of your businesses been affected by rising PMI in American manufacturing as exports are being implemented ahead of schedule not just for state-of-the-art products, but for legacy products like refrigerator parts in preparation for Trump's tariffs?

A11: Although certain sources indicate increasing cargo movements in China, we have at this point not felt any impact for specific products.

Q12: Products like LCD TVs, EVs, and smartphones appear to be supported by subsidies in China. Do you think these are driving up performance in this fiscal year? Do you expect these subsidies to continue contributing to improvements in the next fiscal year? Are there any other products performing well due to Chinese subsidies?

A12: While regular reports from dealers in China do include such cases, we don't believe that those subsidies are having a major positive impact on our business results or causing any disruptions in performance.

Q13: Is it possible that the widespread adoption of AI smartphones in China could lead to larger chip sizes? Generally, chips with NPUs are about 1.2 times larger than others. I would think that this might have positive effects on BT materials and other products. Are there any specific trends in that direction at this time?

A13: We believe that there should be both direct and indirect effects if any, but we have no specific quantitative information to discuss at this time. If devices like smartphones and computers equipped with AI spur demand for new models among consumers, then products like BT materials, which are well suited for mobile applications, probably would benefit.

Q14: Looking at just 3Q, what were the conditions for optical polymers? Did inventories build up due to the effects of China's subsidies and other factors?

A14: Performance of optical polymers was better than forecast due to factors including continued improvements in smartphone resolution and functionality, the fact that our materials are the de facto standard in low-end and middle-end models centered on emerging markets, and growth in applications such as laptops and security cameras.

Q15: Have there been any notable movements in sensors and other applications for optical polymers?

A15: While there are no major movements at present, of course our business continues in existing areas such as automotive applications. I believe we will have an opportunity to brief you on this topic in the future.

Q16: You said that OPE™ was growing for ASIC as well as GPU applications. What trends do you foresee? Also, in your package-related businesses, do you see any potential for photoelectric fusion, perhaps sometime in the future?

A16: While motherboards remain the main application, we welcome emerging trends for diversification into ASIC, switches, and other fields. We're also working daily to develop new materials as we target photoelectric fusion, not just for OPE™ but for BT materials. We encourage you to look forward to progress in this field from a long-term perspective.