

Condensed Transcript of Q&A Session at MGC's FY2025 3Q Results Briefing

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Presenter:

Motoyasu Kitagawa, Director, Senior Executive Officer, in charge of Finance & Accounting Division and CSR & IR Division

(Note about this transcript)

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Q1: Your previous forecasts called for a reactional decline in sales of BT materials in the second half, but the performance of BT materials in 3Q was positive. What factors led to this difference? Also, can you give us your thoughts on increasing product prices and when you expect to see the results of these price increases? In addition, what are your expectations regarding future cost increases associated with strengthened quality management measures?

A1: The previous forecasts were cautious about second-half sales due to the reactional decline in anticipated demand observed in the first half and restrictions on procurement of raw materials. Ultimately, sales in the third quarter exceeded the results in the second quarter. These products had, for the most part, found applications related to FC-CSP use and were expected to be relatively unaffected by AI-related demand. Contrary to our assumption, sales are trending favorable thanks in part to AI demand. Regarding price increases, we are trying to maintain stable margins by reflecting the rising cost of raw materials in our product pricing. Since prices for raw materials continue to rise, we will consider additional price hikes as necessary. Taking various factors into account, including the outstanding balance of orders received, we expect price hikes to produce results from the next fiscal year and beyond. The outlook for costs associated with stronger quality control has brightened somewhat. We expect these costs to trend down.

Q2: What applications do the new products target?

A2: We're targeting super-low thermal expansion applications, including AI-related and FC-BGA uses. We also have very high expectations for these new products as materials capable of providing solutions to supply shortages of glass cloth.

Q3: Operating profit in the former specialty chemicals segment was flat in 3Q and 4Q. What are the profit/loss trends in each business?

A3: While we expect profits to fall in areas like inorganic chemicals and polycarbonate, we expect profits to grow in areas like POM and optical materials. While POM market conditions remain challenging, we expect the quality advantages offered by our products to lead to greater sales volumes in 4Q. We expect sales of optical materials to increase compared to the results in the third quarter based on reports of positive demand for end uses in January.

Q4: You mentioned demand for BT materials is growing for applications related to AI servers. What specifically are these applications? I think the use of T-glass substitutes and launching the new plant in Thailand, for example, may present opportunities to grow your market share. Can you provide a medium-term perspective on these factors? What are your actual plant utilization rates in Japan and Thailand since the capacity expansion at the Thailand plant?

A4: CSP demand is growing across a broad range of AI-related fields, including memory and PMIC. We've also begun selling products using T glass substitutes in response to supply shortage of the material. We plan to assess glass cloth from multiple sources before proposing our products to customers. We will draw on the Thailand plant, which has come online at the perfect time, to meet the recent boom in demand. While we can't disclose the utilization rate for either plant, the utilization rates are increasing.

Q5: Do you have a sense of the demand for the new products in the GPU/ASIC application market?

A5: We expect our new products to be used for GPU/ASIC applications. Sales were limited this fiscal year, but we expect solid growth in volumes next fiscal year.

Q6: Customer demand for EL chemicals appears to be in a recovery trend for both memory and logic applications. Can you tell us about your expectations for demand trends and profit/loss for EL chemicals from 4Q through the following fiscal year?

A6: Sales remain positive for memory use in Korea. Capacity utilization rates are also growing for a major customer in North America. Overall, demand is recovering. We expect this trend to continue into the next fiscal year and beyond. On the other hand, demand continues to differ by region and facility, and we're taking the steps needed to address facilities where issues have emerged. With regard to profit and loss, while depreciation has grown with capacity expansion, we're trying to improve profitability by cutting costs, and we expect these efforts to have their intended effects.

Q7: Can you provide updates on the major products in the MXDA business and the status of the MXDA plant in Europe?

A7: There has been no change in the status of the MXDA Plant in Europe since our previous announcement. It's reached the final stage, and we plan to make our next decision in the not too distant future. While sales are recovering in the MXDA business, demand in Europe remains low. Demand for the derivative 1,3-BAC is weak in the China market, resulting in ongoing challenging business conditions. Performance has been good for aromatic aldehydes.

Q8: For BT materials, adoption of products using glass cloth substitutes appears to have risen very quickly. Can you explain why?

A8: Customers are keenly aware of material shortages and are proceeding with the certification work accordingly. We, too, plan to take an aggressive approach by proposing alternative products using glass cloth substitutes along with the sale of conventional products.

Q9: Can you tell us about the most recent conditions in the PC business and progress on measures to improve the earnings of that business?

A9: The PC business is affected by a slowdown in market conditions, but it's won recognition for its advantages in the high-value-added domain. As competition in that area continues to grow, to improve profitability we're proceeding with discussions of the structural reforms announced at the Management Overview Presentation in June of last year. The PC business itself remains an important part of our business portfolio. In addition to reducing production capacity, consolidating and discontinuing product lines, and streamlining the sales structure, we plan to rapidly strengthen the R&D structure to create high-performance products for Chinese EVs.

Q10: You see a strong trend toward use of OPE™ in AI servers. Am I right?

A10: Sales for AI server use showed steady growth in 3Q, which is in line with plans. The business has grown significantly even compared to the previous fiscal year, but we see broadening both the customer base and applications as even more important than the growth rate.

Q11: Is it possible that OPE™ will lose its advantage vs. the competitors? Can you tell us about the medium- to long-term outlook and your thoughts on capacity enhancements?

A11: We plan to meet demand growth without fail by enhancing supply structures for existing grades. We expect the requirements for low dielectric resin properties to further advance over the medium to long term. Accordingly, we're proceeding to develop new materials that make use of different resin compositions and formulas.

Q12: The downturn in the POM market appears to have created challenging conditions. What factors explain your solid performance?

A12: We've been able to secure certain profit levels by keeping fuel and raw material costs down, but conditions remain challenging. We need to leverage our quality advantage to shift toward high-value-added products.

Q13: Will the supply shortage of glass cloth continue to impact BT materials next fiscal year?

A13: We can't say anything about the possibility of meeting the future demand growth; the matter does not depend on us alone. Meanwhile, our customers have told us they plan to accelerate certification for glass cloth

substitutes. While I am unable to give you a specific time at which the impact will be resolved, the future looks brighter than before.

Q14: With regard to shareholder returns, I understand you have no plans to engage in share buybacks this fiscal year since you forecast a net loss. But what about next fiscal year? Also, is your target total payout ratio of 50% to be understood as a single-year ratio or the average for the three-year period of the medium-term management plan?

A14: I want to emphasize that the total payout ratio is basically the average over the period of the medium-term management plan, since the ratio can fluctuate widely from year to year due to share buybacks and the amounts of these buybacks. Our investment policies as a whole seek to keep the D/E ratio within the target range. Even if the D/E ratio remains within the target range, we plan to take a flexible approach to considering shareholder returns, taking into account all relevant matters, including share price and PBR conditions.

Q15: I've heard about a possible future cut in the production of smartphones in response to rising memory costs. Your optical polymers currently account for a high share of the smartphone market. How will this affect your business?

A15: We, too, are concerned about this memory cost trend. We believe it could lead to rising smartphone prices and lower production volumes. Even so, we plan to achieve revenue growth over this fiscal year through improving the product mix by continuously introducing new grades that offer high added value.

Q16: What factors explain the recording of an impairment loss at the China plant and the ceased production at the Yokkaichi Plant in the hydrogen peroxide business? Will these measures improve future earnings?

A16: The China plant is a subsidiary that produces hydrogen peroxide other than super-pure hydrogen peroxide, for applications ranging from general industrial use to super-pure hydrogen peroxide. The reason for the impairment loss is the inability to achieve a more advanced product mix; the plant was unable to increase the proportions of high-value-added hydrogen peroxide grades for semiconductor cleaning. Improvements are already underway as we strive to improve earnings for the next fiscal year and beyond. At the Yokkaichi Plant, we chose to cease operations for several reasons, including falling demand for general industrial use and the obsolescence of the equipment there. We're pursuing production facility optimization to shift toward hydrogen peroxide for semiconductor cleaning. We expect that to contribute to earnings in various ways, including lower maintenance costs. I will address this greater detail at a future opportunity.