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

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Presenters:

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(Note about this transcript)

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Q1: What assumptions about the ICT3 businesses underlie the FY2026 forecasts?

A1: With regard to BT materials, we've made steady progress on the strength of the positive factors described in the 3Q results presentation, and we expect strong sales to continue from FY2025. We expect strong growth in EL chemicals (the chemicals for use in semiconductor manufacturing), although we also expect conditions to vary from region to region. Decreasing depreciation at plants in Taiwan and China is contributing to higher earnings. Additionally, we project strong sales for optical polymers. Despite the risks associated with the downturn in the smartphone market, we expect the impact to be limited, given our strengths in high-end models. However, we do expect earnings to decline due to factors such as depreciation once the new lens monomer plant comes online.

Q2: What growth do you project this fiscal year after considering the effects of price increases on BT materials?

A2: Net sales in FY2025 reached record highs, driven by a higher-than-market growth rate. For AI servers, in addition to CSP substrates, we expect adoption of BGA substrates for GPU use. We expect the effects of price increases to be felt mainly from the second half.

Q3: The sales forecasts for the former Information and Advanced Materials segment appear to be on the conservative side given trends at other companies, such as copper foil and glass cloth manufacturers. What assumptions are you making for these forecasts?

A3: These forecasts account for the results of multifaceted initiatives in areas including use for new applications and securing raw materials.

Q4: You previously indicated sales for BGA substrates would grow about tenfold in FY2026. Has anything changed?
A4: As we said before, sales for BGA substrates are projected to grow about tenfold year on year. But since sales for CSP substrates account for a higher percentage than BGA substrates, even a tenfold increase in sales for BGA substrates would only have a minor effect on overall sales.

Q5: Use for AI-related applications appears to have broadened last fiscal year with sales growing for memory for use in AI servicers, for example. Roughly what portion of last fiscal year's sales results was AI related?
A5: We haven't identified the precise percentage, but we plan to steadily increase sales for AI servers based on forecasts for continuing AI-related growth. A look at recent percentages of end uses shows upward trends in sales for PC and server uses, although sales for smartphone use have declined.

Q6: Regarding costs other than raw materials, how do your forecasts reflect the cost increases at the Thailand BT materials plant and lower depreciation from the recording of impairment losses last fiscal year in EL chemicals, MXDA, and other businesses?
A6: We project a year-on-year increase of 2.8 billion yen in depreciation Groupwide. We would prefer to refrain from providing specific amounts for individual businesses, but we do expect higher earnings for BT materials even with rising depreciation at the Thailand plant. Regarding depreciation for EL chemicals, although we expect an increase accompanying the startup of new equipment at a North American plant, we project a decline after accounting for the impairment loss recorded last fiscal year. Similarly, we expect a decline due to the recording of an impairment loss last fiscal year for the PC business. In addition, although the Netherlands MXDA plant had not yet started operating and will have no effect on depreciation, its discontinued construction is expected to reduce pre-startup costs by several hundred million yen.

Q7: Regarding the Impact of Middle East Situation given on page 3, what is the status of operations and profit or loss at the Saudi Arabia methanol plant? Can you give the background to the recording of impairment losses again at the Trinidad and Tobago plant (CGCL)?
A7: Unfortunately, shipments are restricted at the Saudi Arabia plant, which continues to operate at low levels to meet domestic Saudi demand. Operations may be suspended entirely if the situation persists over the long term. We understand investors' concerns about CGCL and its another round of impairment losses. In contrast to other plants, low prices in its main markets of Europe and the Americas, the spread between gas costs and selling prices, and the high burden of depreciation, interest, and other costs, since it began operating only recently, significantly affected CGCL. Equity in the earnings of affiliates this fiscal year is expected to improve sharply from last fiscal year, due mainly to the elimination of impairment at CGCL and rising methanol prices. Incidentally, our forecasts assume that the Saudi Arabia plant will resume normal operation in June.

Q8: Why is the increase in sales of the Information and Advanced Materials segment projected to be a mere 11% compared to the previous fiscal year in the second half, even after incorporating the effects of price hikes?
A8: Despite booming demand for BT materials, centered on low thermal expansion materials, recent restrictions on raw materials procurement remain unresolved and continue to impact sales. Although orders received for general-purpose products have declined slightly, we plan to grow sales by introducing new products for GPU use and through other measures. We expect steady OPE growth to continue.

Q9: The assumptions underlying your BT materials forecasts appear conservative. Could you confirm that there are no issues on the supply side?
A9: There are no concerns on the supply side. The startup of the Thailand plant is proceeding as planned. Given current market conditions, we regard the expansion of capacity at the Thailand plant to be very well-timed.

Q10: The growth in BT materials seems slow. Do your forecasts incorporate lower demand for existing applications, like smartphones?
A10: Demand is projected to fall for general-purpose applications, including home appliances, automotive use, and general PC use. For other applications, we’re accounting for factors like the potential slowdown in smartphone sales due to high memory prices.

Q11: What are your assumptions concerning extraordinary profit and extraordinary losses in the new fiscal year? Would it be correct to consider the recording of major impairment losses and extraordinary losses to have been mostly completed in FY2025?
A11: The forecasts don’t incorporate any major extraordinary losses. But there is a risk that we could record contract penalty payments related to the MXDA plant in the Netherlands. We had originally intended to record those losses in FY2025; now we expect to record them in FY2026 or later, since we are still carefully reviewing the figures. We can’t give an accurate monetary scale at this time, but we expect it to be considerable. However, as noted on page 4, we also expect tax effects associated with the liquidation of the company, which will offset these losses to a considerable degree when we finalize their effect on profit and loss.