Questions from the Internet Briefing for Institutional Investors and Analysts on Mitsui Chemicals Group's Consolidated Financial Results for 1st Quarter of Fiscal 2023

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Reference	Results for 1st Quarter of FY2023 & Outlook for FY2023

Q&A

■Life & Healthcare Solutions

Q1. Please explain the sales trend in the Life & Healthcare Solutions segment.

A1. The year-on-year sales volume decrease in Q1 was primarily due to a reduction in sales from inventory level adjustments by some customers in vision care, while the remaining decrease was from reduced demand for nonwovens. Regarding the customer inventory adjustments in vision care, we recognize that end-user demand remains firm. We expect the impact of the inventory adjustments to wind down in Q2 and to be resolved thereafter. As for nonwovens, while demand is currently in decline, we expect sales to increase from the previous year, owing in part to the effects from the establishment of a joint venture, in which Mitsui Chemicals has a majority stake, in H2. We expect sales growth in oral care to be on par with the market growth rate. As for agrochemicals, we expect sales to remain firm, due especially to the fact that the agrochemicals we registered in overseas markets in recent years do not compete with generic products. From Q1 to Q2, we expect an increase in sales volume owing to the demand season for agrochemicals overseas and the winding down of the customer inventory adjustments in vision care. We also expect sales to remain firm in each business in H2.

Q2. Please explain the reason why you did not include the customer inventory adjustments for vision care in the previous forecast.

A2. We were not able to incorporate the impact of customer inventory reductions as end-user demand remained firm.

Q3. Please explain the background behind the improvement in fixed costs and others in Life & Healthcare Solutions compared to the previous forecast.

A3. In light of the year-on-year decrease in operating income before special items in Q1, we reexamined our expenses and have incorporated reductions in fixed costs and others in the current forecast.

■Mobility Solutions

Q4. Please explain the background behind the improvement in terms of trade in Mobility Solutions compared to the previous forecast.

A4. In our previous forecast, we had assumed that naphtha and other raw material prices would remain flat, but we now expect to see a benefit from time-lag effects of sales price formula due to the decline in raw material prices in H1 of FY2023 and an impact from depreciation of the yen. In our previous forecast, we had also expected the terms of trade to deteriorate due to the removal of gains from time-lag effects of sales price formula in PP compounds that were generated in FY2022. However, because there were also gains from time-lag effects of sales price formula realized in Q1 FY2023 due to the decline in raw material prices, we expect the terms of trade to improve in the current forecast. As for TAFMER™ too, the terms of trade improved as we worked to maintain selling prices amid declining raw material prices in Q1.

Q5. Please explain the forecast for the sales volume of PP compounds in Mobility Solutions.

A5. Overall, sales have increased from FY2022 as automobile production has increased. In North America, sales have remained firm in Q1 and into Q2. In H2, we expect a decrease in sales from H1 due to rising interest rates. In China, too, the market as a whole is improving, but we expect sales to decrease year on year due to the impact of reduced Japanese OEM production.

Q6. Please explain the background behind your forecast that fixed costs will increase in H2 FY2023 compared to H2 FY2022 in the Mobility Solutions segment.

A6. Labor costs are expected to increase due to higher unit labor costs in response to inflation in Europe and the United States, and an increase in headcount in the solutions business against a backdrop of an increase in orders received for prototyping projects and development products.

■ICT Solutions

Q7. Please explain the background behind the increased operating income before special items from Q4 FY2022 (January to March) to Q1 FY2023 (April to June) in the ICT Solutions segment.

A7. Sales decreased for semiconductor-related products due to a decrease in demand caused by seasonality in China in Q4, and fixed costs increased because levies such as property tax are recorded as a lump sum in Q4 under IFRS accounting standards. In Q1, smartphone-related sales remained flat as demand continued to decline. However, semiconductor-related sales have improved as the impact of seasonality has diminished. There was also an improvement in the terms of trade due to depreciation of the yen and dropping prices of raw materials for coating & engineering materials.

Q8. Please explain the background behind the increased operating income before special items from Q1 FY2023 (April to June) to Q2 FY2023 (July to September) in the ICT Solutions segment.

A8. We expect an increase in sales volume based on the assumption that demand will gradually recover. For APEL™ in particular, we expect sales to expand for extended reality (XR) applications in Q2 and beyond. As for pellicle sales, we expect an increase for both EUV and DUV types. For DUV in particular, we are expecting a positive impact from the acquisition of the pellicle business in July. Regarding ICROS™ Tape, we have been receiving reports that orders are bouncing back from some customers in China. In addition, we see that the cycle of inventory level adjustments began early in the field of semiconductor back-end process compared to other semiconductor processes, so we expect a gradual improvement starting from Q2.

Q9. In light of the Q2 FY2023 forecast and the impact of seasonality in Q4 FY2022, it seems that the prospects are grim for achieving the H2 forecast of 17 billion yen in operating income before special items in ICT Solutions. What is the background behind your forecast that operating income before special items will increase from H1?

A9. We expect semiconductor-related demand to recover starting in H2, so we have incorporated an improvement in the sales volume. Whereas we do not expect smartphone-related sales to improve, we expect sales of APEL™ for XR applications to expand from H1 to H2, albeit at a slower pace than that in our previous forecast.

Q10. Regarding pellicle trends, please explain the effect of the business acquisition and the status of market penetration of your EUV pellicle products with 90% EUV transmittance.

A10. The DUV pellicles we gained through the business acquisition are mainly for flat-panel displays (FPDs). As such, the size of each pellicle is larger and the unit selling price is higher than those of LSI pellicles. Therefore, while we do not expect a large increase in terms of sales volume, we do expect to double sales revenue compared to FY2022. For EUV pellicles, marketing activities are underway to achieve the initial forecast of doubling sales compared to FY2022. Currently, the biggest seller is our products with 88% EUV transmittance, but going forward, we expect our products with 90% EUV transmittance to drive sales expansion.

■Basic & Green Materials

Q11. Please explain the background behind the increased operating income before special items from Q4 FY2022 (January to March) to Q1 FY2023 (April to June) in the Basic & Green Materials segment.

A11. In Q4 of FY2022, we cut our cracker operating rate below the domestic average rate and reduced inventories due to a drop in demand. This resulted in deteriorated production yields. In addition, fixed costs increased due primarily to higher inventory fixed costs, the fact that levies such as property tax are recorded as a lump sum in Q4 under IFRS accounting standards, and increased maintenance and repair expenses. In Q1 of FY2023, operating income before special items increased. This was because production yields improved as the operating rate, while at a low level, improved from Q4; fixed costs such as inventory fixed costs, levies such as property tax, and maintenance and repair expenses decreased; and the loss from transfer of shares of our phenols subsidiary was eliminated.

Q12. Can you provide a detailed explanation of the market conditions and cracker operating rates in the Basic & Green Materials segment?

A12. In Q1, the cracker operating rate was around 80%. Due in part to mechanical issues, we expect it to be around 70% in Q2. In H2, we expect it to be in the upper 80% range. As for market conditions, they have been declining for both phenol and bisphenol A due to the deterioration of the supply and demand environment. Our sales for the domestic market are unaffected because prices are determined based on sales price formulas. However, equity in earnings from our joint venture in China is expected to decrease compared to the previous forecast due to the impact of the market decline.

Q13. Please explain the mechanical issues and their impact on profits in the Basic & Green Materials segment.

A13. Ethylene cracker operations had been suspended since mid-July due to mechanical issues, but operations were resumed today. We estimate the loss generated by these cracker issues to be around 5 billion yen.

Q14. In the Basic & Green Materials segment, you have been implementing various structural reforms over the years to achieve reduced volatility, but from Q4 FY2022 (January to March) to Q2 FY2023 (July to September), you will have recorded three consecutive quarters of operating losses, which indicates high volatility. Please explain your current understanding of the issues to be resolved.

A14. While we have been communicating that we can stably generate operating income before special items of 20 to 40 billion yen in Basic & Green Materials, the segment is currently affected by a decline in sales volume due to weak demand. In H2, we expect operating income before special items of 16 billion yen, based on an expected recovery in sales volume against the backdrop of recovering demand. We believe we can achieve the level of operating income before special items mentioned earlier should sales volume improve; however, the profit level may stay at the H1 level if demand does not recover. In light of this, we recognize that we must proceed with the next phase of structural reforms to reduce volatility, following the first-phase reforms we have implemented thus far.

■Group-wide

Q15. Please explain the background behind the revision of net cash used in financing activities from 23 billion yen in the previous forecast to 8 billion yen.

A15. We revised our interest-bearing liabilities against the backdrop of Q1 results and the downward revision of our FY2023 outlook.