Q&A Summary for CEO Presentation in May 2024

Date	May 29, 2024　15:00-16:30
Place	Hybrid conference (Tokyo Midtown Yaesu and online)
Speakers and Respondents	HASHIMOTO Osamu, President & CEO YOSHINO Tadashi, Senior Managing Executive Officer & CTO NAKAJIMA Hajime, Senior Managing Executive Officer & CFO
Reference	FY24-1 CEO Presentation posted on May 29, 2024

Q&A

■Life & Healthcare Solutions

Q1. Please explain the progress in the expansion of your oral care business in the U.S. market. Please also explain how you plan to improve Kulzer's profitability, as it has not achieved significant results in terms of profitability despite the increase in sales it has shown since you acquired it.

A1. In the last CEO Presentation, we explained that we needed to consider M&As and alliances as a means to improve our position in the U.S. market, given that the U.S. is a large and highly profitable market in the dental material business. We are currently considering specific M&A and alliance deals, but we have not yet reached the point to execute them due to price issues as well as other issues in the negotiation process. Concerning Kulzer, since the acquisition in 2013, we have conducted various measures and Kulzer is now able to generate a certain level of profit, but the profit has not yet reached the level we initially expected. We will strengthen our oral care business by improving its capital efficiency through pursuit of synergies between affiliates, consolidation of products, cost reductions, and other measures. On top of this, we intend to improve our position in the U.S. market through M&As and alliances. Through these efforts, we aim to grow our oral care business into the third pillar of the Life & Healthcare Solutions segment.

■ICT Solutions

Q2. With regard to the ICT Solutions segment, your sales revenue increased in the period from FY2021 to FY2023, but both your operating income before special items and profit margin declined despite the positive effects from the launch of EUV pellicles, the acquisition of DUV pellicles business, and others. I consider these declines are due to increased fixed costs for APEL™ and the insufficient level of yield of pellicles. Please explain how you plan to improve the profit margin to 15% or higher as expected by the market, particularly on how you plan to recover the profitability of APEL™ and improve the contribution margin ratio of EUV pellicles. In addition, please also explain once again in what way you aim to achieve your FY2030 target of 70 billion yen in operating income before special items.

A2. In the ICT Solutions segment, we are currently experiencing a decline also in ROIC, and this is mainly due to struggling sales of APEL™. XR market is not seeing a growth as initially expected, and our new plant launched recently has remained in low operation. In addition, the recovery of smartphone demand has been slow, so the demand for lens applications has also been sluggish. In order to overcome this situation, we will strengthen our marketing to harness future market growth for XR applications and to meet the demand for smartphone-related applications, which is gradually recovering. Moreover, we are considering expanding APEL™ into new fields in addition to XR applications, and how we can generate profit from them will also be important for recovering its profitability. In the past, we have also experienced difficulties when the operating rates of plants continued low for a while; however, we then successfully raised them to full capacity by developing new applications of our products. While we initially faced difficulties with EUV pellicles as well because their yields did not increase as expected, we have been able to secure profits as the yields have gradually improved. Furthermore, we expect the sales of EUV pellicles to expand by around 50% in FY2024, compared to the previous year. One of the reasons why ROIC has declined in the ICT Solutions segment is an increase in investments including M&As, so it is important to steadily recoup such investments. In order to achieve the FY2030 target, we will implement our investment in SHINKO ELECTRIC INDUSTRIES and help expand their semiconductor products, thereby accelerating the development of our own next-generation semiconductor materials.

Since we consider that the ICT Solutions segment's areas of business are still not sufficient and need further expansion, we will continue actively investing in this segment and steadily recouping the investments to achieve further growth.

Q3. I think that the momentum of EUV pellicles demand growth in the second half of FY2023 will continue. Please tell us whether the growth in demand will be supported mainly by either logic semiconductors, such as GPUs, or DRAM, such as HBM. Please also explain the status of customer inquiries regarding CNT pellicles.

A3. We see that there is an overall increase in the needs for EUV pellicles. As for CNT pellicles, we have already received inquiries from customers, so we issued a news release on May 28 announcing our decision to set up production facilities for CNT pellicles in order to speed up their development. It is important for us to provide products in a timely manner in collaboration with ASML and IMEC to meet the needs of our customers, so we are working to accelerate the commercialization of CNT pellicles.

■Basic & Green Materials (B&GM)

Q4. Regarding the status of the restructuring, you have made various announcements on restructuring measures that can be implemented by Mitsui Chemicals alone as well as moves toward business reorganization in collaboration with other companies. Please explain if you can achieve the operating income before special items target of 40 billion yen, which you initially aimed to meet by around FY2025, by conducting all of these measures.

A4. We are proceeding with restructuring starting with measures that we can implement alone, and are currently in the process of closely examining the financial impact of the measures we have already determined to implement and those we can proceed on our own. Since we are still examining their impact, these are not the precise numbers, but we believe that we can achieve around 20 billion yen of operating income before special items, which is an additional 16 billion yen to the 4 billion yen we expect to achieve in FY2024. It will be difficult for us to achieve 40 billion yen only with our own restructuring efforts, so what is important is how much additional impact we can add through collaborations with other companies currently under consideration. As we are currently studying various options for such collaborations, the projected impact may vary depending on the scheme we adopt; however, we will closely look into whether we can approach the profit levels of 30 or 40 billion yen by incorporating the impact of these collaborations.

Q5. Please explain what you refer to by strong derivatives that should remain as your products even after the restructuring. In particular, please explain whether high-performance PP clearly has high added value, and has competitive strengths over imported products even if they enter the Japanese market.

A5. We are still in the process of selecting derivatives that should remain as our products. Our approach in this process is based on the following three axes. The first one is that they should be products with features that make a significant contribution to our customers and with competitive strengths over overseas products. The second one is that they should be products that are required in industries which are important as a social infrastructure or for economic security, such as the automotive and semiconductor industries. The third one is that they should be capital efficient products. We will narrow down strong derivatives based on these ideas, and identify the production capacity of crackers, which are located upstream in chemical complexes, that are required for the production of these derivatives, thereby promoting the optimization of chemical complexes. As for high-performance PP, with the launch of the new plant, which enables better control of molecules compared to our conventional plants, we will be able to produce competitive products with excellent recyclability, which we also expect to be competitive down the road. In addition, we also believe that our cost competitiveness, such as efficient production and maintenance, will increase by switching from production at older, smaller multiple plants to production at new plants through scrap and build. Furthermore, we are considering many options including collaborations with other companies, and we believe that we can boost our competitive strengths by implementing a combination of these various measures.

Q6. As for the industrial complex in the Chiba area, you are jointly considering reducing one cracker, and if this is realized, I think it will lead to reduction in GHG emissions and higher added value to your downstream business. On the other hand, for the Osaka area, since there is no surplus cracker capacity in the Setouchi region where you are considering to collaborate, reducing crackers is not likely to be an option, so I assume a shift to green chemicals through ammonia-fueled crackers and other methods will be pursued. Please explain how you will take premiums and secure profit against the cost increase due to the use of ammonia-fueled crackers and other methods, and how you plan to secure profit in the green chemicals business in Basic & Green Materials as you explained in the Pursuing Business Portfolio Transformation portion of the presentation. In particular, please explain whether there is no problem in adopting ammonia-fueled crackers or other methods even though you have been feeding bio-based hydrocarbons into your crackers and selling derivatives through the mass balance approach with seemingly low profitability.

A6. We are jointly studying the details of the consolidation of crackers within the framework of the limited liability partnership (LLP) with Idemitsu Kosan. In addition, we are also considering various options for the collaboration with Sumitomo Chemical and Maruzen Petrochemical. In the Chiba area, since multiple crackers are connected by pipelines, it is relatively easier to generate synergies in this area. In the Osaka area, on the other hand, there is a distance between the Osaka complex and the Mizushima complex, a facility run by Asahi Kasei and Mitsubishi Chemical with which we are considering collaboration, so it is not easy to generate synergies compared to the Chiba area. However, through our study, we have identified various possibilities of synergies such as those related to tanks and chartered vessels as well as crackers. As we do not expect that demand for derivatives will continue at current levels and the companies involved are exploring various options in view of future derivative demand, we believe that synergies could be further expanded. Moreover, we may also expand the scope of our collaboration beyond the three companies (i.e., Asahi Kasei, Mitsubishi Chemical, and Mitsui Chemicals) depending on future circumstances. However, if too many parties are involved from the initial stage, it will become difficult to reach a conclusion, so our idea is that we will first set a direction among the three companies and then consider expanding the scope of our collaboration as the next step. We are currently discussing the matter in a speedy manner and would like to present some direction by the end of FY2024. We believe that we can identify various synergies by examining plant capacity and other factors in view of how the demand environment will change in the future from the current state.

Regarding the competitive strengths of our green chemicals business, we have been marketing our derivatives produced from bio-based hydrocarbons using the mass balance approach, and we recognize that it is easier for customers to accept the cost increase arising from the use of bio-based raw materials in sectors such as cosmetics, where the gross profit margin is high and customers' price tolerance is high, because it improves their image in their marketing strategy. In contrast, we are aware that it is still difficult to raise the price for the added value in sectors where customers' price tolerance is low, which constitute a large market for plastics. However, it is necessary for us to move the situation forward in these sectors in order to promote recycling. To this end, we believe that we need to advance our efforts in combination with social mechanisms and policies such as GX (Green Transformation), carbon credits, and carbon tax, which are being promoted by the Japanese government. We will prepare ourselves so that we can capitalize on these initiatives such as GX that the government is actively advancing now and add premiums to our green chemical products, while working to minimize our costs.

Q7. I think collaborations with other companies will be important in the second phase of the restructuring. In particular, if you pursue collaborative projects with other companies that include derivatives, the discussion regarding the ownership stake will likely be complicated. In addition, each company's ownership stake will affect not their only profit and loss statements and balance sheets but also the disclosure of GHG emissions data. Please explain your thoughts on the ownership stake when collaborating other companies and your approach to determining your ownership stake.

A7. We should be able to measure the financial impact once the collaboration scheme is determined, but we believe the key discussion points will be the scheme of the collaboration as well as the contribution of capital and assets by each party. With regard to the scheme, there are contract-based schemes such as purchasing rights, in addition to entities such as LLP and joint venture (JV), so we are still in the process of examining various options. We will proceed with our efforts while continuing to cooperate with the related authorities so as to avoid issues related to the Antimonopoly Act of Japan. While it is conceivable to reduce our ownership stake to deconsolidate the entity, there are collaborative projects that have failed due to the lack of a leading party, so we need to first clarify which company will take the lead in each project. As for our approach to determining our ownership stake, we will consider various factors in determining it.

Q8. As for the joint study on the shutdown of the cracker operated by the LLP in the Chiba area, I assume you plan to shut it down by FY2027 when the regular maintenance is scheduled. Please explain whether there is any possibility of bringing that plan forward.

A8. We are eyeing FY2027, when the major regular maintenance for the cracker is planned, as the timing to close the cracker run by the LLP with Idemitsu Kosan. However, as it is located in the Chiba complex where the cracker is connected to a large number of derivatives, we do not intend to bring the plan forward, and the deadline of FY2027 is tight to prepare for the closure.

We are working to move individual items ahead of schedule so as to not delay the planned shutdown in FY2027.

Q9. With regard to the reorganization of crackers, you mentioned that you are jointly considering to close Idemitsu Kosan's facility and consolidate production at your facility, but wouldn't it be better to shut down your facility, given that you should reduce your own fixed costs in the Basic & Green Materials business? Taking also into consideration the perspective of improving the operating ratio of crackers in Japan, I think that the option of shutting down your facility (with a production capacity of 550,000 tons) instead of Idemitsu Kosan's facility (with a production capacity of 370,000 tons) may have been better. Please explain what you think about this point.

A9. We would like to answer your question on the premise that the closure of Idemitsu Kosan's facility is not the final decision, but rather a direction in our joint study. As the performance of a chemical complex is determined not only by crackers, but also by a combination of crackers and derivatives, one needs to consider which facility should be closed by taking derivatives into consideration as well, and in our judgment at this point, it is reasonable to consolidate Idemitsu Kosan's facility into Mitsui Chemicals' one. We will work out the details including this point, and even if we are to shut down Idemitsu Kosan's cracker as we currently assume, we do not consider that would be the end of the reorganization. Future demand is on a declining trend. As the population shrinks and recycling technology advances in the future, the production volume of virgin plastics will also decline, so we do not believe that our conclusion will be shutting down only one cracker will be sufficient. In the Chiba area, we believe that it will be best to eventually include Idemitsu Kosan in the collaboration that we are currently mulling over with Sumitomo Chemical and Maruzen Petrochemical, and proceed with consideration of the optimization among the four companies while coordinating with the relevant authorities. In addition, as for the reorganization, we need to consider the optimization not of crackers alone, but in combination with derivatives so that we can achieve the shift to green chemicals, economic security, and profitability for the chemical complex as a whole, while bearing in mind the timeline.

Q10. The average operating ratio of domestic crackers reflects not only the production of items for the domestic market but also that of unprofitable items including exports, and if you are to increase capital efficiency, I think you will have to reduce the capacity of crackers more than it appears. Please explain your approach to capacity reduction, i.e., whether you will reduce the capacity in a way that increases domestic competitiveness, or whether you will reduce the capacity from facilities that are easier to close when considering downstream production. Please also explain how you will share the benefits expected from the reorganization with other companies.

A10. Our approach is based on the idea that only competitive derivatives will survive market competition. So, the key is to first identify which derivatives are competitive, and then to design the upstream part of our chain that suits those competitive derivatives. At the same time, we must also consider the shift to green chemicals when designing the upstream part. With the shift to green chemicals in the upstream, derivatives will also be green chemicals, so we must consider our production chain in an integrated manner from the upstream to the downstream. As such, we plan to design chemical complexes as a whole in cooperation with the Japanese government's initiatives for implementing GX and carbon neutrality measures in society. We believe that if a reorganization of crackers does not bring about competitive derivatives, it will not strengthen the competitiveness of the chemical complex, nor will it help to strengthen Japan's industrial capabilities. It is important first to determine the direction of reorganization swiftly; if we start discussing the distribution of expected benefits at this stage, we think we may not be able to reach an agreement.

■Group-wide

Q11. As for your initiatives to increase corporate value, you have previously set ROE targets of 10% or more for both FY2025 and FY2030, but is it correct to understand that you will also raise your target regarding ROE levels for FY2025 this time? In addition, you have also mentioned that you plan to promote an asset-light structure to improve capital efficiency and accelerate business portfolio transformation, but going asset-light alone does not lead to the enhancement of ROE, so is it correct to understand that you will strengthen shareholder returns?

A11. It is important to eventually strengthen our shareholder returns, but the first thing we should do is to secure resources, and in order to do so, we need to first become a cash-rich company by promoting an asset-light structure and thereby improve our capital efficiency. Especially for the Basic & Green Materials segment, we can also reduce maintenance costs through the downsizing of facilities in the course of our restructuring, so we need to examine its impact as well. In addition, it is also important to generate cash by increasing the added value of our Basic & Green Materials business. The above applies not only to the Basic & Green Materials segment, but also to the ICT Solutions segment and the Life & Healthcare Solutions segment in which capital efficiency is declining, and we are now working out the details on how we should work on improving capital efficiency in these segments. Moreover, from a Group-wide perspective, we consider we should promote further reduction of our cross-shareholdings. We will proceed with the above measures, and work out how we will increase the ROE level in view of their expected impact. We would like to explain this at the CEO Presentation to be held in November 2024. As our ROE itself has already actually reached the level of around 10%, we will deliberate on the appropriate level of our ROE target and then announce it, and we believe this would provide a basis for the discussion on how we should strengthen shareholder returns.

Q12. You have set the target of 1.8 trillion yen in growth investments in VISION 2030. Since the announcement of the target, however, the yen has been depreciating and the business environment has been drastically changing. Please explain whether there is no change in your thoughts on your investment plan under such circumstances.

A12. In VISION 2030, we initially set our targets of 900 billion yen each for strategic investments and internal growth investments. In our perception, we have not made significant progress against our respective investment targets as of this point, but we have been executing investments of around 200 billion yen every year, and have executed a total of nearly 600 billion yen over the past three years. As for the strategic investment target, we have steadily determined or executed investments toward growth, such as the acquisition of the agrochemicals business of Meiji Seika Pharma and the investment in Japan MDM in the Life & Healthcare Solutions domain as well as the investment in SHINKO ELECTRIC INDUSTRIES in the ICT domain, but we have not made large-scale strategic investments of around 100-200 billion yen per project. We are currently reviewing our investment projects in conjunction with our review on the strategy for achieving our FY2030 targets. However, we are not changing our policy of focusing strategic investments on the three growth domains, and will execute investment projects in each growth domain.