Q&A Summary for CEO Presentation in November 2024

Date	November 26, 2024 15:30-17:00
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	FY24-2 CEO Presentation posted on November 26, 2024

Q&A

■**Life & Healthcare Solutions (L&HC)**

Q1. Regarding medical solutions, during the business strategy presentation held in June, you explained that various measures would be taken to promote rationalization in the oral care business. However, in this CEO Presentation, you also mentioned an expansion strategy including M&A. So, please explain your current thoughts on this business.

A1. As previously explained, in the oral care business, we have been considering M&A deals in North America but have not yet reached the point to execute them due to issues in the negotiation process. However, as the North American market is highly profitable and the largest in scale, we will continue to explore M&A and alliance opportunities. Furthermore, Kulzer itself is currently undergoing further structural improvements, including a revamp of its management system, and we are beginning to see an increase in profitability. Since our partnerships with Sun Medical and SHOFU have begun to yield products, they are beginning to contribute to the profitability of our L&HC segment. Therefore, we believe that it is essential to further deepen these partnerships.

In medical solutions, we recognize that a significant depth of technical expertise is required in its respective fields, so it is challenging to address these technical requirements and needs with our technology alone. Therefore, we are collaborating with our investee companies, Japan MDM and DNA Chip Research, while leveraging the material technologies held by our Group.

Our oral care technologies and products include those applicable to the field of orthopedics, and we have been advancing our investments in and joint development with Japan MDM, and the results of these initiatives are beginning to bear fruit. Therefore, we are considering strengthening our tie-up with Japan MDM and advancing further M&As and collaborations.

Furthermore, by combining the technologies held by our Group, such as the biocatalyst technologies and cell culture technology for producing acrylamide with technologies of DNA Chip Research, one of our capital partners, we would like to expand our distinctive testing and diagnostic business, including rapid bacterial identification tests, on which we have been working on so far. Since DNA Chip Research possesses advanced genetic analysis technologies and skilled human resources, and also expertise in pharmaceutical laws and regulations with knowledge in registration and insurance, we believe that they will add to the acceleration of development.

We have already established solid business foundations in our life care solutions and wellness solutions, and we anticipate an accelerated expansion of profits in this field. In medical solutions, the hurdles for business expansion are high, but we would like to accelerate our growth by shifting our focus from the conventional approach to a more technological standpoint.

■**Mobility Solutions**

Q2. With regard to TAFMER™, please explain how you can differentiate your product from competitors aiming to enhance their production capacity. In particular, regarding TAFMER™ used as a solar cell encapsulant, amid increasing cost pressures, the price of POE, which has risen over the past three years, is also expected to decline, due to competition from EVA and other factors. Please explain how you can hedge this risk.

A2. While our company along with several other companies are leading the way in manufacturing high-end products, we recognize that latecomer manufacturers have not yet reached the level required to produce such products. However, we believe that latecomer manufacturers will eventually catch up with us, so it is important for us to always strive to stay ahead of them by advancing the development and launch of even more advanced products.

Currently, Chinese companies have a high share in the production of solar panels, but many companies recognize the superiority of TAFMER™ over EVA in terms of performance. In the stagnating Chinese market, however, there is a shift back to using EVA as a solar cell encapsulant in some cases, due to the cost. As a result, the sales of TAFMER™ have not grown as we initially anticipated, but we expect the sales to grow in regions outside China. Furthermore, TAFMER™ is also widely used in additive applications, and it is beginning to be used in ways that differ from conventional applications in fields such as automotive materials and high-performance packaging materials. In the field of automotive materials, we expect TAFMER™ to grow in the future in differentiated areas where added value is recognized, such as improvements in driving range and modification of recycled materials. Regarding packaging materials use, demand for monomaterial solutions is increasing, particularly in Europe. In response to this trend, we will supply TAFMER™ along with coating and engineering materials, and thereby realizing comprehensive synergies within our Group to expand sales. We are also expanding the geographic reach of TAFMER™ into emerging countries and other markets, not just its applications. These initiatives regarding TAFMER™ are beginning to bear fruit in applications beyond its use as a solar cell encapsulant.

Through the acceleration of the above-mentioned expansion into growth markets and the diversification of applications, we have been able to mitigate the impact of the downturn in the Chinese market. However, we expect it will be in the latter half of FY2025 when the effects of these initiatives expand, and that we will be able to enter the next phase of growth.

■**ICT Solutions**

Q3. In the ICT Solutions segment, I believe that resources should be invested in semiconductor materials rather than in the increasingly competitive battery materials. Please explain your thoughts on this matter.

A3. Although we are aware that the battery materials business is a field that is greatly affected by government policies, we already possess several battery material products other than electrolytes, and these products are generating profits. Furthermore, we have also been strengthening our research and development, including our human resources, and promising technologies that can differentiate us from other competitors are also emerging. If these technologies are steadily progressing toward commercialization and a clear path to profitability is confirmed, we will invest in them. If this is not the case, we will not make a significant investment in them; instead, we will focus on securing profits from existing products. If the next-generation materials we are currently developing can contribute to further battery performance improvements demanded by the market, such as rapid charging and high durability, we will continue to further invest our resources in the next-generation materials business.

■Basic and Green Materials (B&GM)

Q4. Regarding restructuring, on page 31 of the CEO Presentation materials, you have added that you are studying ways to make your overseas phenol operations more asset-light. However, to my understanding, your overseas phenol production base is only located in China, so if that is the case, does this mean you are considering reducing production capacity in China? Please describe this matter, including the background behind your explanation regarding the consideration of making the overseas phenol operations more asset-light despite having a JV partner.

A4. In the B&GM segment, in addition to the phenol business base, we have several overseas bases, including a JV in which we hold a minority position, and we are reviewing all of these bases. In terms of the overseas phenol business, we only have one base in China, and although we are unable to provide details at this time, we are considering on how to make them more asset-light. Our JV partner is also aware of the severity of the market environment, so we are steadily advancing discussions with our partner.

Q5. The restructuring measures you are pursuing include not only matters that can be done alone, but also collaborations with other companies, so please explain their impact on your profit and loss, including the potential for certain businesses or affiliates being excluded from consolidation.

A5. As we proceed with the restructuring, there may be cases where we become a minority position or cases where we gain the majority in businesses with high capital efficiency, depending on how we collaborate with other companies. We have therefore set the target of 32 billion yen in operating income before special items for FY2028 while taking into account multiple cases.

Q6. In order to achieve your FY2028 target of an operating income before special items of 32 billion yen, please explain what scale you think the 12 ethylene plants in Japan, which currently have a total capacity of 6.8 million tons, need to reach.

A6. According to announcements from the Ministry of Economy, Trade and Industry, as well as reports from several think tanks and consulting firms, it appears that the domestic demand would ultimately be around 4 to 4.5 million tons. While the current domestic production capacity is 6.8 million tons, the current operating rate has been consistently below 80%. So, the current domestic demand is considered to be just over 5 million tons. We expect that first reducing production capacity to 5 million tons will result in well-balanced supply and demand, and we are considering various measures while bearing this point in mind. We are, together with Idemitsu Kosan, currently considering the consolidation of crackers of the Chiba Chemicals Manufacturing Limited Liability Partnership (Chiba LLP) into one, and there have been various developments in other regions as reported, so we anticipate that the reduction of the production capacity to around 5 million tons is feasible. Ultimately, the production capacity may be reduced to around 4 to 4.5 million tons, but this is what we envision for 2030.

Q7. Please explain the details of the measures to bolster downstream businesses aimed at achieving operating income before special items of 32 billion yen in FY2028.

A7. We will continue to strengthen our high-performance MDI and high-performance PP products that are expected to have added value and be sustainable. Furthermore, regarding derivatives, such as phenols and polyolefins, there are limitations to enhancing our competitiveness in the market by relying solely on ourselves, so we are currently considering forming partnerships with other companies.

Q8. Regarding the pursuit of optimization of domestic phenol (PH) production as stated on page 31 of the CEO Presentation materials, if the plant at Ichihara Works is closed, only the plant at Osaka Works will remain. Please explain whether you are also considering reducing the production capacity at Osaka Works.

A8. Phenol is used to produce a wide range of derivatives, and we recognize that it is a product that is also related to economic security. In some cases, the derivatives ultimately serve as materials for semiconductors, automobiles, and medical devices, and therefore phenol is closely related to our daily lives, so we are unable to easily reduce its production. For this reason, we have considered ways to strengthen and optimize production while also taking into account the situation of our derivative products, and as a result, we have made the decision to close the phenol plant in Ichihara Works, and we will continue to consider ways to improve capital efficiency.

Q9. Regarding the green chemical investments on page 32 of the CEO Presentation materials, you mentioned that you are utilizing the Green Innovation Fund for a project related to ammonia combustion, and the Ministry of Economy, Trade and Industry is also currently strengthening its direction to support investments aimed at carbon neutrality. Under these circumstances, please explain other potential sources for securing funding besides operating cash flow?

A9. Since there are limits to what we can do on our own, we recognize the need to advance the shift to green chemicals while also receiving government support, such as the Green Innovation Fund programs. After the investments are made and facilities are completed, it is necessary for a market for the products to be in place in order to monetize them. So, we will continue to advance our green chemicals initiatives in cooperation with the government, including not only support for investments but also through mechanisms such as carbon credits, carbon taxes, and regulations.

■Group-wide

Q10. Please explain the reason for revising your FY2030 target for net income attributable to owners of the parent from 140 billion yen to 150 billion yen or more, although your FY2030 target of 250 billion yen in operating income before special items remains unchanged.

A10. As we have progressed with our deliberations, we now anticipate that the impairment losses and other losses that we will incur in the future will be less than we had initially anticipated. This is because we are currently advancing structural reforms through restructuring ahead of schedule compared to when we announced VISION 2030. As a result, we have revised our FY2030 target for net income attributable to owners of the parent company from 140 billion yen to 150 billion yen or more. We have continued to implement structural reforms, and there is a possibility that we will implement further structural reforms if businesses and affiliates with low capital efficiency emerge due to environmental changes in the future.

Q11. Please explain the path to achieving 200 billion yen in operating income before special items by FY2028, including your thoughts on the pace at which the effects of structural reforms and organic growth are expected to manifest and when your profits are expected to surpass the previous record.

A11. Regarding the effects of structural reforms, we expect that about half will show effects early, while the other half will take time to manifest. Regarding organic growth, in segments such as ICT Solutions, where investments have been made early, the effects of organic growth are expected to become apparent as the recovery of the semiconductor market progresses and then the return on investments advances. On the other hand, in the Mobility Solutions segment, we expect growth after recovering from the decline in sales of TAFMER™ in the Chinese market. Based on the above, we expect that our operating income before special items will grow steadily rather than suddenly at some point up to 2028. We expect to achieve 200 billion yen by FY2028 if we are able to secure stable operating income before special items of around 30 billion yen in the B&GM segment through structural reforms in this segment, in addition to the progress of organic growth in the growth domains.

Q12. Regarding the cash flow management on page 12 of the CEO Presentation materials, please explain the breakdown of the approximately 1.6 trillion yen in investments.

A12. At this point, we assume that the allocation of resources for growth investments and for the maintenance and strengthening of existing businesses will each account for around 50% of the total investment, which is approximately 1.6 trillion yen. However, this allocation ratio is not fixed, and we expect that it will change towards FY2030. We assume that the investments necessary to maintain existing businesses will be reduced towards FY2030, as our asset-light initiatives progress in the B&GM segment which possesses large-scale plants, and therefore we expect that the ratio of growth investments will increase.

With regard to the L&HC segment, we acknowledge that, over the past three years, the resource investment was not as large as initially expected, partly due to factors such as delays in planned M&A. Over the next three years, or towards FY2030, our growth investments, including M&A, are expected to focus primarily on the L&HC Solutions segment and ICT Solutions segment, while in the Mobility Solutions segment, investments are expected to focus on those aiming for organic growth leveraging the wide range of resources within the Group.

Q13. Please explain what specific efficiencies can be achieved through the enhancement of your IT and data infrastructure scheduled to be in place within FY2026, including as to whether it will also have an effect on enhancing pricing in sales activities.

A13. It has been approximately 20 years since our Group introduced the current Core system (ERP), and as the end of support date is approaching, we are currently proceeding with the introduction of SAP S/4 HANA. Our current system was developed by adding many functions to the standard system, so maintaining it also incurs significant costs. However, with the new system, the number of add-ons, which previously exceeded a thousand, will be reduced to a single digit, under the concept of clean core, and the development is progressing smoothly as scheduled. The expected effects include the streamlining of information management, among others. In sales and marketing, we are considering ways to utilize it in a manner that seamlessly connects information sharing to pricing, while also keeping the perspective of monetization firmly in mind. We are working to enable practices similar to cockpit management by enhancing the efficiency of data visualization. In addition, we expect various efficiencies to be achieved in our research and development and plant operations. We are currently conducting a trial, and we have the impression that it will bring about considerable streamlining. Since the introduction of S/4 HANA requires a significant investment, we are proceeding with it while carefully examining whether the effects will be worth the investment and running costs.