Questions from the Internet Briefing for Institutional Investors and Analysts on Mitsui Chemicals Group’s Consolidated Financial Results for 3rd Quarter of Fiscal 2019

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Reference | Results for 3rd Quarter of FY2019 & Outlook for FY2019

### Q&A

**Mobility**

**Q1. Please explain the movement and impact of operating income in the Mobility segment from Q2 (July – September) to Q3 (October – December) and from Q3 (October – December) to Q4 (January – March) of FY2019.**

**A1.** Operating income for Q3 was on a par with the level in Q2 because sales of APEL™ remained firm on the back of an increase in the number of cameras installed per smartphone, although sales of PP compounds overseas declined from Q2 to Q3 with the decelerated production of automobiles in Thailand and strikes in North America. In Q4, we expect that operating income will increase due to higher sales of products, in addition to the recovery of PP compounds from the impact of strikes.

**Q2. Please explain the trends of PP compounds overseas.**

**A2.** Total accumulated sales of PP compounds overseas from Q1 to Q3 remained generally on a par with the year-ago level. In North America, while there were no major changes in the market environment because sales of large cars that use a lot of resin per vehicle, such as light trucks, continued to be firm, our sales of PP compounds were affected by strikes and other factors. We will make efforts to achieve a recovery in Q4. Sales of PP compounds in China increased from Q2 to Q3.

**Health Care**

**Q3. Please explain the trends of main products in the Health Care segment.**

**A3.** Sales of vision care materials remained firm. We expect that their sales will continue to be firm in Q4 and beyond. Sales of nonwovens in Q3 increased from Q2, and we expect them to remain generally at the same level in Q4. Sales of dental materials in Q3 rose from Q2, which was an off-demand season. We expect that their sales will remain firm in Q4 as well.

**Food & Packaging**

**Q4. Please explain the trends of main products in the Food & Packaging segment.**

**A4.** The terms of trade of coatings and engineering materials improved due to a fall in raw material prices, and we expect that this trend will generally continue in Q4 as well. Agrochemicals were affected by bad weather and other factors in Q3, in addition to an off-demand season. We expect that sales of agrochemicals will increase in Q4 as we enter the demand season in Japan. Sales of packaging films remained weak, and we expect that this trend will continue in Q4. Sales of industrial films remained firm in Q3. While Q4 is an off-demand season, we expect that the fundamentals will continue to remain firm. In addition, the manufacturing and sales company of ICROS™ Tape in Taiwan started commercial operation in January, and is expected to make a contribution to earnings from the next fiscal year and onward.
Q5. Please explain the movement and impact of operating income in the Basic Materials segment from Q2 to Q3 and from Q3 to Q4 of FY2019.

A5. Operating income increased from Q2 to Q3 due to factors such as the elimination of the impact of regular maintenance in Q2, the improved market conditions for acetone, inventory valuation differences, and the time lag of the sales price formula. We expect that operating income will decline from Q3 to Q4 due to the deterioration of the market conditions for petrochemicals.

Q6. Please explain the factor behind the downward revision of the full-year forecast for the Basic Materials segment’s operating income for FY2019 from the previous announcement by ¥7 billion.

A6. It was largely due to the deteriorated market conditions for phenol and olefin, the operation adjustment of phenol, and weaker sales of polyolefin on the back of slower demand for packaging materials applications.

Q7. It had been stated that operating income in the Basic Materials segment would be able to stay around ¥30 billion even when the business environment deteriorated, but it fell significantly below ¥30 billion this time. What is the floor?

A7. The full-year operating income forecast for FY2019 in the Basic Materials segment we announced this time was ¥10.5 billion, and even excluding transient factors for the decrease in operating income, such as facility issues, the operating income forecast would be in the mid-¥10 billion range. Although it is difficult to make a forecast given uncertainty about whether the market conditions will further deteriorate or not, we will carefully examine the floor of the income level.

Q8. Please explain the market trends of phenol.

A8. Despite a rise in demand from Q2 to Q3 due to the start-up of new BPA and polycarbonate manufacturing, the market conditions for phenol deteriorated because the increase in demand was exceeded by the increase in supply resulting from the operation adjustments by manufacturers in Q2 being eased in Q3. We expect that market conditions in Q4 on average will generally be on par with the level in Q3, reflecting an improvement toward the end of the fiscal year due to the regular maintenance of companies, despite demand being stagnant in Q4 due to the Chinese New Year. The market conditions for acetone improved in Q3, reflecting the improved balance between supply and demand due to the new operation of acetone-based methyl methacrylate (MMA). We expect that the market conditions will generally remain at a high level in Q4 as well.

Q9. Please explain the operational status of crackers and phenol.

A9. We maintained a high operating rate for crackers. As for phenol, we conducted an operation adjustment in Q3, reflecting the deteriorated market conditions. We anticipate full operation in Q4, except for regular maintenance.

Q10. Will the novel coronavirus have an impact on your business performance? Do you expect that demand for nonwovens for face masks will increase?
A10. Our subsidiaries and affiliates in China have suspended operation or made adjustments to operation based on the directions of the government. There has been no immediate impact on sales, but we are concerned that if the situation continues over the long term, it may have an impact on our customers’ production, the procurement of raw materials and packaging materials and the distribution of goods, among other areas. Therefore, we are making an assessment of the situation and preparing a business continuity plan (BCP). With regard to nonwovens for face masks, our sales are small compared with nonwovens for disposable diapers, whose sales, as we are concerned, may decline due to the impact of the coronavirus. We will continue to pay close attention to the trends of overall nonwovens. We have not incorporated the impact of the new coronavirus in our results forecasts this time.

Q11. Am I correct in thinking that the gain on contribution of securities to retirement benefit trust posted this time is derived from a difference between the book value and the market value of shares held? Also, was its intention reduction of your cross-shareholdings?

A11. The gain on contribution of securities to retirement benefit trust was derived from a difference between the book value and the market value. The purpose is to restore the soundness of retirement benefit finances and improve asset efficiency, and its intention is not to reduce our cross-shareholdings.

Please note that this document has been translated from the original Japanese into English for the convenience of our stakeholders. The information was originally provided in Japanese. If there is any discrepancy, the Japanese language version is the official document and is available on our Japanese language website.