

Questions from the Internet Briefing for Institutional Investors and Analysts on Mitsui Chemicals Group's Consolidated Financial Results for 2nd Quarter of Fiscal 2020

Date	November 11, 2020
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Reference	Results for 1st Half of FY2020 & Outlook for FY2020

Q&A

■ Mobility

Q1. Please explain the increase in operating income before special items in the Mobility segment from Q1 (April - June) of FY2020 to Q2 (July - September) of FY2020. Please also explain the trends in operating income before special items toward the second half of FY2020, including a comparison with your previous forecast.

A1. From Q1 to Q2 of FY2020, operating income before special items increased mainly due to a rise in sales of PP compounds, reflecting a less pronounced impact from the COVID-19 pandemic. In the second half, we expect that sales in the Mobility segment will also recover. We expect that sales of products for automotive applications will remain flat or increase slightly from the previously announced forecast. On the other hand, operating income before special items in the Mobility segment in the second half was revised downward from the previously announced forecast, reflecting a fall in orders received by ARRK CORPORATION due partly to cancellation of trade shows and exhibitions, as well as a deterioration in terms of trade associated with rising raw material prices.

Q2. Please explain the trends of PP compounds from Q1 (April - June) of FY2020 to Q2 (July - September) of FY2020 and toward the second half of FY2020 by region.

A2. Although sales were significantly down in Q1 by about 60% year on year, the cumulative sales for the first half were down by the mid-30s percent range year on year, showing a recovery from Q1. From Q1 to Q2, sales increased significantly mainly in North America, China, and ASEAN. In the second half, we expect that overall sales will recover to a slight year-on-year decline but recovery will be a little slower in ASEAN.

Q3. Please explain the trends of the ICT field within the Mobility segment from Q1 (April - June) of FY2020 to Q2 (July - September) of FY2020 and from the first half of FY2020 to the second half of FY2020.

A3. From Q1 to Q2, sales remained firm. We expect that sales will also remain firm from the first half to the second half.

Q4. There has been a delay in the completion schedule of your EUV pellicle facility. Does it not have an impact on the launch of commercial operations

A4. It does not have an impact on the launch of commercial operations as of this moment.

■ Health Care

Q5. Please explain the increase in operating income before special items in the Health Care segment from Q1 (April - June) of FY2020 to Q2 (July - September) of FY2020 and the reason why it also increased in comparison with Q2 (July - September) of FY2019. Please also explain the trends toward the second half of FY2020.

A5. From Q1 to Q2 of FY2020, operating income before special items increased due to an early recovery of sales of vision care and dental materials as well as higher sales of nonwovens. In comparison with Q2 of FY2019, operating income before special items increased due to a significant improvement in nonwovens. In the second half of FY2020, while demand for nonwovens is expected to decrease because the demand for masks and other products created by COVID-19 will pause, we expect that operating income before special items in the Health Care segment will increase due to sales expansion of vision care and dental materials.

Q6. How much does the demand for masks and medical gowns created by the COVID-19 pandemic contribute to profit?

A6. Although its contribution did not reach the half of operating income before special items in nonwovens in the first half of FY2020, it contributed to higher sales and higher operating income before special items in nonwovens.

Q7. Please explain the upward revision to the forecast for operating income before special items in the Health Care segment.

A7. This upward revision is mainly because vision care and dental materials recovered at a faster rate than expected.

Q8. A fairly large amount of costs was reduced in the Health Care segment in the first half of FY2020. What is the situation of cost reduction in the second half of FY2020? Please also explain the details of the cost reduction.

A8. Costs are expected to increase from the first half to the second half due to the resumption of business activities in line with the recovery from the impact of the COVID-19 pandemic. In the first half, costs decreased mainly due to shorter working hours at overseas subsidiaries and government subsidies.

■ Food & Packaging

Q9. Please explain the factors behind the decrease in sales revenue and the increase in operating income before special items in the Food & Packaging segment from Q1 (April - June) of FY2020 to Q2 (July - September) of FY2020. Please also explain the trends toward the second half of FY2020, including the impact of rising raw material prices and your forecast for sales of agrochemicals.

A9. From Q1 to Q2 of FY2020, while sales of agrochemicals, which have a high contribution margin ratio, remained firm reflecting the demand season in overseas markets, sales of performance films & sheets declined due to a negative rebound from special demand in Q1 for packaging films and for ICROS™ Tape in industrial films. In the second half, while sales of agrochemicals are expected to increase with the Japanese market entering a demand season, we expect that operating income before special items in the Food & Packaging segment will decrease from the first half on the back of a deterioration in terms of trade associated with rising raw material prices, as well as higher fixed costs. We expect overall sales of performance films & sheets to be on par with the level in the first half, with sales of ICROS™ Tape expected to remain firm in the second half and sales of packaging films to decline. We expect that sales of agrochemicals will be firm given that the second half will be a demand season in Japan.

Q10. Please explain the upward revision to the forecast for operating income before special items in the Food & Packaging segment.

A10. The upward revision factors in an increase in sales of agrochemicals and cost reductions in various businesses.

■ Basic Materials

Q11. Please explain the factors behind the improvement in operating income before special items in the Basic Materials segment from Q1 (April - June) of FY2020 to Q2 (July - September) of FY2020 and from the first half of FY2020 to the second half of FY2020.

A11. From Q1 to Q2, operating income before special items increased by ¥8 billion. The breakdown is as follows: negative effects from higher costs, including approximately ¥3 billion from a rise in fixed costs such as repair expenses and around ¥2 billion from an increase in proportional costs driven by higher prices of raw materials and fuels; and positive factors including about ¥2 billion from higher sales on the back of reduction in the impact of COVID-19, about ¥10 billion from the removal of the combined negative impact of inventory valuation loss and the time lag of the sales price formula, and about ¥1 billion from an improvement in share of profit of investments accounted for using the equity method.

In the second half, we expect that operating income before special items will improve by about ¥6 billion. The breakdown is as follows: negative factors including about ¥5 billion from a decline in phenol market conditions, and about ¥5 billion from an increase in repair expenses and a rise in proportional costs driven by higher prices of raw materials and fuels; and positive factors including about ¥7 billion from higher sales, and about ¥9 billion from the removal of a combined negative impact of inventory valuation loss and the time lag of the sales price formula.

Q12. Please explain the upward revision to the forecast for operating income before special items in the Basic Materials segment.

A12. The upward revision is due to a sales expansion of polypropylene driven by the recovery of automobile production, a reduction in the combined negative impact of inventory valuation loss and the time lag of the sales price formula on the back of higher naphtha prices, and an improvement in share of profit of investments accounted for using the equity method.

Q13. What are the operating rates of crackers and polyolefins in the results for the first half of FY2020 and the forecasts for the second half of FY2020 in the Basic Materials segment?

A13. Operating rates of crackers remained low in Q1 (April - June) of FY2020 but rebounded to around 90% in Q2 of FY2020. We expect that crackers will be operated at full capacity in the second half of FY2020. Operating rates of polyolefins also remained low in Q1 but rebounded to around 90% in Q2, and are expected to be at full capacity in the second half of FY2020.

Q14. Why is the income level in the Basic Materials segment low despite your outlook that the operating rates of crackers and polyolefins will be high in the second half of FY2020?

A14. It factors in the impact of weaker market conditions for phenol-based products in the second half.

Q15. What are your assumptions for market conditions for key products in the Basic Materials segment in the second half of FY2020?

A15. With regard to olefins, we expect that market conditions for C2 will decline due largely to the operation of new plants and the completion of regular maintenance at companies, and that market conditions for C4 will rise due to a recovery of demand. For phenol, we expect that market conditions in Q3 will improve slightly from Q2 due to regular maintenance in Asia while demand will remain flat. In Q4, we expect that market conditions will deteriorate due to an increase in supply quantity driven by the operation of new plants and the resumption of operations from regular maintenance. For acetone, the acetone spread in the first half remained at a high level, due to special demand for isopropyl alcohol (IPA) driven by the COVID-19 pandemic and tighter supply on the back of regular maintenance in Europe and the United States. In the second half, we expect that the acetone spread will gradually decrease due to a pause in the special demand for IPA and an increase in supply on the back of the operation of new plants. For bisphenol A (BPA), market conditions in Q2 remained at a high level due to delays in the operation of new plants. In the second half and onwards, we expect that market conditions will deteriorate due to an increase in supply quantity driven by the operation of new plants. With regard to toluene diisocyanate (TDI), the balance between supply and demand became tighter in Q2 due to troubles at plants overseas, and market conditions rose from late August. In Q3, we expect that market conditions will remain on par with the Q2 level due to factors such as continued regular maintenance.

■ Group-wide

Q16. You have announced a takeover bid for Honshu Chemical Industry. Please explain its purpose and future synergies.

A16. Its aims are to accelerate our growth into the ICT domain, which we position as a pillar of our growth strategy, and to increase profitability in the Basic Materials segment through a strategy of bolstering its downstream businesses. We also aim to create new products and new businesses through synergies between both companies.

Q17. Please explain the reason why you have decreased the amount of capital expenditure.

A17. We have reviewed our capital expenditure plan by incorporating delays in some construction schedules and other factors.

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.