Q&A Summary for CEO Presentation in November 2022

Date	November 28, 2022 15:00-16:30
Place	Hybrid conference (Meeting room at the Head Office of Mitsui Chemicals, Inc. and online)
Speakers and Respondents	HASHIMOTO Osamu, President & CEO YOSHINO Tadashi, Senior Managing Executive Officer & CTO NAKAJIMA Hajime, Senior Managing Executive Officer & CFO
Reference	FY22-2 CEO Presentation posted on November 28, 2022

Q&A

■Life & Healthcare Solutions

Q1. Please explain the strategy for achieving operating income before special items of 65 billion yen in FY2025 in the Life & Healthcare Solutions segment.

A1. Achieving high growth despite the risk of recession in FY2023 will be tough, and we recognize the FY2025 operating income before special items target for the Life & Healthcare Solutions segment is the most challenging one among those targets for our four business segments. However, our businesses in this domain have secured firm positions in their respective markets, so it is the domain where we can expect the lowest volatility and steadiest income. We expect the orthopedic surgery sector and nucleic acid medicine to contribute to profit starting in FY2025. Meanwhile, we will increase our production capacity in response to robust demand in vision care materials to achieve growth. We will engage in active and effective M&As not only in the lens material business but also in the coating material business to expand our ophthalmic lens value chain, and we expect this to result in further profit growth. The acquisition of MMAG has grown our agrochemical product lineup as well, and we will actively expand our agrochemical business overseas, primarily in large markets such as India and Brazil. We also expect steady sales growth in dental materials. Furthermore, albeit on a smaller scale, personal care materials such as taurine and acrylamide are also growing steadily. On top of the above, we will create new businesses and execute M&As mainly in areas related to those mentioned above to achieve our FY2025 target.

Q2. In your expansion into the Indian market for vision care materials, could you not start with high-refractive-index lens materials rather than low- and middle-refractive-index lens materials?

A2. Although it varies depending on the policies and regulations of each country, typically, glass lenses spread first and are later replaced by plastic lenses. After that, consumers begin looking for better design, so demand grows for thin lenses, and functions such as UV blocking and anti-fog coatings are added. In the Indian market, glass lenses are still predominant with the shift to plastic ones starting, so we need to start from demand for low- and middle-refractive-index lens materials. We believe that performance requirements for ophthalmic lenses will increase going forward as average income improves in India. Our ophthalmic lens materials enable thinner lenses and improved design, so we will work on further expansion in the North American market, using the adoption of our lens material by Costco as a springboard.

Q3. Please explain the background behind the significant increase in sales revenue in the agrochemicals business.

A3. Sales have increased, especially overseas. In particular, sales are steadily expanding in large markets such as Brazil and India. In addition, we believe that the eco-friendly agrochemicals, which we gained with the recent acquisition of MMAG, will become more popular going forward. We expect them to make a significant contribution to future profit.

Q4. Please explain the positioning and future direction of the nonwovens business.

A4. In regard to commodity hygiene materials, Chinese manufacturers in particular have actively ramped up their production capacity, so competition is intensifying. On the other hand, we have differentiated ourselves from competitors with our specialty nonwovens such as stretchable nonwoven fabrics and nonwovens with a hollow fiber structure, which we believe have room to grow. We are also actively promoting development not just for hygiene materials but also in the field of industrial materials. For example, when it comes to microfiber meltblown nonwovens (with a peak fiber diameter of several hundred nanometers), we are expanding our businesses for semiconductor filters and building materials. Going forward, we believe that there is room for development in these fields and we can capitalize on our technology, so we will work on transforming our business portfolio by expanding industrial materials in addition to hygiene materials.

■Mobility Solutions

Q5. Is it correct to say that, for the period up to around FY2025, you can achieve your targets in the Mobility Solutions segment simply by extension of existing businesses? Please explain your thinking on M&As in this segment.

A5. We have been actively investing in the Mobility Solutions segment from the past. We do not envision a contribution from M&As until FY2025, and we believe that our targets for FY2025 can be achieved through return from investments that have been decided to date and through organic growth. From after that to FY2030, we are also exploring specific M&A options.

Q6. Can you tell us when the additional 120,000-ton production capacity for TAFMER™, which is expected to be completed in FY2024, will reach full capacity?

A6. We are expanding our TAFMER™ business not only in the automotive sector, but also in various other applications, including solar cell encapsulants and environmentally friendly packaging materials. We expect high market growth not only for automotive applications but for these applications as well. Amid this robust demand, the additional production capacity can reach full capacity quickly, so we are considering the next production capacity increase.

Q7. Please explain the increase in operating income before special items in the Mobility Solutions segment from FY2022 to FY2025, breaking it down to the increase from the recovery in automobile production and the increase in the amount of plastic used per vehicle.

A7. The increase in operating income before special items through FY2025 mostly come from the effects of increased production capacity in the materials business that have been decided to date, growth in non-automotive sectors such as solar cell encapsulants, and the recovery in global automobile production starting in FY2023. On the other hand, while we see growing opportunities from the increase in the amount of plastic used per vehicle driven by the ongoing shift to electric vehicles and other trends, we believe it will be difficult for this increase in per-vehicle usage to significantly contribute to profit in a short period of time.

Q8. Please explain what kind of impact the emergence of Tesla and Chinese automobile manufacturers will have on your company.

A8. We believe there are new opportunities for us. Setting our sights on these opportunities, we have been strengthening our resources to meet the needs of our customers not only for materials but also for solutions by pursuing synergy with Group companies such as ARRK and Kyowa Industrial, which have prototyping, design, and molding technologies. We already have several specific projects underway and expect to be able to develop new business models.

■Basic & Green Materials

Q9. Cracker operating rates are down due to the lockdowns in China. Please explain what the profit level of the Basic & Green Materials segment will be if this situation continues.

A9. Even if the current level of cracker operating rates continues, we do not expect a significant impact on our performance. However, if the situation deteriorates even further, it would negatively impact the profit not only of the Basic & Green Materials segment but also of the Mobility Solutions segment, so we realize that we must continue to keep a close eye on the impact of further lockdowns on automobile production, economic recession, and other developments. We are engaged in thorough cash flow management group-wide to prepare for unexpected developments in the business environment, and have been working to improve cash conversion cycle and prioritize investment projects.

■Group-wide

Q10. In VISION 2030, you have earmarked 1.8 trillion yen for growth investments. Please explain if there are any changes in your approach to investment with the recent inflation, especially overseas, foreign exchange rates, and the impact of regulatory authorities on M&A.

A10. Our major M&As of the past have primarily been in our frontier areas such as dental materials, orthopedic materials, and solutions business. It took some time, but they have led to growth of our product lineup, and expanded and bolstered our business foundation. In areas where the businesses we acquired produced results, we have the knowledge related to the market and technology, so we believe that by further investing in these areas and strengthening our business, we can execute more effective M&As. One example of success is the field of vision care materials. We executed an M&A in the ophthalmic lens coating business, in which we previously did not have expertise, and further expanded peripheral businesses by leveraging our existing resources and new expertise, thereby expanding not only lens material sales but also our ophthalmic lens value chain. By implementing a cycle such as this, we will execute highly effective M&As. The market environment changes continually, and foreign exchange rates affect M&As in particular. However, the list of potential M&A projects we currently have is wide ranging, including both overseas and domestic ones. We will prioritize them and execute them accordingly.

Q11. Please explain your thinking on restructuring of petrochemical complexes, including naphtha crackers.

A11. We have integrated petrochemical complexes that span crackers through to derivative plants in Ichihara and Osaka and have been carrying out a variety of measures to bolster their business foundation from the past. However, there are limits to what a single company can achieve on its own toward realizing a carbon-neutral petrochemical complex, so we intend to create a new ecosystem through regional collaboration to further strengthen the business foundation. For this regional collaboration, we will work together with partners including not only chemical companies but also companies from other sectors such as oil refinery and energy and even local governments and academic institutions. There are increasing opportunities for collaboration, so we strive to realize them by creating win-win arrangements for all involved. Ultimately, our aim is to create an integrated system similar to chemical parks in Europe, which consolidates not only facilities but also services, utilities, and other functions. We also intend to incorporate chemical and mechanical recycling into the concept as a distinct feature of the Japanese system.

Q12. Please explain your thinking on development of the engineering plastic and super engineering plastic businesses, including the possibility of M&As in this field.

A12. We are looking into various possibilities such as developing businesses involving components that employ engineering and super engineering plastics, but we are not currently considering focusing simply on sales of materials. Our aim is to develop new businesses by paying close attention to market needs and trends, and bringing together the necessary technologies and materials so that we can propose solutions to those potential needs.

Q13. As you develop a solution-based business model, various collaborations will be necessary. Please explain how you will pursue such collaborations in terms of your technologies.

A13. We recognize the importance of linking business perspectives to technological perspectives to build a win-win relationship with our partners. Previously, our development efforts were driven primarily by technological perspectives, and we struggled to create new businesses and products. At the New Business Incubation Center and the Frontier Technology Center, which was established in April, we have been hiring human resources from outside the company and working on the creation of new businesses, approaching it from a market-oriented perspective. One example of this approach is how we have established a corporate venture capital (CVC) fund to create a framework for actively investing in projects with growth potential from a business perspective. We are also looking into partnering with other companies in our diagnostics business for solar power generation plants to expand the business from a global perspective, and in our development of cell culture solutions, we are rolling out existing ICT products to the healthcare domain. We will strengthen and expand these efforts not only in Japan but also globally through repeated trial and error.

Q14. I believe your human resources strategy is important for achieving your targets for FY2025. Can you tell us what you expect of your employees?

A14. Following the significant decline in earnings due to the 2008 global financial crisis, we curbed capital expenditure and R&D, and as a result, our employees became less familiar with business expansion and investment. Since then, we have recovered our earnings through a series of measures, starting by pursuing development of market-oriented businesses from 2014, launching our 2025 Long-Term Business Plan in 2016, and transforming our business portfolio. To use the analogy of a person, we have just recovered our health that had declined in the past; from here on, in order to compete as a top global athlete, it is important that our employees change their mindset accordingly. In order to cultivate a mindset of taking on challenges, we have introduced an employee evaluation system that rewards those who take on challenges, and we have been working to foster an atmosphere in which employees can share their opinions freely through remote meetings. In addition, as part of employee career development, we believe that it is important for employees to actively participate in opportunities for business expansion and growth such as new businesses and new projects, and through experiencing business expansion firsthand, familiarize themselves with what building a business entails. This will lead to a change in the mindset of our employees, which will promote the growth of both our company and employees.

Q15. Please explain your thoughts on the price-to-earnings ratio (PER) being low.

A15. We are not satisfied with the current PER level. In the past, our profit levels had been low due to the high percentage of commodity products among our overall product range, but we have been working to improve our management foundation and increase profit, especially in the growth domains, by promoting portfolio transformation. Although we believe that the results are improving steadily, we acknowledge that our shareholders may be uneasy about whether or not the portfolio transformation that we have implemented is progressing in the right direction in light of factors such as future changes in the environment. The growth domains account for around 80% of our FY2025 profit target, and by steadily achieving results, we aim to gain the understanding from our shareholders.

Q16. Please explain your thinking on the balance between shareholder returns and investment.

A16. Our basic policy on shareholder returns is to maintain a total return ratio of 30% or more and dividends on equity (DOE) of 3.0% or more. At the same time, our policy for investments is to execute investments while maintaining financial discipline with a net D/E ratio of 0.8 or less. We intend to meet the expectations of our shareholders based on the above policies. Going forward, we intend to revise our policy on shareholder returns in line with the new profit level when we achieve the profit level we are currently targeting under VISION 2030 as a result of portfolio transformation and other initiatives.