Presentation

[Title]

Mitsubishi Chemical Group Faces Favorable Demand for Display-related Market; Aims to Return Carbon Business to Profitability in FY2025

[Lead]

The following is a transcription of Mitsubishi Chemical Group Corporation's FY2024 Q1 financial results presentation, which was released on August 1, 2024.

[Speakers]

Minoru Kida, Vice President and CFO

Akihiro Tsujimura, Executive Vice President (Head of Pharma)

[Text]

Summary

Summary

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FY2024 1Q Actual

- The business environment during the first quarter of fiscal 2024 generally remained stable, despite some different levels of strength in demand among regions and industries. Display-related sales remained brisk on the back of demand spurred by large-scale shopping events in China and international sporting events, and semiconductor-related sales recovered moderately, driven by demand related to generative AI. On the other hand, sales were sluggish in some regions and sectors, such as automotive and food-related markets.
- Compared to the same period of the previous fiscal year, price gap improved significantly as a result of the efforts to promote price management in each business and an increase in market prices for MMA monomer. In addition, our cost reduction efforts continued to bear results in the first quarter. On the other hand, Carbon Products continued to post a loss, and sales volume decreased in Specialty Materials and Industrial Gases. As a result, looking at the Group on the whole, sales revenue increased 6% year on year, and core operating income soared 63% year on year.
- Net income attributable to owners of the parent decreased 7% year on year due to a decline in special items, such as profit related to business divestiture, among other factors.

FY2024 Forecast

- Core operating income for the first quarter was 75% of the first half forecast announced at the beginning of the current fiscal year, making progress exceeding the initial forecast.
- In addition to the uncertain outlook for demand in displays and food-related products from the second quarter onward, there is a need for further review of several business restructure reform projects. Since it difficult to incorporate such impact on earnings at this time, we reiterate our initial forecast.

Kida: Hello, everyone. I am CFO Kida. I will now explain the financial results for Q1 of the fiscal year ending March 31, 2025.

Let's look at the financial summary. The business environment in Q1 was generally stable, but demand trends varied by region and industry.

Display-related businesses performed well, driven by demand for large commercial events in China and international sporting events. Semiconductor-related businesses are also on the road to recovery, driven by demand related to generative AI. On the other hand, softness was seen in some regions and sectors, such as the automotive or food-related markets.

Since last year, we have strongly promoted price management in each of our businesses. In addition, price gaps improved significantly compared to the same period of the previous year due to higher market prices for MMA monomer. We have also accumulated cost reduction benefits during the period under review.

On the other hand, the carbon products business remains in the red. Sales volume decreased for some products in Specialty Materials and Industrial Gases. As a result, group sales increased by 6% and core operating income by 63% compared to the same period last year.

Net income attributable to owners of the parent decreased 7% from the same period last year, mainly due to a decrease in special items.

The progress rate of core operating income in Q1 was 75% of the H1 forecast announced at the beginning of the fiscal year, which was higher than expected.

Looking ahead, we believe that demand trends in the display, food-related, and other sectors are uncertain from Q2 onward, and that further scrutiny is needed for several business restructuring projects. It is difficult to incorporate the impact of these factors on our earnings forecast at this time. Therefore, we maintain the forecast of business performance announced at the beginning of the fiscal year.

Today, we issued a release announcing our resolution on structural reforms to improve profitability in the coal business and on a policy to optimize the production system in the coke business. The details will be explained later.

Consolidated Statements of Operations

Consolidated Statements of Operations

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	FY2023 1Q	FY2024 1Q	Difference	%	<Reference> FY2024 1H Forecast (Announced on May 15)	% to 1H Forecast
Exchange Rate (¥/$)	139.6	158.2	18.6	13%	150.0	
Naphtha Price (¥/kl)	67,500	79,000	11,500	17%	75,000	
			(Billions of Yen)			
Sales Revenue	1,061.2	**1,129.4**	**68.2**	6%	2,251.0	50%
Core Operating Income *1	50.8	**82.6**	**31.8**	63%	110.0	75%
Special Items	18.9	**2.4**	**(16.5)**		(26.0)	
Operating Income	69.7	**85.0**	**15.3**	22%	84.0	101%
Income before Taxes	68.8	**77.0**	**8.2**	12%	66.0	117%
Net Income	55.8	**56.3**	**0.5**		42.0	
Net Income Attributable to Owners of the Parent	42.5	**39.7**	**(2.8)**	(7%)	10.0	397%
Net Income Attributable to Non-Controlling Interests	13.3	**16.6**	**3.3**		32.0	
*1 Share of profit of associates and joint ventures included	2.7	**1.9**	**(0.8)**			

Core operating income is calculated as operating income (loss) excluding certain gains and expenses attributable to non-recurring factors (losses incurred by business withdrawal and streamlining, etc.).

I will now explain the consolidated statement of operations for Q1. The exchange rate for Q1 averaged JPY158.2, a 13% depreciation of the yen compared to the same period last year. The unit price of naphtha was JPY79,000, up about 17% from the same period last year. Sales revenues totaled JPY1,129.4 billion, a 6% increase over the same period last year.

Core operating income was JPY82.6 billion, up 63% from the same period last year. This is 75% of the JPY110 billion in core operating income forecast for H1 announced in May. Special items were JPY2.4 billion, a decrease of JPY16.5 billion from the same period last year.

Operating income was JPY85 billion and income before taxes was JPY77 billion. Net income attributable to owners of the parent was JPY39.7 billion, a decrease of JPY2.8 billion from the same period last year but exceeding the H1 forecast of JPY10 billion announced in May.

Sales Revenues and Core Operating Income by Business Segment

Sales Revenue and Core Operating Income by Business Segment

(Billions of Yen)

	FY2023 1Q		FY2024 1Q		Difference			
	Sales Revenue	Core Operating Income	Sales Revenue	Core Operating Income	Sales Revenue	%	Core Operating Income	%
Total Consolidated	**1,061.2**	**50.8**	**1,129.4**	**82.6**	**68.2**	6%	**31.8**	63%
Specialty Materials	**262.6**	**9.9**	**276.9**	**11.5**	**14.3**	5%	**1.6**	16%
Advanced Films & Polymers	118.1	8.6	120.4	9.2	2.3		0.6	
Advanced Solutions	88.7	0.5	88.3	3.1	(0.4)		2.6	
Advanced Composites & Shapes	55.8	0.8	68.2	(0.8)	12.4		(1.6)	
Industrial Gases	**306.8**	**40.1**	**327.5**	**47.4**	**20.7**	7%	**7.3**	18%
Pharma	**101.9**	**10.0**	**112.5**	**18.5**	**10.6**	10%	**8.5**	85%
MMA & Derivatives	**90.1**	**(0.7)**	**114.8**	**10.5**	**24.7**	27%	**11.2**	-
MMA	69.0	(0.9)	91.0	9.4	22.0		10.3	
Coating & Additives	21.1	0.2	23.8	1.1	2.7		0.9	
Basic Materials & Polymers	**259.2**	**(8.8)**	**261.7**	**(6.8)**	**2.5**	1%	**2.0**	-
Materials & Polymers	174.0	(5.2)	186.7	1.5	12.7		6.7	
Carbon Products	85.2	(3.6)	75.0	(8.3)	(10.2)		(4.7)	
Others	**40.6**	**0.3**	**36.0**	**1.5**	**(4.6)**	(11%)	**1.2**	400%

[Inventory valuation gain/loss]	FY2023 1Q	FY2024 1Q	Difference
Materials & Polymers	(0.4)	5.4	5.8
Carbon Products	(0.2)	(2.5)	(2.3)
Total	(0.6)	2.9	3.5

- From Q1 FY2024, the current financial reporting segments has been reclassified into Specialty Materials, Industrial Gases, Pharma, MMA & Derivatives, Basic Materials & Polymers, and Others. In addition, the company is reclassifying the managing segments for some of its businesses. Accordingly, for purposes of comparison, we are restated the results for FY2023.
- Breakdown figures of segment are approximation for reference purpose only.
- Based on careful examination of results for FY2023 of new business segment basis, the figures has been changed partially from those announced on May 15,2024.

The table shows sales revenue and core operating income by business segment. Specialty Materials reported a 5% increase in sales and a 16% increase in income over the same period last year. As I mentioned at the beginning of this report, all businesses generally performed well, but there were differences by region and industry.

Core operating income in this segment exceeded the H1 forecast of JPY10 billion due to particularly strong demand in display-related markets.

Industrial Gases remained strong, with a 7% increase in sales and an 18% increase in income over the same period last year. Pharma reported a 10% increase in sales and an 85% increase in income over the same period last year, as sales of RADICAVA in North America remained strong. This shows a high rate of progress compared to the H1 forecast.

MMA & Derivatives reported a 27% increase in sales and a JPY11.2 billion increase in earnings over the same period last year, a significant increase due to higher market prices for MMA monomers. Core operating income exceeded the H1 forecast of JPY7 billion due to spread expansion.

Basic Materials & Polymers was able to reduce its deficit by about JPY2 billion with a 1% increase in sales over the same period last year. Among the factors contributing to the improvement from the same period of the previous year, the impact of inventory valuation gains or losses was JPY3.5 billion.

The sub-segment Materials & Polymers recorded an increase in income compared to the same period of the previous year and was profitable despite the periodic repair of the ethylene center at the Ibaraki Plant. On the other hand, the Carbon Products business, another sub-segment, posted a loss of JPY8.3 billion due to a lack of improvement in the coke market.

Analysis of Core operating income

Analysis of Core Operating Income

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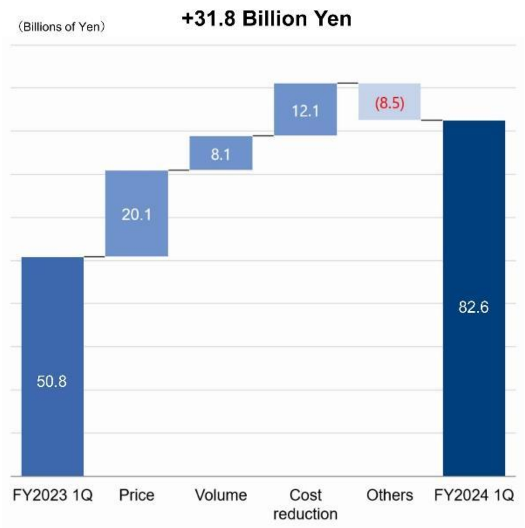

(Billions of Yen)

	FY2023 1Q	FY2024 1Q	Difference	Price	Volume	Cost reduction	Others *1
Total Consolidated	50.8	**82.6**	**31.8**	**20.1**	**8.1**	**12.1**	**(8.5)**
Specialty Materials	9.9	**11.5**	**1.6**	**4.8**	**(2.5)**	**2.8**	**(3.5)**
Industrial Gases	40.1	**47.4**	**7.3**	**5.0**	**(1.3)**	**5.7**	**(2.1)**
Pharma	10.0	**18.5**	**8.5**	**0.8**	**10.4**	**0.3**	**(3.0)**
MMA & Derivatives	(0.7)	**10.5**	**11.2**	**10.7**	**0.7**	**0.9**	**(1.1)**
Basic Materials & Polymers	(8.8)	**(6.8)**	**2.0**	**(1.7)**	**0.3**	**1.5**	**1.9**
Others	0.3	**1.5**	**1.2**	**0.5**	**0.5**	**0.9**	**(0.7)**

*1 Items included are impacts from differences of inventory valuation gain/loss 3.5 billion yen and differences of share of profit of associates and joint ventures (0.8) billion yen, etc.

	Difference	Price	Volume	Cost reduction	Others
Changes in exchange rates	6.8	8.4	0.0	-	(1.6)
Changes in foreign currency translation included in above		6.0			

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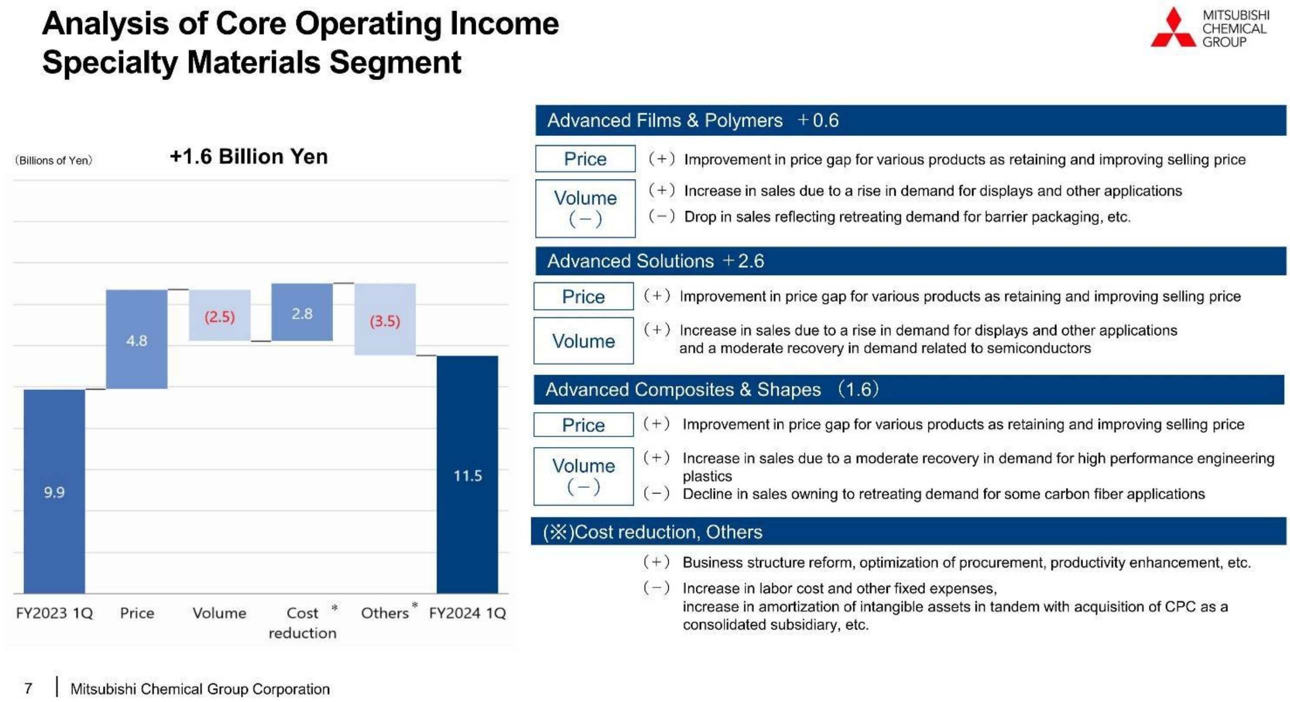
This is a breakdown of the JPY31.8 billion increase in core operating income over the same period last year. The price gap had a large incremental effect of JPY20.1 billion on core operating income. In particular, higher market prices for MMA monomer in MMA & Derivatives contributed to the increase. In Specialty Materials and Industrial Gases, the continued promotion of price management resulted in a positive effect.

The sales volume was a positive factor of JPY8.1 billion. Slight decreases in Specialty Materials and Industrial Gases were more than offset by increases in Pharma. Basic Materials & Polymers also secured an increase despite a difficult business environment.

Cost reduction was a positive factor of JPY12.1 billion. We have set an annual target of JPY47 billion for this fiscal year, and we are making progress as planned.

Other factors had a negative impact of JPY8.5 billion. Inventory valuation gains improved by JPY3.5 billion, but were offset by an increase in labor and other fixed costs in each business.

Analysis of Core Operating Income Specialty Materials Segment



I would like to explain the details by segment. Specialty Materials posted an increase of JPY1.6 billion from the same period of the previous year, and the price gap was a positive factor of JPY4.8 billion. While demand is still soft, we are working to maintain and improve sales prices in each sub-segment to improve price gaps.

Sales volume was a negative factor of JPY2.5 billion. In Advanced Films & Polymers, demand for polyester film and OPL film increased as panel makers increased their capacity utilization in response to a large commercial market in China and the prospect of higher TV demand due to international sporting events. On the other hand, demand for EVOH, a barrier packaging material, declined compared to Q1 of the previous fiscal year, which was very strong.

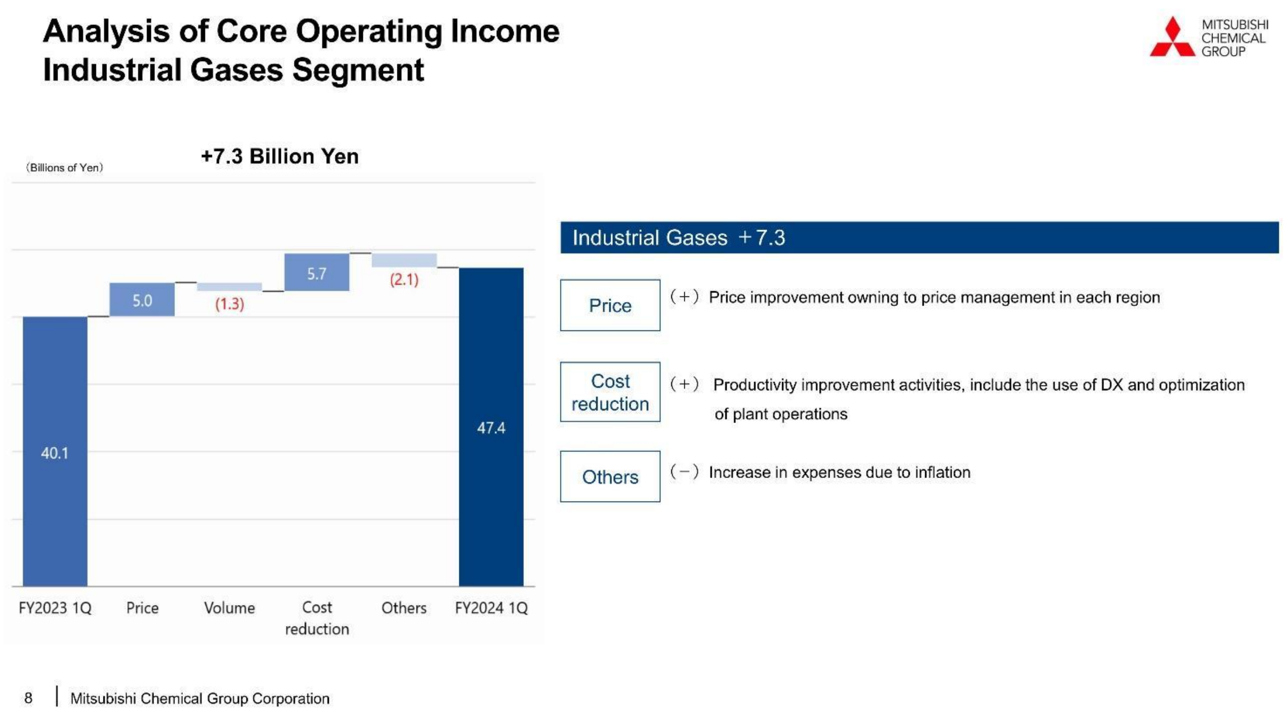
In Advanced Solutions, demand for display-related materials increased, as did demand for Advanced Films & Polymers. In addition, semiconductor-related products also showed a recovery trend, but there are still some differences by product and field, and volume increased.

In Advanced Composites & Shapes, demand for high-performance engineering plastics for semiconductor manufacturing equipment applications recovered, and sales volume increased. As for carbon fibers, volume for wind power generation and other applications increased, but volume for pressure vessel applications, which have relatively high profit margins, decreased, resulting in a decline in sales volume.

Cost reduction was a positive factor of JPY2.8 billion due to the withdrawal from the acrylic fiber business, business restructuring, procurement optimization, productivity improvement, and other self-help efforts that have built up their effects.

Other factors had a negative impact of JPY3.5 billion. In addition to the increase in labor costs and other fixed costs explained earlier, this includes an increase in amortization of intangible assets at CPC, which became a consolidated subsidiary last fiscal year.

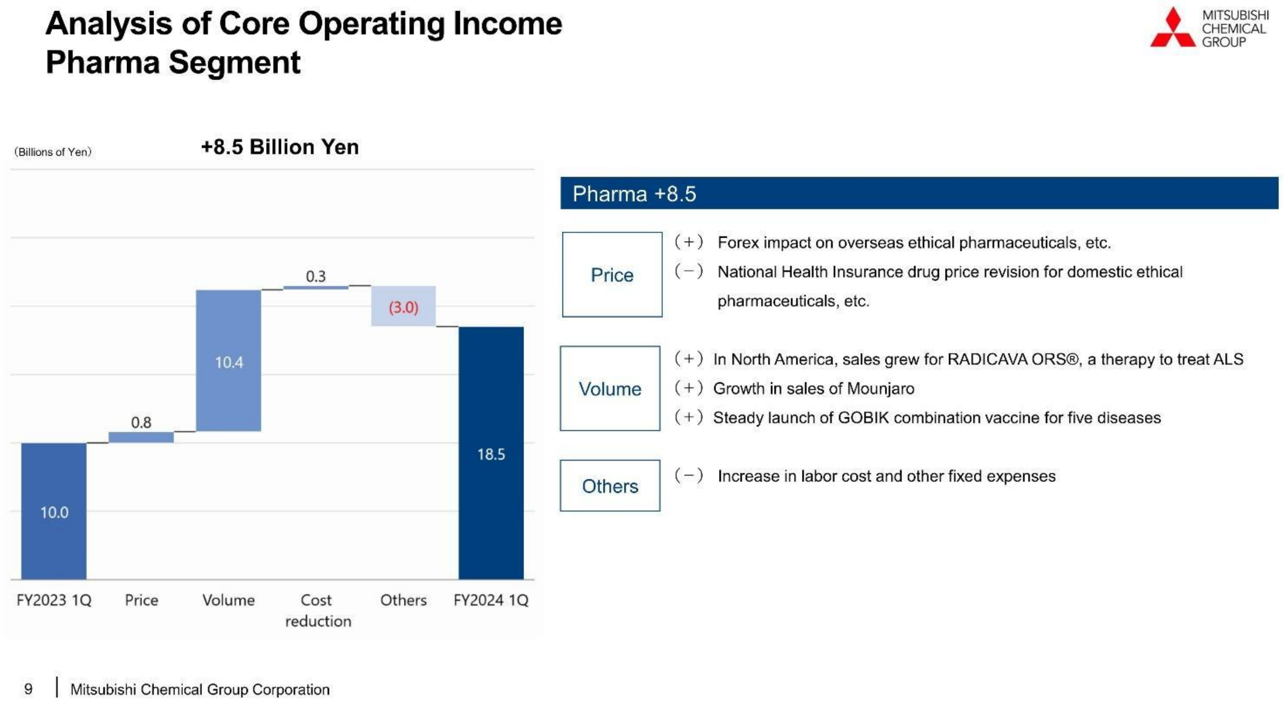
Analysis of Core Operating Income Industrial Gas Segment



In Industrial Gases, sales increased by JPY7.3 billion YoY. Despite some softness in volume, the price management we are conducting in each region had a positive impact of about JPY5 billion from the price gap.

In addition, productivity improvement efforts have led to considerable cost reductions. The impact of this was effective as an increase in core operating income of JPY5.7 billion, resulting in a YoY increase in income.

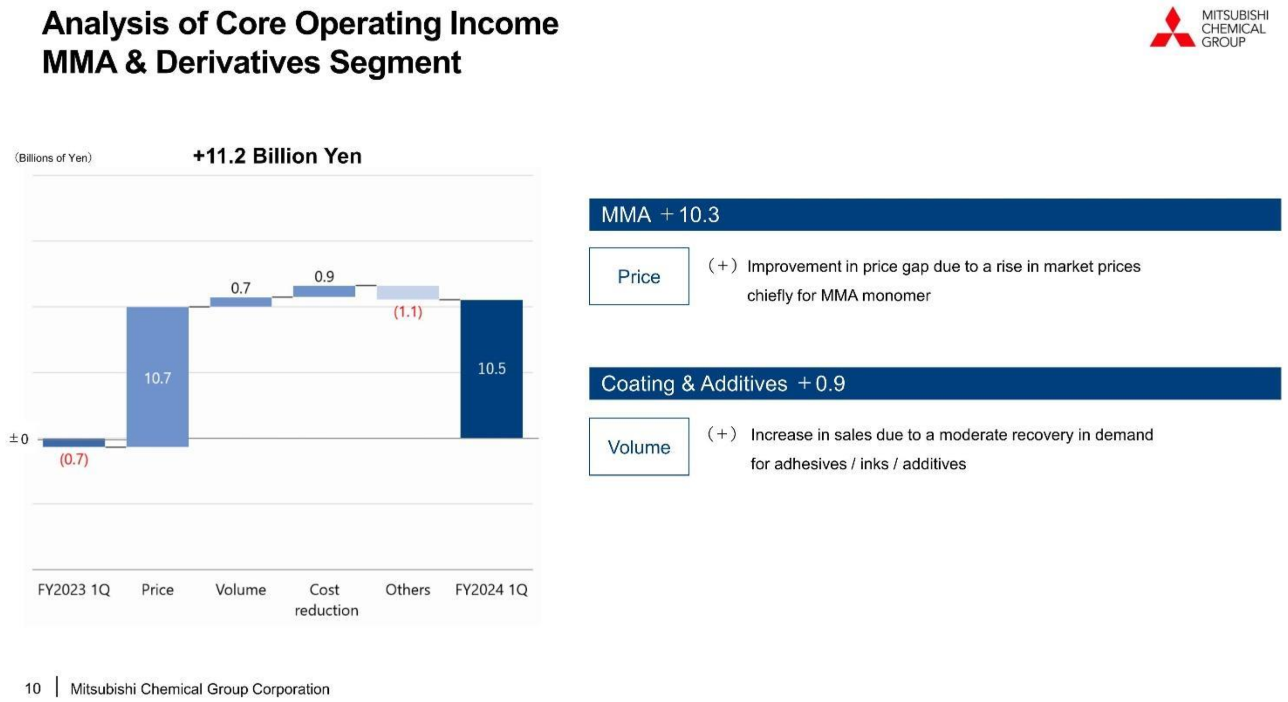
Analysis of Core Operating Income Pharma Segment



In Pharma, core operating income increased by JPY8.5 billion YoY. As for the price gap, although there was a negative impact from the NHI price revision in Japan, there was a positive effect from foreign exchange, resulting in an increase effect of JPY0.8 billion.

The sales volume was a positive factor of JPY10.4 billion. In addition to the sales growth of RADICAVA ORS in North America, sales of Mounjaro and GOBIK, a five-in-one vaccine, were also favorable in Japan, contributing significantly to profit growth.

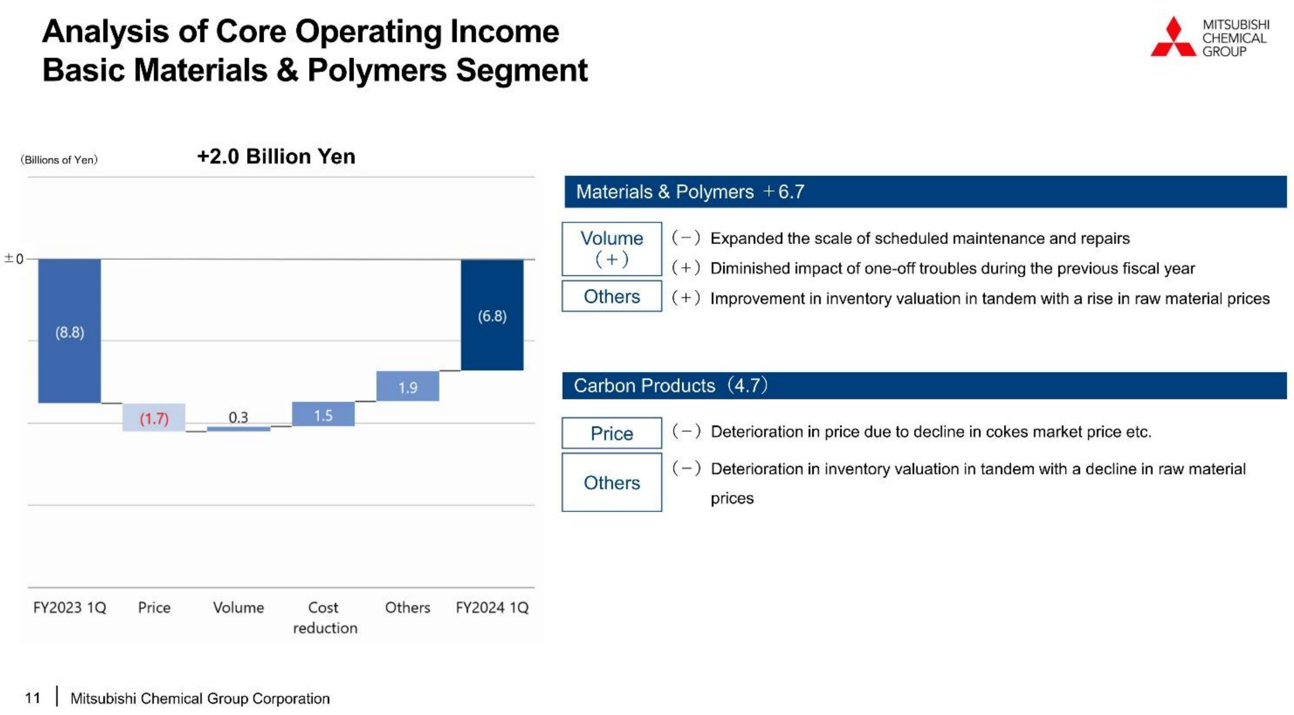
Analysis of Core Operating Income MMA & Derivatives Segment



In MMA & Derivatives, core operating income increased by JPY11.2 billion YoY. While it posted a loss in Q1 of the previous fiscal year, it posted a profit of JPY10.5 billion in Q1 of the current fiscal year. The price gap had a positive impact of JPY10.7 billion. Market conditions for MMA monomer were higher than in the same period of the previous year, contributing significantly to profit growth.

The sales volume was a factor of increase in the Coatings & Additives business due to a recovery in demand for adhesives, inks, and additives applications, among others.

Analysis of Core Operating Income Basic Materials & Polymers Segment



In Basic Materials & Polymers, the deficit narrowed by JPY2 billion YoY. The price gap was a negative factor of JPY1.7 billion. The price gap improved slightly in Materials & Polymers, but the decline in the coke market was a negative factor in the Carbon Products business, which worked to reduce total income.

As for the sales volume, in Materials & Polymers, there was a negative impact from periodic repairs to the ethylene center in Ibaraki in the current period, but this was offset by a reduction in the impact of troubles in the previous period and other factors.

The cost reduction impact was a positive JPY1.5 billion, adding up the effects of structural reforms and other measures in the derivatives business of the petrochemicals business.

The JPY1.9 billion increase effect of other factors includes JPY3.5 billion in improved inventory valuation gains or losses. In Carbon Products, inventory valuation gains or losses deteriorated due to the downward trend in coking coal prices, while in Materials & Polymers, the upward trend in naphtha prices was a positive factor.

Today, we issued a release on our policy for structural reform to improve profitability in the coal business and the optimization of the production system in the coke business. I will now provide a supplemental explanation of this.

Based on the management policy announced in December 2021, the Company has been studying the possibility of carving out the coal business. On the other hand, the current slump in demand for steel products, especially in China, has resulted in a sluggish overseas coke market, making for a very difficult business environment.

In this environment, we have decided to scale down the production scale of coke ovens owned by Kagawa Plant, judging that it is more urgent to review our production system and sales policy than to carve out this business.

We will continue to review our sales portfolio in Japan and overseas and implement additional rationalization measures to shift to a business structure that is less susceptible to market fluctuations. By steadily implementing the structural reforms resolved today, we aim to return the coal business to profitability from the fiscal year ending March 31, 2026.

In addition, we expect to record an impairment loss on fixed assets of approximately JPY7 billion in Q2 as a special item due to the downsizing of the scale of production. In addition, removal costs and other expenses are expected to be recorded in Q2 and thereafter. The amount of impact is currently under scrutiny and will be announced promptly if and when any matters that should be announced arise.

We will continue to consider the medium- to long-term positioning of the coal business in the overall business portfolio of the Group.

Consolidated Special Items

Consolidated Special Items

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(Billions of Yen)

	FY2023 1Q	FY2024 1Q	Difference
Total Special Items	18.9	**2.4**	**(16.5)**
Gain on sale of carbon credit	-	**2.7**	**2.7**
Gain on sale of property, plant and equipment	0.8	**1.5**	**0.7**
Reversal of provision for loss on plant closure	0.8	**1.3**	**0.5**
Loss on sale and disposal of fixed assets	(1.1)	**(1.2)**	**(0.1)**
Impairment loss	(0.0)	**(0.8)**	**(0.8)**
Loss on business liquidation	(2.0)	**(0.3)**	**1.7**
Gain on sales of shares of subsidiaries and associates	5.6	**-**	**(5.6)**
Others	14.8	**(0.8)**	**(15.6)**

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Here are consolidated special items. Special items in Q1 totaled positive JPY2.4 billion. From April to June, no major restructuring expenses were recorded, as the Company accumulated small deals, such as gains or losses on the sale of fixed assets and gains on the reversal of provisions.

In the same period of the previous year, Pharma recorded total special items of JPY18.9 billion due to the positive impact of approximately JPY15 billion from the non-refundable advances received in connection with product supply contracts. Compared to the same period last year, special items decreased.

Consolidated Cash Flows

Consolidated Cash Flows

MITSUBISHI CHEMICAL GROUP

(Billions of Yen)

	FY2023 1Q	FY2024 1Q
Net cash provided by (used in) operating activities	**55.0**	**73.9**
Income before taxes	68.8	77.0
Depreciation and amortization	67.9	71.2
Change in operating receivables/payables	19.0	30.2
Change in Inventories	(12.9)	(14.6)
Others	(87.8)	(89.9)
Net cash provided by (used in) investment activities	**(57.3)**	**(80.5)**
Capital expenditure	(63.2)	(86.5)
Sale of assets	18.8	4.4
Investment and loans receivable, etc.	(12.9)	1.6
Free cash flow	**(2.3)**	**(6.6)**

	FY2023 1Q	FY2024 1Q
Net cash provided by (used in) financing activities	**0.5**	**(17.3)**
Interest bearing debts	28.2	12.6
Dividends, etc.	(27.7)	(29.9)
Net increase (decrease) in cash and cash equivalents	**(1.8)**	**(23.9)**
Effect of exchange rate changes and changes in scope of consolidation	15.4	11.1
Total	**13.6**	**(12.8)**

Here you see the consolidated statements of cash flows. Operating cash flow was positive JPY73.9 billion. Net cash provided by operating receivables and payables was JPY30.2 billion, net cash used in inventories was JPY14.6 billion, and total working capital was positive JPY15.6 billion.

Although there were some temporary increases and decreases due to periodic repairs, we have been strengthening working capital management in each of our businesses, and the results of these efforts are steadily being seen.

Net cash used in investing activities was JPY80.5 billion. In addition to growth investments centered on Industrial Gases and Specialty Materials, Basic Materials & Polymers invested in the maintenance and renewal of its ethylene center in Ibaraki for periodic repairs. In addition, a positive cash flow of JPY4.4 billion was recorded as cash flow from sales of assets, mainly due to the sale of policy shareholdings and unneeded assets.

As a result, free cash flow was outflow of JPY6.6 billion, and financing cash flow was outflow of JPY17.3 billion.

Consolidated Statements of Financial Positions

Consolidated Statements of Financial Positions

(Billions of Yen)

	Mar.31.2024	Jun.30.2024	Difference
Cash & cash equivalents	294.9	282.1	(12.8)
Trade receivables	852.4	839.5	(12.9)
Inventories	799.2	828.7	29.5
Others	245.1	270.9	25.8
Current assets	**2,191.6**	**2,221.2**	**29.6**
Fixed assets	2,524.4	2,625.9	101.5
Goodwill	832.9	870.5	37.6
Investments & Other	555.6	573.5	17.9
Non-current assets	**3,912.9**	**4,069.9**	**157.0**
Total assets	**6,104.5**	**6,291.1**	**186.6**

(Billions of Yen)

	Mar.31.2024	Jun.30.2024	Difference
Interest-bearing debt	2,338.2	2,405.9	67.7
Trade payables	501.5	508.7	7.2
Others	989.3	963.1	(26.2)
Liabilities	**3,829.0**	**3,877.7**	**48.7**
Share capitals, Retained earnings, etc,.	1,502.9	1,521.2	18.3
Other components of equity	260.6	337.8	77.2
Equity attributable to owners of the parent	**1,763.5**	**1,859.0**	**95.5**
Non-controlling interests	512.0	554.4	42.4
Equity	**2,275.5**	**2,413.4**	**137.9**
Total liabilities & equity	**6,104.5**	**6,291.1**	**186.6**

Net Interest-bearing debt *1	2,043.3	2,123.8	80.5
Net D/E ratio	1.16	1.14	(0.02)
ROE *2	7.2%	-	-

*1 Net interest-bearing debt (End of Jun.30, 2024)
= interest-bearing debt (2,405.9billion yen)
- (cash and cash equivalents (282.1billion yen) + investments of surplus funds-)
Note : Interest-bearing debt includes lease obligations.
*2 Ratio of net income attributable to owners of the parent.

Consolidated statement of financial position. Total assets were JPY6,291.1 billion, an increase of JPY186.6 billion from the end of the previous fiscal year. The main factor is foreign exchange, and almost all of the approximately JPY187 billion increase can be attributed to foreign exchange.

Net interest-bearing debt increased by JPY80.5 billion from the end of the previous fiscal year, but the net debt-to-equity ratio improved by 0.02 points to 1.14x from 1.16x at the end of the previous fiscal year.

Sales Revenue and Core Operating Income by Business Segment [Quarterly Data]

Sales Revenue and Core Operating Income by Business Segment [Quarterly Data]

MITSUBISHI CHEMICAL GROUP

(Billions of Yen)

		FY2023					FY2024			
		1Q	2Q	3Q	4Q	Total	1Q	1H	2H	FY2024 Forecast
Total Consolidated	Sales Revenue	1,061.2	1,088.7	1,095.2	1,142.1	4,387.2	1,129.4	2,251.0	2,372.0	4,623.0
	Core Operating Income	50.8	68.8	64.3	24.2	208.1	82.6	110.0	140.0	250.0
Specialty Materials	Sales Revenue	262.6	257.6	256.7	266.9	1,043.8	276.9	551.0	578.0	1,129.0
	Core Operating Income	9.9	8.9	0.6	(12.0)	7.4	11.5	10.0	14.0	24.0
Advanced Films & Polymers	Sales Revenue	118.1	115.8	113.6	111.6	459.1	120.4	240.0	248.0	488.0
	Core Operating Income	8.6	8.0	4.2	(2.5)	18.3	9.2	10.0	10.0	20.0
Advanced Solutions	Sales Revenue	88.7	88.8	92.6	92.8	362.9	88.3	180.0	192.0	372.0
	Core Operating Income	0.5	2.3	0.4	(2.6)	0.6	3.1	1.0	3.0	4.0
Advanced Composites & Shapes	Sales Revenue	55.8	53.0	50.5	62.5	221.8	68.2	131.0	138.0	269.0
	Core Operating Income	0.8	(1.4)	(4.0)	(6.9)	(11.5)	(0.8)	(1.0)	1.0	0.0
Industrial Gases	Sales Revenue	306.8	301.4	314.2	324.5	1,246.9	327.5	646.0	646.0	1,292.0
	Core Operating Income	40.1	40.2	42.2	40.5	163.0	47.4	87.0	87.0	174.0
Pharma	Sales Revenue	101.9	117.4	118.6	99.3	437.2	112.5	220.0	229.0	449.0
	Core Operating Income	10.0	22.4	23.0	0.9	56.3	18.5	22.0	20.0	42.0
MMA & Derivatives	Sales Revenue	90.1	91.2	90.8	96.3	368.4	114.8	194.0	192.0	386.0
	Core Operating Income	(0.7)	2.9	(1.6)	1.5	2.1	10.5	7.0	9.0	16.0
MMA	Sales Revenue	69.0	69.4	68.7	74.5	281.6	91.0	149.0	145.0	294.0
	Core Operating Income	(0.9)	2.5	(1.9)	1.0	0.7	9.4	6.0	8.0	14.0
Coating & Additives	Sales Revenue	21.1	21.8	22.1	21.8	86.8	23.8	45.0	47.0	92.0
	Core Operating Income	0.2	0.4	0.3	0.5	1.4	1.1	1.0	1.0	2.0
Basic Materials & Polymers	Sales Revenue	259.2	269.5	278.1	279.3	1,086.1	261.7	552.0	621.0	1,173.0
	Core Operating Income	(8.8)	(5.9)	1.8	(9.1)	(22.0)	(6.8)	(13.0)	9.0	(4.0)
Materials & Polymers	Sales Revenue	174.0	198.1	206.7	203.6	782.4	186.7	399.0	432.0	831.0
	Core Operating Income	(5.2)	0.6	4.2	(2.2)	(2.6)	1.5	1.0	8.0	9.0
Carbon Products	Sales Revenue	85.2	71.4	71.4	75.7	303.7	75.0	153.0	189.0	342.0
	Core Operating Income	(3.6)	(6.5)	(2.4)	(6.9)	(19.4)	(8.3)	(14.0)	1.0	(13.0)
Others	Sales Revenue	40.6	51.6	36.8	75.8	204.8	36.0	88.0	106.0	194.0
	Core Operating Income	0.3	0.3	(1.7)	2.4	1.3	1.5	(3.0)	1.0	(2.0)

- From Q1 FY2024, the current financial reporting segments has been reclassified into Specialty Materials, Industrial Gases, Pharma, MMA & Derivatives, Basic Materials & Polymers, and Others. In addition, the company is reclassifying the managing segments for some of its businesses. Accordingly, for purposes of comparison, we are restated the results for FY2023.
- Breakdown figures of segment are approximation for reference purpose only.
- Based on careful examination of results for FY2023 of new business segment basis, the figures has been changed partially from those announced on May 15,2024.

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I will now provide supplemental information on the trend of core operating income from Q4 of FY2023 to Q1 of FY2024 and its direction through Q2.

Core operating income for Q1 was JPY82.6 billion, an increase of JPY58.4 billion from the previous Q4. The H1 forecast announced in May is JPY110 billion for core operating income. Simply calculating backward from the Q1 result, it will be JPY27.4 billion in Q2, but we expect this level to be exceeded.

Specialty Materials posted a Q1 profit of JPY11.5 billion, a JPY23.5 billion improvement from the JPY12 billion loss in Q4 of the previous year. In Q4 of the previous fiscal year, there were one-time factors of about negative JPY8.5 billion, such as aggressive operation adjustments for inventory optimization in some businesses and the impact of year-end closing adjustments.

In addition to the elimination of these transitory factors at the end of the period, the increase in income was due to a recovery in demand for various products, including polyester film and OPL film for display applications, high-performance engineering plastics for semiconductor manufacturing equipment applications, and carbon fibers for wind power generation and sports applications.

As for the display market in Q2, we expect the market to enter an adjustment phase again in reaction to the high utilization by panel makers in Q1, which is expected to soften demand for our polyester films, OPL films, and other display-related products. In addition, since each business is affected by the summer vacation in Europe and the US every year, the profit level is expected to be weaker than that of Q1.

In Industrial Gases, sales increased from JPY40.5 billion in Q4 of the previous year to JPY47.4 billion, partly due to the effects of price management promoted in each region, a decrease in SG&A expenses, and foreign exchange effects. Q2 is expected to remain strong.

In the Pharma segment, domestic sales of prescription drugs increased due to the rebound from the downward trend in sales in Q4 of the previous fiscal year, sales growth of Mounjaro, and the steady launch of GOBIK. In overseas prescription drugs, sales of RADICAVA in North America remained strong, and SG&A and R&D expenses, which had been concentrated at the end of the period, decreased over the past quarter.

Since SG&A expenses usually increase significantly in Q2 compared to Q1, we expect a decrease in profit in Q2 compared to Q1.

In MMA & Derivatives, core operating income grew from JPY1.5 billion to JPY10.5 billion in Q4 of the previous year, an increase of JPY9 billion. The price gap for MMA monomer improved as supply and demand balance remained tight in Asia due to supply factors and market prices increased. There is also a recovery in demand for Coatings & Additives.

We expect MMA monomer spreads to remain generally favorable in Q2. In addition, we expect to see an increase in income compared to Q1 as the Hiroshima Plant will benefit from improved profits due to the termination of production of MMA monomer and acrylonitrile using the ACH method at the Hiroshima Plant.

Basic Materials & Polymers narrowed its deficit by JPY2.3 billion. In the petrochemicals business, core operating income improved by JPY3.7 billion due to the reduced impact of impairment losses on fixed assets recorded in the phenol and bisphenol A business in Q4 of the previous fiscal year and an increase in inventory valuation gain despite the impact of periodic repairs of the ethylene center in Ibaraki.

In the Carbon Products business, the deficit widened by JPY1.4 billion due to a deterioration in inventory valuation gains and losses despite an improvement in the coke price gap due to lower coking coal prices.

In Q2, the petrochemicals business will be less affected by scheduled maintenance and repairs, but the inventory valuation gains and losses are expected to deteriorate, and transitory factors such as additional phenol and bisphenol A impairment losses will be recorded. Although we expect the environment to remain challenging as in Q1, we will promote various profit improvement measures, such as sales portfolio review for H2.

Question & Answer

Q&A: Growth Factors for Specialty Materials

Sales Revenue and Core Operating Income by Business Segment [Quarterly Data]

(Billions of Yen)

Segment		FY2023 1Q	FY2023 2Q	FY2023 3Q	FY2023 4Q	FY2023 Total	FY2024 1Q	1H	2H	FY2024 Forecast
Total Consolidated	Sales Revenue	1,061.2	1,088.7	1,095.2	1,142.1	4,387.2	1,129.4	2,251.0	2,372.0	4,623.0
	Core Operating Income	50.8	68.8	64.3	24.2	208.1	82.6	110.0	140.0	250.0
Specialty Materials	Sales Revenue	262.6	257.6	256.7	266.9	1,043.8	276.9	551.0	578.0	1,129.0
	Core Operating Income	9.9	8.9	0.6	(12.0)	7.4	11.5	10.0	14.0	24.0
Advanced Films & Polymers	Sales Revenue	118.1	115.8	113.6	111.6	459.1	120.4	240.0	248.0	488.0
	Core Operating Income	8.6	8.0	4.2	(2.5)	18.3	9.2	10.0	10.0	20.0
Advanced Solutions	Sales Revenue	88.7	88.8	92.6	92.8	362.9	88.3	180.0	192.0	372.0
	Core Operating Income	0.5	2.3	0.4	(2.6)	0.6	3.1	1.0	3.0	4.0
Advanced Composites & Shapes	Sales Revenue	55.8	53.0	50.5	62.5	221.8	68.2	131.0	138.0	269.0
	Core Operating Income	0.8	(1.4)	(4.0)	(6.9)	(11.5)	(0.8)	(1.0)	1.0	0.0
Industrial Gases	Sales Revenue	306.8	301.4	314.2	324.5	1,246.9	327.5	646.0	646.0	1,292.0
	Core Operating Income	40.1	40.2	42.2	40.5	163.0	47.4	87.0	87.0	174.0
Pharma	Sales Revenue	101.9	117.4	118.6	99.3	437.2	112.5	220.0	229.0	449.0
	Core Operating Income	10.0	22.4	23.0	0.9	56.3	18.5	22.0	20.0	42.0
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Participant: Regarding Specialty Materials, even though the negative JPY8.5 billion due to one-time factors in the previous Q4 has been eliminated, the growth from the previous Q4 to Q1 in real terms has significantly improved. Could you please explain in more detail why core operating income grew considerably while the top line grew only by about JPY10 billion?

I understand that profitable films are performing well, but core operating income appears to have grown even more than that. I would like to ask what factors were responsible for aspects such as the success of the pricing strategy, significant cost reductions, etc.

Kida: First of all, demand is rising, which is a very significant factor. In addition to an increase in sales, we have seen a significant increase in factory utilization rates, which has had the effect of lowering our costs.

In a move to remove a transitory negative factor in the previous Q4, we focused on reducing inventories considerably. We consciously lowered the level of our inventory significantly while consciously reducing our operations, I think the reaction was very significant, in a positive way. We believe that the Specialty Materials segment as a whole was affected by increased demand and higher capacity utilization on the scale of JPY8.5 billion to JPY9 billion.

On the other hand, expenses have also decreased. It could be called cost reduction. For example, we have a strong and weak focus on corporate allocated expenses and R&D, and we make firm decisions to spend money where we should but to stop investing where we should. The impact has also accumulated to the tune of JPY5 billion to JPY6 billion.

Participant: If you add them together, you get exactly JPY15 billion.

Kida: That is correct.

Participant: Inventories have increased a little as of the end of June. Is this due to excessive volume or is it due to foreign exchange?

Kida: Volume has not increased much. Inventory is slightly higher than at the end of last fiscal year.

The biggest factor is the impact of exchange rates. The price of the inventory has gone up by about JPY14 billion.

Looking at the Group as a whole, Mounjaro, for example, is selling very well right now in Pharma, and inventories are increasing. Even in Carbon Products, inventories have increased slightly due to the timing of coking coal arrivals and departures.

Q&A: MMA Monomer Performance and Outlook

Participant: You had a very good Q1 performance for MMA monomer. How did the consolidated utilization ratio change? Please tell us about Q1 results and the outlook for Q2.

Kida: As you are probably aware, supply is becoming quite tight, especially in Asia, and market conditions are relatively favorable. Although we too suspected that this was a transitory trend, we now believe that this trend will continue for some time.

I don't have details on how our competitors are doing, but our occupancy rate in Q1 was about 70%.

Although 70% may not seem very high, it is partly because the plant in Saudi Arabia (Saudi Methacrylates Company) was undergoing scheduled repairs in Q1, so the utilization rate was low for that reason. Even if we wanted to make it, we could not, and the utilization rate remained at about 70%.

As a result of our decision to cease production of ACH method MMA monomer in Hiroshima and other measures, we expect to be able to maintain 80% capacity utilization from Q2 onward due to the relatively small number of raw material sources that rely on by-products from other companies.

Q&A: Performance of MMA monomer sites

Participant: I think your company is making a lot of money from Alpha method, but are the sites that use the ACH and C4 methods and had previously been struggling also turning around to be profitable? Are there any more locations that are now in the red?

Kida: I feel that the number of loss-making locations is decreasing considerably. There were no loss-making locations in Q1.

Participant: If the current market conditions continue, is it safe to assume that this trend is sustainable to some extent?

Kida: Yes, I think so. I believe that closing the UK base was a good thing for the MMA business as a whole.

Q&A: Investment Decision on US Projects in MMA Monomer

Participant: Regarding the US project, the MMA monomer situation is getting better, and perhaps US interest rates will drop around September, making it easier to invest, but are you positive about the final decision?

Kida: Right now, the US market is relatively active. We cannot give specific figures, but occupancy rates are relatively high, especially at the site on Fite Road in Memphis. Looking only at MMA monomer in the US, we are doing much better than we have in the past, which we believe will be a tailwind in our future capital investment decision-making.

We are in the process of talking with our potential customers in the US and will be able to make a final decision soon.

Q&A: Pharma Segment Results and Outlook

Participant: I would like to ask you about Pharma. What was the impact of the discontinuation of RELYVRIO, a competitor of RADICAVA? How much progress has been made in Q1 in the shifting of those who only used RELYVRIO to RADICAVA, and how do you feel this will progress in Q2?

In the explanation of the quarterly analysis, the growth of Mounjaro was mentioned, and in the explanatory material for Q4 of the fiscal year ended March 31, 2024, sales of Mounjaro were JPY2.3 billion. Please let me know the Q1 result if possible, as it does not seem to be included in this document.

Tsujimura: The trend in prescribing for RADICAVA did not change significantly before and after Amylyx's withdrawal of RELYVRIO and has remained steady so far. We also believe that foreign exchange effects had a positive impact on revenue growth.

There are a certain number of patients who use both RADICAVA and RELYVRIO, and some of them may be considering switching to RADICAVA now that RELYVRIO has been withdrawn from the market. We are currently in the process of putting in place a system that will allow us to prescribe to such patients.

Regarding Mounjaro, in Q1, the restriction on the dosing period was lifted in April, and in June we were finally able to lift the limited shipments we had been making. Accordingly, sales are growing steadily as more facilities are introducing it and new patients are being added.

However, we are sorry, but due to an arrangement with Eli Lilly and Company, we are unable to disclose the amount for Q1.

Participant: Thank you very much. There are a certain number of patients who switch to RADICAVA, and you have a system in place that allows you to prescribe it to them. Can we expect this to be a factor in increased revenues in Q2?

Tsujimura: As I explained earlier, it depends on the exchange rate, as it is greatly affected by the exchange rate. At this point, we are projecting sales to be about the same as our full-year forecast that we gave you on May 15.

Participants: It seems to me that you have not benefited much from the discontinuation of the sale of the RELYVRIO.

Tsujimura: We are not seeing a direct, positive impact on the number of prescribing patients. At this point, we believe the trend to date will continue.

Q&A: Status of Mitsubishi Tanabe Pharma Corporation's Voluntary Retirement Program

Participant: I believe you issued a release this week regarding the implementation of the voluntary retirement program. Please tell us how many people you expect and how much cost reduction you expect to realize.

Tsujimura: Regarding the voluntary retirement program, we do not have a specific number of retirees in mind.

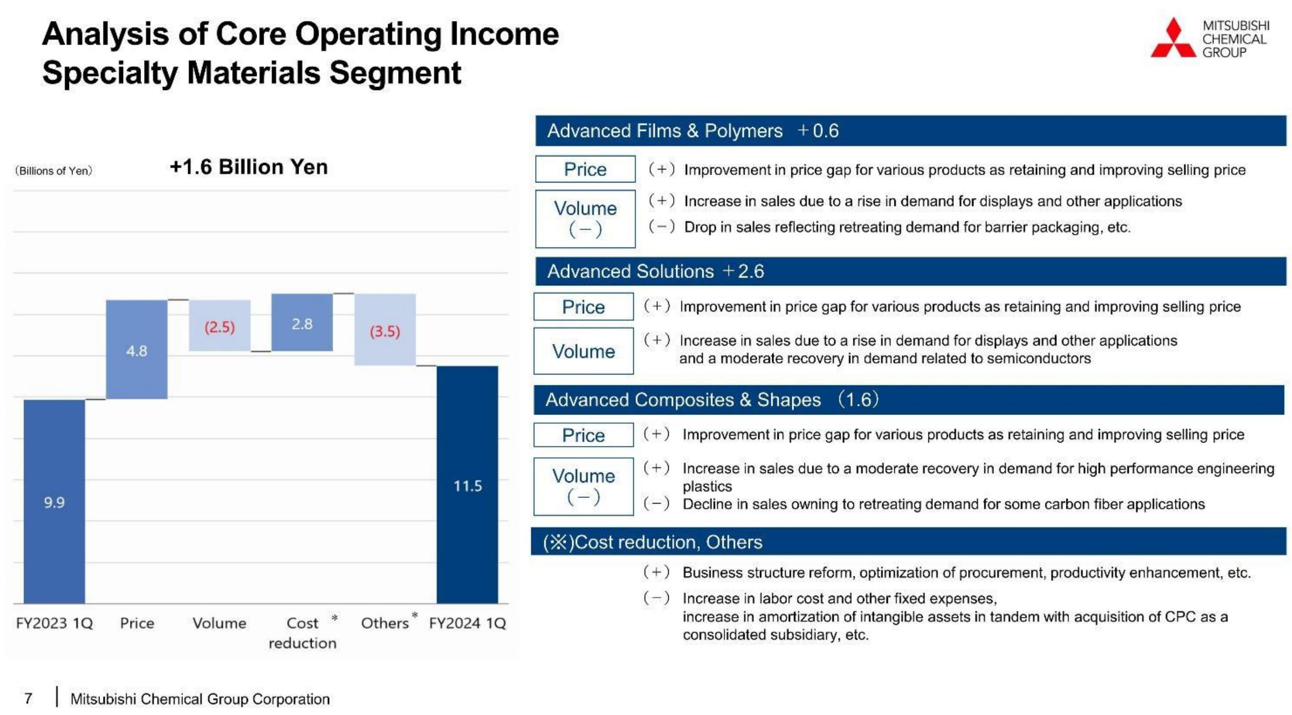
Q&A: Impairment Risk of In-Process R&D Expenses in Pharma Segment

Participant: With respect to the Parkinson's Disease drug, I believe you unfortunately received a Notice of Completed Review Report. What are your thoughts on the risk of impairment of in-process R&D expenses?

Tsujimura: Regarding the status of the Parkinson's disease drug ND0612, we are in the process of examining the contents and discussing various matters with the FDA authorities after receiving the Notice of Completion of Review Report.

It is difficult to incorporate an expected figure because we are still in the process of reaching an agreement with the FDA on the future development policy and ND0612. We will continue our ongoing efforts to consult with the authorities.

Q&A: Structural Reform



Participant: I would like to ask about structural reform. In the Carbon Products segment, you explained the review of the sales portfolio and cost reduction. Am I correct in recognizing that this discussion is about to begin? Including this, I would like to ask you to explain whether you can achieve profitability in Q1 of the fiscal year ending March 31, 2026, even in the current business environment.

Also, at the briefing three months ago, President Chikumoto said that he would like to carry out structural reforms in various respects for the upcoming fall and that he would like to make an announcement without waiting for the fall. I think the only things you have done so far are the carbon project and the early retirement in Pharma. Can we expect to see a lot of things announced in the coming fall?

Kida: Efforts to reduce costs are already underway. For example, the 40% reduction in capacity announced this time is actually part of the cost reduction. As you may know, coke plants break down when they are not burning. Therefore, we have no choice but to make them even if they can only be sold at a price lower than cost.

To be honest, coke market conditions were very poor in FY2023, and coke was temporarily cheaper than coking coal at times. Therefore, we have continued to work diligently to reduce costs. However, the decision was made to reduce the number of coke ovens by 100, or 40%, because this would accelerate cost reductions more.

As to your question about whether we will be profitable from the beginning of the fiscal year ending March 31, 2026, that is, FY2025, it is hard to say. However, we will take measures to ensure a total annual profit for the fiscal year ending March 31, 2026.

We will also announce structural reforms through November, other than the recently announced coke and pharma cases, as soon as they are finalized. The main strategies and measures will be presented at the November business presentation. If something is decided, we will announce it each time.

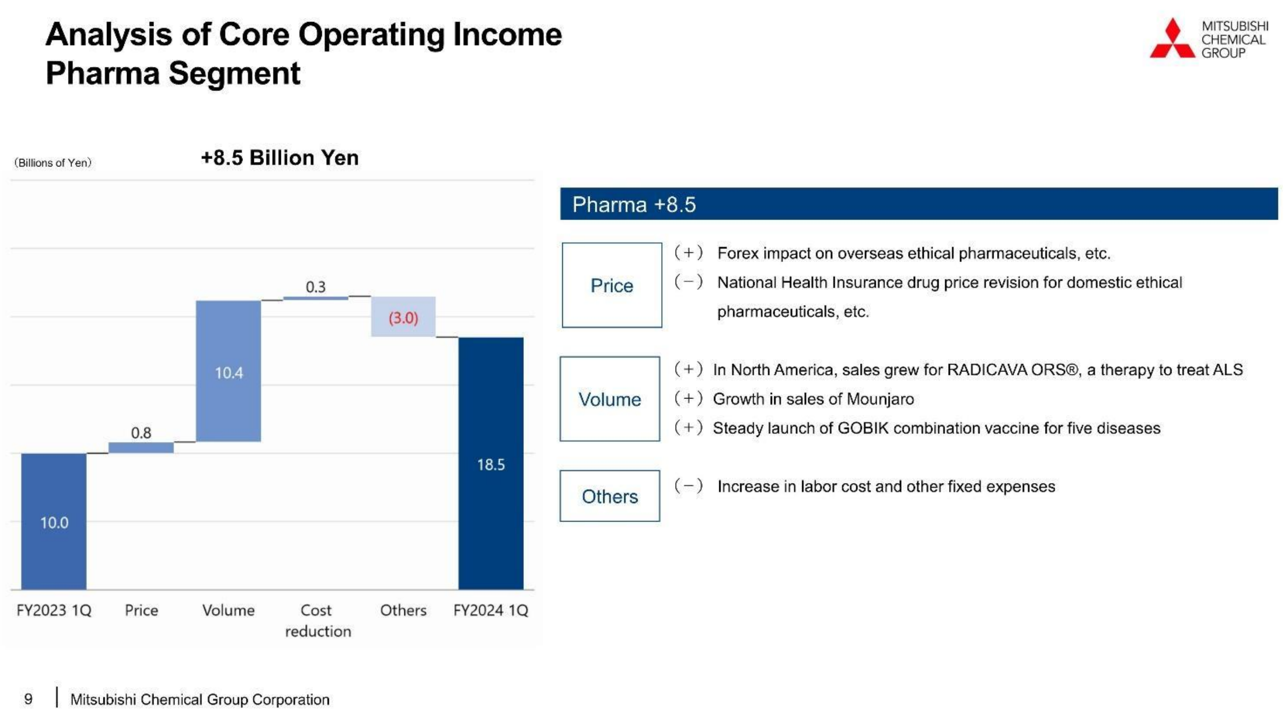
Participant: Thank you very much. In that sense, the impact of the reduction to 150 ovens is quite significant. If you have done anything specific to review your sales portfolio, could you please let us know?

Kida: I think the impact will be huge. We are unable to tell you the details of the sales portfolio review due to the terms of trade with our clients.

As you know, commissioned firing has always been a fairly large part of our business, but we made a major portfolio shift a few years ago at a time when that was gradually declining. That is, the export of coke.

We have continued to do so, but the environment changes considerably when it comes to exporting. We do business with individual customers based on various agreements, and we are reviewing the terms of trade with each customer once again.

Q&A: Analysis of Core Operating Income of Pharma Segment



Participant: Regarding the analysis of factors contributing to the increase or decrease in core operating profit of Pharma, the sales volume is a positive factor of JPY10.4 billion. Excluding the JPY2.8 billion increase in royalty income from this, the increase would be about JPY7.6 billion. I understand that the JPY7.6 billion includes an increase of JPY8.2 billion due to RADICAVA and some increase in Japan, is this correct?

Regarding the positive impact of JPY800 million due to the price gap, I believe you had assumed that the annual impact of the NHI price revision in Japan would be about negative JPY9 billion. Am I correct in understanding that, although realized at that pace, the unit price increase due to foreign exchange factors, etc., is larger, so the net result is positive?

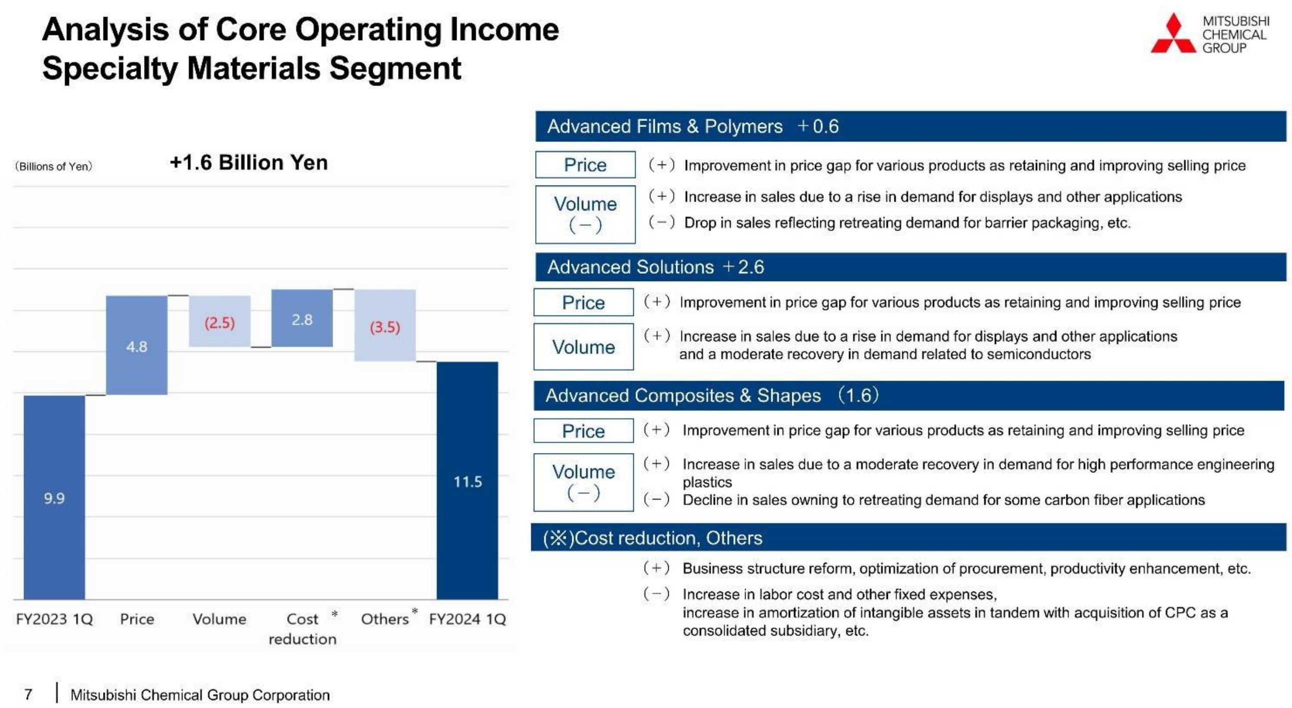
As expected, the price of REMICADE seems to have dropped, and I believe that this and other drug price revisions should have a significant impact. Can you tell me if the exchange rate offset this or if there are other special factors?

In addition, what is the balance of intangible assets on the balance sheet related to ND0612?

Tsujimura: As for your first question about the JPY10.4 billion, you are right. Mounjaro is doing well due to the lifting of the restriction on the dosing period and the lifting of limited shipments. In addition, GOBIK, launched in March, is also doing well. Regarding the JPY0.8 billion in price gap, the impact of the NHI price revision in Q1 is approximately JPY4.5 billion and also includes forex impact on overseas ethical pharmaceuticals.

The carrying amount of intangible assets related to technology acquired through the acquisition of NeuroDerm Ltd. in October 2017 is JPY61.9 billion as of March 31, 2024.

Q&A: Analysis of Core Operating Income of Specialty Materials



Participant: With regard to the analysis of core operating income for Specialty Materials, you mentioned that the display-related sales volume is very strong. I believe there are three types of display-related products from your company: PET film, OPL film, and Clearfit. Please tell us about the volume trends of each of those products in Q1.

Compared to the same period previous year, the total sales volume is negative. I would like to know which ones had the greatest negative impact.

Kida: In displays, I think OPL films were very strong. I cannot give you specific figures, but I believe that polyester film also made a very significant contribution.

The sales volume of EVOH SoarnoL was a major negative factor. In the fiscal year ended March 31, 2023, the sales volume of food barrier packaging materials was large. Demand declined temporarily, but we expected it to recover in Q1.

Since SoarnoL films are often used to wrap relatively high-end items, we can see that expensive items are now hard to sell, especially in Europe and the United States. The recovery of SoarnoL was slow due in part to fairly severe price increases, and the negative impact of volume was significant. The other significant negative impact was from the volume of carbon fiber.

Pure sales volume has not fallen much, but when the volume of high margin items falls, the negative impact of the sales volume is significant.

As I mentioned earlier, we struggled considerably in areas with relatively good profit margins, such as pressure vessels in the United States. Volume dropped in Q1 due to increased competition rather than a decline in demand.

Participant: With respect to the firmness of display-related products, what was the occupancy rate? You mentioned earlier that this will weaken somewhat in Q2, so I would like to ask how much of a decline you expect. I would also like to know how you envision the recovery of SoarnoL and carbon fibers in Q2 and beyond.

Kida: It is difficult to clearly convey the operation rate, but I feel that the operation rate was quite good overseas, especially at polyester film bases in Asia, supported by displays.

We expect SoarnoL to recover over H2. As I mentioned earlier, relatively many of them are for high-end food products, such as coffee capsules, for example. Originally, such items were sold and we expect them to recover toward H2.

It is difficult to see carbon fiber volumes recovering significantly from Q2 onward. Wind turbine applications are strong and are expected to recover steadily in Q2. However, as explained earlier, the decline in US pressure vessels is due to increased competition rather than decreased demand, so we honestly do not know if volumes will improve.

As for our simple sales volume, as I mentioned earlier for carbon fibers, we expect an increase in wind turbine applications in H2.

Q&A: Sales Volume of SoarnoL and PVOH

Participant: I think the market for vinyl acetate monomer has improved considerably. How is the price increase progressing? Can you tell us the sales volume trend from Q4 to Q1, especially for SoarnoL? I would appreciate a supplemental explanation of the situation in the US, where this is relatively recovering, but weak in Europe.

Kida: As for raising prices, we are working hard on that. The supply of raw materials is tight due to vinyl acetate monomer force majeure and other factors. Therefore, although we would like to accelerate our business here and now, we are steadily working on it.

On the other hand, as I mentioned earlier, we are troubled that volumes have not recovered as we had hoped. Just a sense, the volume of SoarnoL has recovered about 5% compared to Q4.

Participant: I know you had a fairly large volume increase, double digits for the year, but do you feel that volumes are steadily coming back but weaker than expected?

Kida: Compared to the same period last year, the volume has decreased significantly. Compared to Q4 of the fiscal year ended March 31, 2023, there has been a slight recovery. However, we expected more recovery.

Just by feel, we feel that the volume is picking up by about 5% versus Q4 of FY2023, but we were expecting a slightly larger return than that, so we are struggling with it.

Greetings from Mr. Kida

A new structure was established in April, and fortunately, I believe we got off to a good start in Q1. Again, we believe we are out of the worst period, although the degree varies by customer, region, and other factors. Naturally, we intend to continue our efforts in this vein in Q2 and beyond.

We also made a major announcement today regarding the structural reform of our coal business. This is a big deal for us. We intend to continue our group-wide structural reform and streamlining efforts to improve capital efficiency and enhance corporate value.

Thank you for your continued support. Thank you very much for your time today.

[END]